NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY REPORT

February 2024

NBR IDENTITY STATEMENT

The National Bank of Rwanda strives to be a World class Central Bank contributing to economic growth & development, by using robust monetary policy tools to maintain stable market prices. The Bank ensures financial stability in a free market economy as it embraces innovation, inclusiveness, and economic integration.

VISION

To become a World Class Central Bank

MISSION

To ensure Price Stability and a Sound Financial System

OUR CORE VALUES

INTEGRITY

We uphold high moral, ethical and professional standards for our people, systems and data

MUTUAL-RESPECT AND TEAM-WORK

We keep ourselves in high spirit, committed to each other for success

ACCOUNTABILITY

We are result-focused and transparent, and we reward according to performance

EXCELLENCE

We passionately strive to deliver quality services in a timely and cost effective manner. We continuously seek improvement by encouraging new ideas and welcoming feedback that adds value to customer services.

NBR
Key Strategic Focus

(2017/18-2023/24)

The National Bank of Rwanda strategic plan sets out six strategic focus areas in which the Bank must excel to achieve its mission and vision. The strategy was designed based on Rwanda's aspirations for economic transformation in line with the National Strategy for Transformation (NST1).

SUMMARY OF NBR's
MONETARY POLICY STRATEGY

OBJECTIVE

Monetary Policy shall maintain price stability by keeping headline consumer price inflation within the band of 2% and 8%, with a focus of having it close to 5% in the medium term. In line with best practices, price stability is the primary and overriding objective of the NBR's monetary policy.

NBR shall also ensure financial stability as well as support other general objectives for economic development. NBR will set the Central Bank Rate (CBR) to stabilize inflation in the medium term.

The monetary policy framework is forward looking, therefore relying on the projections of inflation, taking into account economic developments.

DECISION-MAKING PROCESS

The Monetary Policy Committee (MPC) usually holds four quarterly meetings per year, where it decides on the monetary policy stance by setting the CBR to stabilize medium term inflation. Before the MPC decision, there is extensive assessment and economic analysis to guide discussions.

COMMUNICATION

A press release with the monetary policy decision and its main rationales is always published the day after the MPC decision and the Governor holds a press conference. The monetary policy report, detailing recent economic developments, projections, and reasons behind the decision is also published at the same time as the press release.

CONTENTS

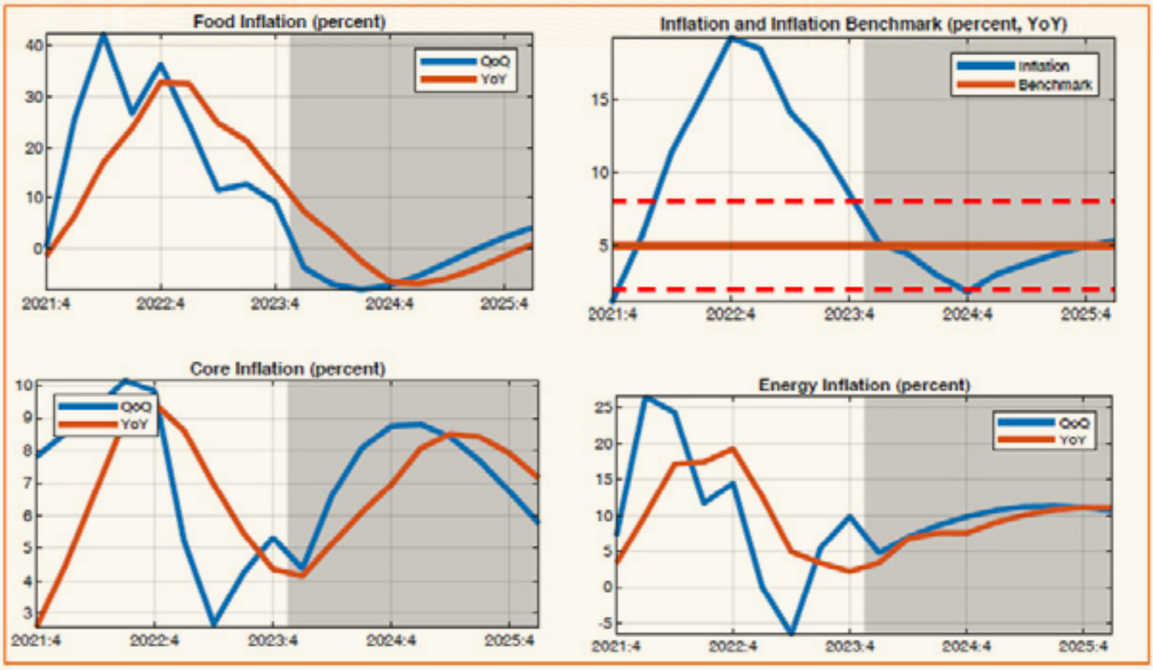
I. MONETARY POLICY COMMITTEE DECISION, OUTLOOK, AND RISKS.

The Monetary Policy Committee (MPC) convened on February 22, 2024, to assess the outcomes of previous decisions, analyse recent global and domestic economic developments, and set the Central Bank Rate (CBR) for the next quarter. The Inflation forecasts as of February 2024 indicate that year-on-year headline inflation will remain within the inflation target band, close to 5.0 percent over the medium term. The path in headline inflation reflects the impact of past monetary policy decisions by the National Bank of Rwanda (NBR), other government policies, the ease in international commodity prices, and subdued global demand.

Over the policy horizon projected decline in headline inflation (y-o-y) reflects decreases in all key components of headline inflation, namely core inflation, energy inflation, and food inflation. However, in 2024, pressures on core inflation (y-o-y) are expected to persist before decelerating in 2025. Core inflation pressures will mainly originate from imported costs, in line with expected global and domestic economic developments. Unlike core inflation, pressures on food inflation are projected to slow down in 2024 before picking up in 2025, reflecting the expected decrease in international food prices (linked to slowing global demand) and the normalization of domestic agricultural food production. Over the medium-term, pressures on energy inflation are expected to remain in 2024 and ease in 2025, consistent with anticipated domestic costs.

However, headline inflation 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 exert pressures on international trade and commodity prices (food and energy products), adding to the pre-existing threats posed by the war in Ukraine.

Considering recent developments and risks identified in the outlook, the MPC decided to maintain the Central Bank Rate (CBR) at 7.5 percent. 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 materialize as expected, the MPC may consider gradually lowering the CBR, while ensuring that inflation stays within the target band.



Food Inflation (percent)
QoQ
YoY
40
30
20
10
0
2021:4
2022:4
2023:4
2024:4
2025:4
Inflation and Inflation Benchmark (percent, YoY)
Inflation
Benchmark
15
10
5
2021:4
2022:4
2023:4
2024:4
2025:4
Core Inflation (percent)
QoQ
YoY
10
9
8
7
6
5
4
3
2021:4
2022:4
2023:4
2024:4
2025:4
Energy Inflation (percent)
QoQ
YoY
25
20
15
10
5
0
-5
2021:4
2022:4
2023:4
2024:4
2025:4

II. CURRENT ECONOMIC CONDITIONS

SUMMARY

World economic growth is projected to stabilize in 2024, yet it is expected to remain below the historical annual average of 3.8 percent observed from 2000 to 2019, reflecting tight monetary policies and withdrawal of fiscal support. Economic growth in advanced economies is projected to decelerate in 2024, with weaker-than-expected growth in the Euro area.

Global commodity prices are projected to decline in 2024, consistent with the slowdown in global demand. Both energy and non-energy commodity prices are projected to decline in 2024.

Globally, inflation is easing with a remarkable reduction in advanced economies but remained above pre-pandemic levels of 3.5 percent in 2017-19, standing at 6.8 percent in 2023. In 2024, about 80 percent of the world's economies are expected to have a lower annual average headline and core inflation, essentially reflecting declining international commodity prices as well as cooling effects of monetary tightening on economic activity.

Despite the reduction in inflationary pressures, major central banks in advanced economies are still indicating the need for policy measures to assist in bringing inflation back to their desired targets. Nonetheless, with the cooling monetary policy tightening by the Federal Reserve, the US dollar is depreciating against the Euro and the British Pound.

Despite the negative impact of climate change, high inflation and a global economic slowdown, Rwanda's economy has maintained a strong economic growth after the pandemic. Real GDP growth averaged 7.6 percent during the first three quarters of 2023, and high-frequency indicators reveal a continued momentum in the fourth quarter. This good performance was mainly due to flourishing industrial and service activities.

In 2023Q3, Rwanda's current account deficit widened to 13.9% of GDP, despite a recovery in service exports and consistent inflows from remittances and Foreign Direct Investment (FDI), primarily driven by an increase in the trade deficit.

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 rates increased following the monetary policy tightening, with the exception of 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 corresponding period of 2022. 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.

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 a year-on-year basis. On a quarterly basis, headline inflation (y-o-y) decelerated to 8.9 percent in 2023Q4 from 12.7 percent recorded in the previous quarter. This decline was observed across all its key components: core, fresh food, and energy inflation. The deceleration observed in core inflation is largely attributed to base effects, whereas the drop in fresh food inflation was due to improved supply conditions for certain fresh vegetables. Over the same period, a decrease in energy inflation was noted, primarily reflecting the base effects associated with solid fuels inflation.

II.1. Global Economy and Financial Markets

The global economy is projected to stabilize in 2024

According to the International Monetary Fund (IMF)'s World Economic Outlook (WEO) January 2024 update, the world economic growth is projected to remain at 3.1 percent in 2024, before increasing modestly to 3.2 percent in 2025. This projected growth remains well below the historical annual average of 3.8 percent observed between 2000 and 2019, owing to restrictive monetary policies and the withdrawal of fiscal support in many countries. Relative to October

2023 projections, the forecast for 2024 is 0.2 percentage points higher, reflecting upgrades for China, the United States, and large Emerging Market and Developing Economies (EMDEs).

Economic growth in advanced economies is projected to slightly decline from 1.6 percent in 2023 to 1.5 percent in 2024. This upward revision of 0.1 percentage point for 2024 relative to October 2023 WEO projections, reflects stronger-than-expected US growth, partly offset by weaker-than-expected growth in the Euro area.

In the US, growth is projected to slow to 2.1 percent in 2024, down from an estimated 2.5 percent in 2023 due to weakening aggregate demand. In turn, slowing aggregate demand in the US is linked to the lagged effects of monetary policy tightening and a softening labor market. An upward revision of 0.6 percentage point compared to the October 2023 projections mainly reflects statistical carryover effects from the stronger-than-expected growth outcome for 2023.

Growth in the Euro Area is projected to recover from an estimated 0.5 percent in 2023 to 0.9 percent in 2024, reflecting relatively higher exposure to the war in Ukraine. Relative to October 2023 WEO projections, growth is revised downward by 0.3 percentage point, largely on account of carryover from the weaker-than-expected outcome for 2023.

The UK's economy is set to improve modestly from an estimated 0.5 percent in 2023 to 0.6 percent in 2024, as the lagged negative effects of high energy prices fade.

Japan's economy is projected to remain above potential although growth is projected to decelerate from an estimated 1.9 percent in 2023 to 0.9 percent in 2024, reflecting the fading of one-off factors that supported activity in 2023. These include a depreciated yen, pent-up demand, and the recovery of business investment, following earlier delays in implementing projects.

