



NATIONAL BANK OF RWANDA
BANKI NKURU Y'IGIHUGU

MONETARY POLICY STRATEGY

November, 2022

BNR RESTRICTED

National Bank of Rwanda's Monetary Policy Strategy

The general mission of the National Bank of Rwanda (NBR) is to ensure price stability and a sound financial system. In line with best practices, price stability is the primary and overriding objective of the NBR's monetary policy. As set by the Board of Directors in its strategic plan, the ultimate objective is to keep headline consumer price inflation between 2 and 8 percent, with a focus of keeping inflation close to 5 percent over the medium term. To achieve this target, the NBR's daily operations endeavor to steer the 7-day interbank rate close to the central bank rate set by the Monetary Policy Committee (MPC).

As stipulated in the law N°48/2017 of 23/09/2017 governing the NBR, the MPC is responsible for the formulation of monetary policy. The MPC is comprised of 9 members, namely the Governor as its Chairperson, the Deputy Governor as its Deputy Chairperson, the Chief Economist (with senior management responsibilities for monetary policy formulation), and the Executive Director of Operations (with senior management responsibilities for monetary policy operations). Two external members, appointed by the Board, and the remaining three members are appointed by the governor from senior bank staff. MPC members are appointed based on their expertise in economic and monetary policy matters. The term of office for external members is three years (3), renewable once.

The MPC makes monetary policy decisions four times a year (once every quarter), precisely in February, May, August, and November. In exceptional cases, extraordinary meetings can be convened if deemed necessary. Within 24 hours after every MPC decision, NBR publishes a press release, holds a press conference, and a monetary policy report is published.

Decision-making process

The decision-making process for the quarterly MPC takes six weeks of analysis and projections. During the first week, a schedule for the upcoming monetary policy cycle is announced by the Chief Economist to the forecasting team of NBR. After the announcement, a meeting is held by the forecasting team, to identify any issues that may affect the forecast. In the first two weeks, staff analyze recent economic developments for all sectors and the macro database is updated.

The 1st Pre-MPC meeting is held in the third week, where the staff presents to the MPC members the assessment of recent macroeconomic developments aiming to set initial conditions for forecasts.

The fourth week is consecrated to baseline projections that are model-based and monetary policy report drafting.

The 2nd Pre-MPC meeting is held in the fifth week, to discuss the baseline projections, assess the risks, and agree on alternative scenarios to consider if any. Thereafter, the final version of the forecasts based upon the best judgment of the MPC is produced in parallel with the finalization of the monetary policy report.

The MPC meeting takes place during the sixth week to assess the forecasts of the alternative scenario (in comparison to the baseline) and policy recommendations presented by the staff. The MPC decision is forward-looking, and therefore it is guided by extensive and rigorous macroeconomic forecasts, especially on CPI inflation.

The monetary policy decisions are taken by consensus.

Communication and transparency

Within 24 hours after the MPC meeting, NBR publishes a press release that explains the policy decisions and the Governor hosts a press conference, where he explains the decision and the forecasts. The MPC decision is also reported on various social media platforms, notably Twitter and Instagram.

The final monetary policy report is also published and posted on the NBR website at the same time as the MPC decision.

NBR takes it further, by using various ways of communication such as meeting with the CEOs of commercial banks to discuss the MPC decision and basis of the decision and get feedback from the CEOs on their expectations. The Chief Economist also communicates and explains the MPC decision and its implication to all NBR's staff within two working days, and to treasurers of commercial banks within three working days. TV shows and Twitter space discussions are also done by the Governor or his delegates, throughout the week counting from the day of the MPC meeting.

Later on, the communication department analyses the reaction of the general public to the monetary policy decision and gives feedback to the MPC.

For information on the implementation of the monetary policy decision, follow the link <https://www.bnr.rw/monetary-policy/monetary-policy-implementation/>.

Accountability

Within four months after the closing of each financial year ending in June, the Governor submits the NBR annual activity report to the President of the Republic and to both chambers of the Parliament. After the submission of the annual report and its publication on the NBR's website, parliamentary hearings are also scheduled. Among other things, the report includes the monetary policy decisions of the ended financial year, the outcome, and accounted challenges if any.