



NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY REPORT

NOVEMBER 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.

CONTENTS

● I. MONETARY POLICY COMMITTEE DECISION, OUTLOOK, AND RISKS	5
● II. CURRENT ECONOMIC CONDITIONS	7
II.1. GLOBAL ECONOMY AND FINANCIAL MARKETS	8
II.2. DOMESTIC ECONOMIC PERFORMANCE AND LABOUR MARKET	16
II.3. EXTERNAL SECTOR, AND EXCHANGE RATES DEVELOPMENTS	21
II.4. DOMESTIC CREDIT CONDITIONS	25
II.5. PRICES DEVELOPMENTS	27
● III. INFLATION OUTLOOK	33

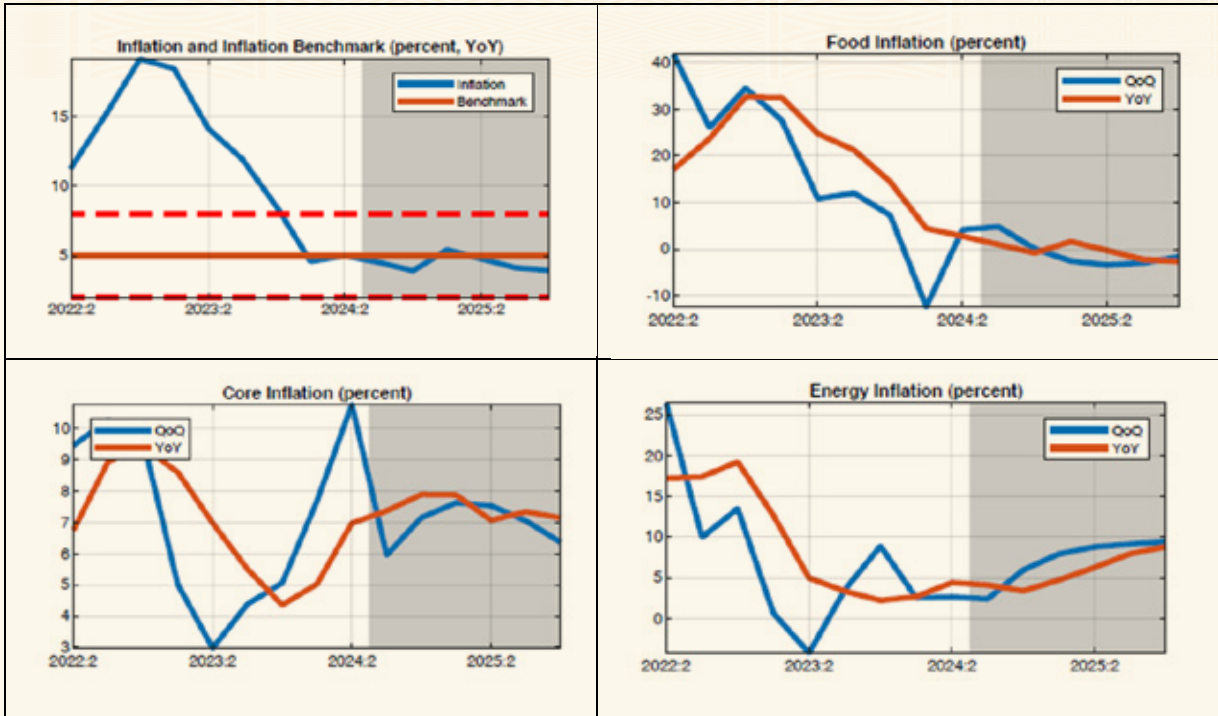
I. MONETARY POLICY COMMITTEE DECISION, OUTLOOK, AND RISKS

The Monetary Policy Committee (MPC) convened on November 20, 2024, to evaluate the effects of its previous decisions, review recent global and domestic economic developments, and set the Central Bank Rate (CBR) for the upcoming quarter.

Inflation projections for November 2024 suggest a modest rise in headline inflation (year-on-year) in the near term (2024Q4), driven mainly by upward pressures in food, core, and energy components. However, over the medium term, headline inflation is anticipated to remain within the target range of 2 – 8 percent, averaging around 4.6 percent in 2024, and increase to 5.8 percent in 2025. This rise will largely stem from a base effect in food inflation, particularly in 2025Q1, alongside the anticipated effects of delayed rainfall during the planting season on agricultural output of season A. Core inflation pressures are expected to persist throughout 2024 but should ease from the second quarter of 2025 as the effects of higher transport service costs diminish. Energy inflation pressures are projected to remain elevated, consistent with anticipated trends in international oil prices and domestic demand. These projections are subject to risks, including heightened global geopolitical tensions that could affect the future path of international commodity prices.

Given current developments and the outlook for both domestic and global economies, along with the risks to the inflation forecast, the Monetary Policy Committee has decided to maintain the Central Bank Rate (CBR) at 6.5 percent. This rate is deemed appropriate to maintain inflation within the target range, assuming no unforeseen shocks.

The MPC will continue to monitor these risks closely, and should they materialize and threaten price stability, it stands ready to take necessary actions to ensure inflation remains within the 2-8 percent target range.



II. CURRENT ECONOMIC CONDITIONS

Summary

The global economy is projected to show resilience, maintaining stable growth at 3.2 percent in both 2024 and 2025, though this is below the historical average of 3.8 percent from 2000 to 2019. Growth expectations vary by region: the US economy is forecasted to perform well with a revised 2024 growth rate of 2.8 percent, driven by robust consumer spending and investment. In contrast, the Euro Area is expected to grow more modestly at 0.8 percent in 2024, recovering gradually from a weak performance in 2023. Emerging and developing economies remain strong, particularly in Asia, with China's growth forecast slightly increased to 4.8 percent. Meanwhile, Sub-Saharan Africa faces challenges due to conflict and supply constraints, while East Africa is anticipated to sustain steady growth supported by favourable weather conditions.

Global commodity prices are expected to decline in 2024, reflecting the slowdown in global demand. Energy commodity prices, in particular, are projected to decrease, driven by falling crude oil prices, which constitute nearly 85 percent of the global energy index.

World average annual inflation is anticipated to ease in 2024 and 2025 but will remain above pre-pandemic levels. Core inflation is expected to decline overall, influenced by tight monetary policies and decreasing energy prices. Inflation in advanced economies is projected to drop to 2.6 percent in 2024, with notable reductions in the US and Eurozone. Inflation in emerging and developing economies is also set to decrease but remain comparatively high.

Monetary policy rates among major central banks declined in the second half of 2024 and are expected to continue falling, with variations in the pace of normalization reflecting different inflationary conditions. With the Federal Reserve easing monetary policy, the US dollar has depreciated against most major currencies.

Rwanda's economy maintained a strong growth trajectory in 2024, recording growth rates above 9 percent in both the first and second quarters. Economic activity continued to expand in the third quarter, primarily driven by trade, transport, financial services, as well as construction and manufacturing. This trend suggests economic growth will remain strong in the second half of the year, likely reaching the projected annual growth rate of 8.3 percent.

Rwanda's export growth improved in the third quarter of 2024, with merchandise exports rising by 13.3 percent, supported by high prices for traditional commodities and increasing manufacturing exports. At the same time, import bills rose by 8.5 percent, largely due to higher imports of processed food items such as rice, cooking oil, and sugar. As a result, the merchandise trade deficit widened by 5.7 percent. Consequently, the Rwandan franc

depreciated by 6.5 percent against the US dollar compared to December 2023, an improvement from the 13.5 percent depreciation seen in the same period last year.

Market interest rates declined, following the downward trend in the central bank rate. The interbank rate averaged 7.26 percent in the third quarter of 2024, down by 73 basis points from 7.99 percent in 2023Q3, reflecting a cumulative 100-basis-point cut in the CBR in May and August 2024. The average deposit interest rate rose by 78 basis points to 10.36 percent in the third quarter, while the average lending rate increased slightly by 13 basis points to 16.06 percent, driven by a higher share of short-term loans, which typically carry higher rates.

In 2024Q3, headline inflation (year-on-year) dropped to 4.1 percent from 5.1 percent in the previous quarter, as core inflation and fresh food inflation eased, offsetting an increase in energy inflation. The drop in core inflation was primarily due to a decrease in core food inflation, which offset rising inflation in core housing and education. The easing in fresh food inflation resulted mainly from the base effects on vegetable prices and good supply. Conversely, energy inflation rose, driven by increases in solid fuel inflation.

II.1. Global Economy and Financial Markets

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

According to the October 2024 projections of the International Monetary Fund (IMF)'s World Economic Outlook (WEO), global economic growth is expected to remain stable at 3.2 percent in both 2024 and 2025, which is below the historical average of 3.8 percent recorded between 2000 and 2019. Growth prospects vary by region, with surging demand for semiconductors and electronics—driven by substantial investments in artificial intelligence—fueling robust growth in emerging and developing Asia. In contrast, oil production cuts, conflicts, and civil unrest have led to downward revisions for the Middle East, Central Asia, and Sub-Saharan Africa.

Compared to the July 2024 WEO update, growth projections for advanced economies have been revised up by 0.1 percentage points, reflecting a 0.2 percentage point upward revision for the United States, partially offset by a 0.1 percentage point downgrade for the Euro Area. In the US, projected growth for 2024 has been raised to 2.8 percent, driven by strong consumption and non-residential investment. This resilience in consumption is attributed to real wage growth, particularly among lower-income households, and wealth effects. Growth is expected to moderate to 2.2 percent in 2025 as fiscal policy tightens and a cooling labor market dampens consumption.

In the Euro Area, growth is projected to recover from 0.4 percent in 2023 to 0.8 percent in 2024, reflecting a 0.1 percentage point downgrade from the July 2024 update. This modest recovery in 2024 is largely attributed to improved export performance, particularly in goods. Growth is expected to further increase to 1.2 percent in 2025, supported by stronger domestic demand. Higher real wages are anticipated to boost consumption, while a gradual loosening of monetary policy is expected to support investment. However, manufacturing weaknesses continue to weigh on growth, especially in Germany and Italy.

In the United Kingdom, growth is expected to rise modestly from 0.3 percent in 2023 to 1.1 percent in 2024, marking a 0.4 percentage point upward revision from the July update. This trend is projected to continue in 2025, driven by declining inflation and interest rates, which are expected to stimulate domestic demand.

In Japan, growth is projected to decelerate in 2024, reflecting temporary supply disruptions and the dissipation of one-off factors that boosted activity in 2023, such as a surge in tourism. The growth forecast for 2024 has been revised down by 0.4 percentage points to 0.3 percent, reflecting these supply challenges in the automotive sector and base effects from historical data revisions. However, growth is expected to accelerate to 1.1 percent in 2025, driven by strengthened private consumption as real wage growth increases.

Emerging Market and Developing Economies (EMDEs) are projected to maintain a stable growth rate of 4.2 percent in 2024. Compared to the July 2024 update, this represents a slight upward revision of 0.1 percentage points, though the forecast incorporates downgrades for emerging and developing Asia (notably China) and Sub-Saharan Africa (notably Nigeria). The growth outlook remains stable over the next two years.

In China, despite ongoing weakness in the real estate sector and low consumer confidence, growth is projected to slow slightly to 4.8 percent in 2024, largely supported by stronger-than-expected net exports. The forecast has been revised down by 0.2 percentage points for 2024 but remains unchanged for 2025. In India, GDP growth is expected to moderate from 8.2 percent in 2023 to 7.0 percent in 2024 and 6.5 percent in 2025, as pent-up demand accumulated during the pandemic has been largely met, and the economy returns to its potential growth path.

