Research Note No. RN/03/24.

RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Monetary Policy Stance:
A commentary of Confidence

September 02, 2024

Highlights

- The NBR's Monetary Policy Committee (MPC) decision to reduce the Central Bank Rate (CBR) in its last two consecutive meetings sends two unambiguous messages
  - First, it signals that inflation expectations are low and stable, and well anchored.
  - Second, it signals confident that its policy levers have enabled a careful balance between the domestic market dynamics and external imbalance in a manner that supports a stable exchange rate without the need of a tight monetary policy stance.
- Rwanda's economy demonstrated remarkable resilience in 2023. GDP growth is expected to maintain positive momentum, with an average growth rate of 7.2% projected for the period 2024-2026.
- Despite the global inflationary pressures and economic challenges, Rwanda has managed to keep inflation within the NBR's target bank of 2% to 8%. Inflation is expected to moderate to 7.0% in 2024 and 5.2% in 2025. The recent monetary policy adjustments are expected to help maintain price stability, ensuring that inflation remains under control while supporting economic growth
- The global economy is expected to stabilize in 2024. In emerging markets and developing economies, particularly in Sub-Saharan Africa, growth prospects are more favorable, with the East African Community (EAC) anticipating an average growth recovery of 5.1% in 2024 and further increase to 5.7% in 2025. This recovery in the EAC region is expected to support Rwanda's economic performance through increased regional trade and investment.
- Rwanda has committed to achieving a debt-to-GDP ratio of 65% by 2031. The current account deficit is projected to rise slightly to 10.9% of GDP in 2024 before narrowing to 10.7% in 2025 as capital imports decline, conferences and tourism receipts recover, and remittances from the diaspora improve. In addition, the increase in Foreign Direct Investment (FDI) inflows provides a positive counterbalance, supporting the external sector and contributing to overall economic stability.

Overview

The National Bank of Rwanda (NBR) is evidently on a monetary policy easing cycle. While the monetary policy stance is informed by the outcome of domestic macroeconomic parameters, it aligns with easing trend in the major international markets. The NBR's Monetary Policy Committee (MPC) decision to reduce the Central Bank Rate (CBR) in its last two consecutive meetings sends two unambiguous messages.

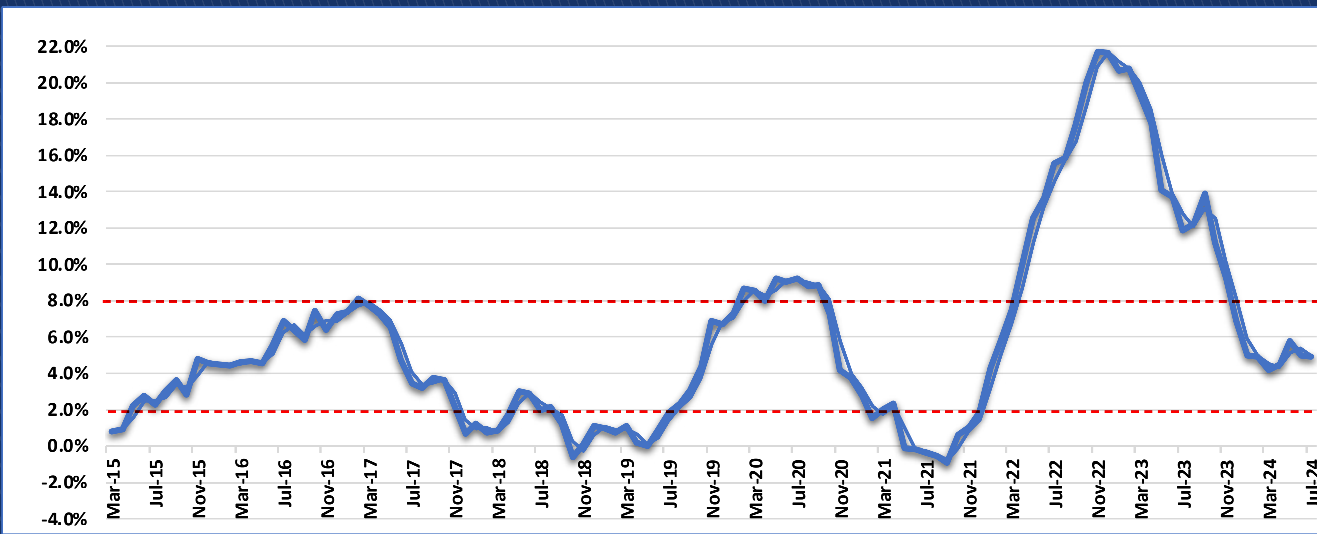
The first is that the central bank is confident that the 50-basis points reduction in the CBR from 7.5% in the second quarter of 2024 and a further reduction by the same magnitude to 6.5% in the third quarter of 2024 is a commentary that low and stable inflation expectations are well anchored.

