



*The Governor*

## **PRESS RELEASE**

### **The National Bank of Rwanda maintains its Central Bank Rate at 7.5 percent**

On February 21, 2024, the Monetary Policy Committee (MPC) met to decide on the Central Bank Rate (CBR) for the next quarter.

As initially projected, inflation fell within the band in December 2023. This was attributed to: a good agriculture harvest, the monetary policy tightening by the NBR, other disinflationary measures implemented by the Government, and a declining trend in the prices of major international commodities.

In 2024, inflation is projected to remain within the band of 2 to 8 percent, averaging close to 5 percent. However, several potential risks could affect this outlook, including geopolitical tensions such as the ongoing wars in Ukraine and in the Middle East, disruptions in the Red Sea that may influence international commodity prices, and weather-related challenges that could affect future agriculture sector performance.

In line with the inflation projection and the risks identified and with the aim of achieving lasting inflation stability in the upcoming quarters, the Monetary Policy Committee (MPC) has decided to maintain the Central Bank Rate (CBR) at 7.5 percent.

### **Inflation is expected to stabilize in 2024**

Since the beginning of 2023, headline inflation has shown a continuous decrease, dropping from 20.7 percent in January 2023, to 6.4 percent in December 2023, and further to 5.0 percent in January 2024, on year-on-year basis. This decline reflects a reduction in all components, namely core, fresh foods, and energy inflation. The decline observed in core inflation is mainly attributed to the ease in the prices of some key imported commodities, coupled with the base effect owing to higher prices recorded in the corresponding period of the previous year. The reduction in fresh food inflation can be attributed to better harvests and an increased supply of fresh vegetables which led to lower prices. Furthermore, the decrease in energy inflation reflects the eased pressures in both solid and liquid fuels inflation. The decrease in solid fuels reflects the conducive weather conditions for charcoal production and the base effect, while liquid fuels inflation eased in line with the reduction in international oil prices.

In 2024, headline inflation is projected to remain within the inflation target band, close to 5.0 percent. The expected stable inflation path is mainly attributed to the good performance of agricultural production for Season A 2024, the expected normalization of agricultural production going forward, continuous effects of the previous NBR monetary policy decisions, other government policy measures, and the ease in the prices of some key international commodities.



Nevertheless, these projections are prone to uncertainties. Domestic risks include weather-related challenges that may affect future agriculture performance and fresh food prices. On a global scale, the ongoing war in the Middle East and disruptions in the Red Sea may put pressure on international trade and commodity prices (food and energy products), adding to the already existing threats linked to the war in Ukraine.

### **The domestic economy remains resilient**

Real GDP growth is expected to remain high in the last quarter of 2023, continuing the trend of the first three quarters, during which real GDP growth averaged 7.6 percent. Supporting this trend, High frequency indicators such as the Composite Index of Economic Activities (CIEA), showed a growth of 7.2 percent in the fourth quarter of 2023. Overall, the economic growth for 2023 will be higher than the initial projection of 6.2 percent, mainly driven by good performances in trade services, the tourism industry, information and communication, and the construction sector.

### **Rwanda's trade deficit has widened**

In the fourth quarter of 2023, merchandise exports fell by 8.7 percent, primarily due to a drop in the prices of traditional exports and the negative impact of adverse weather on coffee and tea production. On the other hand, merchandise imports decreased slightly by 0.2 percent, indicating a reduction in energy imports, particularly petroleum products, and a slight decline in intermediate and capital goods imports. As a result, the trade deficit increased by 5.4 percent in the last quarter of 2023.

Throughout 2023, the trade deficit widened by 10 percent, driven by a 6.8 percent increase in imports, while exports grew slightly by 1.7 percent. The expansion in the goods deficit was partially offset by improving service exports driven by a strong recovery of travel and tourism as well as resilient inflows from diaspora remittances and higher Foreign Direct Investment.

The widening external trade deficit and the strong USD resulting from tight financial conditions in the USA put pressure on the Rwandan franc. As of the end of December 2023, the Rwandan franc depreciated by 18.05 percent year-on-year compared to the US dollar. Nonetheless, gross official foreign exchange reserves remained sufficient, covering an estimated 4.4 months of prospective imports of goods and services by the end of 2023.

### **Market interest rates followed the increasing trend of the central bank rate, except the lending rate**

In the fourth quarter of 2023, the interbank rate rose to an average of 8.25 percent, an increase of 141 basis points from 6.84 percent in the same period of 2022, a rise attributed to tighter monetary policy. Similarly, the interest rates on government securities and weighted average deposit rate increased. In contrast, the average lending rate decreased by 76 basis points, from 16.54 percent in the fourth quarter of 2022 to 15.78 percent in the fourth quarter of 2023. This reflects large loans with short-term maturity offered to corporates at lower rates.

## **MPC decision**

Based on inflation forecasts and in light with the identified risks, the MPC decided to maintain the central bank rate at 7.5 per cent. The MPC remains committed to maintaining inflation within the target band (2 to 8 percent) and will continue to monitor macroeconomic developments. If future economic developments unfold as projected, the MPC might consider starting to gradually reduce the rate while ensuring that inflation stays within the target band.

**Kigali, 22<sup>nd</sup> February 2024**

Digitally  
signed by  
BNR(GOV  
ERNOR)



**RWANGOMBWA John**  
**Governor, Chairperson of the MPC**