EMDEs are projected to remain broadly stable in 2024 with a growth of 4.1 percent, reflecting an upward revision of 0.1 percentage point higher than the October 2023 projections, following upgrades for several regions. China's economy is projected to grow by 4.6 percent in 2024, with an upward revision of 0.4 percentage point relative to the October 2023 projections, reflecting carryover from stronger-than-expected growth in 2023 and increased government spending on capacity building against natural disasters. Growth in India is projected to remain strong at 6.5 percent in 2024, with an upward revision of 0.2 percentage point relative to the October 2023 projections, reflecting resilience in domestic demand.

The Sub-Saharan African (SSA) economy is projected to improve from an estimated 3.3 percent in 2023 to 3.8 percent in 2024, but with growth remaining below the historical average of 4.8 percent, as the negative effects of earlier weather shocks subside, and supply issues gradually improve. The downward revision of 0.2 percentage point for SSA, relative to the

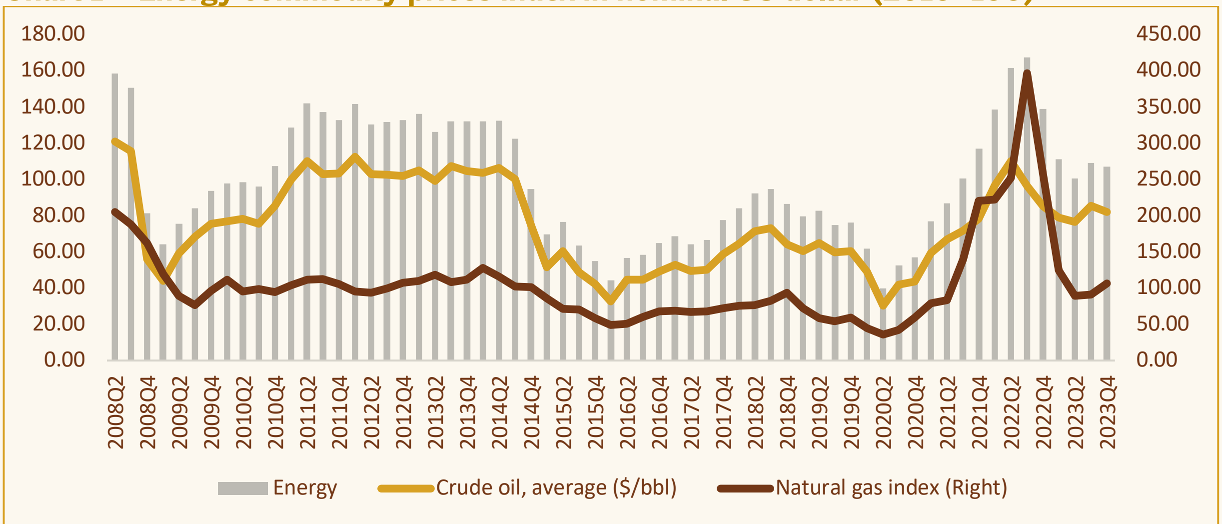
October 2023 projections, mainly reflects a weaker projection for South Africa on account of increasing logistical constraints on economic activity, mainly from the transportation sector. South Africa's growth projection for 2024 is revised down by 0.8 percentage point to 1.0 percent, relative to the October 2023 WEO projections.

The economic performance in the East African Community (EAC[1]-5) countries is projected at 5.7 percent in 2024, from 5.0 percent in 2023, following projected upward revisions for most member countries compared to the previous year. Rwanda's economic growth is projected to improve to 6.6 percent in 2024, after an estimated 6.2 percent in 2023. In Uganda, GDP is projected to improve to 5.7 percent compared to 4.6 percent in 2023. During the same period, Tanzania's real GDP is projected to reach 6.1 percent from 5.2 percent in 2023. Kenya's economic growth is projected to improve to 5.3 percent in 2024 from 5.0 percent in 2023, while in Burundi, growth is projected at 6.0 percent in 2024, from 3.3 percent in 2023.

Commodity prices projected to decline in 2024 due to slowing global demand

In 2023Q4 (q-o-q), the global commodity price index decreased by 1.4 percent after increasing by 5.1 percent in 2023Q3. Overall, it is projected to fall by 4.1 percent in 2024 after dropping by 24.2 percent in 2023, reflecting slowing global growth amid tight financial conditions. The energy price index fell by 1.8 percent in 2023Q4 after rising by 8.6 percent in 2023Q3, reflecting lower crude oil prices, which account for nearly 85 percent of the index. In annual terms, the energy price index is expected to decrease by 4.5 percent in 2024 after falling by 29.9 percent in 2023, as subdued global growth reduces demand pressures.

Chart 1 – Energy commodity prices index in nominal US dollar (2010=100)



Source: World Bank Commodity Prices, January 2024

[1] EAC-5 members are Burundi, Kenya, Rwanda, Tanzania and Uganda

In 2023Q4 (q-o-q), average crude oil prices dropped by 3.8 percent after increasing by 11.4 percent in 2023Q3, amid series of supply cuts by OPEC and 10 affiliated member countries. The increase started in July 2023, following Saudi Arabia's crude oil production cuts of 1 million barrels per day. According to the January 2024 WEO projections, crude oil prices are projected to drop by 2.3 percent in 2024, and drop further by 4.8 percent in 2025, amid slowing global growth.

The natural gas index increased by 16.4 percent in 2023Q4 after a slight increase of 2.1 percent in 2023Q3, partly due to ongoing labor strikes at Australian LNG facilities. The World Bank projects natural gas average prices to drop by 3.0 percent in 2024, after dropping by 63.5 percent in 2023, on the back of slowing demand. The forecast assumes relatively mild weather in the northern hemisphere and no disruptions in supplies.

Non-energy commodity prices dropped slightly by 0.5 percent in 2023Q4, after decreasing by 1.5 percent in 2023Q3, owing largely to declining prices of all non-energy commodity prices. In October 2023, World Bank projects non-energy to drop by 3.1 .9 percent in 2024, after decreasing by 9.8 percent in 2023. The downward trend reflects the projected falling prices of all non-energy commodities.

In 2023Q4, average prices for agricultural commodities slightly dropped by 0.3 percent after declining by 1.6 percent in 2023Q3, attributed largely to decreasing food prices. Agricultural commodity prices are projected to drop by 1.5 percent in 2024 after falling by 7.2 percent in 2023, owing to ample supplies.

Food prices dropped by 1.0 percent in 2023Q4 – of which, cereals (-4.5 percent), and oils and meals (-3.7 percent), after decreasing by 2.7 percent in 2023Q3. Global food prices are projected to drop slightly by 1.5 percent in 2024 after decreasing by 9.2 percent in 2023. Following the projected drop in 2024, the cereals price index is projected to fall by 2.8 percent in 2024, amid ample supplies and adequate stock levels. However, rice prices will remain high in 2024, assuming India maintains its export restrictions.

Coffee (Arabica) prices increased by 4.9 percent in 2023Q4 after dropping by 14.2 percent in 2023Q3 and projected to drop slightly by 1.1 percent in 2024, after decreasing by 19.4 percent in 2023. Tea prices (Mombasa) decreased slightly by 0.5 percent in 2023Q4 after falling by 1.6 percent in 2023Q3.

Metals & minerals prices went down slightly by 0.1 percent in 2023Q4 after dropping by 2.2 percent in 2023Q3. Annually, they are projected to drop by 4.7 percent in 2024 after decreasing by 9.6 percent in 2023. Tin prices dropped by 8.8 percent in 2023Q4 after an increase of 2.4 percent in 2023Q3, driven by reduced demand from the electronics sector. Tin prices are projected to decrease by 3.8 percent in 2024 after dropping by 17.2 percent in 2023, again reflecting decreasing demand from the electronics sector.

Fertilizer prices dropped by 4.9 percent in 2023Q4 (q-o-q) after increasing by 3.1 percent in 2023Q3. The World Bank projected fertilizers to drop by 15.4 percent in 2024 after dropping by 34.9 percent in 2023, as supply disruptions ease gradually.

Global inflation is expected to ease in 2024 but will remain above central bank targets

World annual average inflation is projected to ease to 5.8 percent in 2024 from 6.8 percent in 2023 but remains above pre-pandemic levels of about 3.5 percent (2017-19). The forecast for 2024 was not changed relative to the October 2023 projections, reflecting higher-than-expected core inflation. About 80 percent of the world's economies are expected to have lower annual average headline and core inflation in 2024. The drivers of declining inflation differ by country but generally reflect lower core inflation because of still-tight monetary policies, a related softening in the labor markets, and a pass-through effect from earlier and ongoing declines in related energy prices.

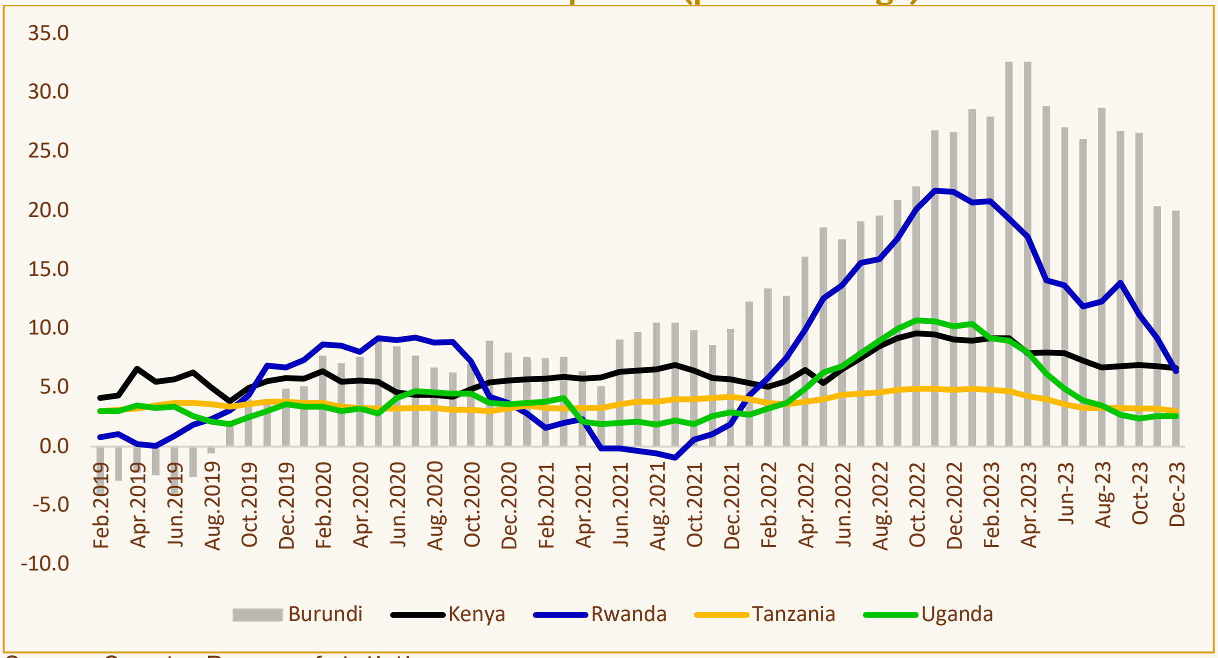
In advanced economies, consumer price inflation is expected to ease to 2.6 percent in 2024 from 4.6 percent in 2023 and 7.3 percent in 2022, benefiting from stronger monetary policy frameworks and communications. Consistent with this projected easing in inflation, US headline inflation is projected to decelerate to 2.8 percent in 2024 from 4.1 percent in 2023, Eurozone inflation expected to ease to 3.3 percent in 2024 from 5.5 percent in 2023, and annual headline inflation for the UK is projected to ease to 3.7 percent in 2024 after 7.4 percent in 2023, reflecting easing energy and food prices.