In Sub-Saharan Africa, GDP growth is projected to rise from an estimated 3.6 percent in 2023 to 4.2 percent in 2025, as the adverse impacts of previous weather shocks abate and supply constraints gradually ease. Compared to the July 2024 update, the regional forecast has been revised down by 0.1 percentage points for 2024 and up by 0.1 percentage points for 2025. Ongoing conflicts have led to a projected 26.4 percent contraction in South Sudan's economy,

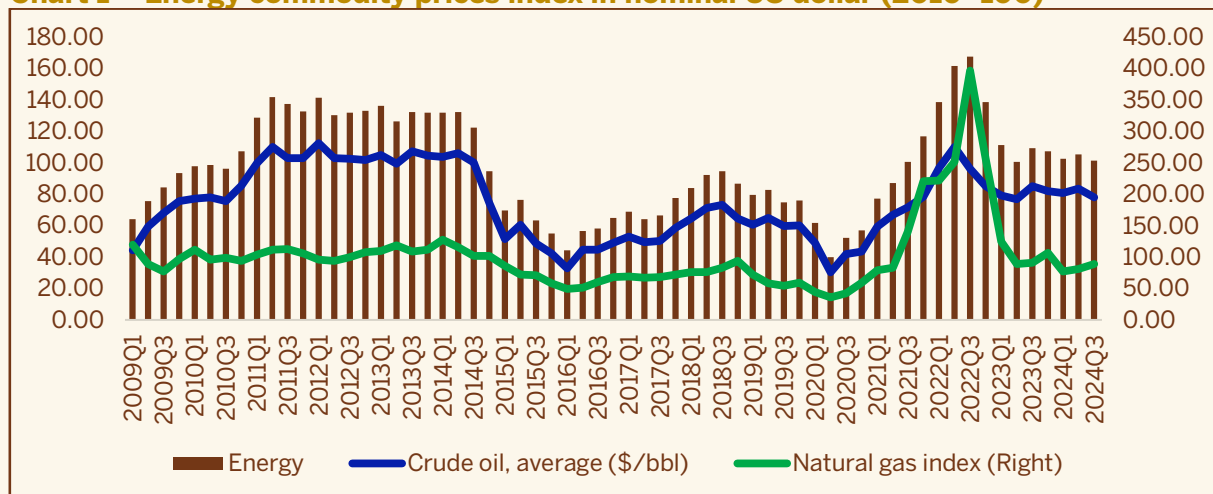
and the downgrade also reflects slower growth in Nigeria due to weaker-than-expected activity in the first half of the year.

The East African Community (EAC¹⁻⁵) economies are projected to grow at 5.4 percent in 2024 and 5.9 percent in 2025, up from 5.3 percent in 2023. Upward revisions for most member countries, supported by favorable weather in early 2024, contribute to this positive outlook. In Rwanda, growth surged to 9.8 percent in 2024Q2, higher than the projected annual growth rate of 8.3 percent for 2024. In Uganda, economic growth reached 6.6 percent in 2024Q2, exceeding the projected 5.9 percent for the year. During the same period, Kenya’s GDP growth was 5.0 percent, consistent with the 2024 projection, despite the protests that disrupted the private sector in June and July. Tanzania’s GDP is projected to grow by 5.4 percent in 2024, up from 5.1 percent in 2023, while growth in Burundi is expected to decline to 2.2 percent in 2024, down from 2.7 percent in 2023.

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

In 2024Q3, the global commodity price index declined by 3.8 percent quarter-over-quarter, following a 4.0 percent increase in 2024Q2. It is projected to decrease by 3.4 percent for the full year 2024 and by an additional 5.1 percent in 2025, after a 24.2 percent drop in 2023, largely due to weakening global demand. The energy price index also fell by 3.8 percent in 2024Q3 after a 2.7 percent rise in 2024Q2, driven by declining crude oil prices, which comprise nearly 85 percent of the global energy index. Annually, the energy price index is projected to decrease by 5.7 percent in 2024 and by another 6.3 percent in 2025, following a significant 29.9 percent drop in 2023.

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



Source: World Bank Commodity Prices, October 2024

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

In 2024Q3, average crude oil prices declined by 6.7 percent after a 3.7 percent rise in 2024Q2, reflecting production cuts by OPEC+ and easing price pressures stemming from the Middle East conflict. According to October 2024 CMO projections, Brent crude oil prices are expected to fall by 3.1 percent in 2024 and by 8.8 percent in 2025, after a 17.2 percent decrease in 2023. This forecast assumes no major escalation of ongoing conflicts, stable global economic growth, and a steady expansion of oil supply from non-OPEC producers.

The natural gas index rose by 9.8 percent in 2024Q3, building on a 5.5 percent increase in 2024Q2, amid ample global supplies. The World Bank projects average natural gas prices to decline by 13.0 percent in 2024, following a 53.9 percent decrease in 2023, supported by high production and large inventories, particularly in the US. European gas prices are also expected to decrease as producers adapt to a reconfigured supply landscape following Russia's invasion of Ukraine.

Non-energy commodity prices declined by 3.8 percent in Q3 2024 after a 6.4 percent increase in Q2, largely due to price declines across almost all non-energy commodities. In October 2024, the World Bank projected a slight 1.3 percent increase in non-energy commodity prices for the year, followed by a 3.0 percent decrease in 2025, after a 9.7 percent decline in 2023. This anticipated increase reflects rising prices across most non-energy commodities.

In 2024Q3, average prices for agricultural commodities fell by 3.0 percent, following a 4.7 percent rise in 2024Q2, primarily due to decreases in food and beverage prices. Agricultural commodity prices are expected to increase by 2.1 percent in 2024 but drop by 4.2 percent in 2025, following a 7.0 percent decline in 2023, with beverage prices increasing enough to offset declines in food prices.

Food prices dipped slightly by 2.9 percent in 2024Q3, led by cereals (-6.4 percent), oils and meals (-1.4 percent), and other foods (-1.6 percent), after a 0.9 percent increase in 2024Q2, reflecting improved supplies from increased production. Globally, food prices are projected to fall by 8.5 percent in 2024 and by an additional 4.0 percent in 2025, after a 9.2 percent decrease in 2023, amid favorable weather conditions supporting increased supplies.

Arabica coffee prices rose by 10.9 percent in 2024Q3, following a 15.7 percent increase in 2024Q2, due to reduced supply driven by climate-related factors in key regions such as Vietnam. Coffee prices are projected to rise by 20.0 percent in 2024, following a 19.4 percent decline in 2023. Mombasa tea prices decreased by 2.0 percent in 2024Q3 after a slight 0.6 percent increase in 2024Q2. Tea prices are projected to increase by 13.1 percent in 2024, following a 19.4 percent drop in 2023, due to production declines in Sri Lanka.

Metals and minerals prices decreased by 6.5 percent in 2024Q3 after an 11.3 percent increase in 2024Q2. Annually, they are projected to rise by 3.6 percent in 2024 before a slight 0.8 percent drop in 2025, following a 9.6 percent decline in 2023, reflecting moderate industrial activity growth in major economies, particularly China. Tin prices increased by 2.0 percent in 2024Q3 following a 23.1 percent rise in 2024Q2, driven by strong demand from the electronics sector. Tin prices are expected to increase by 15.7 percent in 2024, with an additional 6.7 percent rise in 2025, after a 17.2 percent drop in 2023, as demand from the electronics industry continues.

Fertilizer prices rose by 5.5 percent in 2024Q3, (q-o-q), after a 2.5 percent decline in 2024Q2. The World Bank projects fertilizer prices to fall by 23.8 percent in 2024 and by 1.5 percent in 2025, following a 34.9 percent drop in 2023, as supply disruptions gradually ease.

Global inflation is expected to ease in 2024, with a gradual decline toward target levels in most economies.

The world average inflation is projected to decline to 5.8 percent in 2024 and further to 4.3 percent in 2025, down from 6.7 percent in 2023, reflecting a broad-based decrease in core inflation, although inflation remains above the pre-pandemic average of 3.5 percent (2017-2019). The 2024 forecast has been revised downward by 0.1 percentage points from the July 2024 WEO update, with a 0.1 percentage point downward revision for advanced economies and 0.3 percentage points for EMDEs. Inflation rates are expected to remain higher in EMDEs compared to advanced economies.

The expected decline in global inflation in 2024 and 2025 reflects a widespread reduction in core inflation, unlike in 2023, when headline inflation declined primarily due to lower fuel prices. Core inflation is projected to fall by 1.3 percentage points, led by reductions in advanced economies. Contributing factors include the delayed effects of tighter monetary policies and the diminishing impact of earlier declines in prices, particularly for energy. Inflation is anticipated to decline gradually, with most economies expected to reach target levels by the end of 2025.

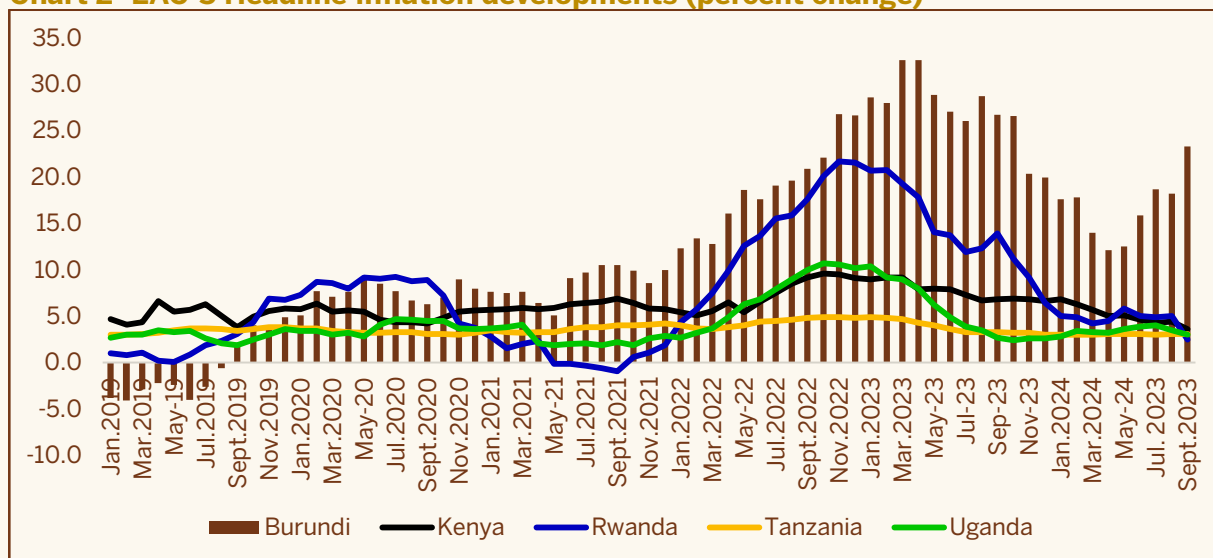
In advanced economies, consumer price inflation is projected to ease to 2.6 percent in 2024 and further to 2.0 percent in 2025, down from 4.6 percent in 2023, supported by strong monetary policy frameworks and improved policy communication, though it remains above target in most advanced economies. Consistent with this trend, US headline inflation is projected to decelerate to 3.0 percent in 2024 and to 1.9 percent in 2025, from 4.1 percent in 2023. Eurozone inflation is expected to decline to 2.4 percent in 2024 and 2.0 percent in 2025, from 5.4 percent in 2023. In the UK, annual headline inflation is projected to ease to 2.6 percent in 2024 and 2.1 percent in 2025, following a 7.3 percent rate in 2023.

In Emerging Market and Developing Economies (EMDEs), annual headline inflation is projected to decelerate to 7.9 percent in 2024 and 5.9 percent in 2025, down from 8.1 percent in 2023, driven by falling energy prices and easing food costs. China’s headline inflation is expected to reach 0.4 percent in 2024, up from 0.2 percent in 2023, while in India, headline inflation is forecast to ease to 4.4 percent in 2024 from 5.4 percent in 2023.

