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The Governor

PRESS RELEASE

The National Bank of Rwanda cuts the Central Bank Rate (CBR) by 50 basis points

The quarterly Monetary Policy Committee (MPC) meeting convened on May 6, 2019 to review the outcome of its previous decisions, recent economic developments and outlook. After assessment, the Committee observed that domestic demand continued to improve in 2019Q1 supported by growing credit to the private sector. With regard to the low inflation environment, the MPC decided to cut the Central Bank Rate (CBR) by 50 basis points (from 5.5 percent to 5.0 percent), to sustain growing domestic demand.

Inflation picked up in 2019Q1 but remained low

Annual headline inflation increased to 1.0 percent in 2019Q1 (from 0.2 percent in 2018Q4), following an easing food deflation, that outweighed a drop in energy inflation. The low level of inflation experienced since 2018 originates from good performance in the agriculture sector. Core inflation slightly picked up, to 1.6 percent in 2019Q1 from 1.4 percent in 2018Q4. The improvement in domestic demand supported by the new monetary policy stance will drive inflation towards 3.0 percent in 2019, from 1.4 percent recorded in 2018.

Credit to private sector continues to grow

Outstanding credit to private sector and new authorized loans increased at a higher pace, growing at 16.2 percent and 24.9 percent in 2019Q1, respectively, from 7.3 percent and -7.4 percent recorded in 2018Q1. The trend is expected to continue throughout 2019, supported by the more accommodative policy stance.

Following CBR trend, market rates continue to decrease

In 2019Q1, money market interest rates remained stable, in line with the CBR. Commercial banks' lending rate decreased by 29 basis points, y-o-y, to 16.76 percent on average. The decline in lending rate is partially reflected in the reduction of deposit rates (cost of money) by 69 basis points to 7.15 percent.

Foreign exchange reserves remain adequate

Exchange rate depreciation was moderate in 2019Q1, consistent with initial projection of 5% for the whole year 2019, higher than 4.0% recorded in 2018. The FRW depreciation will slightly increase due to a wider trade deficit. The latter is due to a high import bill coming from ongoing infrastructure projects, and a slowdown of the global economy. However, the foreign exchange market will remain stable, with adequate foreign exchange reserves to serve as a buffer against external shocks.

Good economic performance expected to continue in 2019

Real GDP grew by 8.6 percent in 2018, resulting from the good performance in agriculture (6 percent), service (9 percent) and industry (10 percent) sectors. The composite index of economic activities points to sustained good economic performance in 2019Q1, consistent with the projection of 7.8 percent growth in 2019.

Going forward, aggregate demand in 2019 is expected to improve, supported by a more accommodative monetary policy and increased fiscal stimulus. Global economic performance is projected to slow down, and commodity prices are expected to decline in 2019, with uncertainties around Brexit deal and trade tensions. In line with the domestic and global economic outlook, headline inflation rate is projected to pick up towards 3.0 percent in 2019.

The committee will continue monitoring developments in domestic and global economic conditions and stands ready to take appropriate measures. The next MPC meeting is scheduled in August, 2019.

RWANGOMBWA John
Governor, Chairperson of MPC