In EMDEs, annual headline inflation is expected to ease to 8.1 percent in 2024 from 8.4 percent in 2023, reflecting falling energy and easing food prices. China's headline inflation is projected at 1.7 percent in 2024 after 0.2 percent in 2023, and headline inflation for India is projected to ease to 4.6 percent in 2024 from 5.7 percent in 2023.

In Sub-Saharan Africa, annual headline inflation is projected to remain in double digits but on a decelerating trend from 15.8 percent in 2023 to 13.1 percent in 2024, following the projected higher inflation rates in Zimbabwe (222.4 percent), Sierra Leone (29.8 percent), Ghana (23.2 percent), Angola (22.3 percent), Ethiopia (20.7 percent), and Nigeria (23.0 percent). In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices.

In the EAC-5 countries, annual average inflation is projected to ease to 5.6 percent in 2024 after 6.8 percent in 2023. Consistent with this projected path of inflation, Rwanda's headline inflation eased to 6.4 percent in December 2023 compared to 21.6 percent in December 2022, Kenya's inflation eased to 6.6 percent in December 2023 compared to 9.1 percent in December 2022, Tanzania's headline inflation softened to 3.0 percent in December 2023 from 4.8 percent in the corresponding month of the previous year, and annual headline inflation for Uganda decelerated to 2.6 percent in December 2023 compared to 10.2 percent in December 2022, mainly due easing food and falling fuel prices.

Chart 2- EAC-5 Headline Inflation developments (percent change)

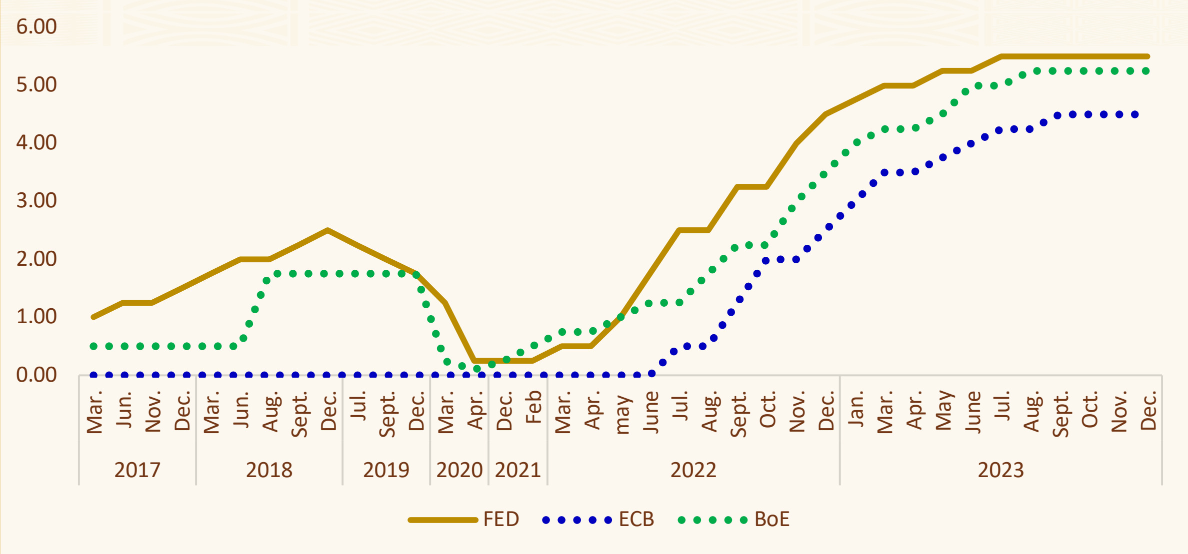


Source: Country Bureau of statistics

Monetary conditions tighten globally amid heightened inflation risks

Despite easing inflationary pressures, some central banks in advanced economies are still hinting to tight policy responses to return inflation to targets. The US Federal Reserve paused interest rate hikes for the 3rd time in December2023 and maintained the target range from 5.25 to 5.50 percent. The Bank of England maintained the bank rate for the third time to 5.25 percent in December 2023, while the European Central Bank also maintained the three key ECB interest rates for the 2nd time at 4.50 percent, on 14th December 2023.

Chart 3- Policy rates for selected economies (percent)



Source: Central Bank Websites

On the foreign exchange market, the US dollar is depreciating against some major currencies, partly reflecting the pause in monetary policy tightening by the Federal Reserve. By end December 2023, the US dollar had depreciated by 6.41 percent (y-o-y) against the British pound and 4.67 percent against the Euro. The dollar however appreciated by 5.72 percent against the Japanese Yen and 3.19 percent against the Chinese Yuan.

Global economy expected to impact Rwandan economy in 2024

The projected declines in crude oil and natural gas prices in 2024 are expected to reduce Rwanda's oil and gas import bill. This expected impact is based on the latest IMF, January 2024, World Economic Outlook update.

The decline in prices of commodity like coffee, tea, and tin in 2023 impacted on Rwanda's traditional exports earnings which recorded a lower growth compared to the two previous years (1.7 percent after 33.2 percent and 53.4 percent respectively in 2022 and 2021). These declines in commodity prices are foreseen to continue in 2024, negatively affecting Rwanda's exports value. Economic growth in most of Rwanda's trading partners is expected to remain moderate, leading to low demand for Rwanda's traditional exports.

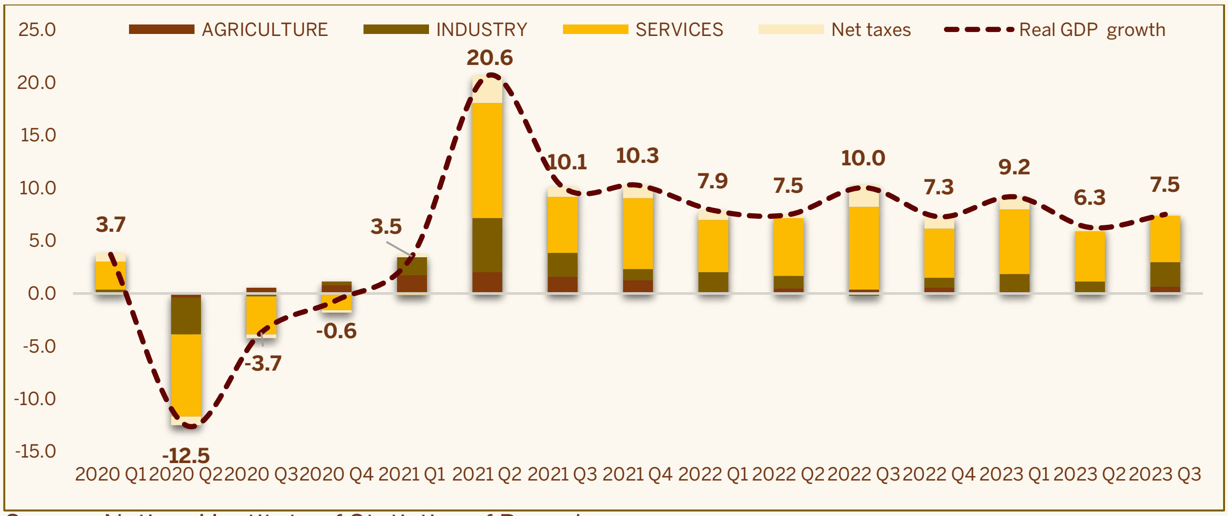
II.2. Domestic economic performance and labour market

Rwanda's economy recorded a growth of 7.5 percent in the third quarter of 2023, and it averaged 7.6 percent in the first three quarters of the year. This evidence shows that the country has sustained a strong post-pandemic economic growth trajectory, despite the challenges posed by climate change, high inflation, and a global economic slowdown.

The services sector was a key driver of economic growth, contributing 4.4 percentage points to the real GDP growth of 7.5 percent recorded in 2023Q3. The sector recorded a significant increase of 8.8 percent during the same period, bolstered by a strong performance in trade services, the tourism industry, education, and information and communication.

The industry sector witnessed strong performance across all its subsectors, leading to a growth of 13.5 percent in 2023 Q3. On-going infrastructure projects significantly boosted the construction subsector, making it a key contributor to the industry's growth. Construction contributed 56 percent to the sector's growth by recording an increase of 23.6 percent. Manufacturing industries grew by 8.3 percent, bolstered by the outstanding performance of food processing, textiles, and chemical industries. Moreover, the mining and quarrying sector registered a robust growth of 14.3 percent, supported by rising mineral prices on the international market. For instance, in 2023Q3, tin prices increased by 13.0 percent, while iron ore prices went up by 8.9 percent.

Chart 4: Real Gross Domestic Product (y-o-y, percentage change)



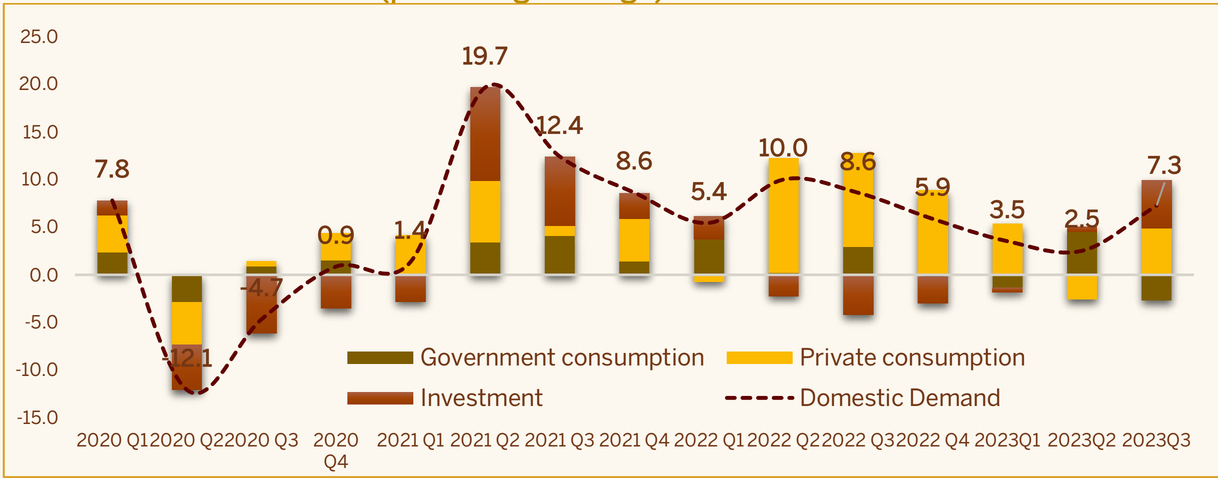
Source: National Institute of Statistics of Rwanda

Unfavorable weather conditions had a detrimental impact on the agriculture sector, resulting in a decline in both food production and export crops. This downturn contributed to an overall underperformance of the sector. Despite a modest increase of 3.4 percent in overall food production, the performance varied among different crops. Vegetables and bananas recorded robust growth rates of 10.1 percent and 7.3 percent, respectively. In contrast, production of roots and tubers declined by 2.9 percent, while export crops decreased 15.2 percent.

