



NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY REPORT

AUGUST 2024

NBR IDENTITY STATEMENT

The National Bank of Rwanda strives to be a world-class Central Bank that contributes to the country's Macroeconomic stability.



VISION

To become a World-Class Central Bank



MISSION

To ensure price stability and a sound financial system contributing to sustainable and inclusive growth.

OUR CORE VALUES



INTEGRITY

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



COLLABORATION

We recognize that our team's collective intelligence, creativity, and efforts far exceed individual accomplishments. (Co-ordinate efforts)



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 and stakeholder services.

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.

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I. MONETARY POLICY COMMITTEE DECISION, OUTLOOK, AND RISKS

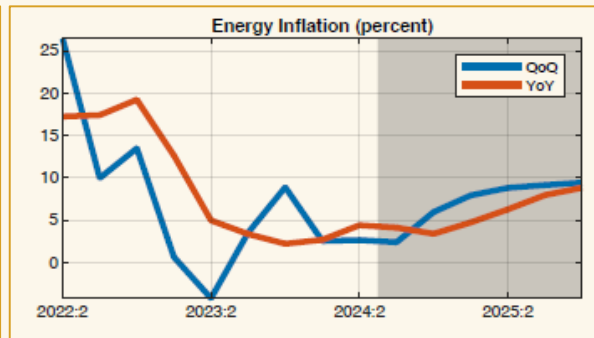
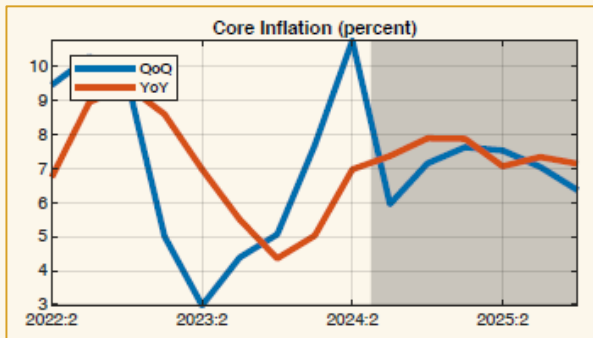
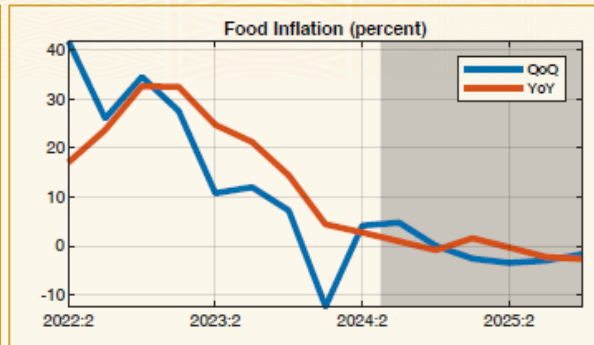
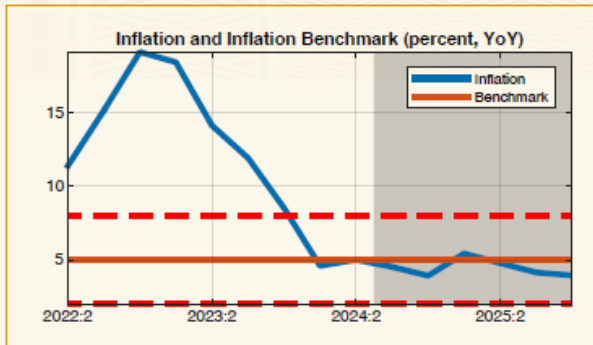
The Monetary Policy Committee (MPC) met on August 20th, 2024, to assess the impact of its previous decisions, review recent global and domestic economic developments, and determine the Central Bank Rate (CBR) for the upcoming quarter. Inflation forecasts for August 2024 indicate a significant slowdown in year-on-year headline inflation, primarily driven by reduced inflationary pressures from the global economy and improved domestic agricultural output. While headline inflation is expected to decrease slightly in the near term, it will remain within the 2-8 percent target range over the medium term. This trend reflects the effects of past monetary policy decisions by the National Bank of Rwanda, other government policies, and declining prices for major international commodities, particularly food, due to abundant harvests.

In the medium term, headline inflation is projected to stabilize around the 5.0 percent target, supported by easing food inflation in 2024 as domestic agricultural production normalizes. Core inflation is anticipated to rise in 2024 before gradually slowing towards the end of 2025. Pressures on core inflation are expected to persist through 2024 until the second quarter of 2025, driven mainly by increased costs associated with imported production inputs. This will likely keep core inflation elevated in 2024, followed by a gradual decline in 2025.

Similarly, energy inflation pressures are expected to remain positive throughout 2024, with relief anticipated in the second half of 2025. Over the policy horizon, energy inflation is projected to stabilize, consistent with expected supply and demand conditions for certain energy items. However, these projections are subject to risks such as heightened global geopolitical tensions and adverse weather conditions.

In light of current developments and the outlook for both domestic and global economies, as well as the risks associated with the projected inflation trajectory, the Monetary Policy Committee has decided to reduce the Central Bank Rate (CBR) by 50 basis points, from 7.0 percent to 6.5 percent. This rate is considered appropriate to maintain inflation within the target range, assuming no unexpected events arise.

The MPC will continue to closely monitor these risks, and if they materialize and threaten price stability, it will take the necessary actions to ensure inflation remains within the target band of 2 to 8 percent.



Source: National Bank of Rwanda

II. CURRENT ECONOMIC CONDITIONS

Summary

Global economic growth is projected to stabilize in 2024 but is expected to remain below the historical annual average of 3.8 percent observed in 2019. This slowdown reflects the impact of restrictive monetary policies and the withdrawal of fiscal support. Growth in advanced economies is anticipated to be steady in 2024, with a recovery in the Euro area from sluggish growth in 2023 being offset by a downward revision in US growth projections.

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

Worldwide, inflation is easing, with a notable reduction in advanced economies, bringing it below the pre-pandemic levels of 3.5 percent seen between 2017 and 2019. Monetary policy rates of major central banks are expected to decrease in the second half of 2024, though the pace of normalization will vary depending on differing inflation circumstances.

The Rwandan economy began 2024 on a strong note, achieving a growth rate of 9.7 percent. This robust performance was broad-based, with double-digit growth in both the industry and services sectors, and a recovery in agriculture following the previous year's climate challenges. This recovery was reflected in record food crop harvests during the 2024 agricultural season, while the industrial sector's growth was driven by ongoing construction projects and increased activity in mining and quarrying.

This high growth momentum is expected to continue in the second quarter of 2024, as indicated by high-frequency indicators. The Composite Index of Economic Activity (CIEA) grew by 17.6 percent year-on-year in the second quarter of 2024 and by 4.3 percent compared to the last quarter of 2023. Economic performance remained broadly supported by the strong performance of the agricultural sector and the continued development of enterprises in the industrial and service sectors. Business conditions and demand in these sectors have improved and are expected to continue to strengthen in the near future.

Rwanda's trade deficit widened as exports increased marginally. Merchandise exports saw moderate growth of 0.9 percent, hampered by weak coffee performance amid declining global commodity prices and lower revenues from certain manufactured food exports. In contrast, merchandise imports grew by 6.4 percent, driven by high demand for core food items, electronics, motor vehicles, and petroleum. As a result, the trade deficit expanded by 9.5 percent in the second quarter of 2024.

Market interest rates declined in line with the downward trend of the central bank rate. The interbank rate averaged 8.14 percent in the second quarter of 2024, down by 15 basis points from 8.29 percent in the first quarter of 2024, reflecting the 50-basis point cut in the CBR in May 2024. Similarly, the average deposit interest rate fell by 5 basis points to 10.17 percent in the second quarter, while the average lending rate dropped by 54 basis points to 15.81 percent, due to an increased share of short-term loans granted to large corporations.

In the second quarter of 2024, headline inflation slightly increased to 5.1 percent from 4.7 percent in the previous quarter, due to rising core and energy inflation, which offset a decrease in fresh food inflation. The rise in core inflation is attributed to higher core transport inflation, driven by an upward revision in bus service fares and increased vehicle prices. Conversely, the decrease in fresh food inflation is attributed to improved supplies of fresh fruits and vegetables, thanks to the strong performance of Season B 2024, along with a base effect as prices for some fresh vegetables were higher in the corresponding quarter last year. However, energy inflation rose due to higher liquid fuel prices, in line with international oil price trends.

II.1. Global Economy and Financial Markets

The global economy remains resilient and is projected to stabilize in 2024.

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) update of July 2024, global economic growth is projected to remain at 3.2 percent in 2024. However, this figure remains below the annual average of 3.8 percent observed between 2000 and 2019. Compared to the April WEO projections, first-quarter growth exceeded expectations in many countries, though notable downside surprises occurred in Japan and the US. In the US, after a period of strong economic performance, a sharper-than-expected slowdown reflected moderating consumption and a negative contribution from net trade.

Economic growth in advanced economies is projected to remain steady at 1.7 percent in 2024, the same rate as in 2023. Relative to the April 2024 projections, this outlook remains unchanged, with a 0.1 percentage point downward revision for US growth offset by a 0.1 percentage point upward revision for the Euro area.

In the US, growth is projected to reach 2.6 percent in 2024, slightly higher than the 2.5 percent recorded in 2023, though downgraded by 0.1 percentage points compared to the April 2024 projections. This revision reflects a slower-than-expected start of the year, with a growth of 2.9 percent in the first quarter of 2024, down from 3.1 percent in the fourth quarter of 2023. Growth

is expected to slow further to 1.9 percent in 2025 as the labor market cools, consumption moderates, and fiscal policy begins to tighten gradually.

Growth in the Euro area is projected to recover from 0.5 percent in 2023 to 0.9 percent in 2024. Compared to the April 2024 projections, growth has been revised up by 0.1 percentage points, driven by stronger momentum in services and higher-than-expected net exports in the first half of the year. Growth is expected to rise to 1.5 percent in 2025, supported by stronger consumption due to rising real wages and increased investment amid easing financing conditions and gradual monetary policy loosening in 2024. However, continued weaknesses in manufacturing suggest a more sluggish recovery in some countries, such as Germany.

The UK's economy is set to improve modestly from 0.1 percent growth in 2023 to 0.7 percent in 2024, with projections upgraded by 0.2 percentage points compared to April 2024. This improvement is due to the fading of lagged negative effects from high energy prices. Growth is expected to increase to 1.5 percent in 2025.

Japan's economy is projected to slow from 1.9 percent in 2023 to 0.7 percent in 2024, revised down by 0.2 percentage points compared to April 2024 projections. This downward adjustment largely reflects temporary supply disruptions linked to the shutdown of a major automobile plant and weak private investment in the first quarter of 2024. However, the strong shunto wage settlement is expected to support a turnaround in private consumption starting in the second half of 2024.

Emerging markets and developing economies are projected to remain broadly stable at 4.3 percent in 2024, reflecting an upward revision of 0.1 percentage points compared to April 2024 projections. This change is driven by stronger activity in emerging markets and developing Asia, particularly China and India.

China's growth for 2024 has been revised upward to 5.0 percent, an increase of 0.4 percentage points relative to the April 2024 WEO projections, primarily due to a rebound in private consumption and strong exports in the first quarter of 2024. However, GDP growth is expected to slow to 4.5 percent in 2025 and continue to decelerate over the medium term, reflecting headwinds from an aging population and slowing productivity growth.

India's growth is projected to remain strong at 7.0 percent in 2024, reflecting an upward revision of 0.2 percentage points relative to April 2024 projections. This revision is due to a carryover from upward revisions to 2023 growth and improved prospects for private consumption, particularly in rural areas.

