



The Governor

PRESS RELEASE

The Monetary Policy Committee (MPC) meeting convened on the 14th of November 2022 to review its previous decisions' impact, assess recent global and domestic economic developments and take policy decisions for the following quarter. Analysis indicates that inflationary pressures remain high, with headline inflation projections for 2022 being higher than earlier projected. This is mainly due to continued global economic challenges as well as lower domestic agriculture production. As reported in our August press release, the war between Russia and Ukraine (two commodity superpowers producing oil, gas, fertilizers, metals, and cereals among other things) exacerbated an already increasing trend of commodity prices. In addition, the US Dollar continues to appreciate against other currencies, and risks of disruptions of global supply chains remain, which might continue affecting logistics and international trade costs, and therefore inflation.

On the domestic front, low domestic food production linked to climate constraints and higher prices of inputs have led to surging food prices this year. Inflation is now projected to average around 13.2 percent in 2022, 1.1 percentage points higher compared to the August 2022 projection. Inflation numbers are expected to remain high until the first half of 2023, before decelerating towards the benchmark band, below 8 percent at the end of the year 2023. Given these developments and outlook, the MPC decided to increase the CBR by 50 basis points, from 6.0 percent to 6.5 percent, to reduce inflationary pressures and preserve consumers' purchasing power. The MPC has also decided to re-instate the reserve requirement ratio to the pre-Covid level of 5 percent effective January 1st, 2023. The ratio had been at 4 percent since April 2020 after a temporary decision to reduce it in the wake of the Covid-19 pandemic. NBR remains committed to achieving price stability with the

objective to return to the 2 to 8 percent inflation band in the medium term. The full effect of the monetary policy tightening actions by the NBR since the beginning of this year complemented by other policy measures will contribute to achieving this objective.

The Rwandan economy is expected to remain resilient.

Despite the ongoing global economic challenges, the Rwandan economy has experienced a sustained economic recovery, supported by the Covid-19 economic recovery plan, sizeable fiscal and monetary policy support measures, and a successful vaccination campaign. After a contraction of 3.4 percent recorded in 2020, the Rwandan economy grew by 10.9 percent in 2021 and 7.7 percent in 2022H1. The Composite Index of Economic Activities (CIEA) which grew by 17.2 percent in 2022Q3 from 10.0 percent in 2021Q3, driven by a robust recovery in services and industry, indicates continued strong economic growth in 2022Q3. The positive growth outlook for services and industry is expected to outweigh the weak performance in agriculture thus, a recent upward revision of economic growth projections for 2022 from 6.0 to 6.8 percent.

The interbank market rate was steered to the CBR.

In August 2022, the Central Bank Rate was increased to 6 percent. As a result, the interbank rate increased to 6.05 percent on average in 2022Q3, from 5.54 percent in 2022Q2. However, the lending rate decreased by 14 basis points to an average of 16.17 percent in 2022Q3 from 16.31 percent in 2022Q2, reflecting the increased share of loans allocated to corporates, which were priced at low rates. Nevertheless, the increase in Credit to the Private Sector (CPS) moderated to 12.6 percent year-on-year compared to 18.3 percent in the corresponding quarter of last year.

Rwanda's external trade continues to recover.

On the external side, Rwanda's merchandise exports rose by 39.9 percent in 2022Q3 in line with increased global commodity prices, value addition in minerals, and the good performance of domestic manufacturing for exports. However, merchandise

imports also rose by 38.9 percent, mainly driven by higher spending on energy and consumer goods as global fuel and food prices remained high, combined with increased demand for imported intermediate and capital goods to support the continued strong economic recovery, this high increase in imports widened the trade deficit by 38.3 percent.

Nevertheless, gross official reserves are estimated to remain adequate, above 4.0 months of prospective imports at the end of 2022, and will thus continue to support the stability of the FRW. In the first ten months of 2022, the FRW depreciation against the USD stood at 3.88 percent, compared to 3.09 percent recorded in the corresponding period of last year.

Headline inflation remains high in 2022, but projected to converge towards the benchmark band by end 2023.

In line with the global and domestic economic developments, Rwanda's headline inflation increased to 16.4 percent in 2022Q3 from 12.1 percent recorded in 2022Q2. This increase resulted from the uptick in core inflation to 12.9 percent from 10.4 percent and in fresh food inflation to 29.7 percent from 16.4 percent. Overall, inflationary pressures are expected to remain high until the first half of 2023 and reduce thereafter, converging towards the benchmark band in the last quarter of 2023, considering the NBR monetary policy tightening and other current policy measures. The main drivers of this projected high inflation include high imported costs, high prices of imported energy products, notably fuel and gas, elevated international food prices, and subdued domestic food production.

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 50 basis points to 6.5 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 resulting from global shocks.

The NBR remains committed to its objective of price stability. The MPC will continue to monitor the situation closely, engage with various stakeholders, and stands ready to tighten monetary policy further, if necessary, to return to the benchmark band.

Kigali, 15th November 2022

RWANGOMBWA John
Governor, Chairperson of the MPC