Strong domestic demand driven by investment and private consumption.

In the third quarter of 2023, domestic demand grew by 7.3 percent, primarily due to increased investment and private consumption. Investment increased by 26.0 percent, mainly driven by construction-related investment and increased equipment. Additionally, private consumption expanded by 7.7 percent.

Chart 5: Domestic demand (percentage change)



Source: National Institute of Statistics of Rwanda

Employment expansion in 2023Q4 resulted from job creation across in the agriculture and services sectors.

The service and agriculture sectors supported the labor market, leading to a decline of unemployment in 2023Q4 to 16.8 percent.

Table 1: Labour market indicators (percentage)

	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4
Unemployment Rate	23.5	19.4	23.8	16.5	23.0	18.1	24.3	17.2	16.8	18.0	16.8
Labour Force Participation Rate	53.3	50.9	61.0	54.5	54.3	56.6	58.7	57.6	59.5	59.8	60.0
Employment %YoY											
Total	-2.2	-13.3	6.6	11.9	6.0	16.7	-1.7	6.1	20.1	7.0	14.1
Agriculture	7.0	19.0	16.0	12.2	-0.9	19.1	-5.2	-6.4	20.6	-12.2	16.5
Industry	-15.2	-31.6	-7.1	13.1	6.7	16.4	-3.3	5.9	15.7	12.5	-2.3
Manufacturing	*-9.6*	*-40.5*	*9.5*	*10.6*	*20*	*35.5*	*5.8*	*23.2*	*23.0*	*2.7*	*21.9*
Construction	*-15.4*	*-25.1*	*-9.9*	*17.1*	*-5.4*	*7.8*	*-14.4*	*-6.5*	*17.7*	*19.2*	*-13.0*
Services sector	-4.2	-26.7	4.1	12.1	16	12.2	4.9	27.8	22.6	31.7	17.8
Trade services	*-31.0*	*-36.5*	*-3.8*	*7.2*	*29.1*	*-5.9*	*-0.7*	*36.8*	*37.7*	*49.6*	*30.4*
Transport	*35.6*	*-1.1*	*16.4*	*26.6*	*29.2*	*35.6*	*15.2*	*22.1*	*19.8*	*32.2*	*-4.3*
Hotels and Restaurants	*15.3*	*-71.3*	*-6.2*	*11.5*	*18.1*	*107.1*	*31.2*	*86.8*	*70.7*	*65.0*	*50.8*

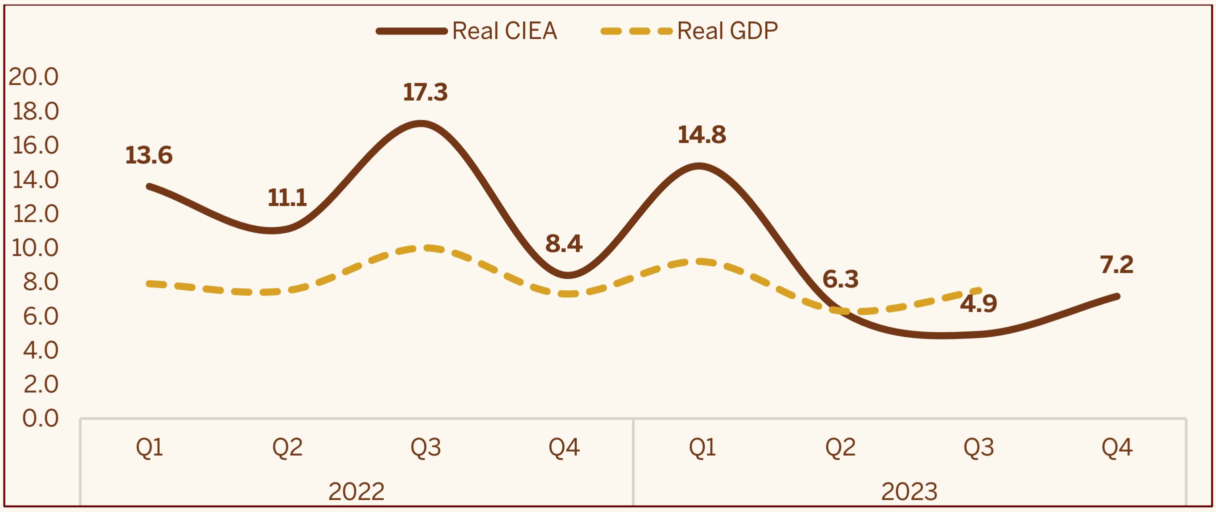
Source: National Institute of Statistics of Rwanda

In the last quarter of 2023, employment rose by 14.1 percent, largely driven by the agriculture sector, which saw a 16.5 percent increase in employment, following the 2024 food production activities of agricultural season A. The services sector also saw strong growth in employment, particularly in trade services and tourism-related services. However, the industry sector showed mixed performance: employment in manufacturing industries increased by 21.9 percent, whereas construction employment declined by 13.0 percent, attributed to the conclusion of the peak construction period, which typically occurs in the third quarter.

Economic activity remained strong in 2023Q4, with the services and construction sectors leading the way.

The Composite Index of Economic Activities (CIEA) indicates a continuous expansion of economic activities as it grew by 7.2 percent in 2023Q4, pointing to strong growth in the last quarter of 2023.

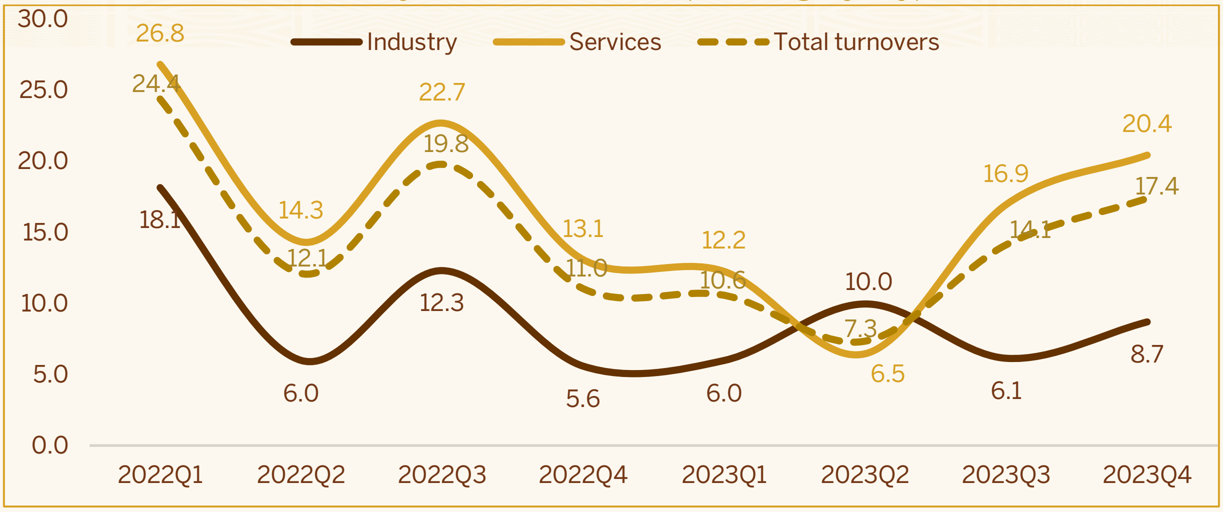
Chart 6: Quarterly real GDP growth vs CIEA (% change, y-o-y)



Source: National Bank of Rwanda

The performance of the services sector remained strong. In 2023Q4, the sector experienced a notable growth in total turnovers, with an increase of 20.4 percent. Key contributors to this growth were robust performances in trade services, financial services, telecommunication, education, and tourism-related services, including hotels and restaurants. The robust performance of the tourism industry is also reflected in the significant increase of MICE delegates, which has risen by 66.4 percent in the same quarter.

Chart 7: Turnovers of industry & services sectors (% change, y-o-y)



Source: National Bank of Rwanda

The industry sector experienced an 8.7 percent increase in total turnovers in 2023Q4, driven primarily by the construction industry, which continues to thrive with a 46.7 percent growth. Additionally, mining and quarrying saw an 18.1 percent increase, which helped to balance out the decline in manufacturing (-11.3 percent). Ongoing infrastructure projects sustained the momentum in the construction industry, while the sustained high prices of metals and minerals on the international market bolstered the mining and quarrying subsector's performance.

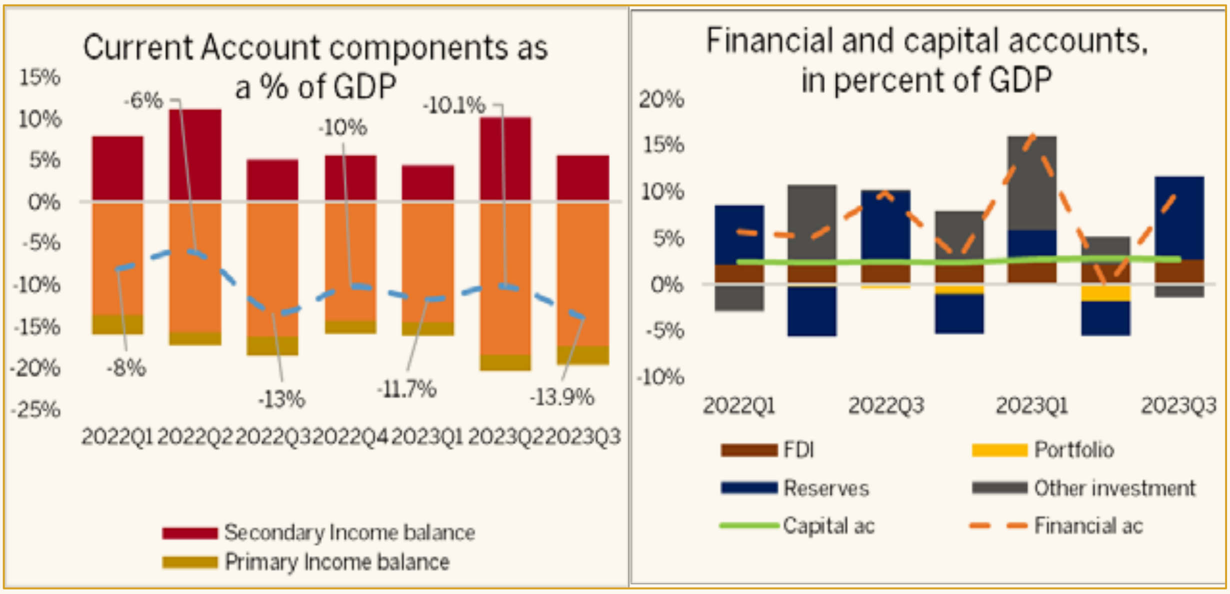
The underperformance of the manufacturing industry is linked to high input costs, also in line with high international prices for key intermediate goods. Additionally, a slowdown in demand for industrial products exacerbated the situation further.