In Sub-Saharan Africa (SSA), growth is projected to increase from 3.4 percent in 2023 to 3.7 percent in 2024. This forecast represents a downward revision of 0.1 percentage points relative

to April 2024 projections, mainly due to a weaker-than-expected growth outlook for Nigeria, where economic activity in the first quarter of 2024 was sluggish. Nigeria's economy is projected to grow by 3.1 percent in 2024, with a downward revision of 0.2 percentage points compared to April 2024 WEO projections.

Economic performance in the East African Community (EAC¹⁻⁵) countries is projected at 5.4 percent in 2024, the same as in 2023, following projected upward revisions for most member countries compared to the previous year. This growth is supported by favorable weather conditions across the region in the first quarter of 2024.

Rwanda registered strong growth of 9.7 percent in the first quarter of 2024, higher than the projected growth of 6.9 percent for the year. In Uganda, economic growth reached 6.6 percent in the first quarter of 2024, higher than the projected 5.6 percent for the year. During the same period, Kenya's GDP growth was 5.0 percent, in line with the projected growth of 5.0 percent for 2024, though the first half of the year is expected to be affected by protests that disrupted the private sector in June and July. Tanzania's real GDP is projected to reach 5.5 percent in 2024, up from 5.0 percent in 2023, while Burundi's growth is projected at 4.3 percent in 2024, an increase from 2.7 percent in 2023.

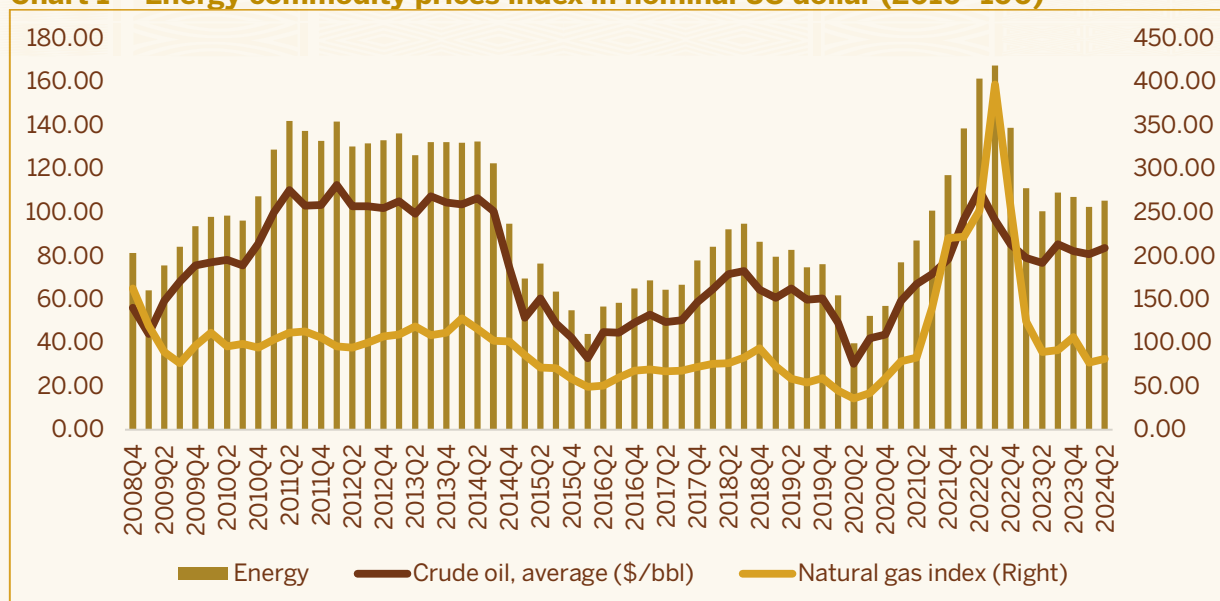
Commodity prices are projected to decline in 2024 in line with a slowdown in global demand.

In the second quarter of 2024 (q-o-q), the global commodity price index increased by 3.9 percent, reversing a 2.9 percent decline in the first quarter. For the full year 2024, the index is projected to fall by 2.5 percent, following a sharp 24.2 percent drop in 2023. This decline reflects the impact of slowing global growth amid tight financial conditions.

The energy price index rose by 2.7 percent in the second quarter of 2024, following a 4.3 percent decrease in the first quarter, driven by rising crude oil prices, which constitute nearly 85 percent of the global index. On an annual basis, the energy price index is projected to decrease by 2.8 percent in 2024, after a steep 29.9 percent decline in 2023. This forecast is less than the April 2024 WEO projections, reflecting the influence of elevated oil prices due to deep production cuts by OPEC+ (including Russia and other non-OPEC oil exporters) and ongoing, albeit reduced, price pressure from the Middle East conflict.

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

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



Source: World Bank Commodity Prices, July 2024

In the second quarter of 2024 (q-o-q), average crude oil prices rose by 3.7 percent, following a 1.8 percent decline in the first quarter. This increase was driven by deep cuts from OPEC+ and uncertainties linked with the geopolitical tensions in the Middle East. According to the July 2024 WEO update, crude oil prices are projected to increase slightly by 0.8 percent in 2024 before dropping by 6.0 percent in 2025 amid slowing global demand.

The natural gas index saw a 5.5 percent increase in the second quarter of 2024, after a sharp 27.9 percent decline in the first quarter, attributed to ample supplies. The World Bank projects that natural gas prices will drop by 19.0 percent in 2024, following a significant 53.9 percent decrease in 2023, driven by slowing demand. This forecast assumes relatively mild weather in the Northern Hemisphere and no significant disruptions in supply.

Non-energy commodity prices rose by 6.1 percent in 2024Q2, reversing a slight 0.1 percent decline in 2024Q1, largely due to rising prices across almost all non-energy commodities. The World Bank’s April 2024 projections suggest that non-energy commodity prices will decrease by 2.1 percent in 2024, following a 9.8 percent drop in 2023, despite the recent upward trend.

In 2024Q2, average prices for agricultural commodities increased by 4.3 percent, up from a 1.0 percent rise in 2024Q1. This increase was mainly driven by higher beverage prices, which offset declines in food prices. Agricultural commodity prices are expected to decrease by 1.4 percent in 2024, after a 7.2 percent fall in 2023, due to ample supplies.

Food prices saw a slight decline of 0.9 percent in 2024Q2, with decreases in cereals (-1.0 percent), oils and meals (-0.7 percent), and other food categories (-0.9 percent), following a 3.6 percent drop in 2024Q1. This was due to improved food supply from increased production. Global food prices are projected to decline by 5.5 percent in 2024, after a 9.2 percent decrease in 2023. The cereals price index, in particular, is expected to fall by 11.3 percent in 2024, amid ample supplies and adequate stock levels. However, rice prices are likely to remain elevated if India maintains its export restrictions.

Coffee (Arabica) prices increased by 15.7 percent in 2024Q2, following a 4.9 percent rise in 2024Q1, driven by a reduction in supply due to climate change impacts, such as in Vietnam. However, prices are projected to decline by 3.1 percent in 2024, after a 19.4 percent drop in 2023. Tea prices (Mombasa) saw a slight increase of 0.6 percent in 2024Q2, following a 0.8 percent rise in 2024Q1. Overall, tea prices are projected to rise by 17.4 percent in 2024, despite a 1.9 percent decrease in the first quarter, largely due to a decline in production in Sri Lanka.

Metals and minerals prices increased by 11.3 percent in 2024Q2, after a modest 0.5 percent rise in 2024Q1. On an annual basis, prices are expected to slightly decline by 0.6 percent in 2024, following a 9.6 percent drop in 2023. Tin prices, in particular, surged by 23.1 percent in 2024Q2, after a 7.3 percent increase in 2024Q1, driven by heightened demand from the electronics sector. Tin prices are projected to rise by 4.1 percent in 2024, following a 17.2 percent decline in 2023, reflecting continued strong demand for electronics.

Fertilizer prices fell by 2.5 percent in 2024Q2 (q-o-q), following a steep 20.3 percent decline in 2024Q1. The World Bank projects that fertilizer prices will drop by 21.7 percent in 2024, after a 34.9 percent decrease in 2023, as supply disruptions gradually ease.

Global inflation is expected to ease in 2024 but remains above central banks' targets.

Global annual average inflation is projected to ease to 5.9 percent in 2024, down from 6.7 percent in 2023, reflecting a broad-based decline in global core inflation. However, this remains above the pre-pandemic average of 3.5 percent observed from 2017 to 2019. The forecast for 2024 remains unchanged relative to the April 2024 WEO projections, with an upward revision of 0.1 percentage points for advanced economies and a downward revision of 0.1 percentage points for emerging markets and developing economies. Inflation is expected to remain higher in emerging markets and developing economies compared to advanced economies.

In advanced economies, consumer price inflation is expected to ease to 2.7 percent in 2024, down from 4.6 percent in 2023. Stronger monetary policy frameworks and communications support this improvement, but inflation will remain above target in most advanced economies. The revised forecast indicates that the pace of disinflation will slow in 2024 and 2025, as

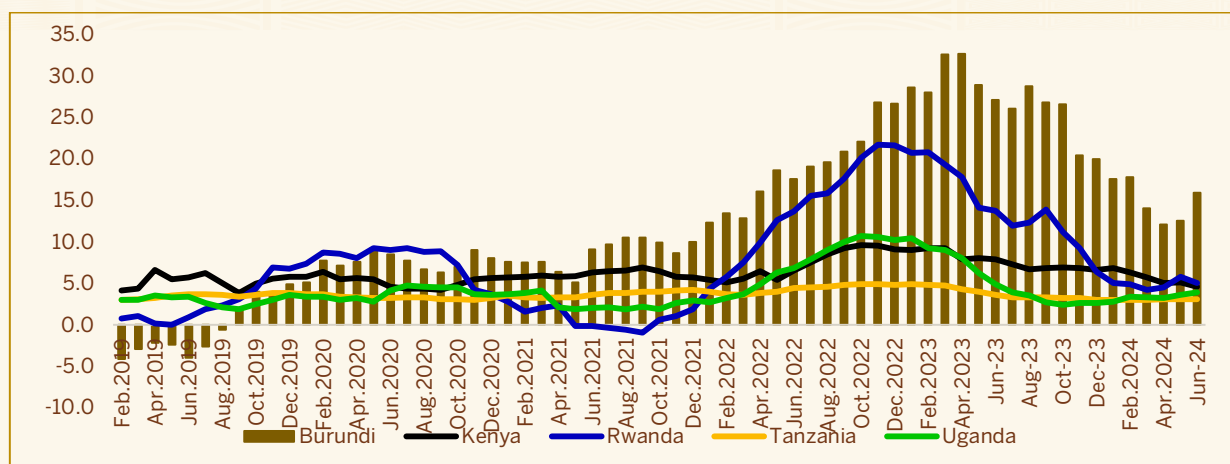
inflation in service prices is expected to be more persistent, and commodity prices are projected to be higher. However, the gradual cooling of labor markets and an expected decline in energy prices should bring headline inflation back to target by the end of 2025. Consistent with this projected easing US headline inflation is forecasted to decelerate to 2.9 percent in 2024, from 4.1 percent in 2023; Eurozone inflation is expected to ease to 2.4 percent from 5.4 percent; and UK headline inflation is projected to decline to 2.5 percent, down from 7.3 percent in 2023.

In emerging markets and developing economies, annual headline inflation is expected to decelerate slightly to 8.2 percent in 2024, down from 8.3 percent in 2023, driven by falling energy and easing food prices. For the median emerging market and developing economy, inflation is already close to pre-pandemic levels, partly due to the decline in energy prices. In China, headline inflation is projected to rise slightly to 1.0 percent in 2024 from 0.2 percent in 2023, while India's headline inflation is expected to ease to 4.6 percent in 2024, down from 5.4 percent in 2023.