In Sub-Saharan Africa, annual headline inflation is projected to remain elevated in double digits, increasing from 17.6 percent in 2023 to 18.1 percent in 2024, influenced by higher inflation rates in countries like Zimbabwe (635.3 percent), South Sudan (120.6 percent), Sierra Leone (36.6 percent), Nigeria (32.5 percent), Malawi (30.6 percent), Angola (28.4 percent), Ethiopia (23.9 percent), Burundi (20.0 percent), and Ghana (19.5 percent). In several Sub-Saharan African countries, food prices have surged due to local shortages and global food price increases driven by exchange rate pressures.

In the EAC-5 countries, annual average inflation is projected to ease to 4.4 percent in 2024, down from 6.7 percent in 2023. The 2024 forecast has been revised down by 1.1 percentage points relative to the July 2024 WEO update, reflecting reductions of 1.5 percentage points for Kenya, 0.9 percentage points for Rwanda, 0.8 percentage points for Tanzania, and 0.3 percentage points for Uganda.

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



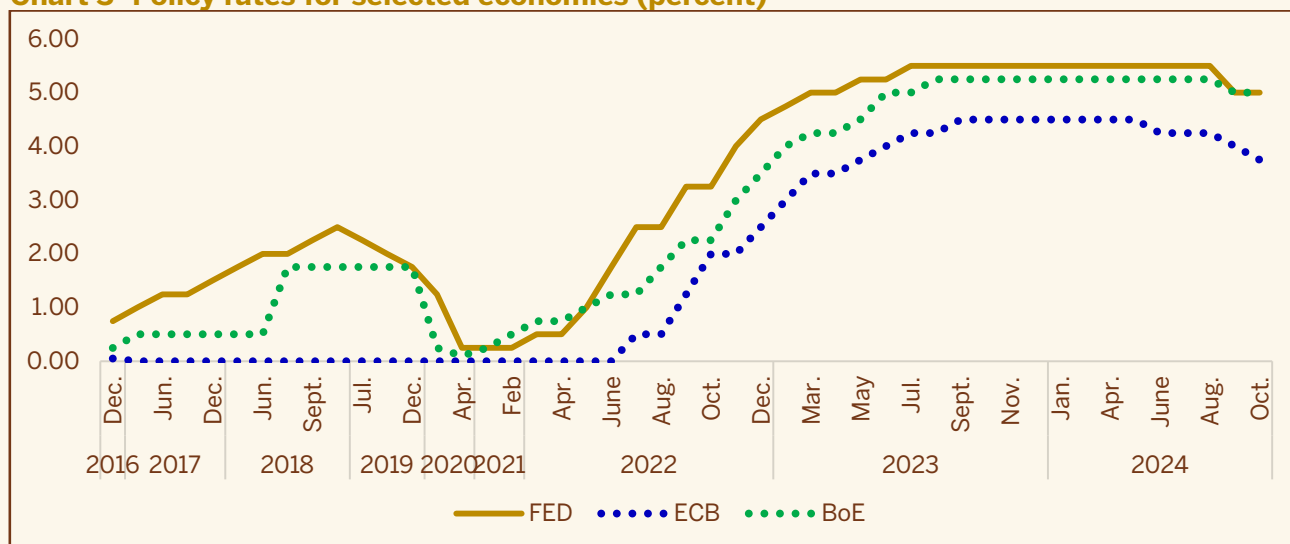
Source: Country Bureau of statistics

Global monetary conditions are loosening in response to reduced inflation risks.

In line with the projected decline in inflation, central banks have begun cutting policy rates. The policy rates of major central banks declined in the second half of 2024, with further reductions expected, although the pace of normalization varies according to inflationary conditions in each

economy. In September 2024, the US Federal Reserve lowered its target interest rate for the first time, setting the range to 4.75-5.0 percent. The Bank of England maintained its bank rate at 5.0 percent in September after a rate cut in August 2024, while the European Central Bank reduced its three key interest rates to 3.75 percent in October 2024, following an initial 25-basis-point cut in June. The ECB was the first major central bank to reduce rates in 2024.

Chart 3- Policy rates for selected economies (percent)



Source: Central Bank Websites

The global economic outlook for 2024 is anticipated to have several effects on Rwanda's economy.

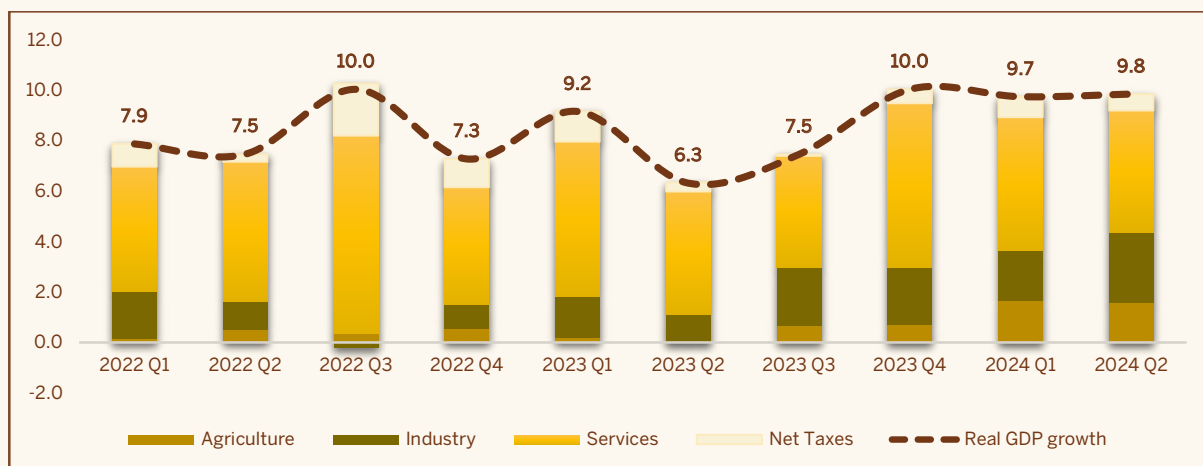
- **Energy Imports:** The World Bank's October 2024 Commodity Markets Outlook projects declines in crude oil and natural gas prices for 2024 and 2025. This trend is expected to put less pressure on Rwanda's oil and gas imports, easing pressure on the FX market.
- **Export Earnings:** Anticipated increases in the prices of agricultural commodities such as coffee and tea, along with minerals like tin, are likely to boost Rwanda's export revenues. This improvement could help slow down the trade deficit's growth.

These developments underscore the interconnectedness of Rwanda's economy with global markets, highlighting both opportunities and challenges in the near term.

II.2. Domestic economic performance and labour market

Rwanda's economy continued to experience robust growth, with real GDP expanding by 9.8 percent year-over-year in the second quarter of 2024.

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



Source: National Institute of Statistics of Rwanda

The services sector grew by 9.6 percent, driven by strong performances in trade services (+8.9 percent), transport services (+8.8 percent), information and communication (+33.1 percent), and hotels and restaurants (+20.1 percent). The remarkable growth in information and communication was largely fueled by rising demand for telecommunications services, as evidenced by increased voice traffic (+31.7 percent in Q2 2024 compared to +17.7 percent in Q2 2023) and a significant rise in internet subscriptions (+16.3 percent in Q2 2024 versus +10.4 percent in Q2 2023).

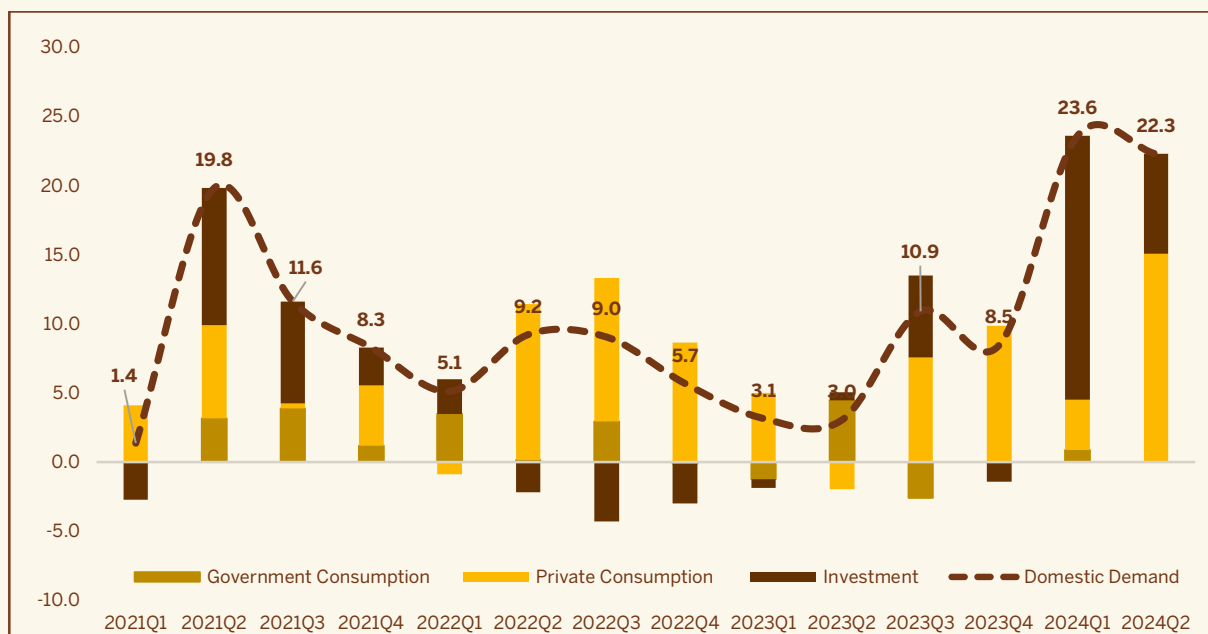
The industry sector recorded the highest growth rate among all sectors at 15.4 percent, supported by strong activity in the manufacturing subsector (+17.0 percent) and the construction subsector (+18.0 percent). Growth in construction was bolstered by ongoing projects, including model villages, roads, hospitals, and commercial buildings.

The agriculture sector expanded by 7.0 percent, driven primarily by an 8.5 percent increase in food crop production following a bumper harvest in the 2024 agricultural season A. This strong agricultural performance was supported by favorable weather conditions, a government initiative promoting full utilization of arable land, and the increased availability and affordability of fertilizers through the Smart Nkunganire program.

The domestic demand was driven by investment and private consumption.

Rwanda's domestic demand surged in the second quarter of 2024, recording a notable 22.3 percent growth. This increase was primarily driven by private consumption, which grew by 24.9 percent, while government consumption remained stable. Altogether, total final consumption increased by 19.2 percent during this period.

Chart 5: Domestic Demand (Percentage change)



Source: National Institute of Statistics of Rwanda

Total investment in Rwanda rose sharply by 33.9 percent in 2024Q2, with fixed investment growing by 16.8 percent, linked to ongoing construction projects.

Unemployment declined primarily due to significant growth in job opportunities within the industrial sector.

In the third quarter of 2024, Rwanda's labor market showed strong performance, with the unemployment rate decreasing to 15.3 percent from 16.8 percent in 2024Q2 and 18.0 percent in 2023Q3 amid rising labor force participation and significant employment gains. The working-age population reached 8,333,134, marking a 2.9 percent increase year-over-year. The labor force participation rate improved to 64.1 percent, a 1.5 percentage point increase from the previous quarter and a 4.2 percentage point rise from 2023Q3.