Given the strong performance of the industry and service sectors, coupled with moderate growth in agriculture, the economy appears to be maintaining its positive trajectory in the fourth quarter of 2023. Consequently, it is expected that the overall annual growth rate will surpass the initial projection of 6.2%.

II.3. External sector and exchange rates developments

In 2023Q3, the current account deficit widened to 13.9% of GDP mainly due to the rise of the trade deficit (+10%). However, there is a strong recovery in service exports and continued remittances inflows. On the side of the financial account, there is an inflow increase for FDI (+11.7%), despite a decrease in government project and budget loans (-17.7%). Consequently, Rwanda's foreign exchange reserves remained relatively adequate as of the end of September and are expected to maintain a sufficient level in the medium term, ensuring coverage for at least four months of imports.

Chart 8: Current account deficit



Source: National Bank of Rwanda

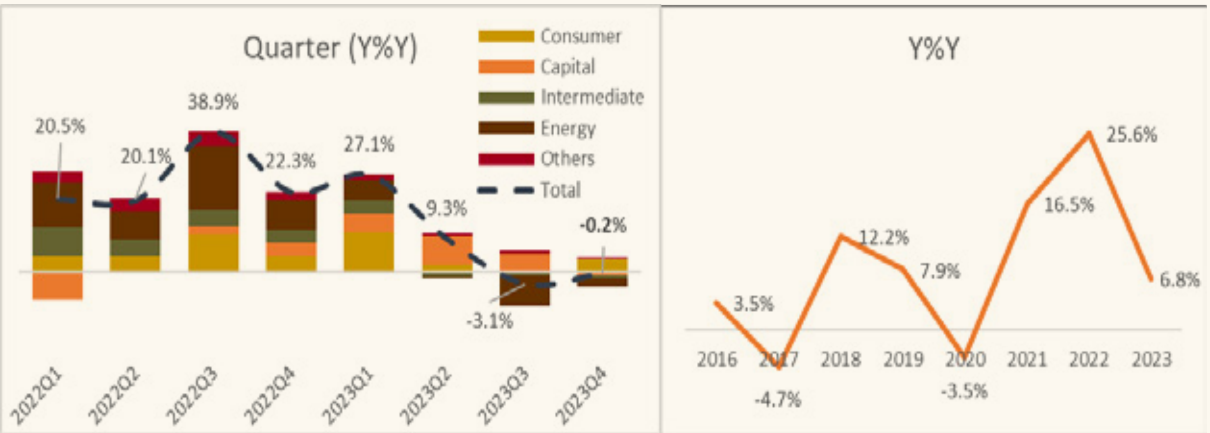
Imports increased by 6.8% in 2023, while falling by 0.2% in the fourth quarter of 2023.

In 2023, the imports increased by 6.9% in value. This was mainly due to a 14.1% rise in the cost of consumer goods, particularly in the food products category. The weak performance of the agricultural sector was a key factor behind this increase. Capital goods also contributed to the overall increase in imports, with a growth of 23.1%. This was primarily driven by developments in the electricity sector and transportation. The cost of intermediate goods increased slightly by 0.1%, while there was a 10.9% reduction in the cost of energy products.

In 2023Q4, the import bill decreased by 0.2%. The decrease can be attributed to three main factors. Firstly, there was a decrease in the import of energy, particularly petroleum products. The volume decreased by 8.6%, and the value decreased by 14.1%. Secondly, there was a decrease in the import of intermediate goods, with a 3.0% decrease in value. This was driven by a decline in wheat and fertilizers prices, and less cement imports. Thirdly, there was a decrease of 3.5% in capital goods, which was primarily due to reduced imports of machinery used in manufacturing and mining.

However, there was an increase in the import volume of consumer goods. Food imports were particularly high due to the underperformance of the agriculture sector. Specifically, the food import bill increased by 13.3%, with elevated imports of cereals, vegetables, fruits, spices, and fish.

Chart 9: Contribution to imports growth by category, %



Source: National Bank of Rwanda

Low increase of 1.7% in exports in 2023 but higher contraction (-8.7%) in 2023Q4.

Export earnings rose by 1.7%, primarily driven by the good performance of the manufacturing sector, particularly in cement and cereals. Nevertheless, mineral exports have been negatively impacted by declining global commodity prices, whereas coffee and tea have faced challenges from both price downfall and adverse weather conditions affecting production.

In the fourth quarter of 2023, there was a decrease of 8.7% in exports. This decline was primarily due to a reduction of 23.2% in coffee production. As a result, there was a 39.8% decrease in coffee export earnings due to lower output, combined with a fall of 19.4% in coffee prices. During this period, there were also lower exports of malt extract, wheat flour, and steel bars.

Chart 10: Contribution to exports growth by category, (y-o-y, %)

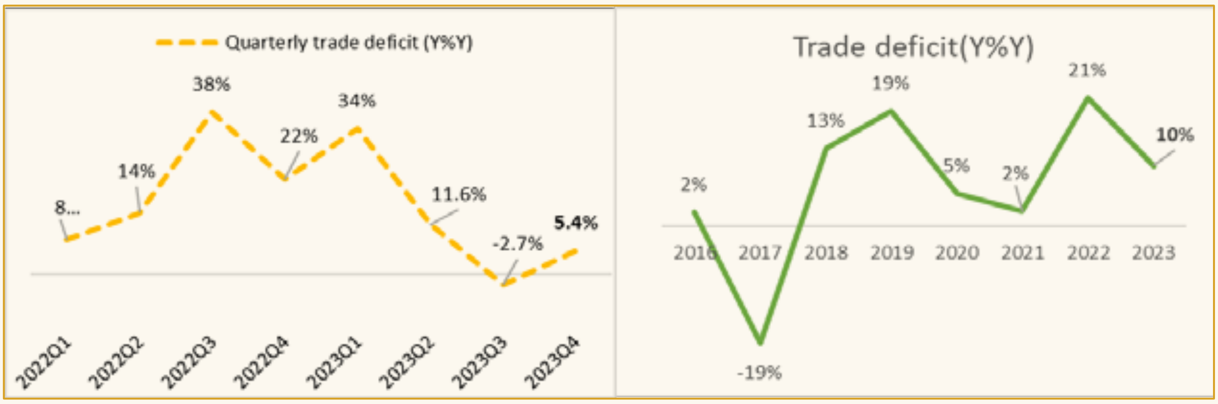
Source: National Bank of Rwanda

Due to the decrease in coffee production, earnings from traditional exports declined by 20.4%. Receipts from the tea industry also decreased by 14.1%, mainly attributed to a decline in volume by 21.2%. However, the minerals sector recorded a positive volume growth of 3.9%.

In 2023Q4, there was a decrease of 15.5 percent in non-traditional exports2. However, receipts from re-exports increased by 3.3 percent year-on-year, driven by an improvement in petroleum products and food re-exports. Additionally, Informal Cross-Border Trade (ICBT) recorded a 3.7 percent growth in the same period.

As a result of the above developments, the merchandise trade deficit widened by 10% in 2023 and 5.4% in 2023Q4.

Chart 11: Trade in goods deficit in 2023Q4 and 2023 (Y%Y)



Source: National Bank of Rwanda

[2] Non-traditional exports refer to domestic exports other than those in traditional exports (coffee, tea, minerals, hides and skins and pyrethrum).

High demand pressures on foreign exchange market.

In December 2023, the FRW depreciated against major currencies due to the widening of the current account deficit and the strength of the US dollar, which also reflected the tightening of US monetary policy. As a result, the franc depreciated by 18.05% year-on-year, which is a significant drop compared to the 6.05% depreciation recorded in December 2022.

The import bill increased significantly due to high international commodity prices amid the increased need for capital and intermediate goods imports, and a rise in food imports to compensate for the shortfall in food crop production. However, the recovery in the travel and tourism industry contributed to foreign exchange availability.

The franc also weakened against other major currencies, including the pound (25.07 percent end December 2023), the Euro (22.50 percent) and the Japanese Yen (10.78 percent).

Table 2: Appreciation (-) /Depreciation (+) rate of FRW against selected currencies (y-o-y)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGX	FRW/BIF
Dec-18	4.04	-1.96	-0.07	6.20	5.46	1.24	1.77	1.93
Dec-19	4.94	8.48	2.81	6.25	4.53	3.73	5.13	-0.24
Dec-20	5.42	9.42	15.71	11.43	-1.34	5.66	7.17	2.53
Dec-21	3.82	2.94	-4.39	-6.96	0.24	4.78	6.85	1.00
Dec-22	6.05	-5.30	-0.04	-7.90	-2.80	4.47	1.17	2.03
Jun-22	3.78	-9.10	-8.83	-16.07	-4.99	3.30	-2.12	-0.12
Mar-23	8.35	2.37	5.81	-0.26	-5.90	7.34	2.90	6.79
Jun-23	13.67	18.24	18.12	7.24	-4.73	9.70	16.67	-17.20
Sept-23	16.60	28.41	25.85	13.02	-5.01	8.45	19.52	-14.96
Dec-23	18.05	25.07	22.50	10.78	-6.89	9.78	15.86	-14.13

Source: National Bank of Rwanda

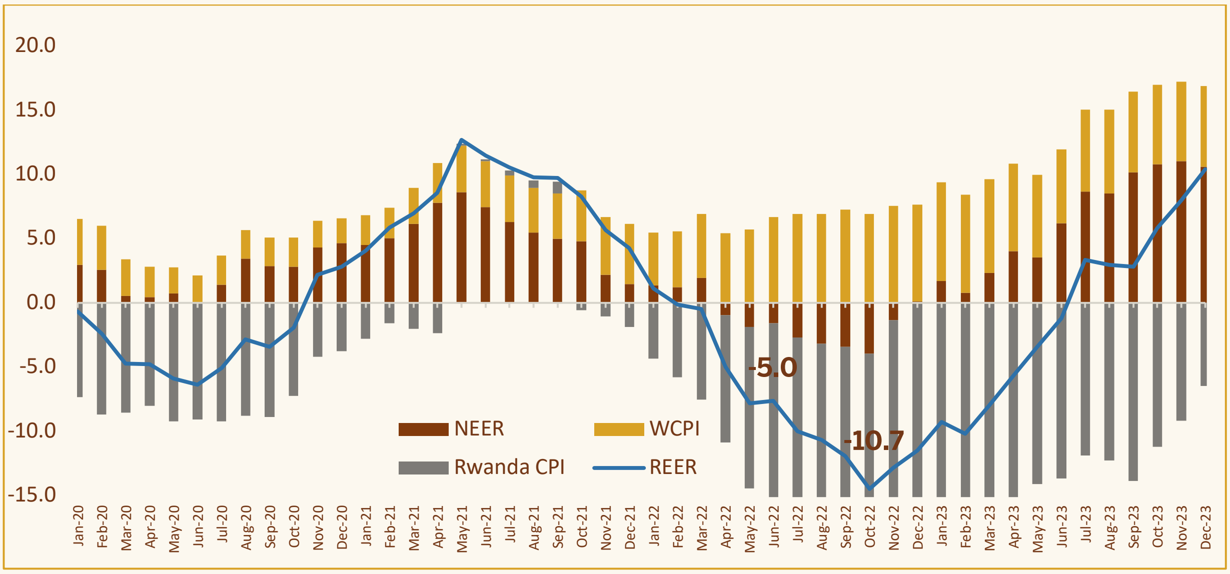
Relative to regional currencies, the Rwandan Franc (FRW) continued to gain against the Kenyan Shilling (KES) and the Burundian Franc (BIF). In December 2023, the FRW gained 6.89 percent against the KES faster than 2.80 percent appreciation in the corresponding period of 2022. It also strengthened against the BIF by 14.13 percent after a loss of 2.03 percent in December 2022. The Kenyan shilling was undermined by the widening current account deficit from increased debt servicing and repatriation of dividends by foreign investors, and the need to adjust for market value after a long period of exchange rate management. Since May 2023, the BIF was affected by the Central bank's decision to adjust the official rate to the market rate.