In Sub-Saharan Africa, annual headline inflation is projected to remain in double digits, though on a decelerating trend, declining from 16.2 percent in 2023 to 15.3 percent in 2024. This forecast reflects high inflation rates in several countries, including Zimbabwe (561.0 percent), South Sudan (54.8 percent), Sierra Leone (39.1 percent), Malawi (27.9 percent), Nigeria (26.3 percent), Ethiopia (25.6 percent), Ghana (22.3 percent), Burundi (22.0 percent), and Angola (20.0 percent). In some Sub-Saharan African countries, food prices have risen significantly due to local shortages and the impact of global food prices, exacerbated by exchange rate pressures.

In the EAC-5 countries, annual average inflation is projected to ease to 5.5 percent in 2024, down from 6.8 percent in 2023. Consistent with this trend, Rwanda's headline inflation eased to 5.0 percent in June 2024, down from 13.7 percent in June 2023; Kenya's inflation decreased to 4.6 percent from 7.9 percent over the same period; Tanzania's inflation softened to 3.1 percent from 3.6 percent; and Uganda's headline inflation decelerated to 3.9 percent, down from 4.9 percent, primarily due to easing food and falling fuel prices.

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

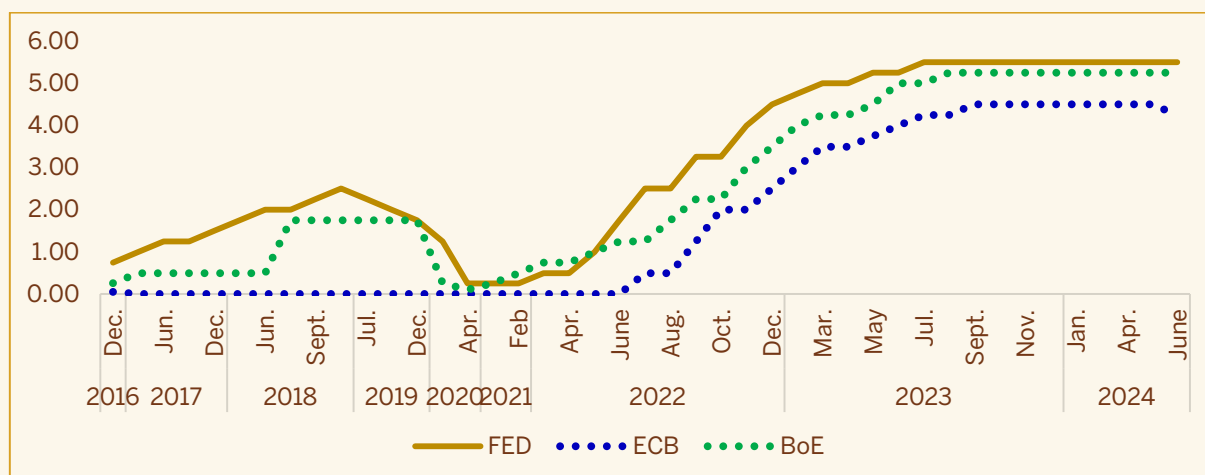


Source: Country Bureau of statistics

Monetary conditions tighten globally amid heightened inflation risks.

Monetary policy rates among major central banks are expected to decline in the second half of 2024, with variations in the pace of normalization reflecting differing inflation dynamics across regions. The US Federal Reserve paused interest rate hikes for the sixth consecutive time in June 2024, maintaining the target range at 5.25 to 5.50 percent. Similarly, the Bank of England held its bank rate steady at 5.25 percent in June 2024, marking the seventh consecutive pause since August 2023. Meanwhile, the European Central Bank (ECB) took a more proactive approach by reducing its three key interest rates for the first time in 2024, lowering them to 4.25 percent on June 6, 2024. This move made the ECB the first major central bank to cut rates this year, easing its policy rate by 25 basis points.

Chart 3- Policy rates for selected economies (percent)



Source: Central Bank Websites

On the foreign exchange market, the US dollar has been appreciating against all major currencies, driven in part by the pause in monetary policy tightening by the Federal Reserve. By the end of June 2024, the US dollar had strengthened by 14.07 percent year-on-year against the Japanese yen, by 2.98 percent against the euro, by 2.35 percent against the Chinese yuan, and by 0.64 percent against the British pound.

The global economy is expected to impact the Rwandan economy in 2024.

The projected increase in crude oil prices in 2024 is expected to raise Rwanda's oil import bill, according to the latest IMF World Economic Outlook update published in July 2024. Conversely, the anticipated decline in natural gas prices in 2024, as per the World Bank's April 2024 Commodity Market Outlook, is expected to reduce Rwanda's gas import bill.

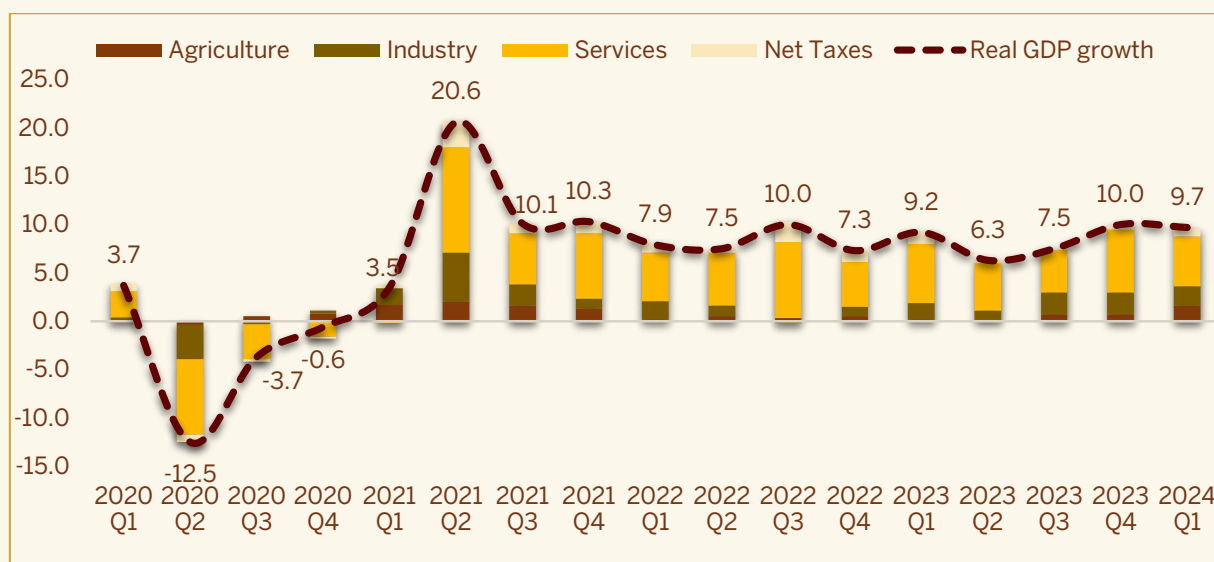
However, the projected decline in commodity prices, particularly for coffee and tea in 2024, is likely to negatively impact Rwanda's traditional export earnings, exacerbating the trade deficit. This downward trend in commodity prices is expected to persist into 2025, further diminishing the value of Rwanda's exports. Additionally, moderate economic growth in most of Rwanda's trading partners is expected to lead to lower demand for its traditional exports.

Regarding the exchange rate, the current appreciation of the US dollar against the Rwandan franc is anticipated to put upward pressure on import prices. On the other hand, the appreciation of the US dollar against the Japanese yen may help reduce Rwanda's import costs for vehicles from Japan.

II.2. Domestic economic performance and labour market

Rwanda's economy sustained robust growth at the start of 2024, with a broad-based real GDP increase of 9.7 percent recorded in the first quarter.

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



Source: National Institute of Statistics of Rwanda

The services sector was the main driver, with a growth of 10.7 percent supported by strong performance in trade services (+21.0 percent), information and communication (+28.3 percent), transport services (+13.2 percent), hotels and restaurants (+12.9 percent), and education (+12.9 percent). The robust performance of information and communication was mainly driven by increasing demand for telecommunication services as evidenced by the growth of voice traffic (+24.9 percent in 2024Q1 versus +19.0 percent in 2023Q1) and internet subscription (+15.5 percent in 2024Q1 versus +7.7 percent in 2023Q1).

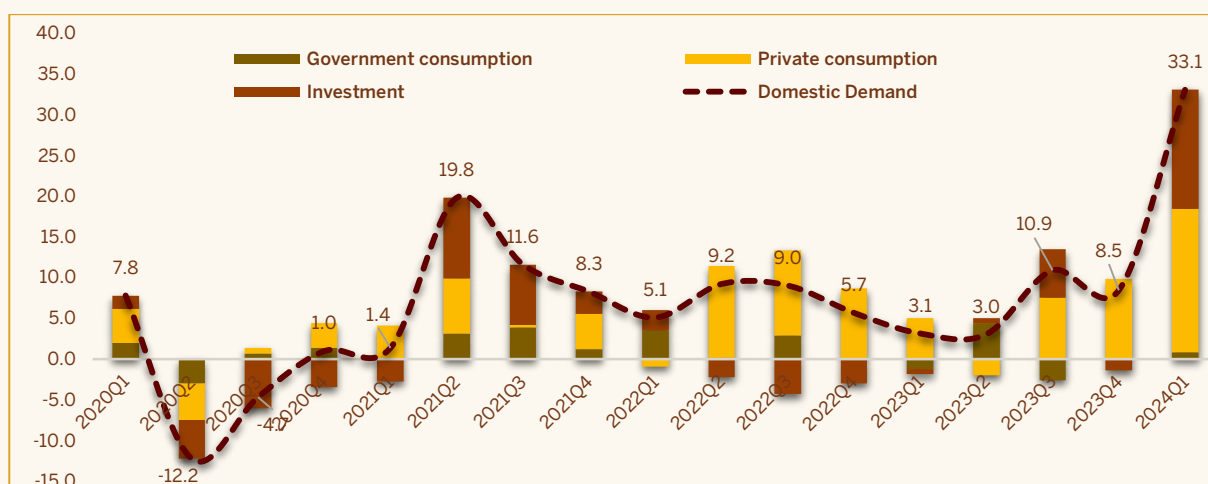
The industry sector soared by 10.4 percent in 2024Q1, mainly backed by the construction subsector that recorded a growth of 15.9 percent following ongoing construction projects, including sports facilities, hospitality and commercial buildings. The industry sector's performance was also supported by mining and quarrying (+22.1 percent), which benefited from stable mineral prices on the international market. However, manufacturing slowed down, registering a growth of 4.4 percent in 2024Q1 against an expansion of 15.5 percent in 2023Q1, partly due to the low demand for porridge flour from the World Food Program as well as wheat flour from regional markets.

The agriculture sector grew by 7.4 percent, mainly driven by food crop production (+8.4 percent) following a bumper harvest in 2024 agricultural season A. The former's sensational performance was supported by good weather conditions and a government campaign promoting the full utilization of arable land and the increased availability and affordability of fertilizers through the Smart Nkunganire program.

The strong domestic demand was driven by investment and private consumption.

Rwanda's domestic demand surged significantly in the first quarter of 2024, with a remarkable 33.1 percent growth. This increase was predominantly fueled by private consumption and fixed investment. Private consumption grew by 26.8 percent, while government consumption increased by 5.3 percent, and all together they resulted in a 22.8 percent growth in total final consumption for the period.

