



The Governor

PRESS RELEASE

The National Bank of Rwanda reduces its Central Bank Rate to 7.0 percent

On May 28, 2024, the Monetary Policy Committee (MPC) met to decide on the Central Bank Rate (CBR) for the next quarter.

As initially projected, inflation evolved within the band of 2 to 8 percent in 2024Q1, thanks to a good harvest, the previous monetary policy tightening decisions by the NBR, other disinflationary measures implemented by the Government, and a declining trend in the prices of major international commodities. In 2024 and 2025, inflation is projected to evolve around 5 percent. However, these projections face risks, including increased global geopolitical tensions and possible adverse weather conditions due to climate change.

Based on the current forecasts, the MPC has decided to reduce the Central Bank Rate (CBR) by 50 basis points to 7.0 percent.

Inflation is expected to stabilize in 2024 and 2025

In the first quarter of 2024, headline inflation decelerated to 4.7 percent from 8.9 percent in the previous quarter, due to declines in core and fresh foods inflation that offset an increase in energy inflation. The decrease in core inflation was mainly driven by the deceleration of core food inflation, resulting from the downward trend in international prices of key processed food items such as rice, sugar, and corn flour. The decline in fresh food inflation was attributed to an improved supply of some fresh vegetables, thanks to the good performance of Season A 2024. During the same period, energy inflation rose due to higher solid fuel prices caused by unfavorable weather conditions for charcoal production and related supply chains.

In 2024 and 2025, headline inflation is projected to evolve around the medium-term target of 5.0 percent. The expected stable inflation path will be supported by easing food inflation in 2024, reflecting the expected decrease in international food prices as well as the normalization of domestic agricultural production. However, these projections could be affected by risks, such as heightened global geopolitical tensions and adverse weather conditions due to climate change.

The domestic economy remains resilient

In the last quarter of 2023, the economy grew by 10 percent bringing the overall growth for the year to 8.2 percent. This growth was spurred by the strong performance of the services and industry sectors. The main drivers of growth were tourism, trade, telecommunication, manufacturing, and construction.

This high growth momentum is expected to continue as demonstrated by the performance of high-frequency indicators, including the Composite Index of Economic Activities (CIEA), which grew by 8.6 percent in the first quarter of 2024. This is close to the 8.2 percent recorded in 2023Q4 but lower than the 14.8 percent in 2023Q1. Indicators point towards

broad-based economic growth at the beginning of this year, featuring not only continuous high performance in the services and industrial sectors but also a strong agricultural revival with a good Season A following last year's low performance due to unfavorable weather conditions.

Rwanda's trade deficit widened as exports increased marginally

Rwanda's merchandise exports experienced moderate growth of 0.2 percent due to the weak performance of traditional exports, especially coffee, amidst slowing global commodity prices, and decreasing revenues from manufacturing exports, despite strong re-exports. In contrast, merchandise imports increased by 5.9 percent, largely driven by high demand for capital goods especially in public transport, and consumer goods, albeit declining import bills for energy and intermediate goods. Consequently, the trade deficit widened by 9.6 percent in the first quarter of 2024.

The pressure on the foreign exchange market remains though lower than last year

The widening of the current account deficit, driven by higher demand for imports to support domestic economic activities and lower receipts from traditional exports, continued to exert pressure on the Rwandan franc, though less than last year. By the end of March 2024, the Rwandan franc had depreciated by 2.08 percent against the US dollar, lower than the 3.07 percent depreciation recorded in the same period last year. Nonetheless, given anticipated private and government inflows this year, gross official reserves are expected to remain adequate, above 4.0 months of imports.

Market interest rates followed the trend of the central bank rate

The interbank rate increased to an average of 8.29 percent in the first quarter of 2024, up by 93 basis points from 7.36 percent in the first quarter of 2023, due to tighter monetary policy. Similarly, the interest rates on government securities, deposits, and lending also increased. In particular, the average lending rate rose by 38 basis points, from 15.97 percent in the first quarter of 2023 to 16.35 percent in the first quarter of 2024. The increase was particularly noted for short-term loans.

MPC decision

In line with the forecasts of stable inflation of around 5 percent over the policy horizon, the Monetary Policy Committee has decided to reduce the central bank rate by 50 basis points to 7.0 percent.

In the coming months, the MPC 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).

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