Conversely, the FRW remained weak versus the Tanzanian and the Ugandan shilling. The FRW weakened by 9.78 and 15.86 percent versus TZS and UGS respectively, faster than 4.47 percent and 1.17 percent depreciation a year before. The Ugandan Shilling was boosted by increased dollar inflows from remittances, offshore portfolio investments, inflows from non-government organization as well as foreign direct investments especially in the oil and gas. However, it is currently under increased pressures from measures taken by some creditors to freeze any financing project in Uganda because of the Anti-Homosexuality Act of 2023, high debt service and the falling business sentiment after rating agencies downgraded the country.

Faster nominal effective depreciation drove the FRW depreciation in real terms.

The nominal value of the FRW decreased compared to a weighted average of 31 currencies of the main trading partners. By the end of December 2023, it had depreciated by 10.6 percent, which is a significant drop compared to the 0.1 percent depreciation in December 2022. In terms of real effective value, the FRW depreciated by 10.4 percent.

Chart 12: Drivers of REER movement



Source: National Bank of Rwanda

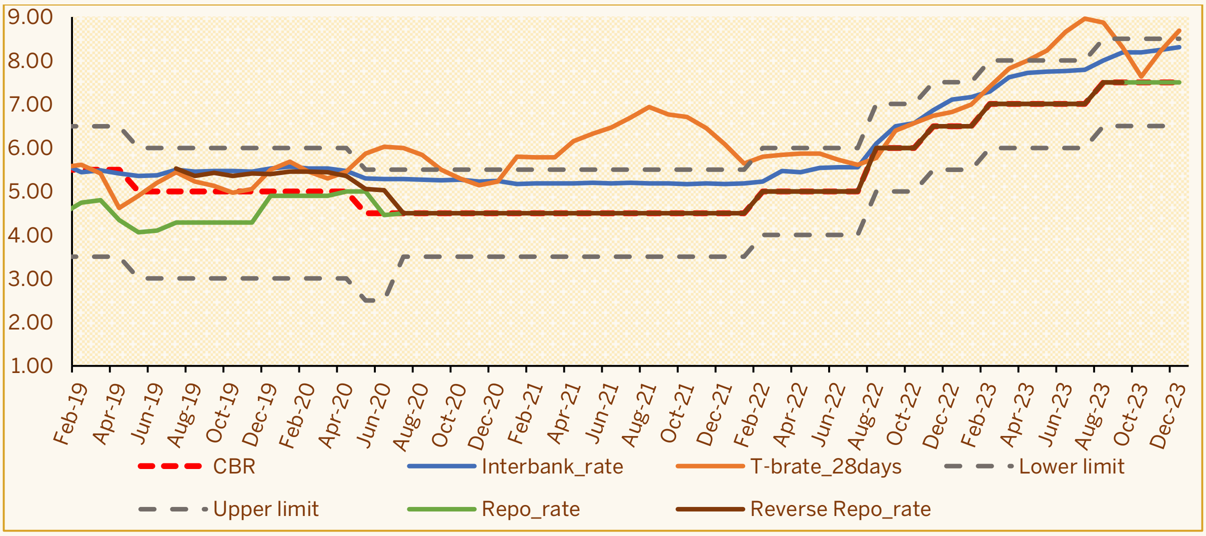
II.4 Domestic credit conditions

Money market interest rates were steered close to the central bank rate.

During its meeting held on November 22nd, the Monetary Policy Committee (MPC) decided to maintain the Central Bank Rate (CBR) at 7.5 percent. The committee had already raised the CBR by a cumulative 300 basis points since February 2022, with the aim to curb inflationary pressures that were affecting consumers' purchasing power and estimated that the CBR was tight enough to bring inflation towards the target range of 2 to 8 percent by end-2023.

Consequently, money market rates were steered around the central bank rate, and the interbank rate increased by 141 basis points to 8.25 percent on average in 2023Q4 from 6.84 percent in 2022Q4.

Chart 13: Money market rates developments

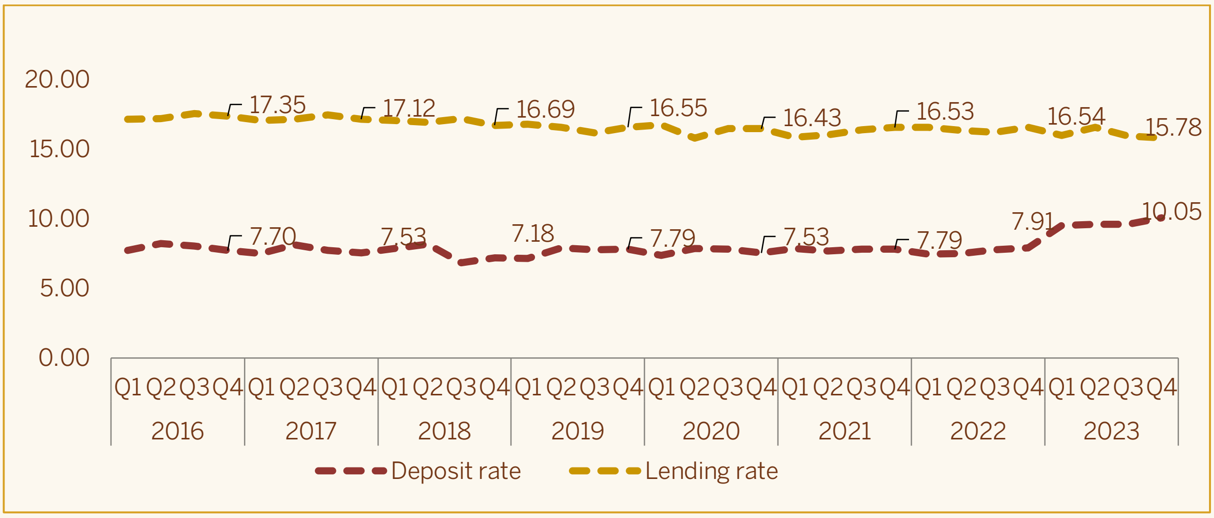


Source: National Bank of Rwanda

Similarly, the average deposit rate rose by 214 basis points to 10.05 percent in 2023Q4, up from 7.91 percent in 2022Q4, primarily resulting from an increased share of long-term deposits.

Conversely, the average lending rate decreased by 76 basis points to 15.78 percent in 2023Q4 from 16.54 percent in 2022Q4. This was due to an increase in the percentage of large loans with short-term maturities to corporates, which were offered at lower rates.

Chart 14: Market interest rates (percent average)

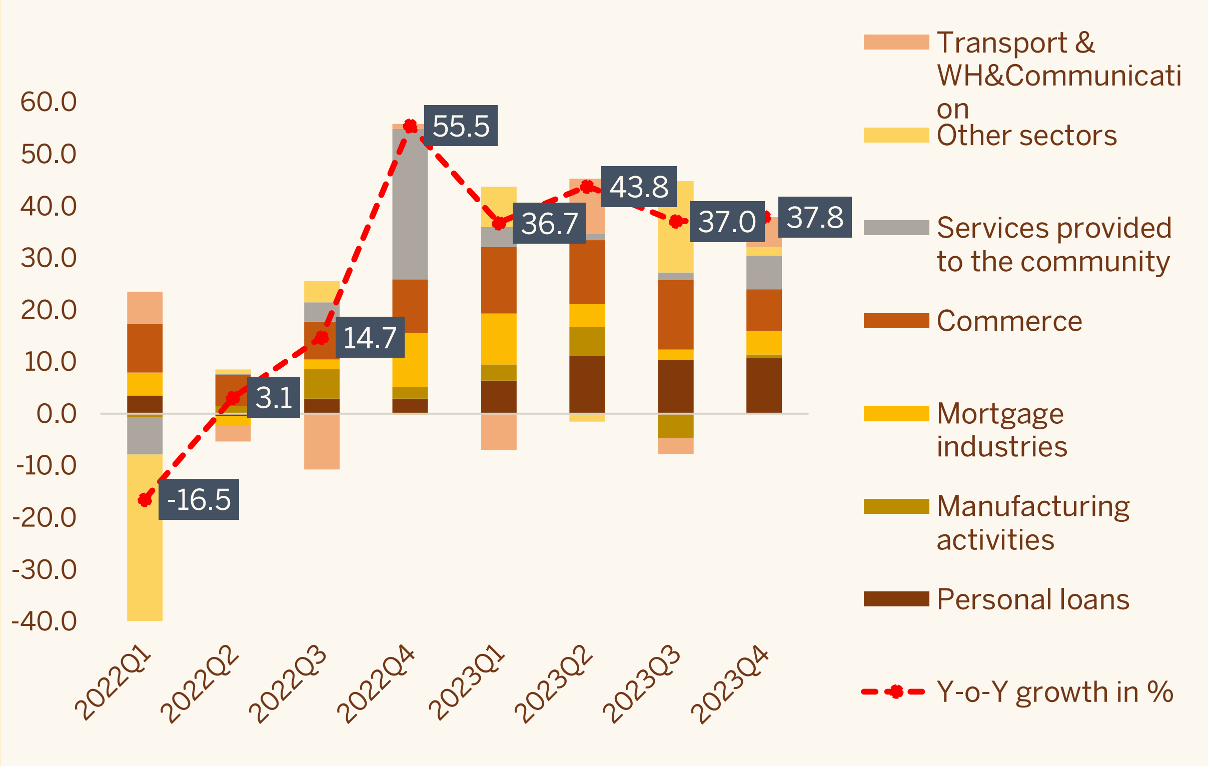


Source: National Bank of Rwanda

Outstanding credit to the private sector increased, as the economy continues to grow.