Chart 5: Domestic demand (percentage change)



Source: National Institute of Statistics of Rwanda

Total investment in Rwanda surged by 76.6 percent in 2024Q1, led by fixed investment growth of 53.6 percent. The most notable increase was in other fixed investment, which skyrocketed by 138.1 percent, in line with the growth in capital goods imports (+28.0 percent in 2024Q1), which included smartphones and buses to improve public transport.

Unemployment rate increased in 2024Q2 mainly due to loss of employment in agriculture.

Rwanda's labor market shows a mixed picture in 2024Q2. The working-age population reached 8,273,574, with 62.5% participating in the labor force, marking a 1.5 percentage point improvement from the previous quarter and a 3.0 percentage point increase from

2023Q2. However, the unemployment rate rose to 16.8 percent in 2024Q2, up from 12.9 percent in 2024Q1. This increase was largely due to a significant loss of employment in the agriculture sector (-17.4 percent) following the end of the planting season for agricultural season B 2024.

Table 1: Labour market indicators (percentage)

	2023	2023	2023	2023	2024	2024
	Q1	Q2	Q3	Q4	Q1	Q2
Unemployment Rate	16.5	23	18.1	24.3	17.2	16.8
Labour Force Participation Rate	54.5	54.3	56.6	58.7	57.6	59.5
Employment %QoQ						
Total	6.5	4.7	-0.3	2.6	7.1	-1.4
Agriculture	8.9	-0.5	-15.2	26.9	8.8	-17.4
Industry	-7.2	17.4	31.6	-31.9	2.1	20.6
<i>manufacturing</i>	13.3	12.5	12.3	-14.8	-4.2	19.0
<i>Construction</i>	-12.2	23.5	46.1	-45.1	6.1	17.9
Services sector	10.7	6.4	2.3	-2.1	8.2	11.2
<i>Trade services</i>	30.7	8.6	1.8	-9.8	2.9	18.1
<i>Transport</i>	-3.3	25.2	4.5	-24.4	35.4	6.8
<i>Hotels and Restaurants</i>	17.5	4.8	3.9	17.8	-4.5	24.6

Source: National Institute of Statistics of Rwanda

Conversely, employment increased in the services and industry sectors. In the industry sector, the growth was driven by construction, manufacturing, and mining and quarrying activities. Meanwhile, in the services sector, the demand for labor was largely driven by trade services, hotels and restaurants, transport administration and support, as well as education services.

The robust economic performance continued in the second quarter of 2024.

The Composite Index of Economic Activities (CIEA) indicates a continued expansion of aggregate demand in the second quarter of 2024.

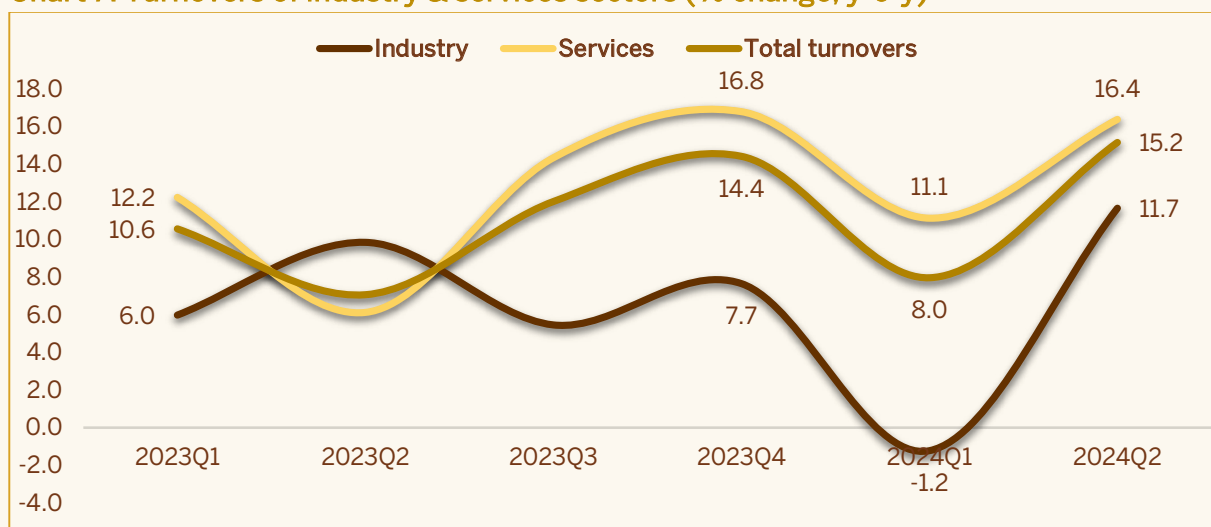
Chart 6: Quarterly real GDP growth vs CIEA (% change, y-o-y)



Source: National Bank of Rwanda

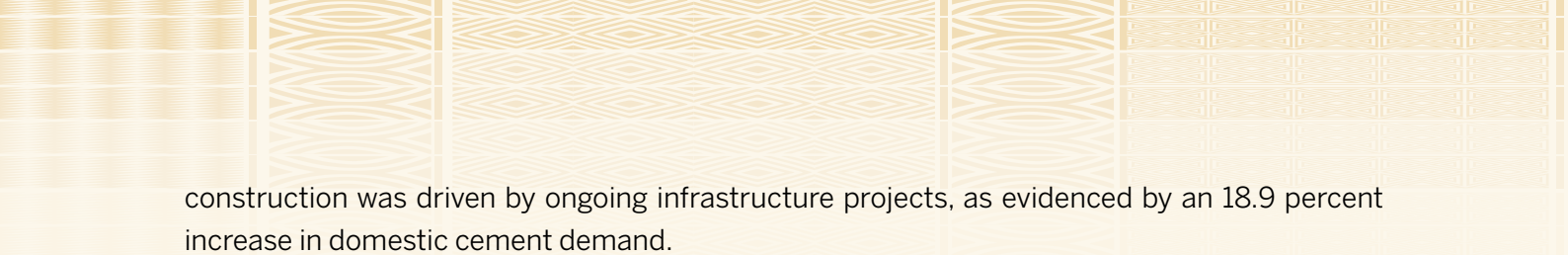
In 2024Q2, total turnovers in the services and industry sectors increased by 15.2 percent, primarily driven by the robust performance of the services sector, which grew by 16.4 percent. This growth was supported by strong performances in trade services, transport and hospitality services, financial services, and information and communication. The positive outlook for the services sector is further reflected in the business confidence index, which reached 61.6 percent in 2024Q2, well above the benchmark of 50 percent. This index indicates a sustained rise in demand for services, improved business conditions, and expectations of continued growth in the near term.

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



Source: National Bank of Rwanda

Similarly, the industry sector showed a strong performance in 2024Q2, with total turnovers growing by 11.7 percent. Key contributors to this growth were construction and manufacturing activities. Manufacturing benefited from increased domestic demand, while the growth in



construction was driven by ongoing infrastructure projects, as evidenced by an 18.9 percent increase in domestic cement demand.

Overall, the robust performance of the industry and services sectors, combined with strong results from the agriculture sector, suggests that the economy is maintaining its vigorous growth into the second quarter of 2024. There are also optimistic expectations for continued momentum in the third quarter.

II.3. External sector and exchange rates developments

The Current Account Deficit stands at 15.0 percent of GDP in 2024Q1 from 11.7 percent in 2023Q1.

In the first quarter of 2024, the Current Account Deficit (CAD) reached 15 percent of GDP, largely due to an expanding gap between goods exports and imports. While there was a modest increase in service exports, particularly travel, which rose by 7.5 percent, and a slight uptick of 3.9 percent in remittances, these were insufficient to counterbalance the deficit. The CAD was primarily financed through foreign direct investment and government borrowing. By the end of June 2024, reserve coverage stood at 4.7 months of imports, with projections indicating an increase to 4.8 months by the end of December 2024.

Table 2: Balance of payment summary table

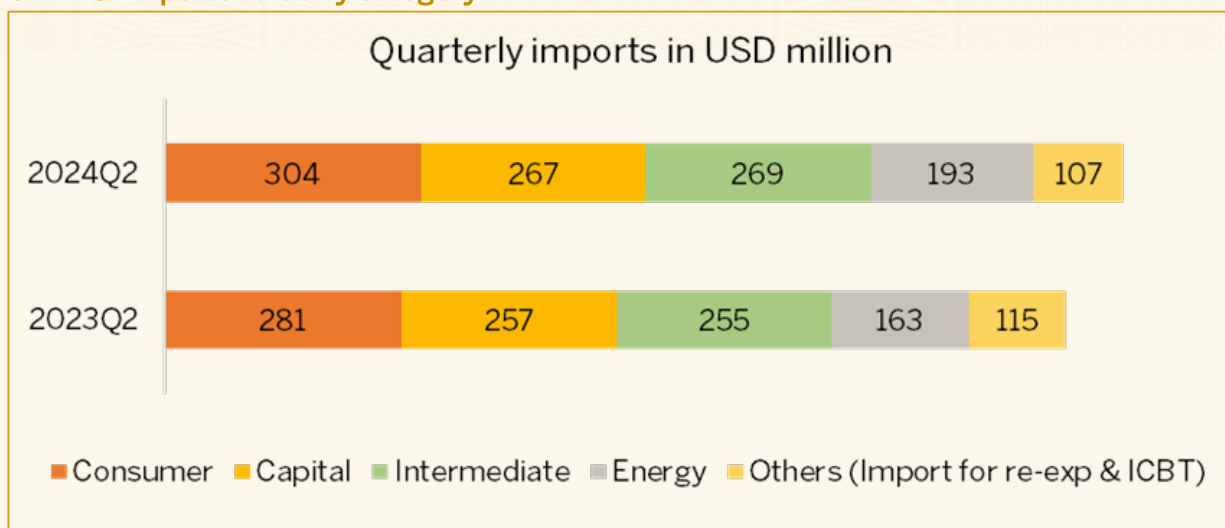
Amount in USD million	2023Q1	2023Q4	2024Q1	Y%Y (24/23Q1)
1.Current account deficit	-419	-455	-527	25.6%
in % of GDP	-11.7%	-12.5%	-15.0%	
CAD excl Gold	-402	-455	-505	25.4%
in % of GDP	-11.2%	-12.5%	-14.4%	
Goods (balance)	-510	-603	-577	13.1%
Remittances (credit)	121	123	126	3.9%
Travel (credit)	115	149	123	7.5%
PKO	40	51	21	-47.1%
Budgetary grants	1	36	12	
2.Capital account	99	96	105	5.2%
3.Financial account	478	567	187	-61%
Direct investment	87	146	172	97%
Other net_flows (PI &OI)	391	421	15	-96%
o\w government loans	477	348	95	-80%
o\w budget loans	361	232	14	-96%
o\w project loans	116	115	81	-30%
Reseve assets (increase(-))	126	-427	257	

Source: National Bank of Rwanda

The import bill increased by 6.4 percent in the second quarter of 2024.

In the second quarter of 2024, the value of imports increased by 6.4 percent. This rise was primarily driven by an 8.3 percent increase in consumer goods, particularly due to higher imports of rice and sugar. Capital goods and intermediate goods also saw growth, with increases of 3.7 percent and 5.7 percent, respectively. Additionally, energy imports surged by 18.1 percent, reflecting a rise in fuel imports.

