



The Governor

PRESS RELEASE

The National Bank of Rwanda reduces its Central Bank Rate to 6.5 percent

On August 20, 2024, the Monetary Policy Committee (MPC) met to decide the Central Bank Rate (CBR) for the next quarter.

As anticipated, inflation in the second quarter of 2024 remained within the target range of 2 to 8 percent. This outcome was driven by improved domestic agricultural production, previous monetary policy decisions by the NBR, other disinflationary measures implemented by the government, and a downward trend in major international commodity prices in the past few quarters. Looking ahead, inflation in 2024 and 2025 is expected to remain within the target range, stabilizing around 5 percent.

However, inflationary risks may affect the projections. These include possible escalation of global geopolitical tensions as well as possible adverse weather conditions.

Given the current and anticipated stable trend in inflation, the MPC has reduced the CBR by 50 basis points to 6.5 percent from 7.0 percent.

Inflation is expected to remain stable at around 5 percent in 2024 and 2025

In the second quarter of 2024, headline inflation slightly increased to 5.1 percent, from 4.7 percent in the previous quarter. This rise was driven by core and energy inflation, offsetting a decrease in fresh food inflation. The increase in core inflation from 5.6 percent to 6.4 percent is primarily attributed to higher transport costs, following an upward revision in public transport fares in March and April this year and increased vehicle prices over the second quarter of this year. This was partly offset by the decline in fresh food inflation from 2.5 percent to 1.6 percent resulted from an improved supply of certain fresh fruits and vegetables such as sweet potatoes, cassava roots, tomatoes, green peas and green bananas from Season B 2024 harvest, along with remaining stocks from the bumper harvest of Season A. There is also a base effect since some vegetable prices were higher in the corresponding quarter of last year. On the other hand, energy inflation rose from 2.7 percent to 4.5 percent due to higher liquid fuel prices after the upward revision in pump prices in April, aligning with international oil trends.

For 2024 and 2025, headline inflation is projected to remain close to 5.0 percent due to easing food inflation as domestic agricultural production returns to normal levels. Core inflation is expected to increase in 2024, driven by import costs, but is anticipated to decrease in the second half of 2025. Energy inflation is likely to increase slightly in 2024, in line with international oil price projections.

However, these projections are subject to risks. Heightened global geopolitical tensions due to conflicts in the Middle East and in Ukraine and Russia, could create uncertainties around international commodity prices. In addition, adverse weather conditions could impact future agricultural supply and food prices.

The domestic economy remained on track for solid growth

The economy began 2024 on a strong note, recording a 9.7 percent growth rate in the first quarter. This robust economic performance was broad-based, with both industry and services experiencing double-digit growth. Agriculture also rebounded from the previous year's climate shock, as demonstrated by record food crop harvests during the 2024 agricultural Season A.

The industrial sector was primarily supported by ongoing construction projects, as well as increased mining and quarrying activity.

This strong growth momentum is projected to continue into the second quarter of 2024, as indicated by high-frequency indicators such as the Composite Index of Economic Activity (CIEA), which grew by 17.6 percent year-on-year in the second quarter. Economic performance was broadly driven by a robust agricultural sector and growth in the industrial and service sectors. Improved business conditions and rising demand have supported these areas, and these trends are expected to continue in the near future.

Rwanda's trade deficit has expanded

Merchandise exports increased by 0.9 percent in the second quarter of this year, constrained by weak coffee performance due to declining global commodity prices and seasonal factors, as well as reduced revenues from processed food exports. In contrast, merchandise imports rose by 6.4 percent, mainly due to strong demand for core food items, energy products and some capital goods. As a result, the trade deficit expanded by 9.5 percent in the second quarter of 2024.

The pressure on the foreign exchange market is lower than last year

The widening current account deficit, fueled by higher import demand to support domestic economic activities and lower export receipts, continued to pressure the Rwandan franc, though less than last year. By the end of June 2024, the Rwandan franc had depreciated by 3.70 percent against the US dollar, compared to 8.80 percent in the same period last year. However, with private and government inflows, gross official reserves stood at 4.7 months of import cover as of June 2024 and are projected to remain adequate, exceeding the 4-month benchmark in the medium-term.

Money market interest rates followed the trend set by the central bank rate

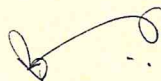
The interbank rate decreased to an average of 8.14 percent in the second quarter of 2024, down 15 basis points from 8.29 percent in the first quarter. This reduction follows a 50-basis point cut in the central bank rate in May 2024. Compared to 2023Q2, the average lending rate declined slightly by 7 basis points to 15.81 percent, while the average deposit interest rate rose by 73 basis points to 10.18 percent in 2024Q2.

MPC Decision

With the inflation outlook stable and within the band, the MPC has decided to reduce the rate by 50 basis points, from 7.0 to 6.5 percent, considering this sufficient to keep inflation on its current path.

In the coming months, the MPC will continue to monitor potential risks that could threaten the projected stable inflation outlook. If these risks emerge and compromise price stability, the committee is prepared to adjust the monetary policy stance as needed to keep inflation within the 2 to 8 percent target range.

Done in Kigali on 21st August 2024



Digitally signed
by
BNR(GOVERNOR)

RWANGOMBWA John
Governor, Chairperson of the MPC