Table 1: Labour market indicators (percentage)

	2023	2023	2023	2023	2024	2024	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Unemployment Rate	17.2	16.8	18.0	16.8	12.9	16.8	15.3
Labour Force Participation Rate	57.6	59.5	59.8	60.0	61.0	62.5	64.1
Employment %QoQ							
Total	6.5	4.7	-0.3	2.6	7.1	-1.4	5.1
Agriculture	8.9	-0.5	-15.2	26.9	8.8	-17.4	-12.8
Industry	-7.2	17.4	31.6	-31.9	2.1	20.6	38.4
manufacturing	13.3	12.5	12.3	-14.8	-4.2	19.0	30.2
Construction	-12.2	23.5	46.1	-45.1	6.1	17.9	56.0
Services sector	10.7	6.4	2.3	-2.1	8.2	11.2	9.7
Trade services	30.7	8.6	1.8	-9.8	2.9	18.1	14.7
Transport	-3.3	25.2	4.5	-24.4	35.4	6.8	12.3
Hotels and Restaurants	17.5	4.8	3.9	17.8	-4.5	24.6	1.5

Source: National Institute of Statistics of Rwanda

Employment rose in both the services and industry sectors. In the industry sector, growth was primarily driven by manufacturing and construction, linked to ongoing projects throughout the third quarter of 2024. In the services sector, labor demand was largely fuelled by trade services, transport administration and support, and education services.

Robust economic performance continued in the third quarter of 2024.

In the third quarter of 2024, the Composite Index of Economic Activities (CIEA) indicated sustained expansion in aggregate demand. Economic activity continued to increase steadily, evidenced by the growth in imports and exports and rising turnovers in the services and industry sectors. This growth was supported by ongoing financing from the banking sector, with credit to the private sector growing by 18.9 percent year-over-year by the end of September 2024.

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

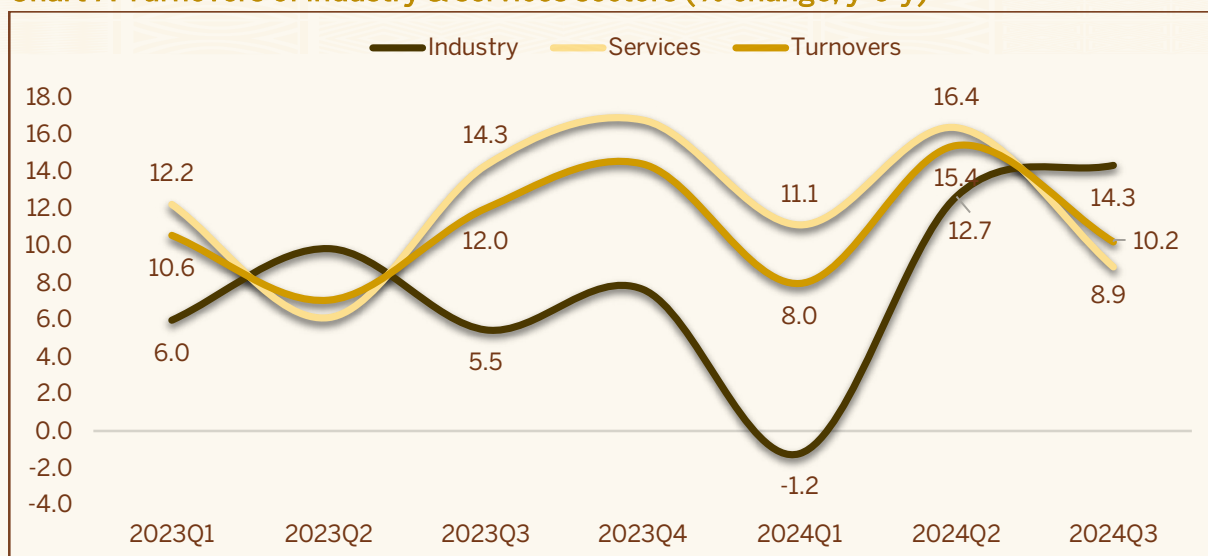


Source: National Bank of Rwanda

Total turnover in the services and industry sectors rose by 10.2 percent in 2024Q3, primarily driven by an 8.9 percent increase in the services sector, which accounted for 74 percent of the combined turnover of both sectors. The strong performance in services was bolstered by thriving trade, transport, hospitality, financial, and information and communication services. The sector's positive outlook is further reflected in the business confidence index, which rose to 62.9 in 2024Q3 from 61.4 in the previous quarter and 58.4 in 2023Q3. This increase indicates a sustained rise in demand for services, improved business conditions, and expectations for continued growth in the near term.

The industry sector also showed strong performance in the third quarter of 2024, with total turnover rising by 14.3 percent. Key drivers of this growth included construction and manufacturing activities. Manufacturing benefited from increased domestic demand, particularly for textiles, printing products, and construction materials, while the construction sector was fueled by ongoing infrastructure projects, evidenced by a 43.3 percent rise in domestic cement demand.

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



Source: National Bank of Rwanda

Overall, while the agriculture sector is expected to show moderate growth, the robust performance in the industry and services sectors suggests that the economy is maintaining strong momentum as it moves through the third and fourth quarters of 2024.

II.3. External sector and exchange rate developments

The Current Account Deficit (CAD) widened to 13.6 percent of GDP in 2024H1, from 10.7 percent in 2023H1.

In the first half of 2024, the CAD rose to 13.6 percent of GDP, primarily driven by an increase in the trade deficit for goods. Despite a 13.3 percent increase in service exports, especially from travel, and a 5.9 percent rise in remittances, these gains were insufficient to offset the goods trade deficit. The CAD was financed through foreign direct investment and government borrowings. By the end of September 2024, reserve coverage remained adequate, covering 4.1 months of prospective imports of goods and services, with projections to reach 4.8 months by December 2024.

Table 2: Balance of payment summary table

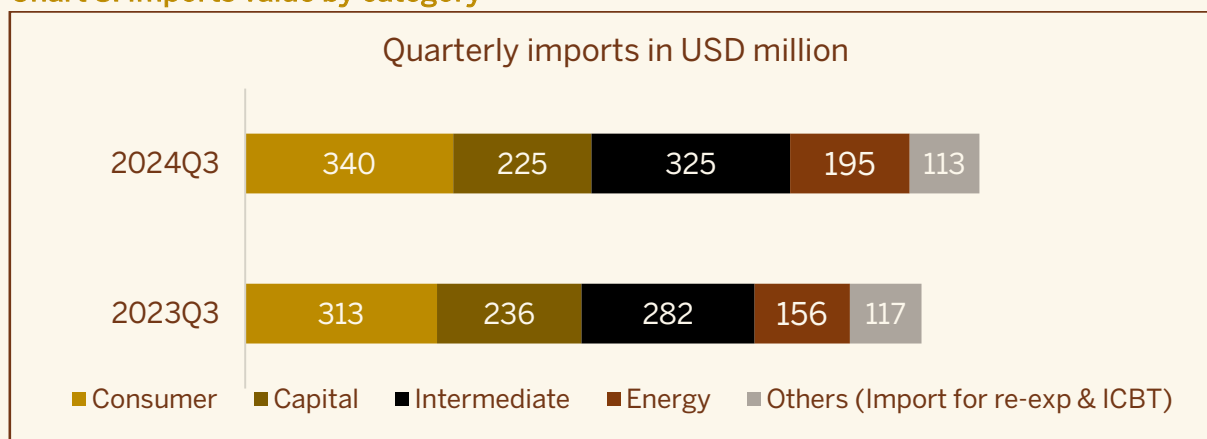
Amount in USD million	2023H1	2023H2	2024H1
Current Account	-758.1	-895.6	-950.1
CAD in % of GDP	-10.7%	-12.4%	-13.6%
Merchandise Trade Balance	-1,098.6	-1,224.4	-1,202.3
Remittances (credit)	246.0	258.7	260.6
Travel (credit)	236.2	327.7	267.6
PKO	64.3	115.7	51.5
Budgetary grants	199.0	82.0	118.7
Capital account	204.7	192.9	209.3
Financial account	-644.0	-673.7	-984.4
Direct investment	117	282	289
Govt. external borrowing	671	455	661
o\w budget loans	471	244	371
o\w project loans	200	211	289
Reserve assets (-increase)	-5.7	-101.3	-115.8

Source: National Bank of Rwanda

Merchandise import growth remains strong in the third quarter of 2024.

In the third quarter of 2024, merchandise imports rose by 8.5 percent, driven mainly by increased imports of processed food items such as rice, cooking oil, and sugar. Intermediate and energy imports grew by 3.7 percent and 25.4 percent, respectively, while capital goods imports declined by 4.5 percent, partly due to reduced electronics imports.

Chart 8: Imports value by category



Source: National Bank of Rwanda

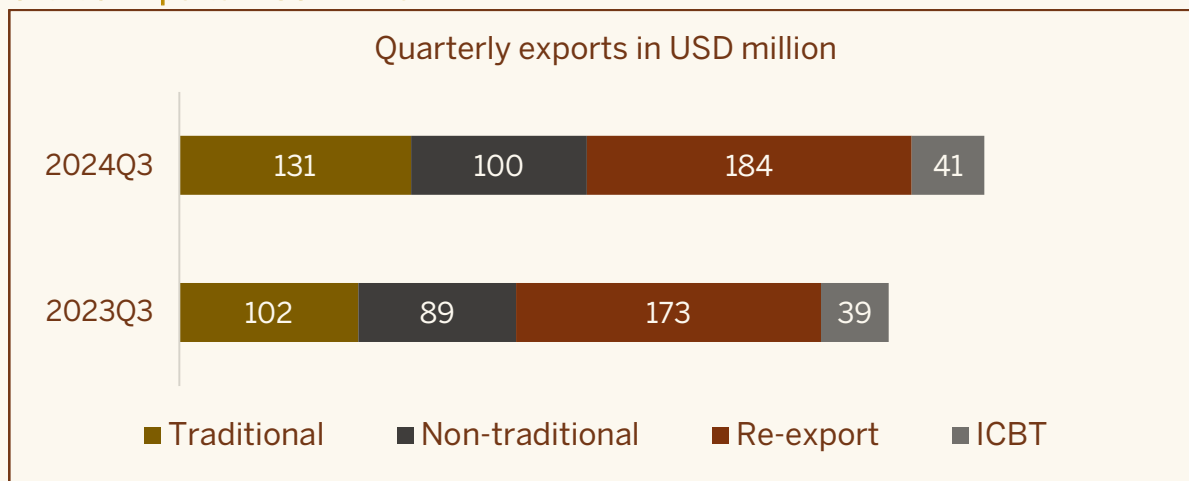
Export growth improved in the third quarter of 2024.

Merchandise exports grew by 13.5 percent in 2024Q3, supported by higher traditional commodity prices and improved manufacturing exports. Traditional exports increased by 29.3 percent compared to the same period in 2023, driven by coffee and minerals. Coffee export

revenues surged by 72.0 percent, while mineral exports rose by 28.0 percent. Non-traditional exports grew by 11.5 percent, reflecting strong regional demand for milling products, cooking oil, and construction materials. Lastly, re-exports increased by 6.6 percent, mainly due to a 37.7 percent rise in fuel re-exports.

As a result, the merchandise trade deficit widened by 5.7 percent in 2024Q3.

Chart 9: Exports in USD million



Source: National Bank of Rwanda

The pressures in the foreign exchange market are lessening.

In 2024Q3, the current account deficit exerted pressure on the Rwandan franc (FRW) exchange rate against major currencies. However, rising remittances and service exports helped to alleviate some of this pressure. By the end of September 2024, the FRW had depreciated by 6.5 percent against the US dollar compared to December 2023, an improvement from the 13.5 percent depreciation recorded in the same period last year. The FRW also depreciated against other major currencies, losing 11.6 percent against the British pound, 7.3 percent against the euro, and 5.7 percent against the Japanese yen, though these rates of depreciation were generally lower than in the previous year, except for the Japanese yen.