Chart 8: Imports value by category

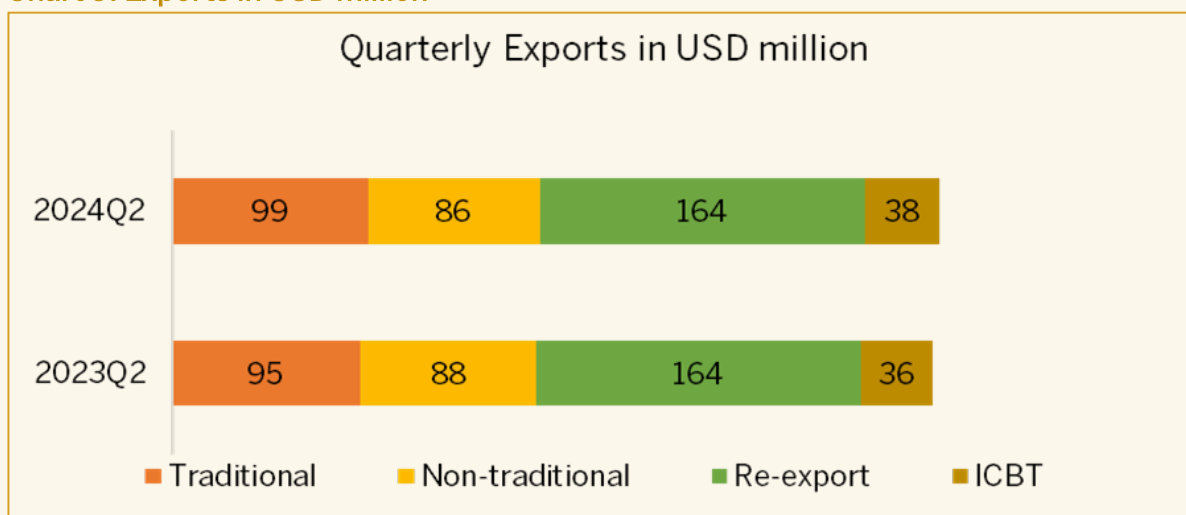


Source: National Bank of Rwanda

Export earnings increased slightly by 0.9 percent in the second quarter of 2024.

In the second quarter of 2024, traditional exports grew by 4.3 percent compared to the same period in 2023. Notably, tea exports increased by 19.5 percent, and cassiterite exports rose by 32.0 percent. However, coffee exports experienced a sharp decline of 24.6 percent due to both volume and price effects. Non-traditional exports decreased by 2.2 percent overall. Re-exports saw a slight decrease of 0.1 percent, despite a significant rise of 28.1 percent in fuel re-exports.

Chart 9: Exports in USD million



Source: National Bank of Rwanda

As a result of the above developments, the merchandise trade deficit widened by 9.5 percent in 2024Q2.

The pressures in the foreign exchange market are lessening.

In 2024Q2, the Rwandan franc (FRW) remained weak, reflecting a widening current account deficit due to higher imports and lower export receipts. Compared to December 2023, the FRW depreciated by 3.73 percent against the USD by the end of June 2024, an improvement from the 8.80 percent depreciation recorded in the same period of 2023. Against the British pound, the franc depreciated by 2.5 percent, a smaller decline compared to the 13.90 percent depreciation observed in June 2023. The franc also experienced a slight depreciation of 0.13 percent against the Euro, compared to a more significant 10.70 percent depreciation at the end of June 2023. Conversely, the franc appreciated by 9.02 percent against the Japanese yen, a notable increase from the slight 0.40 percent appreciation recorded in the same period of 2023.

Table 3: Exchange rate of FRW against selected currencies (% changes compared to Dec. previous year)

	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
Dec-23	18.05	25.07	22.50	10.78	-6.89	9.78	15.86	-14.13
June-23	8.8	13.90	10.70	-0.40	-4.47	5.01	10.00	-20.20
Mar-24	2.08	0.97	-0.23	-4.73	21.50	0.41	-0.62	1.64
June-24	3.73	2.53	0.13	-9.02	25.61	-0.82	5.70	2.70

Source: National Bank of Rwanda

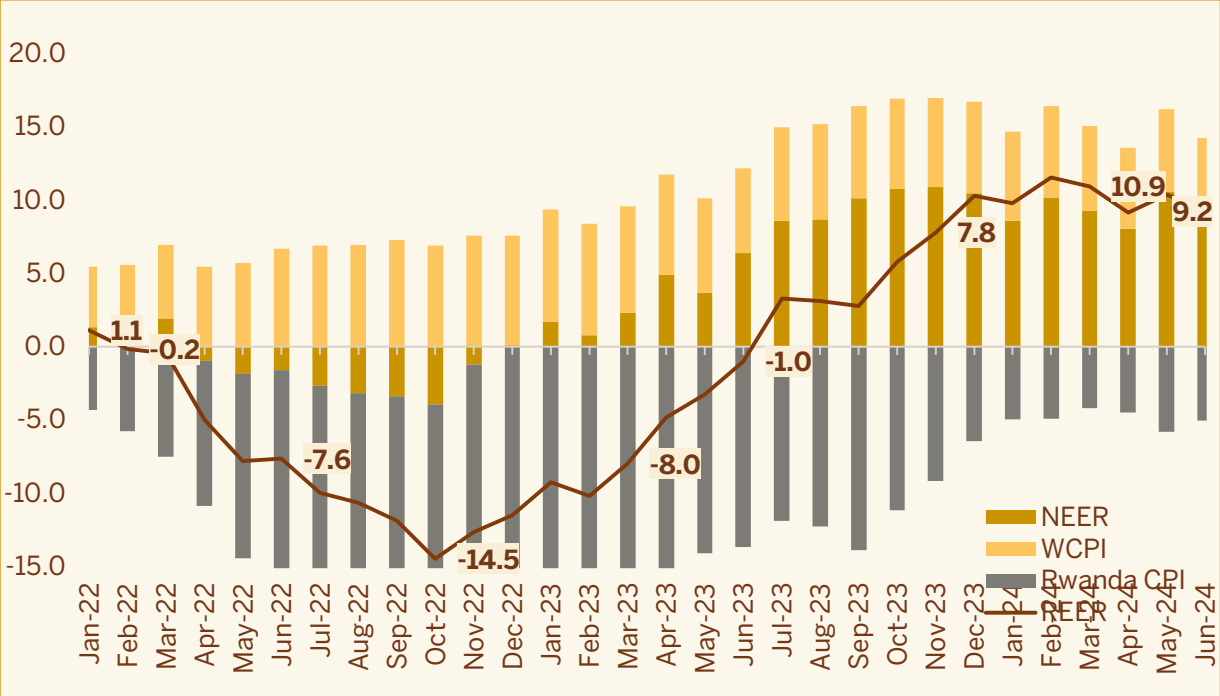
Relative to regional currencies, the FRW appreciated by 0.82 percent against the Tanzanian Shilling, a contrast to the 5.01 percent depreciation observed during the same period last year. However, the FRW depreciated against the Kenyan Shilling, Ugandan Shilling, and Burundian Franc by 25.61 percent, 5.70 percent, and 2.70 percent, respectively. This follows gains of 4.47 percent against the Kenyan Shilling, 20.20 percent against the Burundian Franc, and a 10.00 percent depreciation against the Ugandan Shilling during the corresponding period last year.

The current depreciations are less severe compared to the previous year, except for the Kenyan Shilling, which strengthened after the issuance of a \$ 1.5 billion Eurobond.

To mitigate speculative pressures, the NBR has been injected a total of USD 65 million in the second quarter of 2024, down from USD 69 million in the first quarter. Nonetheless, the country’s reserves are sufficient, covering 4.7 months of imports as of June 2024, with projections to reach 4.8 months by December 2024.

In nominal effective terms, the FRW weakened against a trade-weighted basket of 31 currencies from its main trading partners, depreciating by 8.8 percent as of June 2024, compared to a 6.4 percent depreciation in June 2023. In real effective terms, the FRW depreciated by 9.2 percent, a significant shift from the 1.0 percent appreciation recorded during the same period last year, primarily due to decreasing domestic inflation and faster nominal depreciation.

Chart 10: Drivers of REER movement (y-o-y change)



Source: National Bank Rwanda

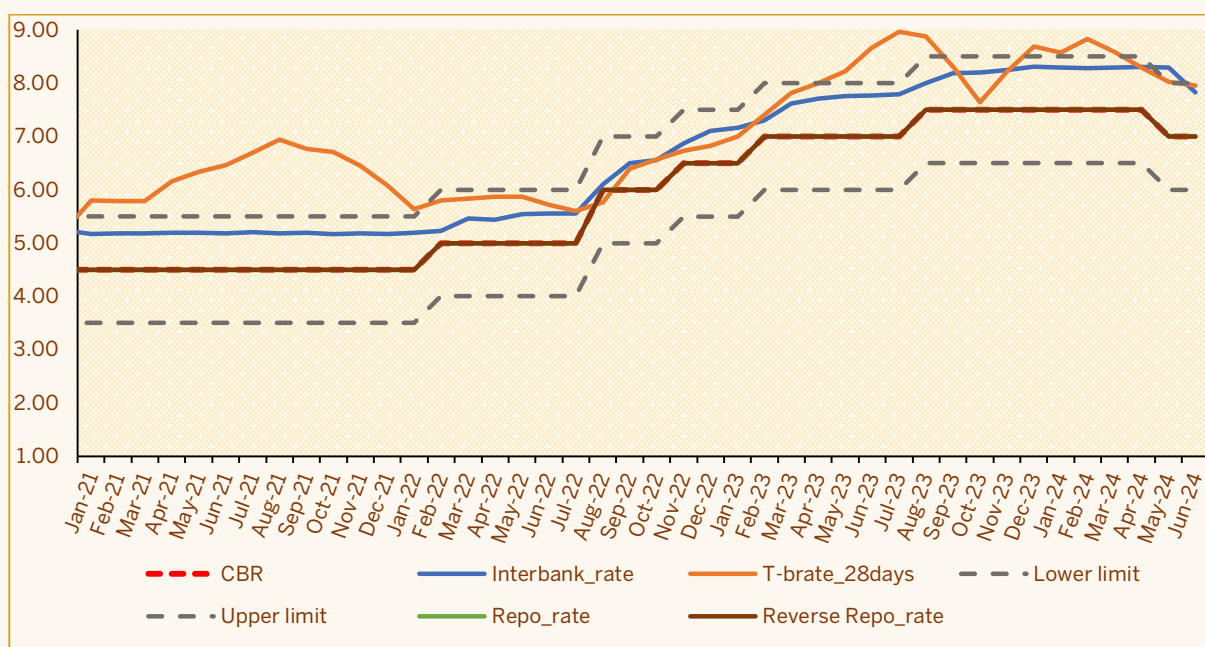
II.4 Domestic credit conditions

Money market interest rates followed the trend of the central bank rate.

During its meeting on May 28, 2024, the Monetary Policy Committee (MPC) decided to lower the Central Bank Rate (CBR) to 7.0 percent. This decision follows a period of maintaining the CBR at 7.5 percent since November 2023, after a cumulative increase of 300 basis points over the previous two years. The reduction was made in light of forecasts indicating stable inflation around 5 percent over the policy horizon.

As a result, money market rates adjusted in line with the central bank rate. The interbank rate decreased by 15 basis points, averaging 8.14 percent in 2024Q2 compared to 8.29 percent in 2024Q1.