The second is that the central bank is confident that its policy levers have enabled a careful balance between the domestic market dynamics and external imbalance in a manner that supports a stable exchange rate without the need of a tight monetary policy stance.

The monetary policy stance reflects a clear strategy by the NBR maintain macroeconomic stability as a prerequisite for economic growth. Even on the back of acknowledged challenges of policy transmission, the sustenance of the monetary policy easing cycle will ultimately stimulate economic activity by way of easing the cost of borrowing.

As show in **Figure 1**, the focus of the NBR's monetary policy framework to maintain inflation with the 2.0% and 8.0% range validates the current easing stance. The post-Covid 19 inflationary pressure has eased, with the year-on-year inflation reverting to the target range.

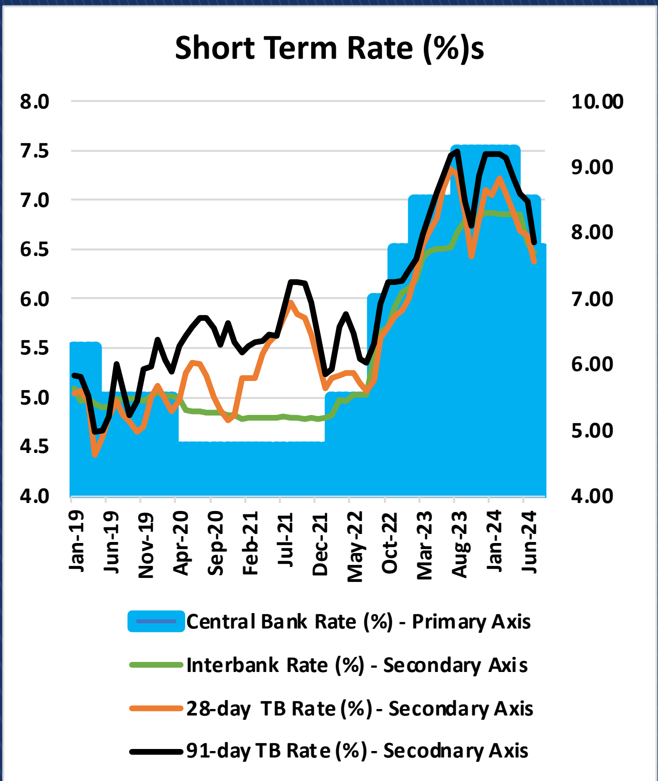
Figure 1: Year-on-year Inflation

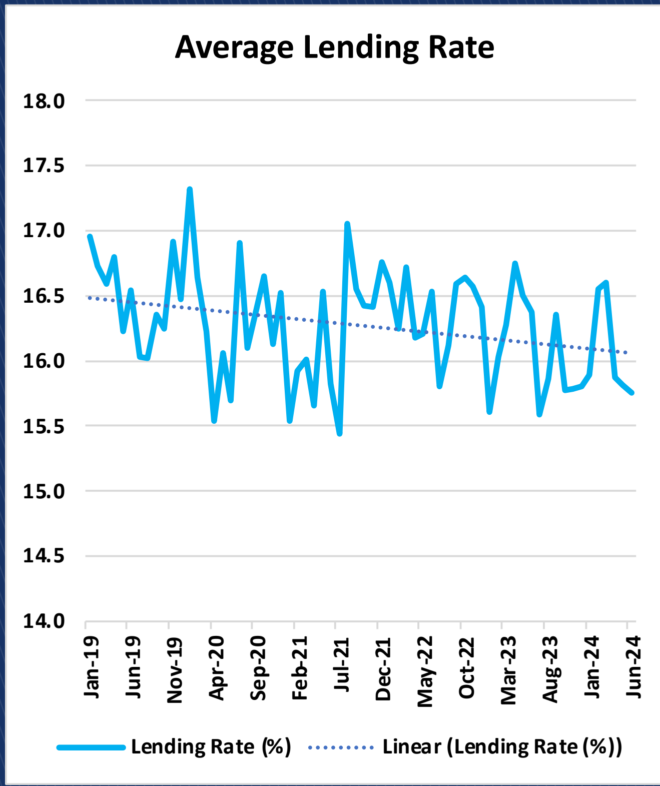


Source: National Institute of Statistics

Figure 2 affirms the ability of the CBR to coordinate the short end of the market, with short term interest rates appropriately responding to the monetary policy signal. The average lending rates have generally been stable in the 15.5% – 17.0% range, a gradual declining trend is evident. On the back of good quality assets in the banking industry as signaled by low level of non-performing loans (NPLs), the declining lending rates are expected to incentivize banks to seek asset growth backed by its boost on effective credit demand from key economic sectors.

