



*The Governor*

## **PRESS RELEASE**

### **National Bank of Rwanda raises the Central Bank Rate (CBR) by 50 basis points to 5 percent.**

The statutory quarterly Monetary Policy Committee (MPC) meeting held on 15<sup>th</sup> February 2022 reviewed the impact of its previous decisions and assessed recent economic developments at the global, regional and domestic level, as well as the outlook. The analysis indicates that commodity prices are increasing significantly in line with the global economic recovery, , prompting central banks to consider a tightening path of monetary policy to contain inflation. In Rwanda, inflation is projected to be above the NBR inflation benchmark of 5.0 percent in 2022 on average, threatening to exceed the upper bound of 8 percent towards the end of the year. Given the recent economic developments and the outlook at the global and national level, the MPC decided to raise the Central Bank Rate (CBR) by 50 basis points from 4.5 percent to 5.0 percent, to ensure that inflation is contained at an adequate level while continuing to support economic recovery.

### **The global economy continues to recover, with pressures on inflation.**

Economic activities are recovering globally as indicated by the 5.9 percent global GDP growth estimate in 2021 and 4.4 percent projection in 2022, from a contraction of 3.1 percent in 2020. This is backed by policy support across countries and easy financial conditions while vaccine access, mainly in most emerging markets and developing countries, remains the main challenge to the global recovery. However, as the global economy recovers, inflation is increasing due to a supply and demand mismatch. Indeed, global demand is growing faster than supply, prompting central banks to consider a tightening path of monetary policy to contain inflation.

### **Rwandan economy continues to recover from the recession caused by the pandemic.**

In line with the global context, the Rwandan economy is recovering as a result of relevant policy measures and the successful vaccination agenda, which prompted the easing of Covid-19 restrictions. In the first three quarters of 2021, GDP grew by 11.4 percent, with 3.5 percent in 2021Q1, 20.6 percent in 2021Q2 and 10.1 percent in 2021Q3. The high frequency indicators show that the economy sustained this recovery path in 2021Q4, towards achieving the projected annual growth of 10.2 percent. The Composite Index of Economic Activities (CIEA) recorded a growth of 13.4 percent in 2021Q4 from a growth of 10.5 percent in the same period in 2020. Turnovers (industry and services sectors) have also increased by 19.3 percent



against 7.0 percent during the same period in 2020. The economy is expected to continue recovering in 2022, with a projected growth of 7.2 percent, backed by the Government's supportive macroeconomic policies, of which, the manufacturing and build to recover program, the vaccine rollout, and continued reopening of economic activities.

**The interbank market rate remained stable and outstanding credit to the private sector continues to grow.**

The monetary policy stance remained accommodative in 2021, reflecting low inflation and exchange rate stability amid adequate foreign reserves during that period. The Central Bank Rate (CBR) was maintained at an accommodative level of 4.5 percent since April 2020. As a result, interbank rate declined by 17 basis points to 5.18 percent on average in 2021 and the lending rate reduced by 17 basis points to an average of 16.18 in 2021 from 16.35 percent in 2020. Credit to the Private Sector (CPS) expanded by 14.7 percent in 2021, driven by higher growth in new authorized loans (+15.4 percent).

**Rwanda's merchandise exports continue to recover.**

On external trade, in 2021, Rwanda's merchandise exports continue to recover from the Covid-19 induced drop, rising by 53.4 percent to settle at USD 1,167.8 million, up from USD 761.3 million a year earlier. The increase in export revenues is mainly attributable to a combination of rising commodity prices as global economies recover from the Covid-19 pandemic, and less supply-side disruptions to global trade compared to a year before. Moreover, domestically, the good performance of the country's exports has been supported by the Government's policy support to revive the country's economy and a recovering manufacturing sector as the economy reopened.

Total merchandise imports rose by 16.5 percent, partly reflecting the continued strong recovery of domestic demand combined with rising global prices. Imports of energy products and consumer goods largely food products increased by 13.9 percent and 14.1 percent respectively, driven by international commodity and oil prices. Moreover, imports of capital goods and intermediate goods rose by 11.6 percent and 15.7 percent respectively, reflecting rebounding investment and manufacturing activities. As a result, Rwanda's merchandise trade deficit widened by 2.4 percent to USD 2,033.1 million in 2021, up from USD 1,985.3 million of the same period a year ago.

The current account deficit (CAD) is estimated to improve to 11.1 percent of GDP in 2021 from 11.9 percent of GDP recorded in 2020. Contributing to this improvement in the CAD are higher transfer inflows, mainly remittances and government grants recorded in 2021. The CAD has been financed by government external borrowings and improving private capital inflows such as FDI and loans. As result, by end of December 2021, NBR ended with foreign exchange reserves covering 5.3 months of the following year's imports of goods and services (against a benchmark of 4 months).

**The FRW depreciation rate against the USD slowed compared to the previous year.**

At end of December 2021, the FRW depreciated by 3.8 percent (year-on-year) against the USD, from a depreciation of 5.4 percent in December 2020. Pressures on the Rwandan franc



slightly reduced during the period under review, mainly attributed to stable demand for foreign currencies and increased export earnings. The foreign exchange market is expected to remain stable as foreign exchange reserves are expected to be adequate in 2022.

**Headline inflation is projected to evolve above the 5 percent inflation benchmark in 2022.**

In 2021, headline inflation decelerated to 0.8 percent on average, from 7.7 percent recorded in 2020. In 2021Q4, headline inflation rose to 1.2 percent from a deflation of 0.6 percent recorded in 2021Q3, mainly reflected in core components such as imported food items and education fees. On a quarterly basis, energy inflation also picked in 2021Q4 following the increase in prices of charcoal and firewood, as well as the local pump prices consistent with rising international oil prices. The recorded upticks in core and energy components offset the downward contribution of domestic fresh food components that decelerated in 2021Q4.

In 2022, new projections indicate an increase in average headline inflation to around 7.5 percent, threatening to exceed the upper bound of 8 percent towards the end of the year, with pressures coming from both domestic and imported costs.

The Committee noted these inflationary pressures and decided to promptly increase the central bank rate from 4.5 percent to 5 percent. The MPC assesses that this monetary policy stance would be adequate to continue supporting the economy while containing inflation in the medium term and minimize the negative effect this would have on the population's purchasing power.

The MPC will continue to monitor the situation closely and stands ready to take further action as necessary to ensure low and stable inflation and support the economy.

**Kigali, February 17, 2022**

**RWANGOMBWA John**  
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