Table 3: FRW Exchange rate (in percent change compared to Dec. previous year)

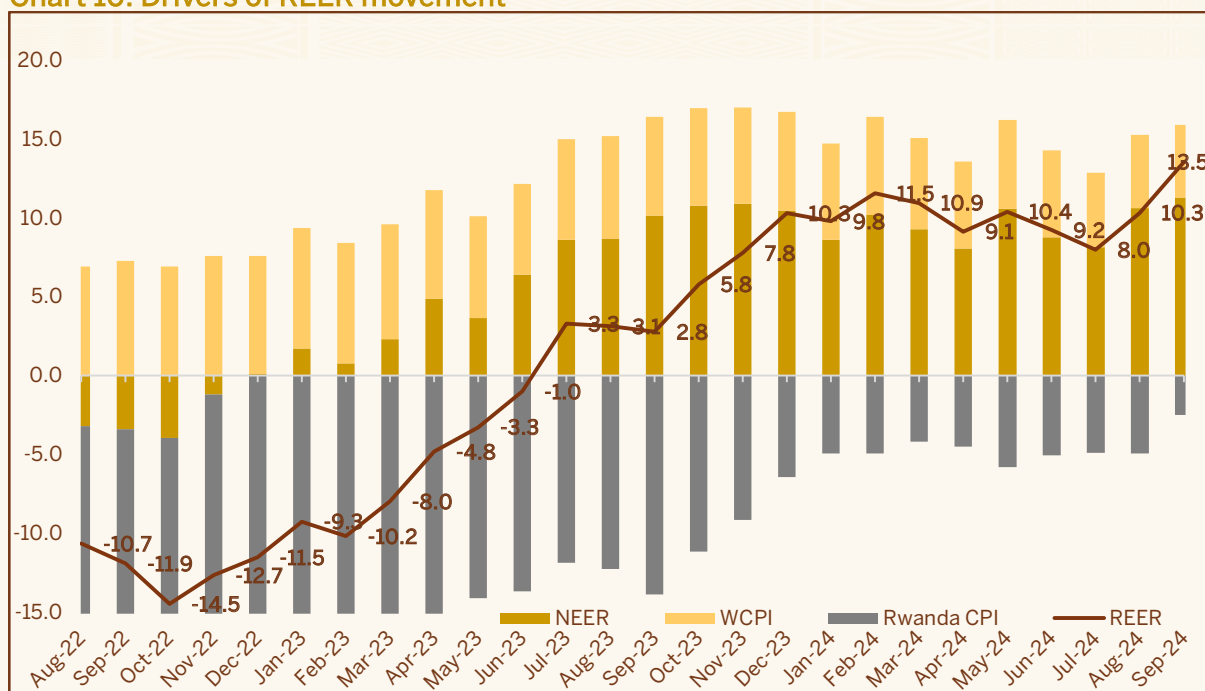
	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGX	FRW/BIF
Dec-19	4.94	8.48	2.81	6.25	4.53	3.73	5.13	-0.24
Dec-20	5.42	9.42	15.71	11.43	-1.34	5.66	7.17	2.53
Dec-21	3.82	2.94	-4.39	-6.96	0.24	4.78	6.85	1.00
Dec-22	6.05	-5.30	-0.04	-7.90	-2.80	4.47	1.17	2.03
Mar-23	3.07	5.97	5.31	-3.86	1.16	2.71	2.65	3.07
Jun-23	8.76	13.90	10.70	-0.40	-4.47	5.01	10.00	-20.20
Sept-23	13.47	15.11	12.54	0.80	-5.46	5.66	11.99	-16.99
Dec-23	18.05	25.07	22.50	10.78	-6.89	9.78	15.86	-14.13
Mar-24	2.08	0.97	-0.23	21.50	-0.62	0.41	1.64	2.08
Jun-24	3.73	2.53	0.13	-9.02	25.61	-0.82	5.70	2.70
Sept-24	6.49	11.63	7.34	5.76	29.20	-1.93	9.11	4.67

Source: National Bank of Rwanda

Relative to regional currencies, the FRW appreciated by 1.93 percent against the Tanzanian shilling, in contrast to a 5.66 percent depreciation in the same period last year. However, the FRW depreciated against the Kenyan shilling (KES), Ugandan shilling, and Burundian franc by 29.2 percent, 9.1 percent, and 4.7 percent, respectively. Last year, the franc had appreciated by 5.5 percent against the KES, appreciated by 17.0 percent against the Burundian franc, and depreciated by 12.0 percent against the Ugandan shilling. This year's greater depreciation against the KES reflects increased foreign exchange inflows into Kenya, monetary policy adjustments, the Kenyan Government's Eurobond buyback, and foreign exchange market reforms. The Ugandan shilling was bolstered by higher inflows from coffee exports, foreign direct investment in oil and gas, and increased tourism receipts.

In nominal effective terms, the FRW depreciated against the weighted basket of currencies from trading partners, losing 11.3 percent year-over-year by the end of September 2024, compared to a 10.1 percent depreciation in September 2023. In real terms, the FRW depreciated by 13.5 percent, up from a 2.8 percent depreciation in the same period last year, due primarily to higher nominal effective depreciation and a sharp decline in domestic inflation.

Chart 10: Drivers of REER movement



Source: National bank of Rwanda

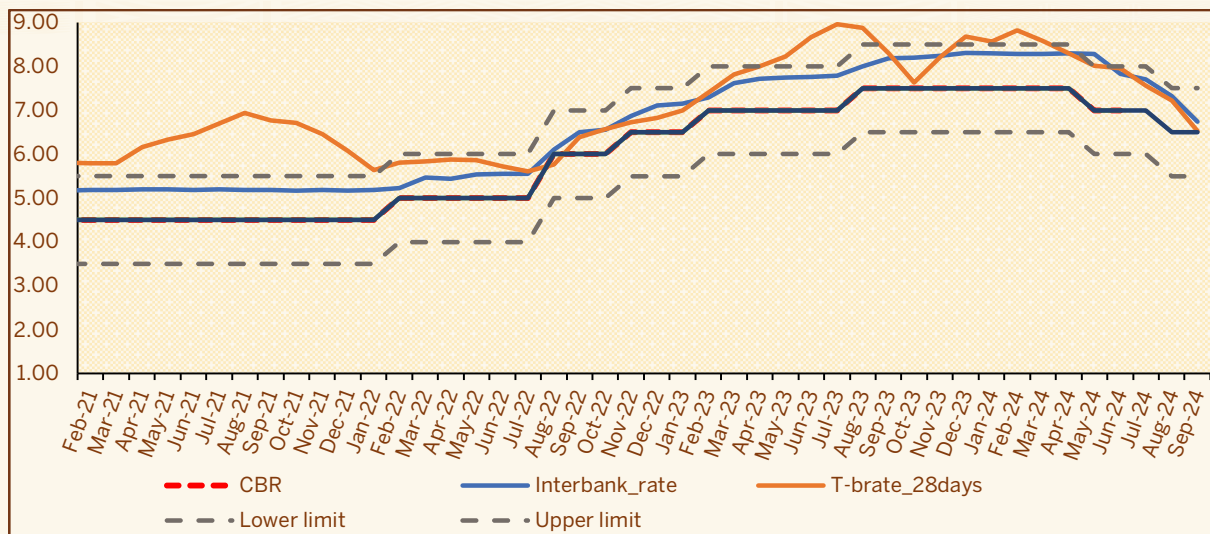
With the depreciation of the real effective exchange rate, domestic products are becoming relatively competitive when compared to foreign goods.

II.4 Domestic credit conditions

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

During its meeting on August 20, 2024, the Monetary Policy Committee (MPC) sustained an accommodative stance by lowering the Central Bank Rate (CBR) to 6.5 percent, based on forecasts indicating stable inflation around 5 percent over the policy horizon. Following this reduction, money market rates aligned with the central bank rate trend, with the interbank rate declining by 73 basis points to an average of 7.26 percent in 2024Q3, down from 7.99 percent in 2023Q3.

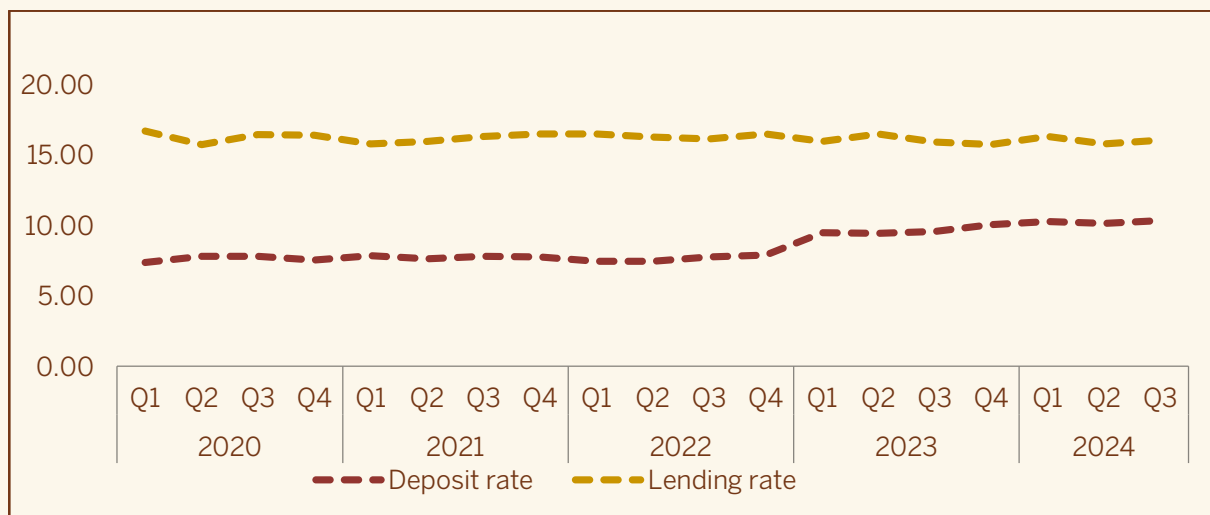
Chart 11: Money market rates developments



Source: National Bank of Rwanda

The average deposit rate rose by 78 basis points to 10.36 percent in 2024Q3, up from 9.58 percent in 2023Q3, reflecting a bigger share of long-term deposits. Similarly, the average lending rate saw a slight increase of 13 basis points to 16.06 percent in 2024Q3, compared to 15.93 percent in 2023Q3, driven largely by a higher proportion of short-term loans, which tend to carry higher interest rates.

Chart 12: Market interest rates (percent average)



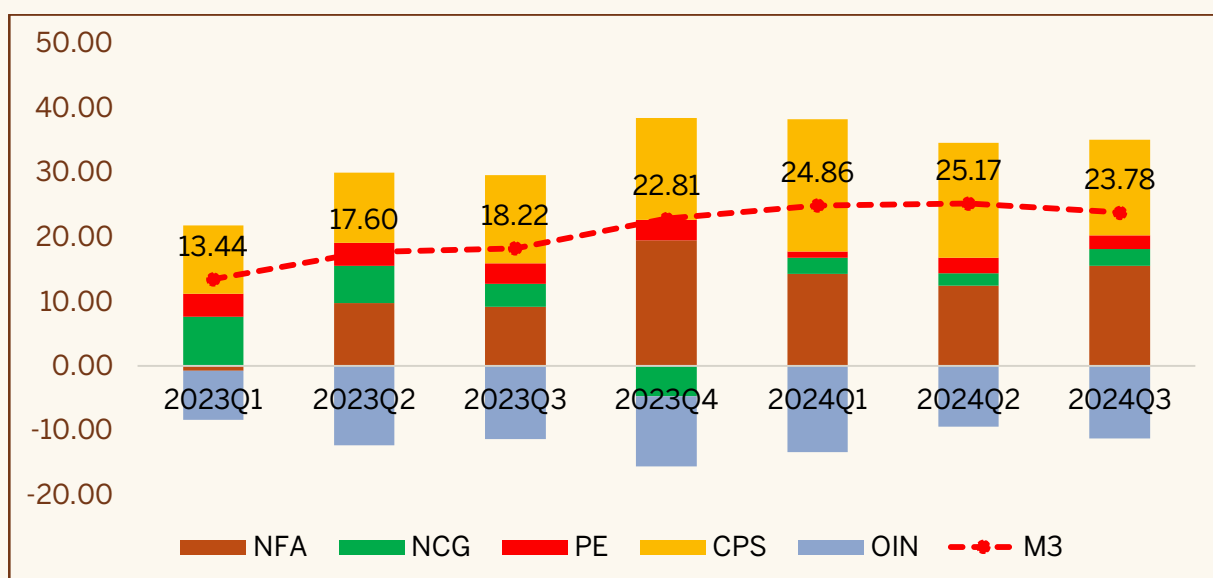
Source: National Bank of Rwanda

Broad money (M3) continued to increase, driven by growth in Net Foreign Assets (NFA) and Credit to the Private Sector (CPS).

