



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 held on 11th November 2020 reviewed the outcome of its previous decisions, recent economic developments and the outlook at the global and national level. During the meeting, the Committee observed that the third quarter GDP is projected to reflect the ongoing economic recovery amid eased COVID-19 containment measures. Inflation is projected to ease from the fourth quarter of 2020 onwards, as a result of subdued domestic and global demand, coupled with the downward revision of public transport fares effective October 2020. Based on these prospects, the Committee decided to maintain an accommodative monetary policy stance, by keeping the CBR at 4.5 percent to continue supporting the financing of the economy by the banking sector.

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

According to October 2020 IMF projections, global economic growth is projected at - 4.4 percent in 2020, a less severe contraction compared to June forecasts. The revision was mainly due to the resumption of economic activities in May and June, though the second wave of the pandemic is compelling countries to opt for another lockdown. In 2021, the global economy is expected to recover from this deep recession, with a growth projected at 5.2 percent despite the medium-term downside risks related to containment measures and rising sovereign debt in many countries around the world.

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

Following COVID-19 induced shutdown, real GDP decreased by 12.4 percent in the second quarter of 2020. However, high-frequency indicators point to an improvement in the third quarter of 2020. The Composite Index of Economic Activities (CIEA), a measure that provides an early indication of economic performance, increased by 6.3 percent in quarter three of 2020 compared to a contraction of 9.1 recorded in the second quarter of 2020.

Similarly, total turnovers of industry and services sectors improved, but still below last year's levels. The industry sector turnovers for the third quarter of 2020 grew in line with the increased government demand for construction materials to build schools, roads and health facilities. Though COVID-19 related risks continue to weigh in on the performance of the services sector, the contraction in the sector's turnovers eased in 2020Q3, after a deeper decline recorded in the previous quarter.

CBR transmission to market rates continues to improve:

The continuing NBR accommodative monetary policy stance has contributed to a further reduction in market interest rates in the economy. In the first three quarters of 2020, the average lending rate reduced by 18 basis points year on year to 16.31 percent, which is favorable to continue supporting the economic recovery.

Easy liquidity conditions recorded in the banking sector:

The banking system liquidity remained resilient to the COVID-19 pandemic impact. The increase in liquidity resulted from supportive measures taken by NBR and the Government of Rwanda, amid subdued demand for loans by the private sector during the lockdown. By end September 2020, broad money and outstanding credit to private sector grew by 23.1 percent and 17.4 percent year on year respectively.

Foreign exchange market remains stable:

In the ten months ending October 2020, the FRW depreciated by 4.4 percent against the USD, slightly higher than 4.0 percent recorded in the same period of 2019. The foreign exchange market is expected to remain stable, with adequate foreign exchange reserves covering 5.8 months of imports as of end October 2020.

Headline inflation projected to ease from the fourth quarter of 2020:

Despite receding inflationary pressures from the core and energy CPI components, headline inflation remained above the upper bound of the benchmark band, standing at 9.0 percent in the third quarter of 2020, mainly reflecting the effect of the transport price shock.

Nevertheless, the outcome of the aforementioned easing pressures is expected to unfold in 2020Q4 with a headline CPI inflation revolving around 6 percent. Baseline projections of inflation point to further easing of core inflationary pressures in 2021, resulting from subdued domestic and global demand, coupled with the effect of the removal of transport price shock. As a result, headline inflation is projected to lie below the benchmark of 5 percent in 2021.

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

November 12th, 2020

RWANGOMBWA John
Governor, Chairperson of the MPC

