



The Governor

PRESS RELEASE

National Bank of Rwanda maintains the Central Bank Rate (CBR) at 4.5 percent.

The statutory quarterly Monetary Policy Committee (MPC) meeting held on 18th February 2021 reviewed the outcome of its previous decisions, and assessed the recent economic developments and the outlook at the global and national level. Considering that inflation is projected to evolve below the medium-term benchmark of 5 percent in 2021, and acknowledging the need to support the economic recovery, the MPC decided to maintain an accommodative monetary policy stance by keeping the CBR at 4.5 percent to continue supporting the financing of the economy by banks.

The Global economy projected to recover from the contraction:

According to estimates published by IMF in January 2021, the global economy contracted by 3.5 percent in 2020, owing to negative impact of COVID-19. In 2021, the global economy is projected to recover and grow by 5.5 percent. However, the strength of the recovery is expected to be uneven and unequal across countries depending on factors like; access to the COVID-19 vaccine, the effectiveness of policy support, exposure to cross-country spillovers, and preexisting economic conditions.

The Domestic economy expected to recover from the negative impact of COVID-19:

Rwanda's real GDP contracted by 4.1 percent in the first three quarters of 2020 compared to an growth of 8.3 percent registered in the corresponding period of 2019. However, the second half of 2020 recorded a gradual recovery, on the back of supportive policy measures and easing COVID-19 containment measures. This recovery is evidenced by the rising trend of the real Composite Index of Economic Activities (CIEA), which increased by 9.4 percent in the second half of 2020 from a contraction of 2.1 percent recorded in the first half of 2020. This domestic economic recovery is expected to continue in 2021, supported by policy interventions to revive business activities, despite the uncertainty around COVID-19 and its containment measures. The roll-out of the COVID-19 vaccine globally and in the country will also enhance private-sector optimism, hence stimulating the recovery in economic activities.

CBR transmission to market rates continues to improve:

The continuing NBR accommodative monetary policy stance has contributed to a further reduction in market interest rates. Money market rates were steered around the central bank rate, in the symmetric corridor of ± 1 percent, with the interbank rate dropping by 11 basis points to 5.35 percent in 2020.

During the same period, the average lending rate reduced by 14 basis points to 16.35 percent, which is favorable to continue supporting the economic recovery.

Monetary aggregates remained resilient to the impact of COVID-19:

The monetary sector remained resilient in 2020, owing to supportive policy measures, amid subdued demand for loans by the private sector during the lockdown. Broad money (M3) grew by 18.0 percent in 2020 compared to 15.4 percent recorded in 2019, supported by the increase in the outstanding Credit to the Private Sector (CPS), which grew by 21.8 percent from 12.6 percent the previous year. The expansion in CPS was essentially driven by the restructuring of loans granted to borrowers whose activities have been negatively affected by the pandemic, and new authorized credit disbursed in 2020.

Foreign exchange market remains stable:

As of December 2020, the FRW had depreciated by 5.4 percent y-o-y against the USD, from a depreciation of 4.9 percent in December 2019. Pressures on the Rwandan franc came during the second half of the year, following the resumption of economic activities and the increase in the demand for foreign currencies amid lower foreign inflows. However, the foreign exchange market is expected to remain stable, with adequate foreign exchange reserves held by NBR covering 5.9 months of imports as of December 2020.

Headline inflation projected to remain low in 2021:

As initially projected, headline inflation dropped to 5.0 percent in 2020Q4 from 9.0 percent recorded in 2020Q3. This decline reflects a significant drop in core inflation, following the downward revision of public transport fares in October 2020, and a deceleration in prices of fresh food products reflecting favorable agricultural production in season A/2021. In 2021, headline inflation is projected to evolve around the lower bound of 2.0 percent owing to subdued inflationary pressures. Risks that may divert the headline inflation from the projected baseline path include the performance of agriculture in seasons B and C 2021.

The MPC will continue to closely monitor domestic and global economic conditions and stands ready to take appropriate measures if and when necessary.

February 22nd, 2021

RWANGOMBWA John
Governor, Chairperson of the MPC