As of September 2024, M3 had increased by 23.78 percent year-over-year, compared to 18.22 percent growth during the same period in 2023. This expansion was primarily driven by credit to the private sector, which accounted for 14.84 percent of the growth, and NFA, which contributed 15.51 percent.

CPS growth was bolstered by an increase in New Authorized Loans (NALs), leading to an 18.60 percent increase in outstanding CPS by the end of September 2024, surpassing the 17.01 percent growth recorded in 2023. NFA also grew substantially, with a 36.77 percent rise by September 2024, compared to a 22.36 percent increase the previous year. This growth in NFA was primarily driven by an increase in foreign currency deposits from households and non-financial corporations, largely reflecting a rise in remittances, among other factors.

Chart 13: Contributions to M3 growth



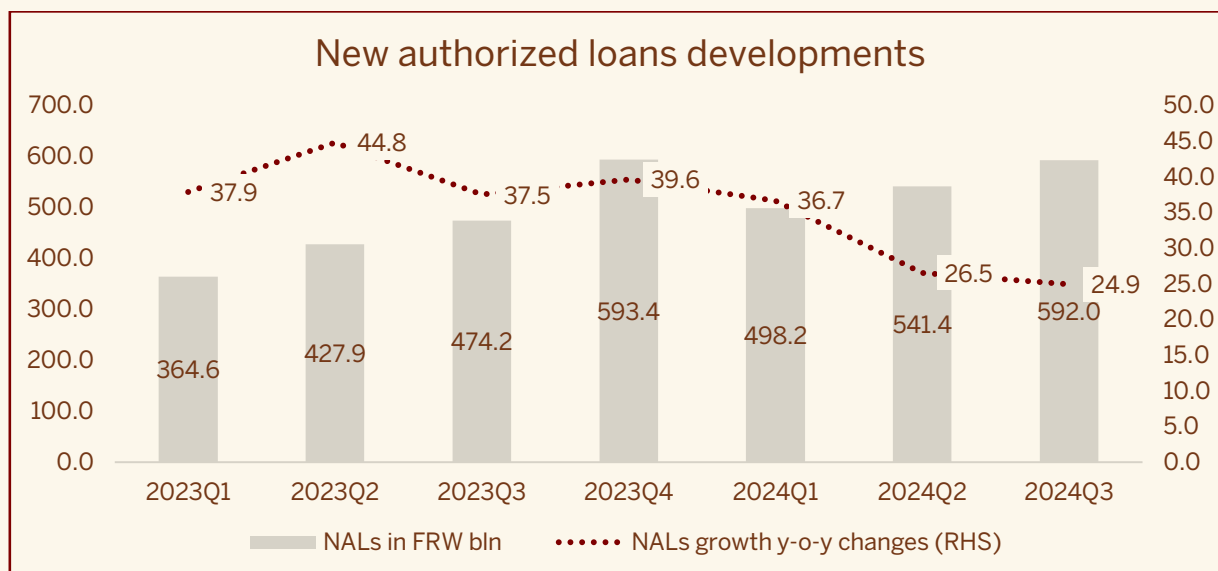
Source: National Bank of Rwanda

New Authorized Loans (NALs) grew by 24.9 percent in 2024Q3, lower than the 37.5 percent growth recorded in 2023Q3. This increase in loans was largely attributed to sustained economic performance throughout the year. The top five sectors receiving most of the financing—accounting for 83.9 percent of total NALs in 2024Q3, were as follows:

- Activities of Households as Employers (25.8 percent of total NALs),
- Wholesale & Retail Trade, Repair of Motor Vehicles & Motorcycles (23.0 percent),
- Construction (17.5 percent),
- Manufacturing (9.3 percent),
- Real Estate (8.4 percent).

Short-term loans continued to dominate in terms of loan maturity, accounting for 48.6 percent of total loans authorized in 2024Q3. Long-term loans accounted for 37.8 percent, and medium-term loans made up 13.6 percent. This distribution reflects ongoing demand for working capital, particularly from businesses in the Wholesale & Retail Trade, Repair of Motor Vehicles & Motorcycles, and Manufacturing sectors.

Chart 14: New Authorized Loans Developments ²



Source: National Bank of Rwanda

II.5 Prices developments

Headline inflation decreased in 2024Q3, reflecting the drop in core and fresh food inflation, albeit an increase in energy inflation.

In 2024Q3, headline inflation (year-over-year) decreased to 4.1 percent from 5.1 percent in the previous quarter, largely due to declines in core and fresh food inflation, despite a rise in energy inflation. Core inflation dropped to 5.3 percent from 6.4 percent, and fresh food inflation declined to 0.2 percent from 1.6 percent, which helped offset an increase in energy inflation to 5.0 percent from 4.6 percent. The decrease in core inflation was mainly driven by a reduction in core food inflation (to -1.6 percent from 5.3 percent), which offset the increase observed in core housing inflation (to 4.3 percent from 2.1 percent) and education inflation (to 4.4 percent from 1.6 percent). Fresh food inflation eased primarily due to the base effect of higher vegetable prices recorded in the same period last year, along with good supply levels. Conversely, energy inflation rose due to an increase in solid fuels inflation.

² Three former microfinance banks that transitioned from the banking sector to microfinance institutions have been excluded.

Chart 15: Developments in headline inflation

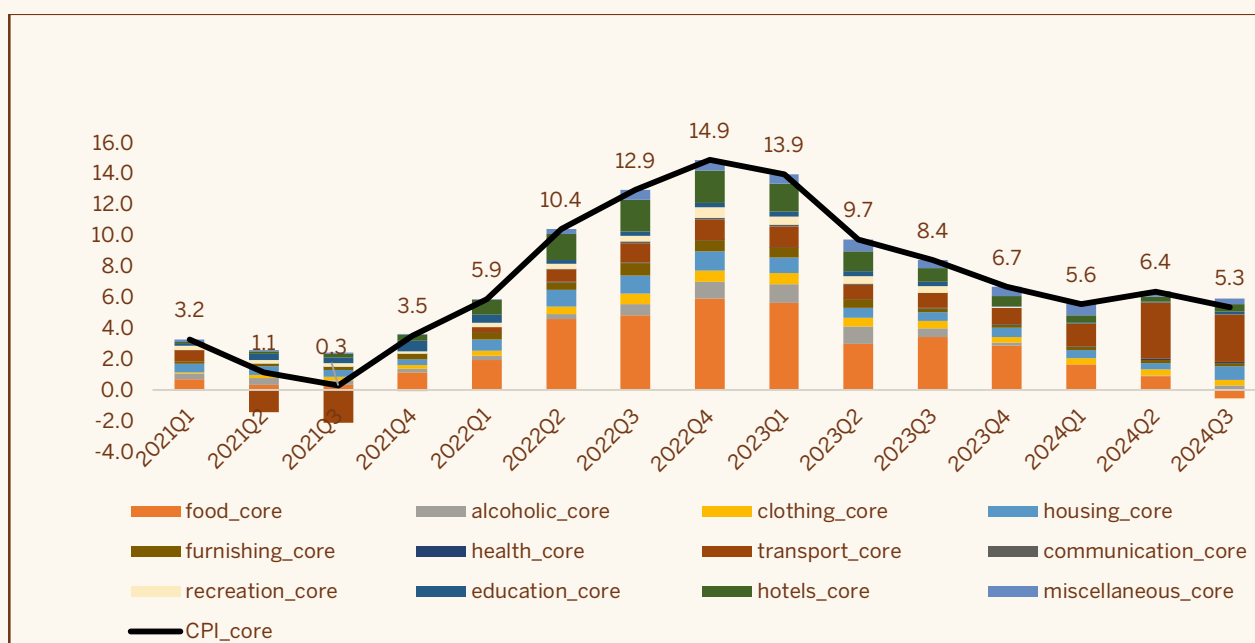


Source: National Bank of Rwanda

Core inflation declined due to reduced core food prices, which offset the upward pressures from core housing and education costs.

The decrease observed in core inflation (year-over-year) stems from eased pressure in core food (to -1.6 percent from 5.3 percent), which offset the increase observed in core housing inflation (to 4.3 percent from 2.1 percent) and education inflation (to 4.4 percent from 1.6 percent).

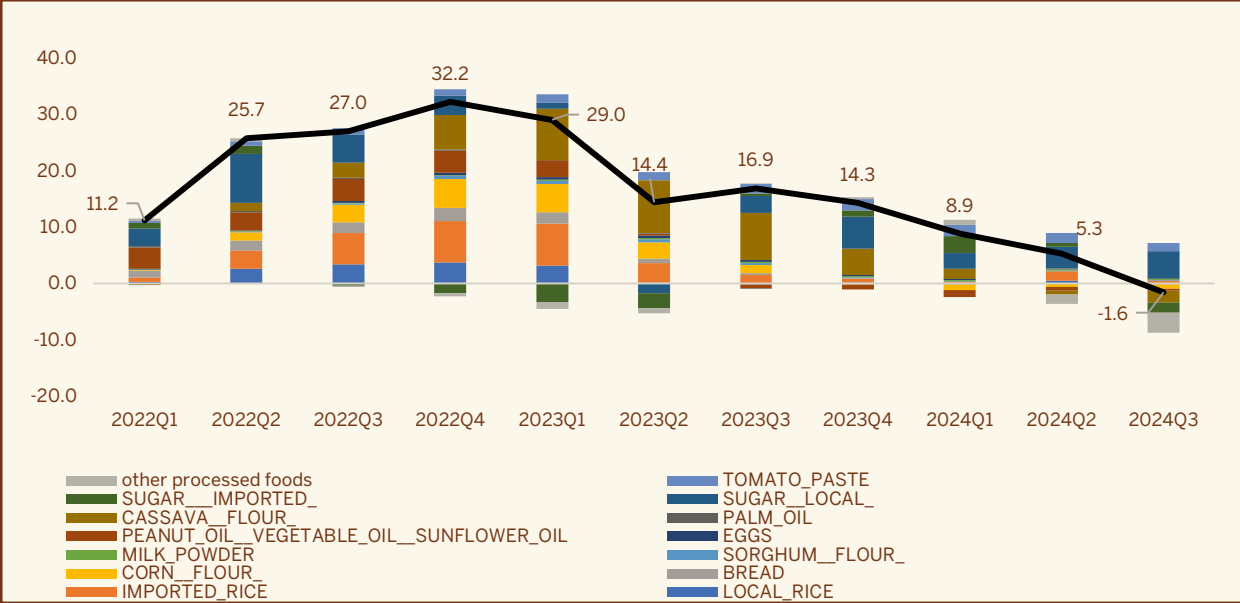
Chart 16: Contributors to core inflation (y-o-y, Percentage change).



Source: National Bank of Rwanda

The decrease in core food inflation reflects falling prices for processed food items such as sugar, rice, cassava, and corn flour, which aligns with the improved supply from global and domestic markets. The rise in core housing inflation is attributed to rising maintenance costs for housing materials, while the rise in education inflation reflects higher school and registration fees.

