National Bank of Rwanda
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The Governor

PRESS RELEASE

The Monetary Policy Committee (MPC) meeting convened on the 14th of February 2023 to review the impact of its previous decisions, assess recent global and domestic economic developments, and take policy decisions for the following three months. Analysis indicates that inflationary pressures remain high, mainly due to continued global economic challenges as well as lower domestic agricultural production. As reported in our previous publications, the war between Russia and Ukraine exacerbated an already existing increasing trend of commodity prices. In addition, lower domestic food supply linked to unfavorable weather, and increased prices of inputs led to a high increase in food prices in 2022. Going forward, inflationary pressures are expected to remain high in the 1st half of 2023, before converging towards the target band (below 8 percent) at the end of the year, reflecting the effect of NBR monetary policy tightening and other policy measures. The projected decline assumes a good performance of the agriculture sector and a decline in international commodity prices.

Based on the prevailing economic conditions, the MPC decided to increase the Central Bank Rate (CBR) from 6.5 to 7.0 percent, to continue the fight against inflationary pressures affecting consumers' purchasing power. NBR remains committed to achieve price stability, by bringing inflation within the medium term objective band of 2 – 8 percent.

The Rwandan economy is expected to remain resilient.

Despite the abovementioned global economic challenges, the Rwandan economy continues to perform well, supported by COVID-19 economic recovery plan measures. In the first three quarters of 2022, real GDP increased by 8.5 percent, following 10.9 percent growth recorded in 2021 and a contraction of 3.4 percent recorded in 2020. The outlook for 2022Q4 remains positive as indicated by the trend of high-frequency indicators. The Composite Index of Economic Activities grew by 8.9 percent in 2022Q4, as the continued strong recovery in services outweighed the poor performance of the agriculture sector.

Rwanda's external trade continues to recover.

On the external side, Rwanda's merchandise exports rose by 31.4 percent in 2022, in line with increased global commodity prices and the good performance of domestic manufacturing activities. However, merchandise imports also rose by 23.6 percent, mainly driven by higher international commodity and fuel prices, combined with increased demand for imported goods and services to support the continued economic recovery. As a result, the merchandise trade deficit widened by 19.1 percent, and the FRW depreciated by 6.05 percent year-on-year end of December 2022, compared to 3.82 percent recorded the previous year.

However, gross official reserves remained adequate, covering 4.2 months of imports at the end of the year 2022.

The interbank market rate was steered to the CBR.

The interbank rate rose to 5.92 percent on average in 2022, from 5.18 percent in 2021 in line with the monetary policy tightening in 2022. Similarly, the average lending rate increased to 16.38 percent in 2022 from 16.18 percent in 2021. In line with the market conditions, the growth pace of Credit to the Private Sector (CPS) reduced to 13.6 percent in 2022 from a growth of 14.7 percent the year before.

Headline inflation is projected to remain high, before converging toward the benchmark by the end of 2023.

In line with the global economic challenges, Rwanda's headline inflation increased to 13.9 percent in 2022 from 0.8 percent recorded in 2021, following the rise in core inflation to 11.0 percent from 2.1 percent, and in fresh food inflation to 24.6 percent from -4.2 percent. More recently, the year-on-year inflation slightly reduced to 20.7 percent in January 2023 from 21.7 and 21.6 percent in November and December 2022 respectively. However, overall inflationary pressures are expected to remain high in the 1st half of 2023, and converge towards the target band at the end of the year, reflecting the effect of NBR monetary policy tightening and other policy measures.

In view of these projections, the Monetary Policy Committee decided to increase the central bank rate from 6.5 to 7.0 percent, to tame inflationary pressures affecting the purchasing power of consumers.

The NBR remains committed to its objective of price stability and the MPC will continue to monitor the situation closely. In the coming quarters, inflation projection for next year will inform whether an eventual pause in the monetary policy tightening cycle is needed.

Kigali, 16th February 2023

NATIONAL BANK OF RWANDA: THE GOVERNOR

RWANGOMBWA John
Governor, Chairperson of the MPC