Chart 11: Money market rates developments

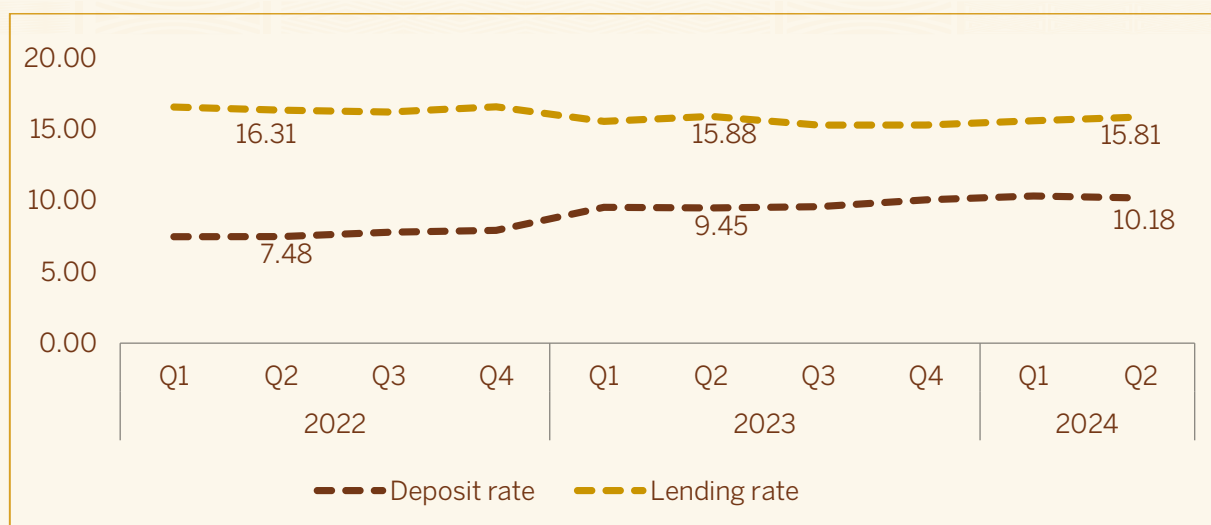


Source: National Bank of Rwanda

Similarly, the average deposit rate increased by 73 basis points to 10.17 percent in 2024Q2, up from 9.45 percent in 2024Q1. This rise reflects a higher proportion of long-term deposits.

In contrast, the average lending rate decreased slightly by 7 basis points to 15.81 percent in 2024Q2, down from 15.88 percent in 2023Q2. This decline is primarily due to a larger share of short-term, large corporate loans, which generally carry lower interest rates.

Chart 12: Market interest rates² (percent average)



Source: National Bank of Rwanda

Broad money (M3) kept increasing, supported by credit to private sector growth.

Broad money (M3) saw a substantial increase of 25.2 percent year-on-year in June 2024. This growth was primarily driven by a rise in outstanding Credit to the Private Sector (CPS), which contributed 17.9 percent to the increase, and Net Foreign Assets (NFA), which accounted for 12.5 percent. CPS grew by 22.4 percent by the end of June 2024, surpassing the 13.2 percent growth recorded in the same period of 2023, supported by a rise in New Authorized Loans (NALs). NFA also increased significantly, up by 26.0 percent by the end of June 2024 compared to a 20.8 percent increase in the previous year, due to higher foreign currency deposits from non-financial corporations and households.

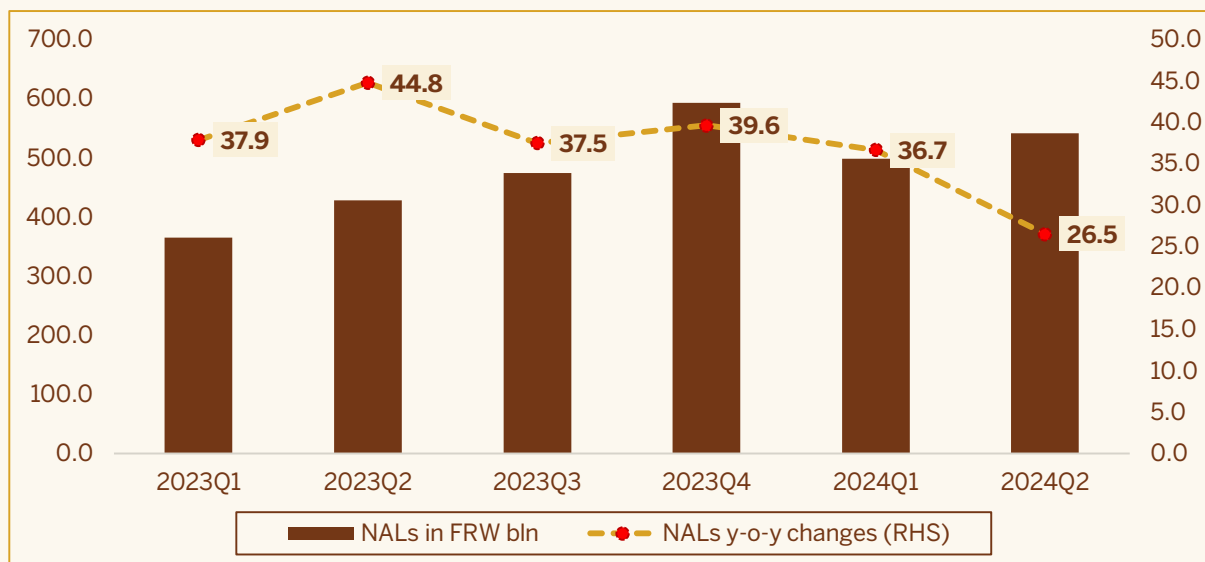
New authorized loans grew by 26.5 percent in the second quarter of 2024, though this was a slowdown from the 44.8 percent growth recorded in the same period the previous year. The increase was largely fueled by the robust economic performance seen last year. The top four sectors receiving the most financing in 2024Q2 were: Wholesale & Retail Trade, Repair of Moto Vehicles & Motorcycles (29.1 percent of total NALs), Activities of Households as Employers (24.1 percent), Construction (19.8 percent), and Manufacturing (8.7 percent). These sectors together accounted for 81.7 percent of total NALs in 2024Q2.

In terms of loan maturity, short-term loans remained predominant, representing 54.6 percent of total loans authorized in 2024Q2. This was followed by long-term loans at 30.5 percent and

² Three former microfinance banks that transitioned from the banking sector to microfinance institutions have been excluded. The same exclusion applies to new authorized loans, as shown in Chart 13.

medium-term loans at 14.9 percent. This distribution reflects the ongoing demand for working capital, particularly from businesses in the Wholesale & Retail Trade, Repair of Motor Vehicles & Motorcycles, and Manufacturing sectors.

Chart 13: NALs developments (Y-o-Y % changes and amount in FRW billion)



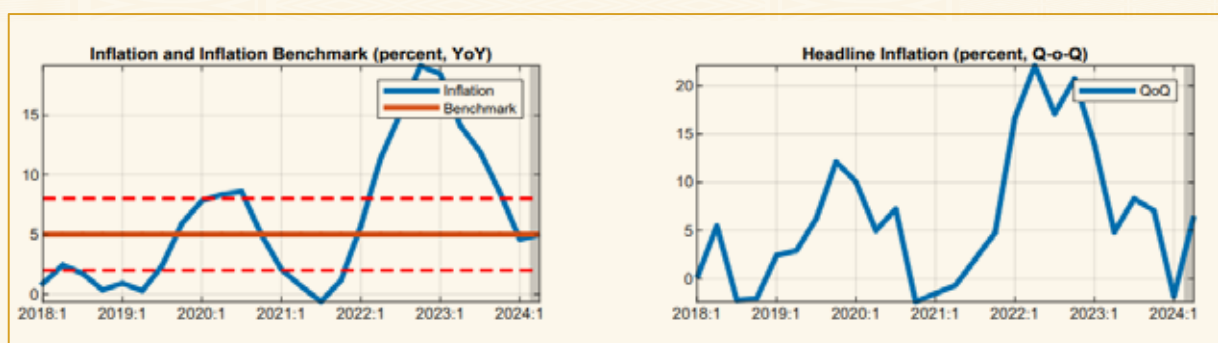
Source: NBR, Monetary Policy Department.

II.5 Prices developments

Headline inflation slightly increased in 2024Q2, reflecting the rise in core and energy inflation, albeit easing fresh food inflation.

In 2024Q2, headline inflation rose to 5.1 percent year-on-year, up from 4.7 percent in the previous quarter. This increase in headline inflation was driven by higher core and energy inflation, which outweighed the decline in fresh food inflation. Core inflation increased to 6.4 percent from 5.6 percent in 2024Q1, mostly reflecting an increase in core transport inflation, especially in transport services. Meanwhile, fresh food inflation eased to 1.6 percent from 2.5 percent, thanks to an improved supply of certain fresh vegetables. Conversely, energy inflation rose to 4.5 percent from 2.7 percent in 2024Q1, driven by higher inflation in liquid fuels.

Chart 14: Developments in headline inflation (y-o-y & q-o-q).

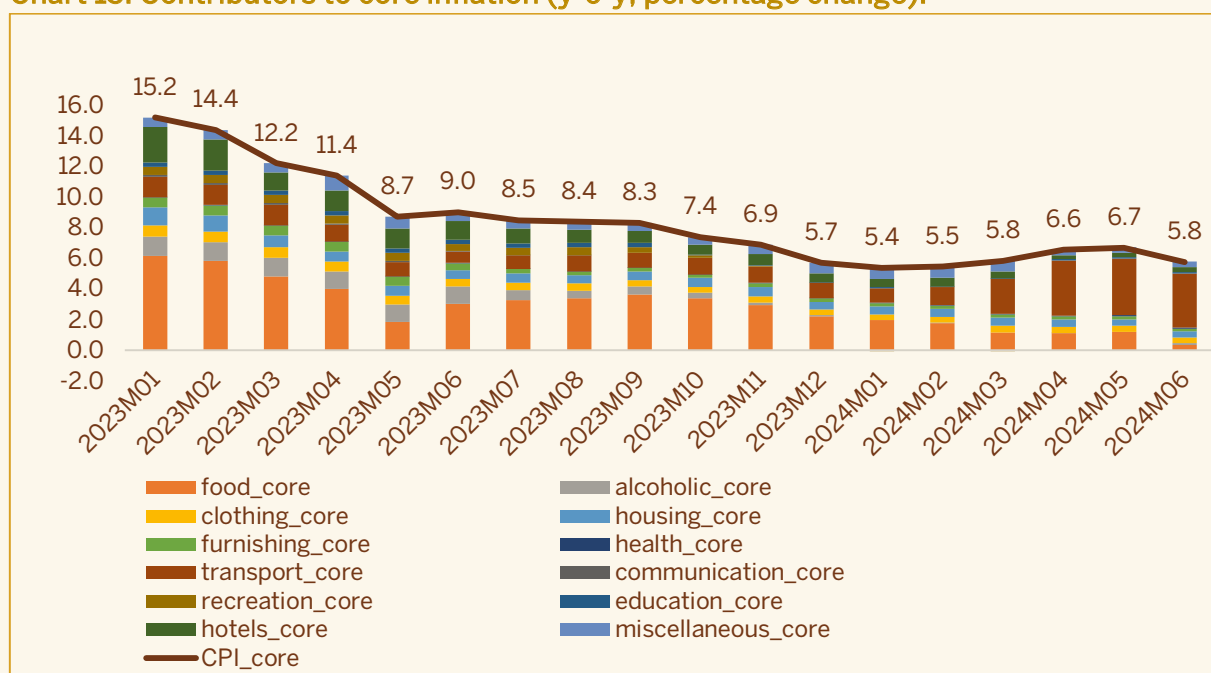


Source: NBR, Monetary Policy and Research Directorate

Despite the downward observed in core foods inflation, total core inflation increased, reflecting higher transport services inflation.

The rise in core inflation year-on-year was largely driven by a significant acceleration in core transport inflation, which surged from 10.6 percent to 26.0 percent. This increase was partly offset the deceleration in core food inflation, which slowed from 8.9 percent to 5.3 percent.

Chart 15: Contributors to core inflation (y-o-y, percentage change).



Source: NBR, Monetary Policy and Research Directorate

The decline in core food inflation is attributed to reduced prices for both domestic and imported key processed food items, such as maize, sugar, bread and cereals, local rice, cassava, sorghum

flour, and palm oil. This decrease is linked to falling international food prices and the output of the agriculture sector during season B of 2024. As shown in Chart 4, prices for sugar and bread & cereals in 2024 are below those recorded in 2023, reflecting a downward trend throughout the first six months of 2024. This trend is also below the historical average (2015-2023), highlighting the successful outcomes of seasons A and B of 2024.