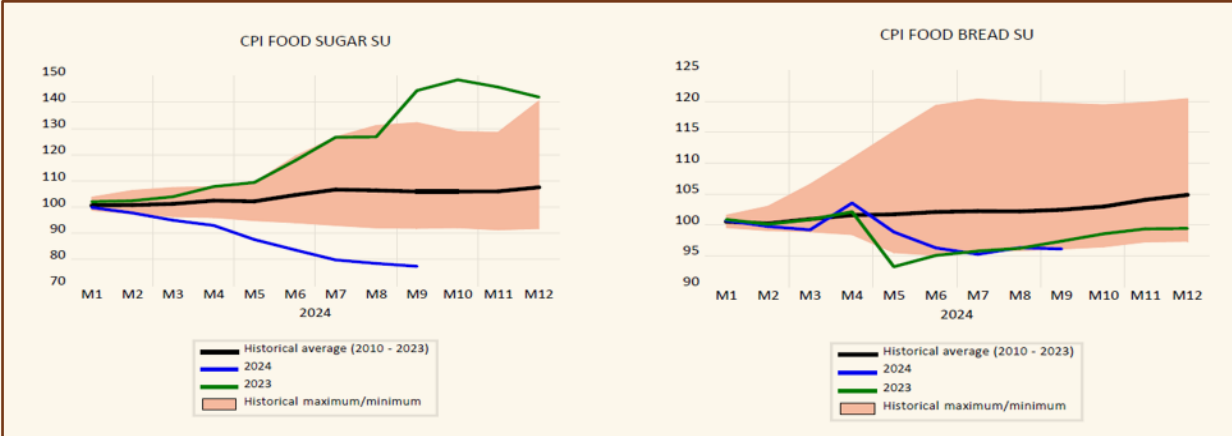
Chart 17: Contributors to core food inflation (y-o-y, Percentage change).



Source: National Bank of Rwanda

Core food items, including sugar, bread, and cereals, are now priced below last year’s levels and historical averages due to reduced inflationary pressures from both international and domestic markets.

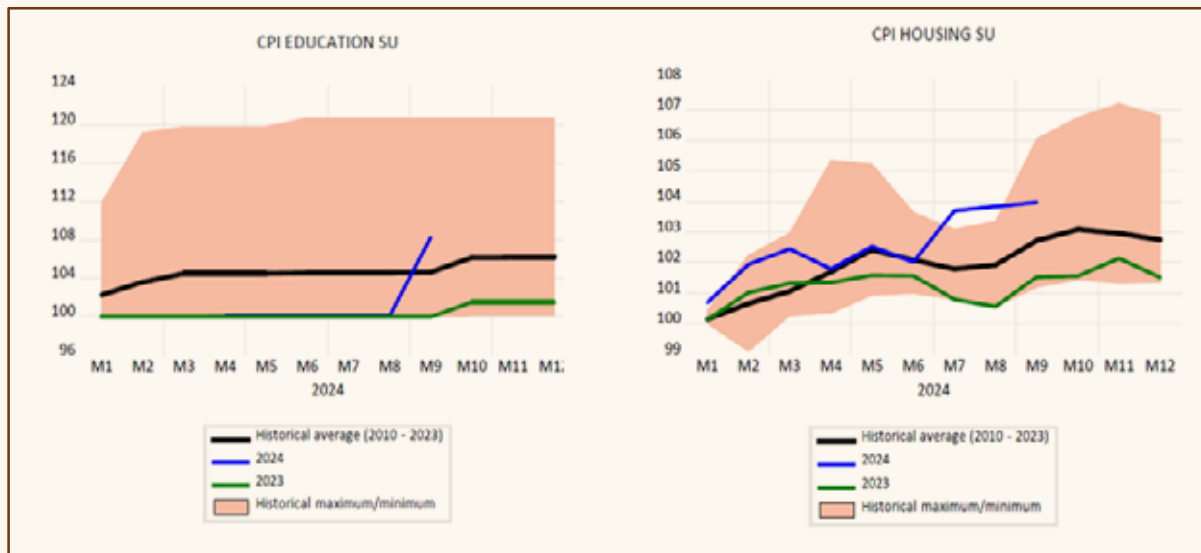
Chart 18: Evolution in some core food components



Source: National Bank of Rwanda

In 2024Q3, core housing prices remained above last year's levels and the historical average, primarily due to increased maintenance costs. Education costs also rose, reflecting the upward adjustment in annual school and registration fees.

Chart 19: Other core components inflation indicated an increase.

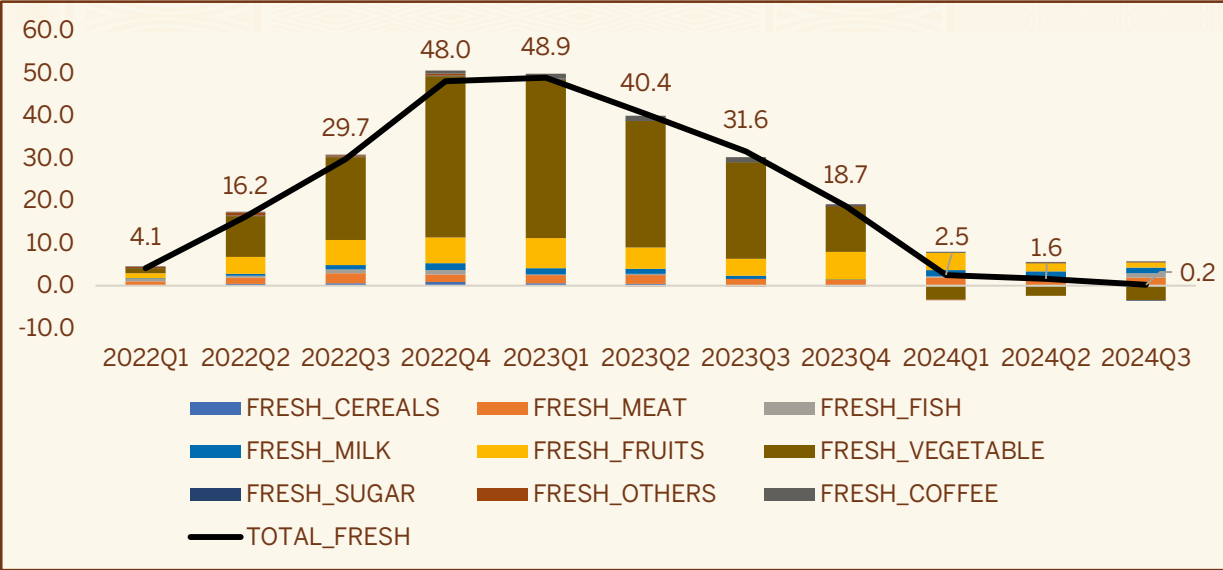


Source: National Bank of Rwanda

In 2024Q3, fresh food inflation (year-over-year) slowed down, mainly due to base effects from vegetables and a moderation in fresh fruit prices.

The drop in fresh food inflation in 2024Q3 resulted mainly from decelerations noted in fresh vegetables (to -7.3 percent from -4.4 percent) and fresh fruits inflation (to 6.4 percent from 9.6 percent). The observed deceleration in fresh vegetable inflation can be attributed to the base effect of higher prices recorded last year, coupled with the eased inflationary pressures observed in some vegetable prices, such as sweet potatoes, cassava roots, carrots, and onions, which were abundant due to their harvest. Similarly, the decline in fresh fruit inflation was driven by an increased supply of certain fruits, such as bananas, avocados, and pineapples, aligning with their harvesting season.

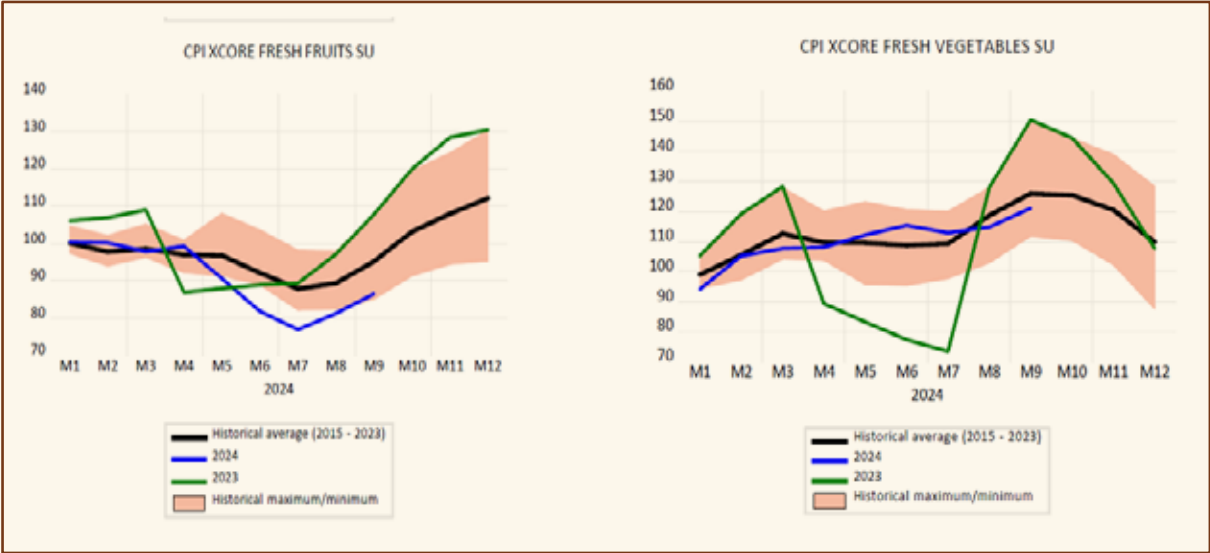
Chart 20: Contributors to fresh foods inflation (y-o-y)



Source: National Bank of Rwanda

Compared to historical performance, price indices for fresh fruits and vegetables were below last year's trends and historical averages, reflecting recent improvements in agricultural production.

Chart 21: Evolution in some fresh food components

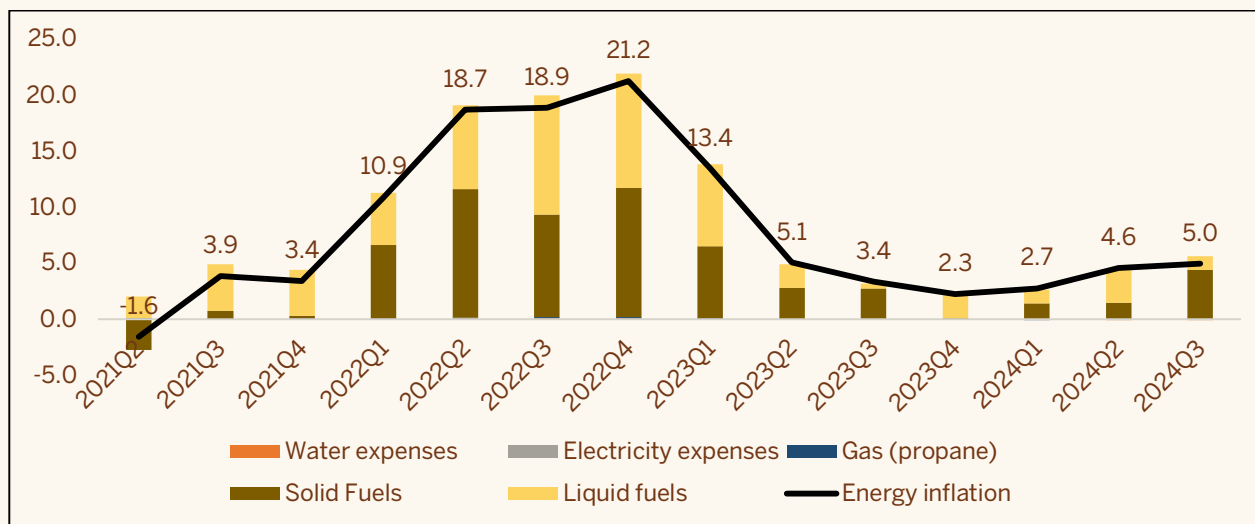


Source: National Bank of Rwanda

Energy inflation (y-o-y) rose in 2024Q3, primarily driven by an increase in solid fuel inflation.

