



The Governor

PRESS RELEASE

National Bank of Rwanda maintains the Central Bank Rate (CBR) at 4.5 percent.

The statutory quarterly Monetary Policy Committee (MPC) meeting was held on 12th August 2020, to decide on the monetary policy stance. During the meeting, the committee assessed recent economic developments at the global and national level and noted the economic impact of COVID-19, as well as the unfolding effect of previous policy measures, and the outlook.

Considering that inflation is projected to decelerate in the last quarter of 2020, the MPC has decided to maintain an accommodative monetary policy stance, by keeping the Central Bank Rate at 4.5 percent. This decision, along with other policy measures implemented by the government, will support commercial banks to continue financing businesses and households.

Global economic outlook adversely affected by the COVID-19 outbreak:

According to IMF projections in June 2020, global economic growth is projected at - 4.9 percent in 2020, the worst since the Great depression, against 2.9 percent recorded in 2019. Across the world, this outbreak has claimed many lives and has caused major disruptions in supply chains, uncertainties and high volatilities in financial markets, contraction in economic activities, high unemployment rates, and a sharp decline in commodity prices. However, the global economy is expected to recover from this deep recession in 2021.

Domestic economy expected to recover from the negative impact of COVID-19:

The real GDP growth decelerated to 3.6 percent in quarter one of 2020 compared to 6.1 percent recorded in quarter one of 2019. High-frequency indicators point to a negative impact of COVID-19 in the second quarter of 2020. The Composite Index of Economic Activities (CIEA) which is the Central Bank measure that provides an early direction of economic performance, decreased by 8.8 percent in quarter two of 2020 compared to an increase of 16.5% recorded in the same period of 2019. With the opening of more economic activities in the country, supported by several government economic initiatives as well as opening up of other economies across the world, the Rwandan economy is expected to pick up in the second half of 2020. This is evidenced by an upward trend of CIEA, with an increase of 8.4 percent in June.

CBR transmission to market rates continues to improve:

The continuing accommodative monetary policy stance has contributed to a further reduction in market interest rates in the economy. In the first half of 2020, the lending rate reduced to 16.14 percent from 16.64 percent in the same period of 2019, and this is expected to support the economic recovery.

Foreign exchange market remains stable:

The FRW depreciated by 2.3 percent against the USD by end July 2020, slightly lower than 2.6 percent recorded in the same period of 2019. The foreign exchange market is expected to remain stable, with adequate foreign exchange reserves covering 6.3 months of imports as of end July 2020.

Headline inflation projected to reduce from the third quarter of 2020:

In the second quarter of 2020, headline inflation stood at 8.7 percent (year-on-year) from 8.2 percent in quarter one of 2020. The uptick in headline inflation was mainly driven by the upward revision of public transport fares. However, baseline projections of inflation suggest that headline inflation is projected to start reducing gradually to below the NBR benchmark of 5.0 percent in the last quarter of 2020. As a result of the aforementioned increase in transport inflation, the average inflation for 2020 is revised to 6.9 percent, from 6.0 percent projected in April 2020.

Measures to mitigate the economic impact caused by COVID-19:

The measures put in place by the National Bank of Rwanda (NBR) in March 2020, to ease liquidity conditions in the banking sector, yielded immediate impact. FRW 23.4 billion was injected into the system in April 2020, through a reduction of the reserve requirement ratio from 5 percent to 4 percent. A FRW 50 billion lending facility is also available to banks at the Central Bank Rate (CBR). In addition, the Government of Rwanda has put in place an Economic Recovery Fund (ERF) of FRW 101 billion to cushion businesses affected by the COVID-19 pandemic to resume operation and safeguard employment. All these measures have contributed to increasing liquidity in the economy.

The MPC will continue to closely monitor domestic and global economic conditions and stands ready to take appropriate measures if and when necessary.

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RWANGOMBWA John
Governor, Chairperson of the MPC