Chart 16: Contributors to core food inflation (y-o-y, percentage change).

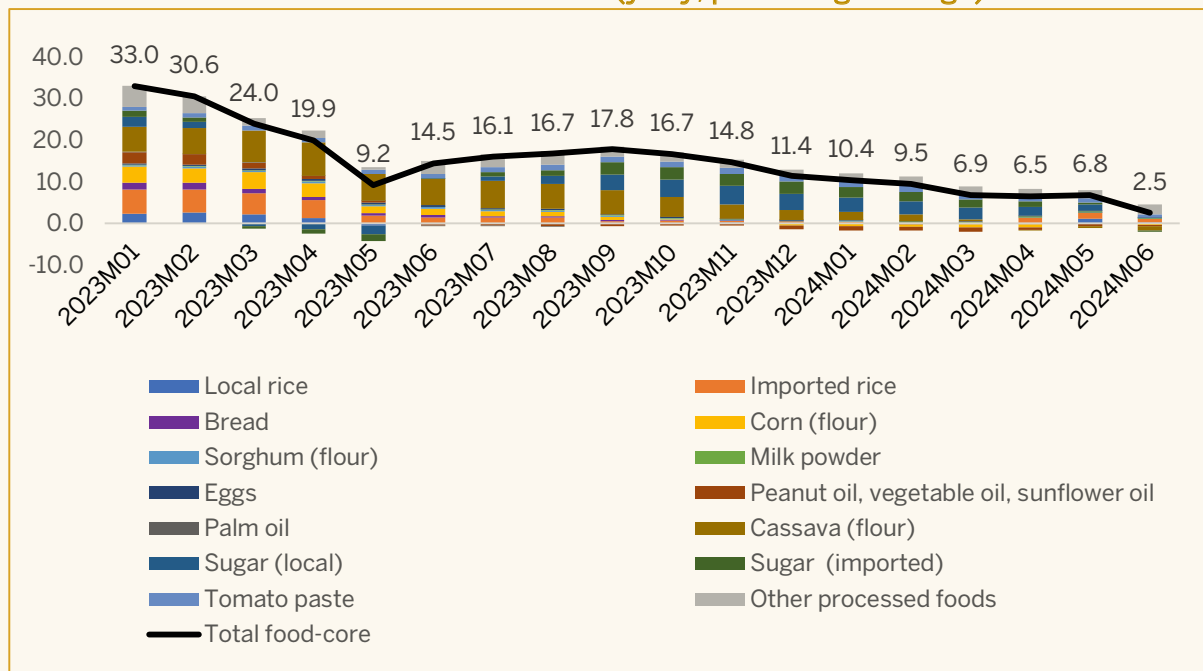
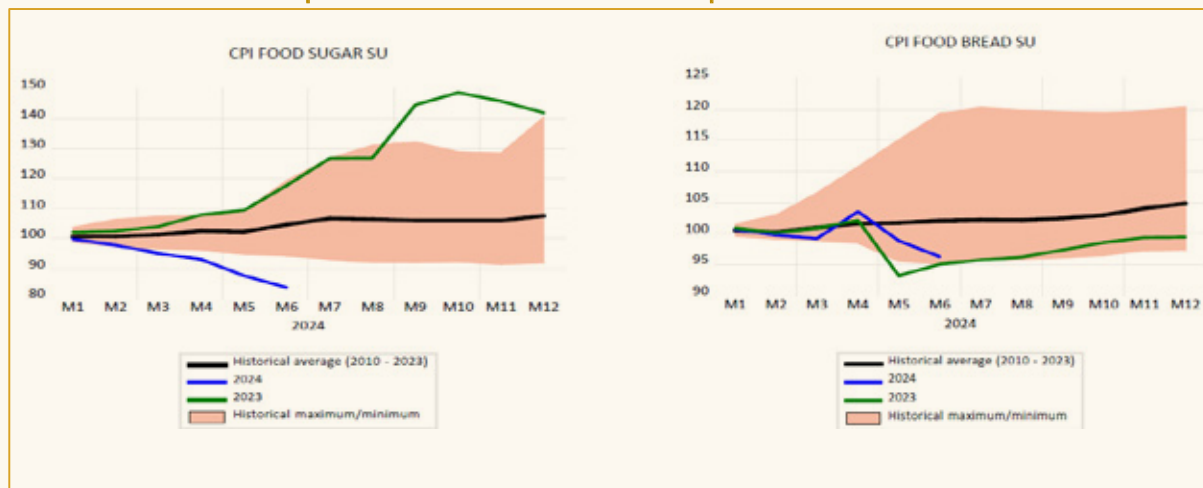


Chart 17: Evolution in prices of some core food components



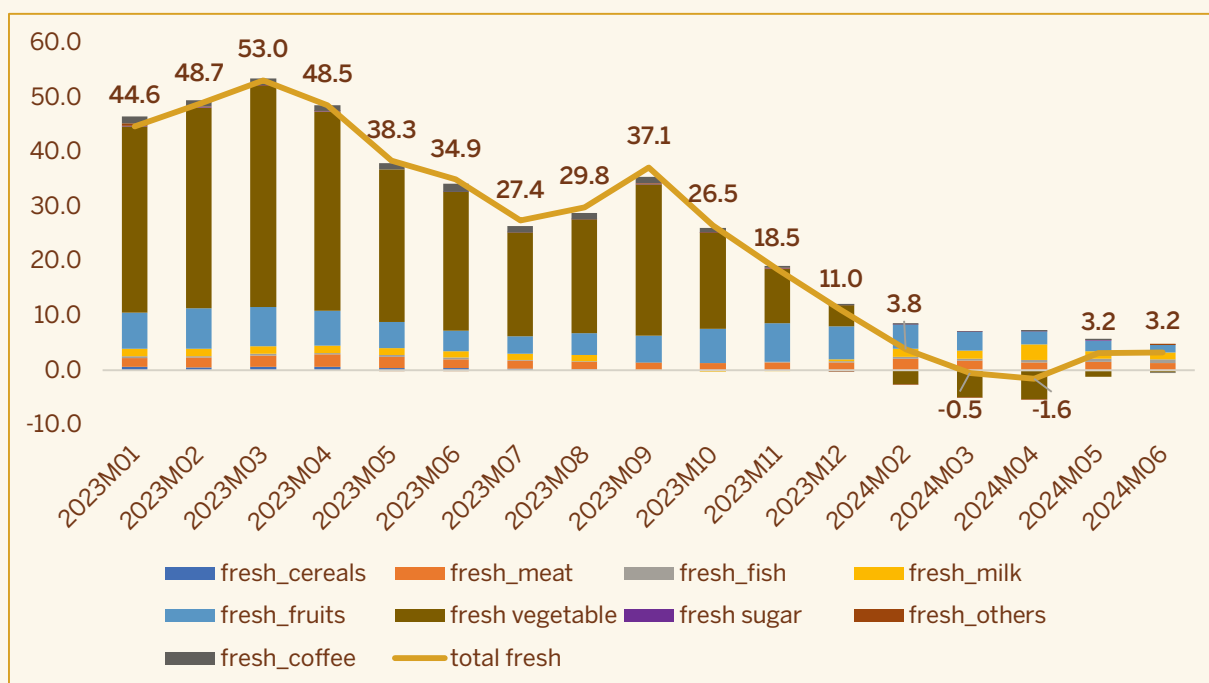
The rise in core transport inflation was primarily driven by a significant increase in transport services inflation, which surged from 5.5 percent to 31.5 percent. This spike reflects the full impact of the bus fare hikes implemented toward the end of 2024Q1. Additionally, vehicle

purchases inflation rose from 16.1 percent to 22.1 percent, influenced by high import costs, largely due to the strong US dollar. Conversely, prices for other Consumer Price Index (CPI) core components—such as housing, furnishing, recreation, and restaurants and hotels—remained stable, which helped to moderate overall core inflation pressures.

Fresh food inflation decelerated due to an improved supply of fresh vegetables and fresh fruits in 2024Q2.

The decrease in fresh food inflation in 2024Q2 was largely due to a slowdown in the inflation rates for fresh vegetables and fruits. Fresh vegetable inflation decreased further from -6.3 percent to -4.3 percent, driven by improved supply of items like tomatoes, sweet potatoes, and cassava roots due to a good harvest. Over the same period, pressures on fresh fruit inflation reduced, mainly reflecting the decrease recorded in prices of cooking bananas consistent with the harvesting period.

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



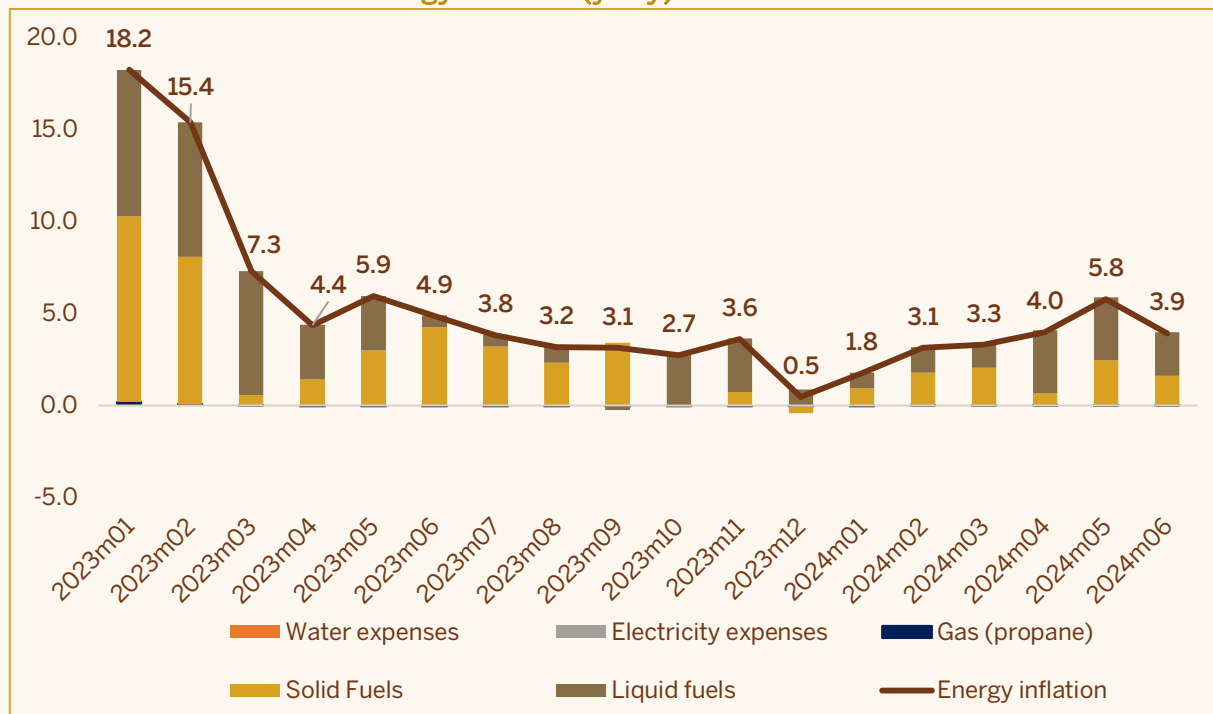
Source: NBR, Monetary Policy and Research Directorate

In 2024Q2, energy (y-o-y) inflation increased on the back of higher liquid fuel prices.