Credit to the private sector grew by 19.9 percent in December 2023, surpassing the 13.6 percent growth recorded during the same period in 2022. Newly Authorized loans (NALs) slowed to 37.8 percent in 2023Q4 as opposed to 55.5 percent recorded in 2022Q4. The most significant contributions to this increase came from five sectors: personal loans (10.0 percent), trade (8.0 percent), community services (6.5 percent), transport, warehousing, and communication (5.7 percent), and the mortgage industry (4.6 percent). In a similar vein, on a quarterly basis, NALs rose by 23.8 percent in 2023Q4 compared to a growth of 11.0 percent in 2023Q3. This rise in NALs is supported by the economy's complete recovery and stable liquidity conditions, which accelerated the rate of credit demand and supply. Notably, short-term debts, primarily working capital loans targeted at businesses in the trade sector, are the most common among corporate loans. They account for 41.5 percent of the total loans provided in 2023Q4, while medium- and long-term loans account for 36.2 percent and 22.3 percent, respectively.

Chart 15: Contributions of sectors to the change in NALs (Y-o-Y % changes)



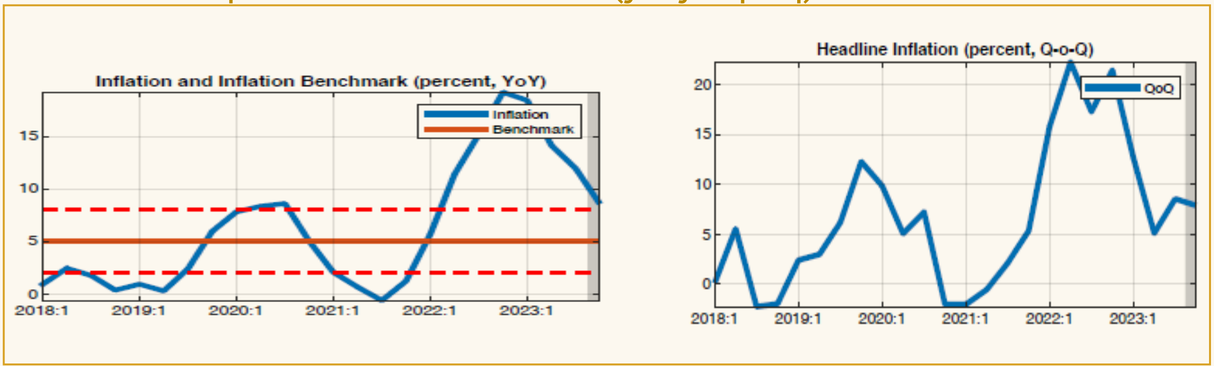
Source: National Bank of Rwanda

II.5 Prices developments and outlook

Headline inflation eased in 2023Q4, reflecting a decline recorded in the core, fresh. food, and energy inflation.

In 2023Q4, headline inflation (y-o-y) eased to 8.9 percent from 12.7 percent recorded in the previous quarter. The deceleration in headline inflation was reflected in all its key components. Core inflation decelerated to 6.7 percent from 8.4 percent recorded in 2023Q3 mostly reflecting the base effects. Fresh food inflation dropped to 18.7 percent from 31.4 percent reflecting the improved supply of some fresh vegetables. Over the same period, energy inflation fell to 2.3 percent from 3.4 percent, reflecting the base effects noted in solid fuels inflation.

Chart 16: Developments in headline inflation (y-o-y & q-o-q).

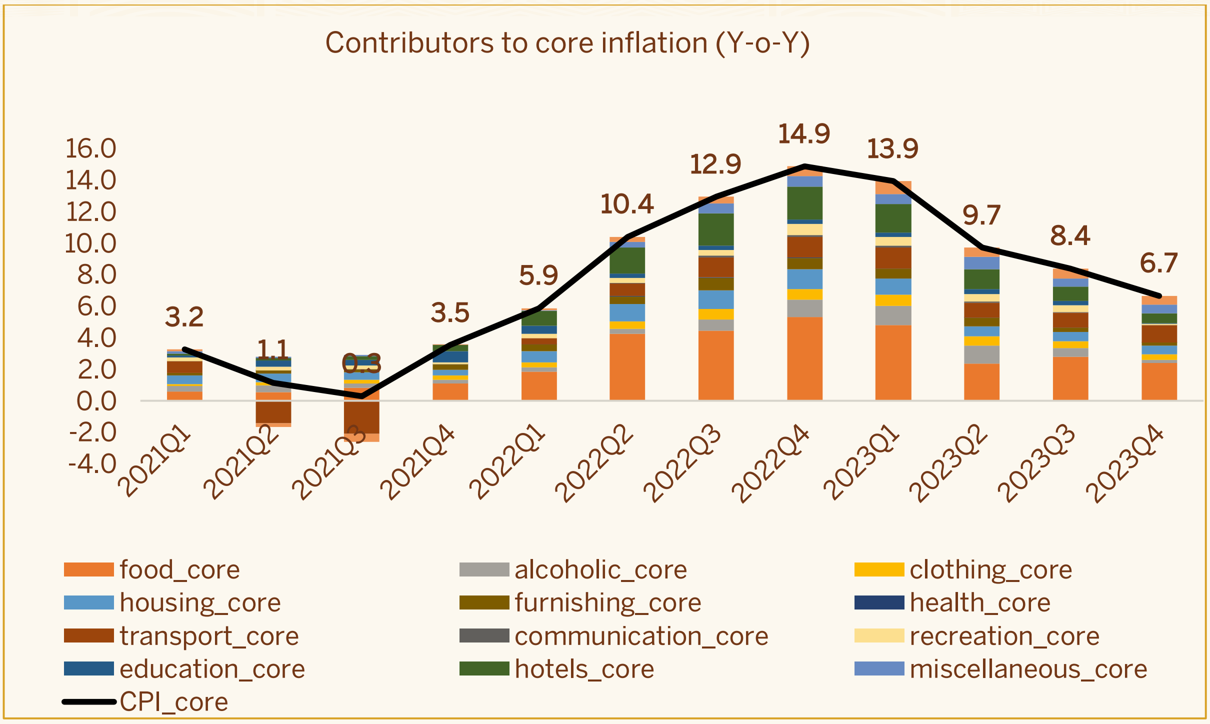


Source: National Bank of Rwanda

Core inflation decelerated reflecting base effects.

The decline observed in core inflation (y-o-y) stems from a slowdown in core food (from 16.9 percent to 14.5 percent), core alcoholic beverages, and tobacco (from 11.7 percent to 3.9 percent), which offset an increase observed in core transport inflation (from 7.0 percent to 7.8 percent). The decelerations recorded in core food, core alcoholic beverages & tobacco, and core transport reflect a base effect. Although the prices of several processed food items are still high, the prices of some items like cooking oil and sugar are on a declining trend, in line with the alleviation of international food prices. Over the same period, core housing inflation stabilized at 2.8 percent in y-o-y terms, reflecting stable prices for renting and maintenance costs.

Chart 17: Contributors to core inflation (Y-o-Y, Percentage change).

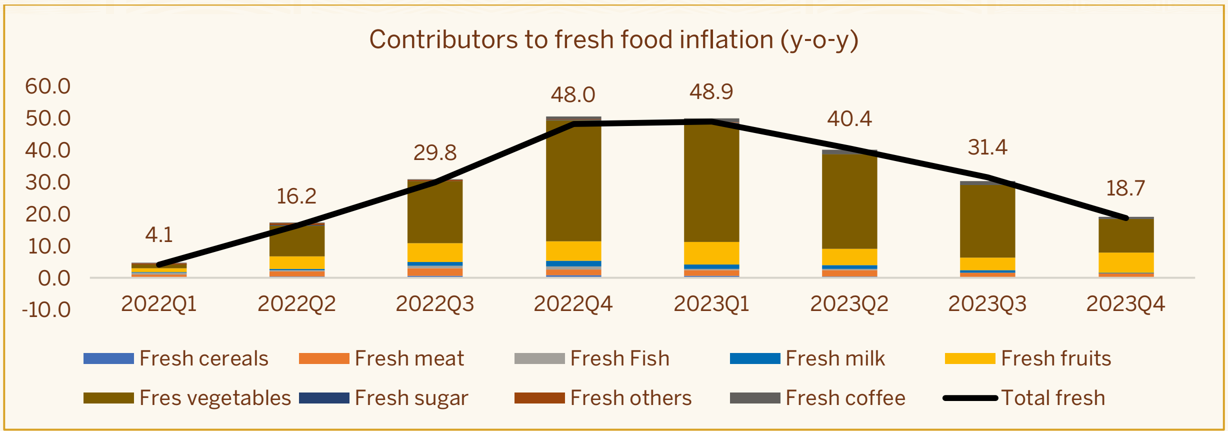


Source: National Bank of Rwanda

Fresh food inflation decelerated due to improved supply of fresh vegetables in 2023Q4.

The drop in fresh foods inflation during 2023Q4 resulted from a significant deceleration noted in fresh vegetables inflation from 49.4 percent to 23.8 percent, which offset an observed increase in fresh fruits inflation (from 20.2 percent to 32.6 percent). The observed deceleration in fresh vegetables inflation reflects a good harvest and improved supply of Irish potatoes, dry beans, tomatoes, onions, and carrots. Over the same period, an increase observed in fresh fruit inflation reflects the reduced supply of some fruit items including bananas, pineapples, apples, and maracuja due to weather-related challenges.

Chart 18: Contributors to fresh foods inflation (y-o-y)

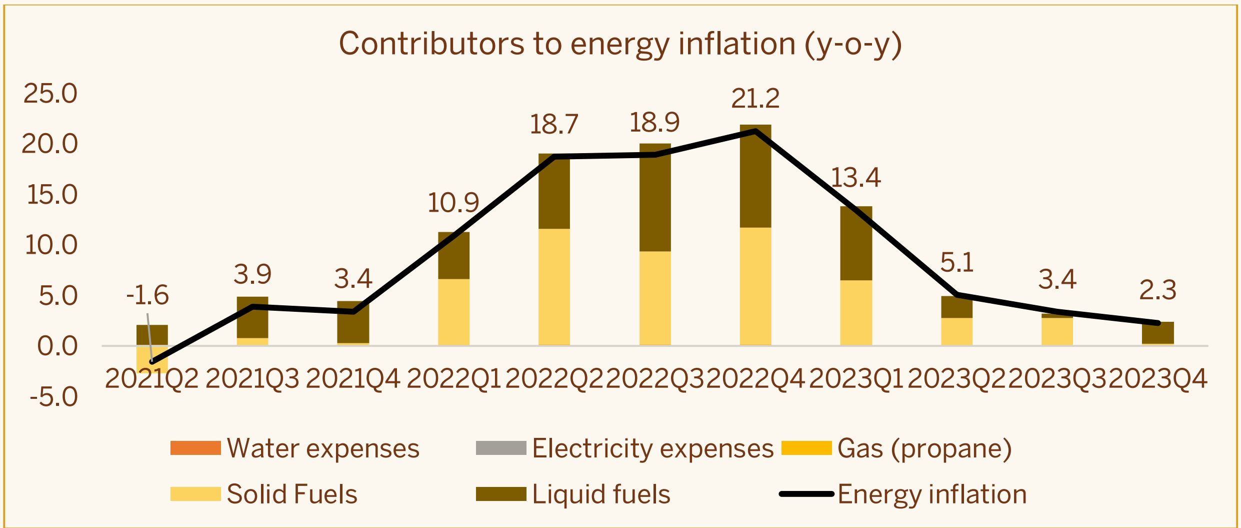


Source: National Bank of Rwanda

In 2023Q4, y-o-y energy inflation slowed down, reflecting the base effect.