In 2024Q3, energy inflation (year-over-year) rose, primarily due to an increase in solid fuel inflation to 6.3 percent from 2.8 percent, offsetting a decrease in liquid fuel inflation (to 4.9 percent from 12.3 percent). The rise in solid fuel inflation reflects a base effect of lower prices recorded in the same period last year, while the decline in liquid fuel inflation reflects the downward revision of local pump prices, effective August 7, 2024, aligned with global oil price trends.

Chart 22: Contributors to energy inflation (y-o-y)



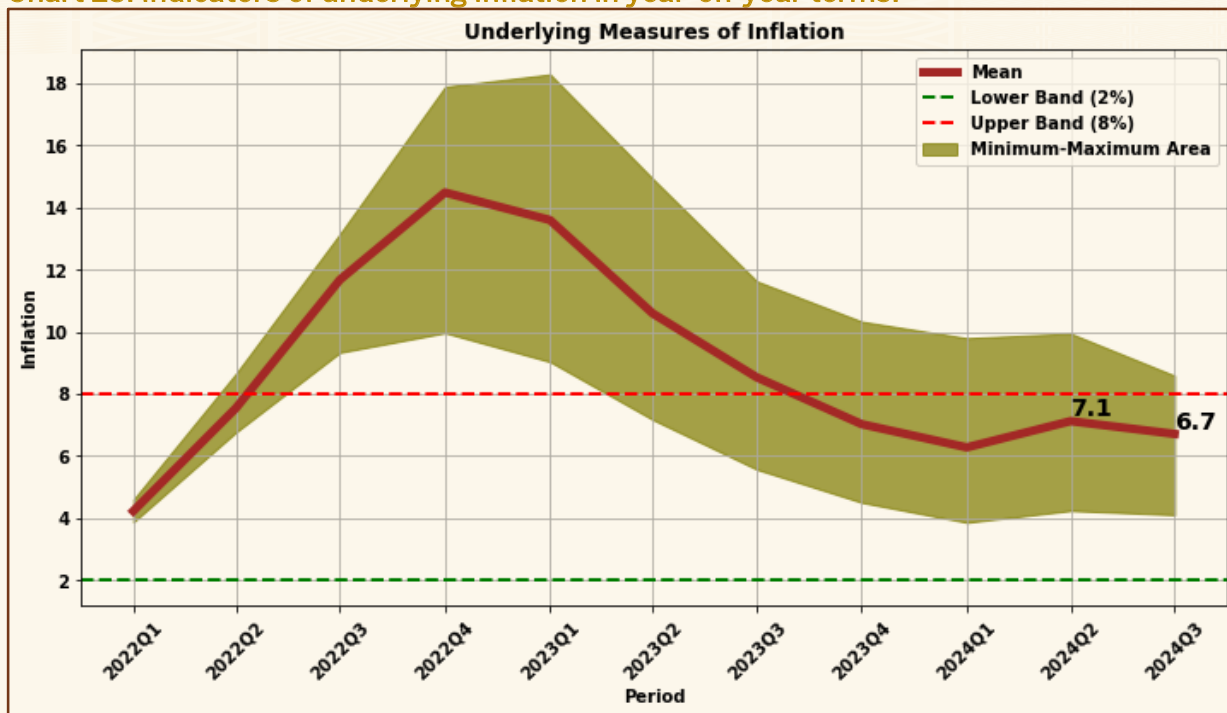
Source: National Bank of Rwanda

The underlying measures of inflation indicate a decrease in inflation.

In 2024Q3, the mean³ of the underlying measures of inflation decreased to 6.7 percent in 2024Q3 from 7.1 percent in 2024Q2, mainly reflecting the reduction in core food inflation owing to eased global and domestic food prices. Core inflation, excluding foods and beverages, slightly increased to 7.5 percent in 2024Q3 from 7.3 percent in the previous quarter, reflecting an increase in education and core housing inflation. In contrast, in 2024Q3, the CPI trimmed mean, which excludes volatile components, decelerated to 4.1 percent from 4.2 percent, indicating that core inflation remains below 5.0 percent, partly due to previous monetary policy measures.

³ Mean here refers to the average of 3 underlying measures of inflation, namely, trimmed mean, CPI common and CPI core excluding food, beverages and energy.

Chart 23: Indicators of underlying inflation in year-on-year terms.



Source: National Bank of Rwanda

III. INFLATION OUTLOOK

III.1. Forecast assumptions.

The global economy is expected to evolve close to potential, limiting the stimulus to the domestic economy, over the medium term.

The October 2024 WEO projections reflect downward revisions in the regional outlooks for Sub-Saharan Africa, Middle East, and Central Asia regional outlooks, due to production cuts and shipping hindrances caused by ongoing conflicts in these regions. Compared to the July 2024 WEO update, growth in advanced economies was revised slightly upwards, supported by slightly stronger-than-expected growth in the United States, offsetting slightly weaker-than-expected growth in the Euro Area. In the United States, stronger-than-expected growth reflects expected increases in consumption and investment, while weaker-than-expected growth in the Euro Area reflects persistent weakening in the manufacturing sector. Consequently, the expected stability in global economic growth implies muted additional stimulus on the domestic economy.

Global inflation is expected to decline but evolve slightly above central bank target levels.

The IMF's October 2024 WEO update projects global inflation to decrease to 5.8% in 2024, with further improvement to 4.3% in 2025, down from 6.7% in 2023. The global inflation forecasts for 2024 and 2025 have been revised compared to the July 2024 WEO update. In the United States, inflation was revised downward due to a noted increase in labor supply that is expected to cool-off the labor market coupled with faster-than-expected decline in energy prices. In the Euro Area, the downward revision of expected inflation reflects a reduced passthrough of energy price pressures and the lagged effects of previous monetary policy tightening decisions. Inflation in both advanced economies and EMDEs is expected to gradually decline in 2024 and 2025, although remaining slightly above central bank targets. The projected decline in global inflation in 2024 and 2025 is attributed to the following factors:

- **Normalization of supply chains:** The normalization of supply chains is expected to help ease commodity prices, reflecting the unwinding of earlier shocks triggered by geopolitical tensions, including the war in Ukraine, and Red Sea trade disruptions.
- **Improvements in labor supply:** Improvements in labor markets, often linked to migration flows, are expected to contribute to disinflation without causing a major slowdown in growth in advanced economies. Consequently, over the policy horizon, global inflation is expected to ease, gradually and unevenly across regions, implying moderate impact on the domestic economy.

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

Over the policy horizon, food prices are projected to trend downwards in 2024 and 2025, driven by an anticipated improvement in supply conditions supported by favorable weather conditions. The expected reduction in global food prices is likely to contribute towards global disinflation, curbing pressures on imported food inflation.

Like food prices, international oil prices will follow a downward trend, exerting less pressure on imported inflation.

International crude oil prices are projected to remain high in 2024 before declining in 2025. This decrease is primarily driven by the fading impact of OPEC oil production cuts observed in the second quarter of 2024, and improved supply from non-OPEC countries, coupled with a slowdown in global demand, mainly from China. However, crude oil prices are expected to be lower in 2024 compared to 2023, with further declines anticipated in 2025, assuming steady supply from non-OPEC producers and no escalation of ongoing armed conflicts. Consequently, this expected decline in global oil prices will lead to less pressure on imported inflation.

III.2. Projections of the key macroeconomic indicators

The November 2024 inflation projections are shaped predominantly by anticipated slowdowns in domestic production costs, which are expected to remain non-inflationary throughout the policy horizon. Core inflation is expected to increase in 2024Q4 before decelerating over the policy horizon. Conversely, imported costs are projected to exert upward pressures on core inflation before easing after 2025Q3.

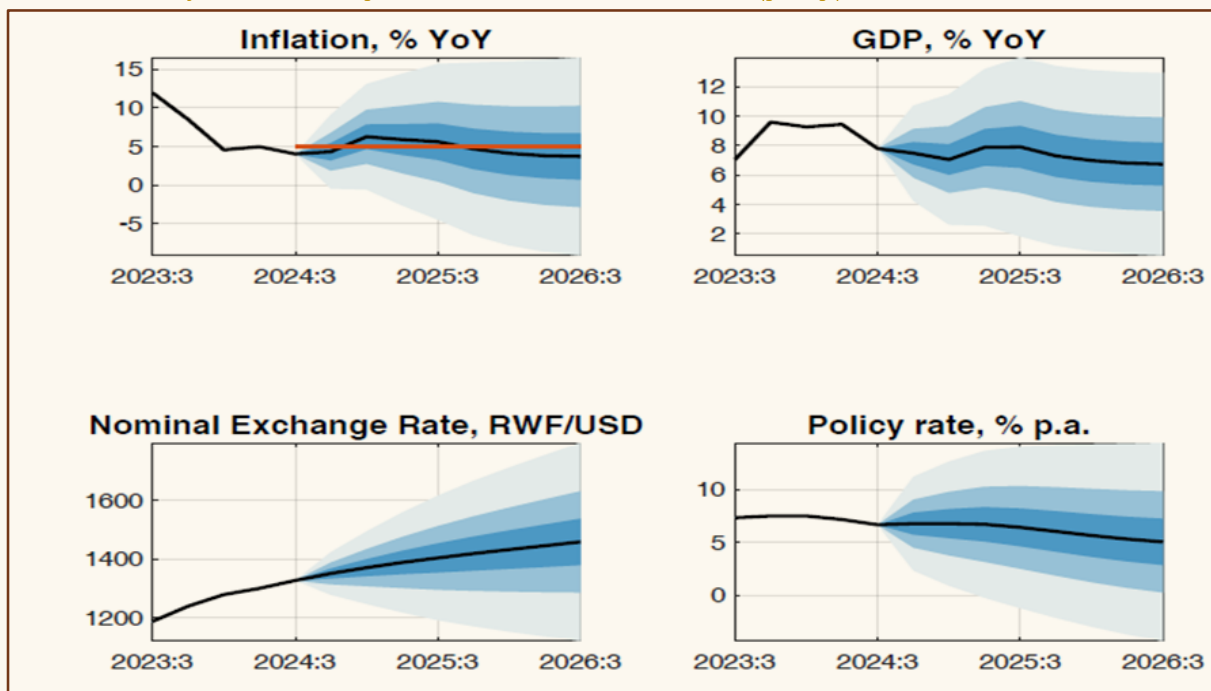
Energy inflation pressures are expected to remain elevated only in 2024, because of international oil prices. However, pressures are expected to stabilize towards the end of 2025 in line with trends expected in both domestic and global economies. On the other hand, pressures on food inflation are expected to remain moderate, reflecting the patterns in agriculture normalization that is likely to be affected by weather conditions challenges that happened over the planting periods, coupled with the projected path in global food prices.

Consistent with projections from the recent Monetary Policy Committee meetings, the projections for November 2024 indicate that headline inflation is expected to align with the medium-term target of 5.0 percent as well as the inflation benchmark bounds of 2.0 percent to 8.0 percent. These projections reflect recent domestic economic developments, external

assumptions (global economy, foreign inflation and global commodity prices), and other macroeconomic variables. Consequently, headline inflation is projected to stand at 4.6 percent and 5.8 percent, in 2024 and 2025, respectively.

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

Chart 24: Projections of key macroeconomic Indicators (y-o-y)





Source: National Bank of Rwanda



Risks to the baseline projections

Current projections highlight potential risks from both domestic and external factors. Internationally, the ongoing conflict between Russia and Ukraine and geopolitical tensions in the Middle East may disrupt global supply chains for key commodities, potentially leading to higher energy prices and increased costs for imported goods.



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