In 2024Q2, energy inflation increased to 4.5 percent year-on-year, up from 2.7 percent in the previous quarter. Solid fuels inflation remained stable at 2.8 percent, due to improved charcoal

supply from favorable weather conditions. In contrast, liquid fuels inflation surged to 12.3 percent from 4.8 percent year-on-year, driven by upward adjustments in local pump prices aligned with international oil price trends.

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



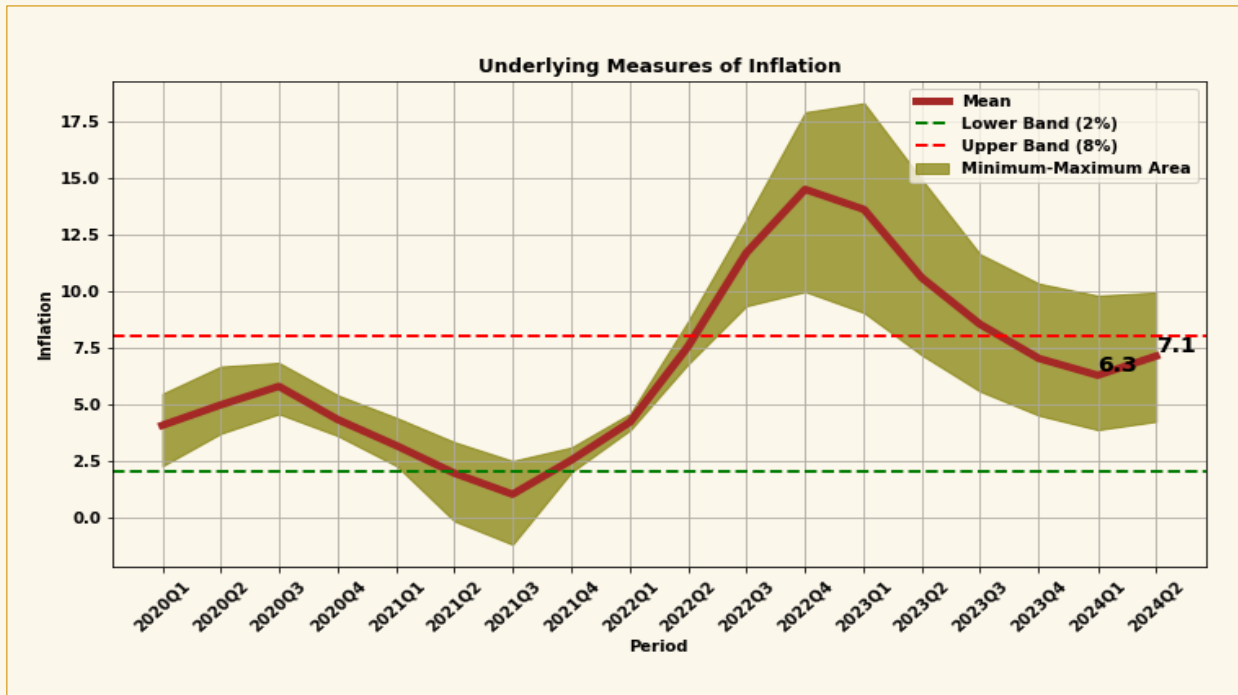
Source: NBR, Monetary Policy and Research Directorate

Underlying measures of inflation indicate an increase in inflation, which is still within the bounds.

In 2024Q2, the mean³ underlying measures of inflation rose to 7.1 percent from 6.3 percent in 2024Q1, primarily driven by increased core transport inflation owing to public transport services and vehicle purchases. Core inflation excluding foods and beverages rose to 7.3 percent in 2024Q2, up from 5.2 percent in the previous quarter, reflecting higher transport costs. However, the CPI trimmed mean, which excludes volatile components, increased to 4.2 percent in 2024Q2 from 3.9 percent in 2024Q1, indicating that core inflation remains below 5 percent, a reflection of previous monetary policy measures.

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

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



III. INFLATION OUTLOOK

III.1. Forecast assumptions.

The global economy is projected to remain subdued over the policy horizon, limiting the stimulus to the domestic economy.

In the July 2024 update of the International Monetary Fund's World Economic Outlook (WEO), global growth for 2024 is projected to remain steady at 3.2 percent, while the growth forecast for 2025 has been slightly revised up by 0.1 percentage points to 3.3 percent. Growth forecasts for Emerging Markets and Developing Economies (EMDEs) have also been adjusted upward by 0.1 percentage points for both 2024 and 2025. This subdued global economic outlook reflects ongoing tight financial conditions, with many central banks maintaining high policy rates, increasing geo-economic fragmentation, and the lingering effects of COVID-19 and the war in Ukraine. Consequently, the global economy is expected to provide less stimulus to the domestic economy and exert reduced inflationary pressures.

Global inflation is expected to decline but will evolve slightly above the target level.

According to the latest IMF projections updated in July 2024, global inflation is expected to average 5.9 percent throughout 2024, with a further improvement to 4.4 percent in 2025. This marks a modest downward revision of 0.1 percentage points from earlier projections made in April 2024. While inflation is anticipated to ease gradually, many regions are likely to continue experiencing rates above their central banks' target levels.

Several factors contribute to the persistent inflationary pressures:

- **Rising Service Sector Costs:** These have been a significant barrier to disinflation efforts and complicate the normalization of monetary policy.
- **Increased Trade Tensions:** Heightened global uncertainties and trade conflicts have driven up the costs of imported goods.

Despite the projected global decline in inflation, the impact on domestic inflation is expected to be moderate, reflecting these ongoing challenges.

Food prices are expected to follow a downward trend over the medium term, exerting less pressure on imported food inflation.

Over the policy horizon, global food prices are projected to continue the downward trend indicated in the April 2024 forecasts. This trend is expected to be supported by a steady food supply from major producing countries and a sluggish global economy. If these conditions persist, pressures from imported food items will likely remain neutral.

Despite the upward revision in the July 2024 projections, international oil prices will likely continue their downward trend, exerting moderate pressure on Rwanda's imported inflation.

The July 2024 update of the International Monetary Fund's World Economic Outlook (WEO) has revised international oil prices upward compared to the April 2024 projections. This adjustment reflects the effects of ongoing substantial production cuts by OPEC+ members, including Russia and other non-OPEC oil exporters, which have significantly raised oil prices. Additional price pressures on energy products are attributed to the ongoing conflict in the Middle East. Despite this upward revision, a downward trend in international oil prices is anticipated over the medium term due to projected subdued global demand, which is expected to exert moderate pressures on imported inflation.

III.2. Drivers of inflation projections

The August 2024 inflation projections are primarily influenced by expected slowdowns in domestic production costs, which are anticipated to remain non-inflationary throughout the forecast horizon. In contrast, imported costs are likely to exert upward pressure on core inflation.

Energy inflation pressures are expected to stay high through 2024 but are projected to ease in the second half of 2025, in line with trends in both domestic and global economies. Similarly, pressures on food inflation are expected to remain muted driven by the normalization of domestic agriculture production coupled with subdued pressures from international food prices.

Projections of the key macroeconomic indicators

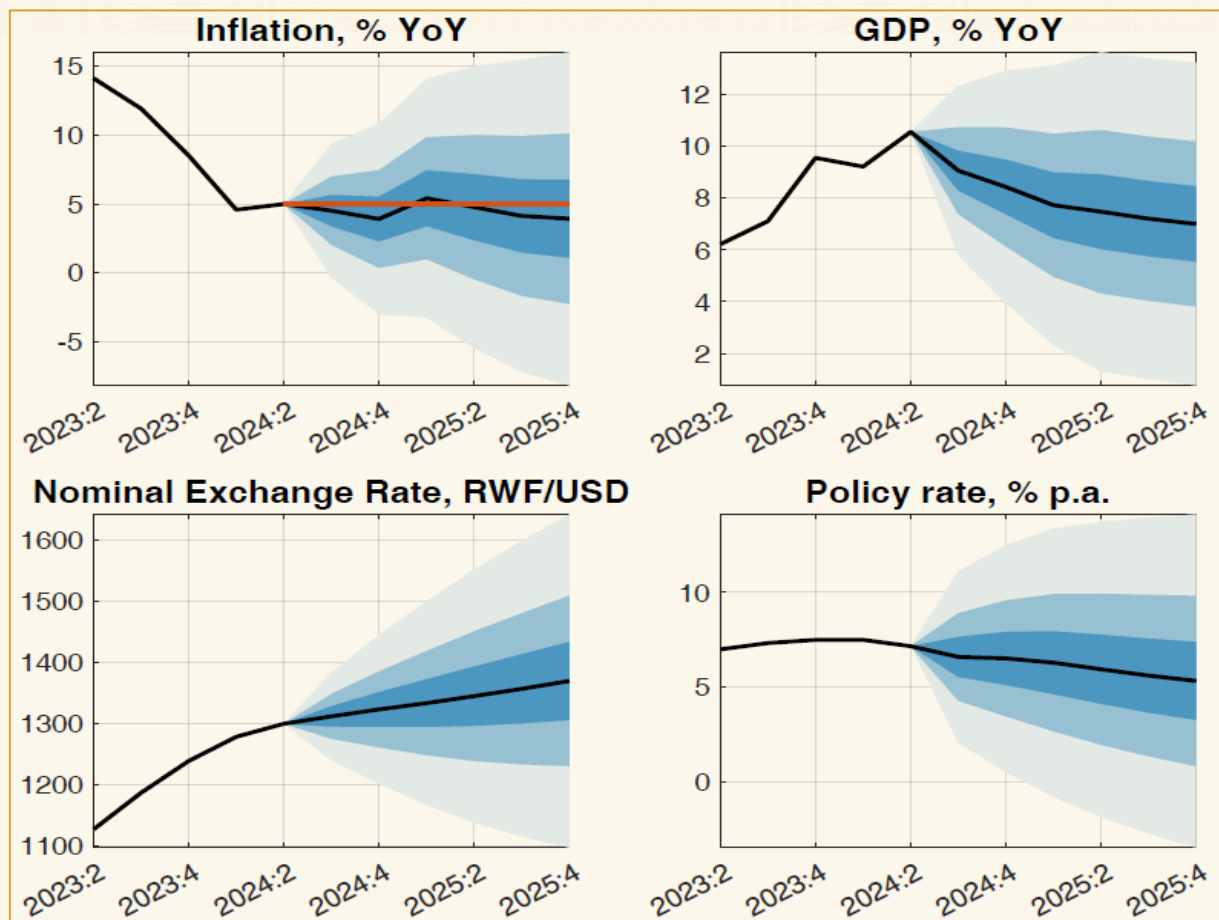
Consistent with projections from the previous two Monetary Policy Committee meetings (February 2024 and May 2024), the forecasts as of August 2024 indicate that headline inflation is expected to align with the medium-term target of 5.0 percent. This forecast reflects recent domestic economic developments, global economic assumptions, and other

macroeconomic variables. Consequently, headline inflation is projected to evolve around 5 percent in 2024 and 2025.

Core inflation is expected to rise in 2024 but to decelerate in the second half of 2025. The primary sources of pressure on core inflation will be imported costs, consistent with anticipated global and domestic economic trends. Food inflation is expected to decrease over the medium term, driven by the normalization of domestic agricultural production and reduced pressure from international food prices. Energy inflation pressures are expected to remain high only through 2024 but to ease in the second half of 2025.

The following figure 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 latest projections highlight potential risks from both domestic and external factors. Externally, geopolitical tensions in the Middle East are anticipated to significantly disrupt global supply chains, especially for key commodities. These disruptions could lead to higher energy prices and increased costs for imported goods in the near term, potentially impacting global trade adversely. Domestically, uncertainties related to weather conditions pose a risk to crop production, which may negatively affect agricultural output and food prices.





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