In 2023Q4, energy inflation (y-o-y) decelerated to 2.3 percent from 3.4 percent recorded in the previous quarter. Solid fuels inflation decelerated to 0.2 percent from 5.3 percent due to high prices recorded last year in the corresponding period, because of the unconducive weather for charcoal production. During the same period, liquid fuels inflation increased to 8.8 percent from 0.8 percent in y-o-y terms, reflecting the upward revisions of local pump prices in the fourth quarter of 2023, in line with international oil price developments.

Chart 19: Contributors to energy inflation (y-o-y)

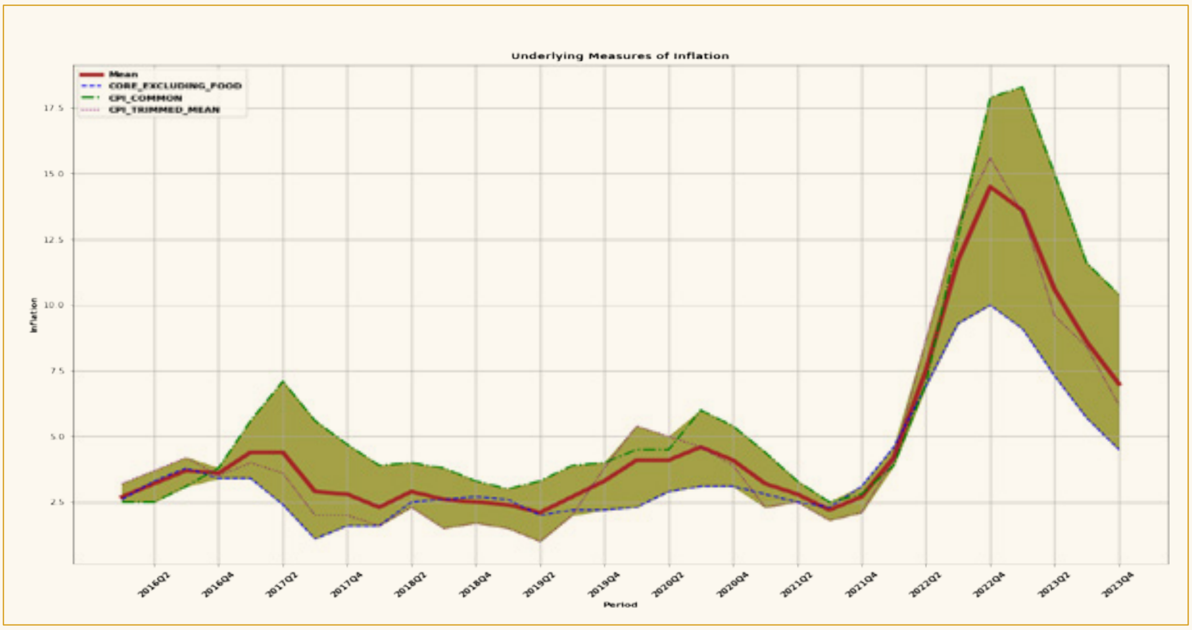


Source: National Bank of Rwanda

Underlying measures of inflation indicate a broad-based decrease in inflation.

Mean3 underlying measures of inflation reduced from 8.6 percent to 7.0 percent in 2023Q4, mainly reflecting declines recorded in core recreation (from 11.2 percent to 1.9 percent), core clothing (from 6.6 percent to 5.4 percent), and core furnishing (from 5.3 percent to 4.8 percent) inflations, owing to the eased pressures from the domestic cost of production.

Chart 20: Indicators of underlying inflation vs headline inflation (y-o-y)



Source: National Bank of Rwanda

[3] Mean used is the average of 3 underlying measures trimmed mean, CPI common and CPI core excluding food, beverages and energy.

III. INFLATION OUTLOOK

III.1. Forecast assumptions

The global economy is projected to evolve close to potential.

Global growth is projected to stabilize at 3.1 percent in 2024 and slightly increase to 3.2 percent in 2025. The economic outlook for 2024 was revised upwards by 0.2 percentage points compared to the World Economic Outlook (WEO) projections of October 2023 due to a greater-than-expected resilience in the United States and other emerging economies, coupled with the expected fiscal support in China. However, over the policy horizon, the global economy will remain below the historical average growth rate of 3.8 percent due to low underlying productivity growth, still tight monetary policy, and the removal of fiscal support as a result of excessive debt-burdening economic activities.

Despite a slight upward revision in 2024, the global economy will remain closer to its potential, having a mild impact on the domestic economy.

Over the policy horizon, global inflation is expected to decline, exerting mild pressure on imported inflation.

The IMF's projections, as of January 2024, indicate that global inflation is expected to fall from an estimated average of 6.8 percent in 2023 to 5.8 percent in 2024 and 4.4 percent in 2025. These new projections remain unchanged for 2024 and are 0.2 percent lower for 2025 compared to the October 2023 projections due to expected faster disinflation in advanced economies, resulting from the effect of lower core inflation that followed tightening monetary policies, a related softening in labor markets, and the decline in energy prices. Over the policy horizon, global inflation is expected to reduce and evolve closer to the medium-term inflation target, in line with expected developments in global policy rates and the projected slowdown of global commodity prices.

Despite the projected decline in international oil prices, pressures on energy inflation are expected to increase in 2024 but remain neutral afterward.

Over the policy horizon, pressures from international oil prices are projected to be less inflationary. The recent IMF projections on oil prices, as of January 2024, point to a decline in oil prices, where annual average oil prices are projected to decrease by 2.3 percent in 2024. Despite these developments in the global market, energy pressures are expected to persist in 2024 as results of domestic cost of production but will become neutral afterward.

International food prices will be easing, exerting less pressure on food inflation over the medium term.

Over the policy horizon, international food prices are projected to decline due to the expected good agricultural supply and subdued global demand. Over the same period, food inflation is expected to decelerate in 2024, mainly due to less demand pressures, coupled with the expected normalization of agricultural production. Conversely, food inflation is expected to pick up in 2025, reflecting the projected upticks in international food prices and domestic costs of production.

III.2. Drivers of inflation projections

The February 2024 inflation projections are backed by the projected decrease in both domestic and imported production costs over the policy horizon.

Over the policy horizon, the current projections of core inflation indicate that core pressures will remain in 2024, reaching the peak during the second quarter, mainly driven by imported costs. However, pressures are expected to ease in 2025 due to the declines in domestic costs of production.

Despite the projected decline in international oil prices, pressures on energy inflation will prevail throughout 2024 originating from domestic cost of production but easing in 2025.
Food inflation is expected to reduce in 2024 before rising afterward, reflecting a projected rise in international food prices. However, as agriculture production progressively normalizes, fewer pressures are expected on food inflation towards the end of 2025.

Baseline projections of the key macroeconomic indicators

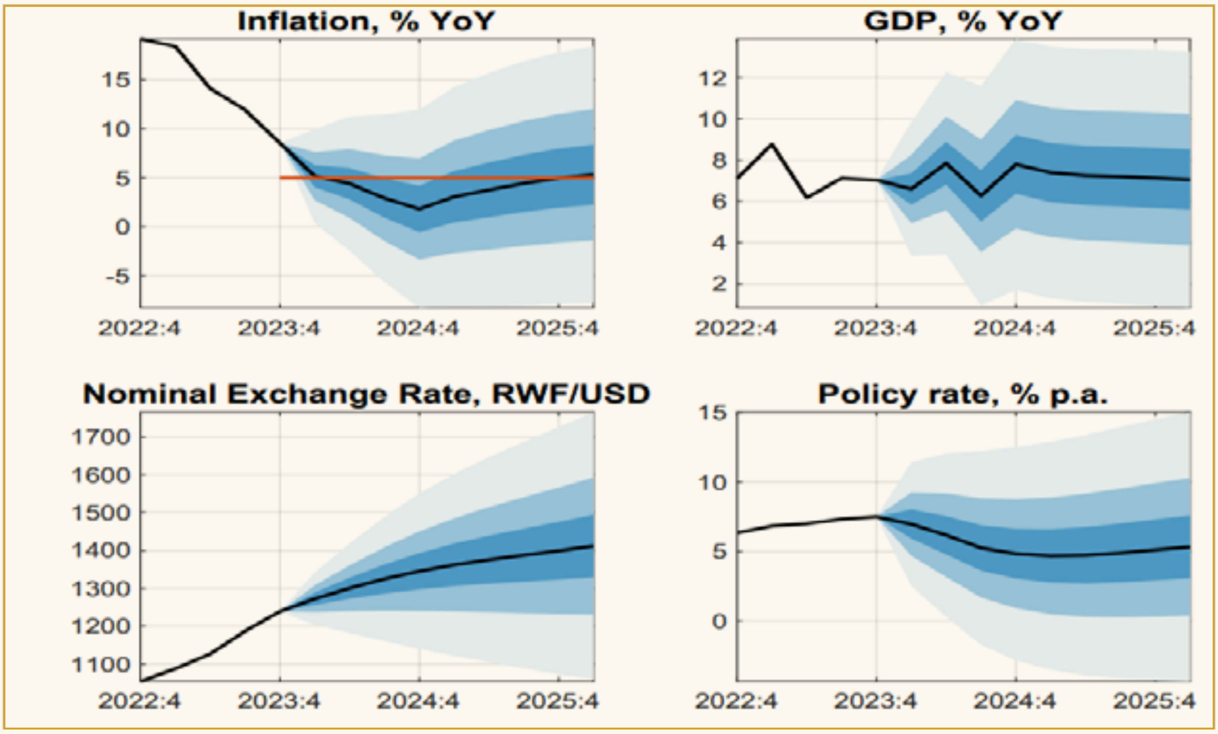
If you consider the February 2024 MPC round, inflation projections for 2024 are lower than those for 2025. However, compared to projections in the November 2023 MPC round, we have a downward revision in inflation projections for both 2024 and 2025. The downward revision mainly originates from recent domestic economic developments, and other global macroeconomic variables and assumptions. Therefore, headline inflation is projected to evolve around 5.0 percent in 2024.

Core inflation will increase in 2024 before decelerating in 2025. The pressures on core inflation will result mainly from imported costs, consistent with the expected developments in the global and domestic economy.

Unlike core inflation, pressures on food inflation are projected to slow down in 2024, following the expected decrease in international food prices as global demand is reduced and domestic agricultural production normalizes, before starting to increase in 2025. Energy inflation is expected to increase in 2024 and ease in 2025 due to expected development in international oil prices.

The figure below presents the projections for key domestic macroeconomic variables over the policy horizon.

Chart 21: Projections of key macroeconomic Indicators (y-o-y)



Source: National Bank of Rwanda

Risks to the baseline projections

The projections above are associated with risks that may originate from domestic and external economic developments. From an external perspective, there is an expected impact of geopolitical tensions like the Russia-Ukraine war, the Israeli-Hamas war, and the Red Sea attacks that may affect the supply chain of key commodities. Further, there are expected risks stemming from export bans of key core food products (sugar, cereals, and cooking oils). On the domestic side, there are uncertainties related to weather conditions, which may affect crop production.

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