Figure 2: Central Bank Rate and Market Rates



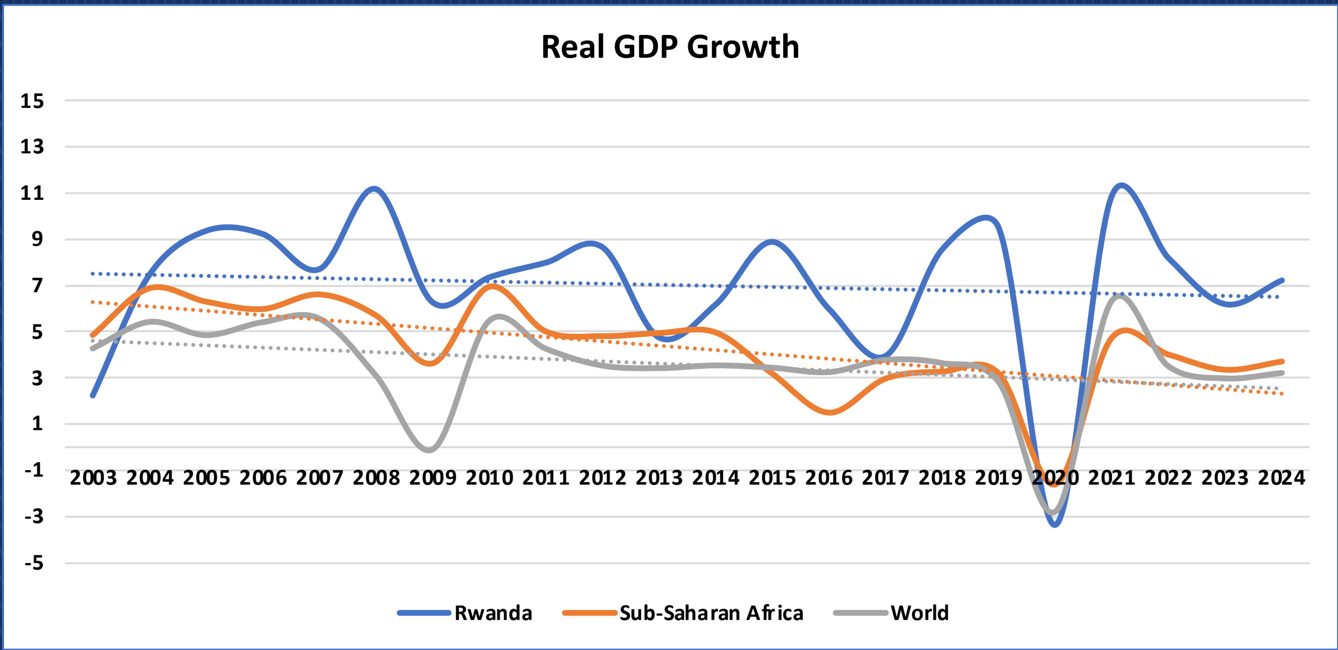


Source: National Bank of Rwanda

Broad Economic Conditions

Rwanda's economy showed remarkable resilience in 2023, with real GDP growth averaging 8.2% **(Figure 3).** The services sector, particularly tourism and ICT, was the main driver of growth, contributing significantly to the overall economic performance. The industry sector also played a crucial role, with construction and manufacturing activities expanding at a healthy pace. Despite challenges such as adverse weather conditions affecting agriculture, the sector managed to register moderate growth, underscoring the resilience and adaptability of Rwanda's economy.

Figure 3: Real GDP Growth



Source: National Bank of Rwanda

Looking forward, Rwanda's GDP is expected to continue growing at a robust pace, with an average growth rate of 7.2% projected for the period 2024-2026[1]. This bullish outlook is based on expected sustenance of strong domestic demand, increased employment, and favorable developments in key sectors. The government's ongoing efforts to improve the business environment and attract investment are also expected to contribute to sustained economic growth.

The global economic environment is projected to stabilize in 2024, with the IMF forecasting a growth rate of 3.2%[2]. While this rate remains below the historical average, the easing of monetary policy in the UK and the Euro zone as well as the strong signal from the US Federal Reserve Board of the likely commencement of the easing cycle will likely boost growth. The growth is expected to rise marginally, driven by improvements in the United States and a modest recovery in the Euro area. The U.S. is anticipated to see growth increase to 2.7%, while the Euro area and the UK are expected to experience modest recoveries from previous low growth levels.

In Contrast, emerging markets and developing economies are expected to perform better, with Sub-Saharan Africa showing signs of recovery. For instance, the growth in Sub-Saharan Africa (SSA) is forecasted to increase to 3.8% in 2024, reflecting improvements in weather conditions and supply chains, although it remains below historical trends. The East African Community (EAC) region is expected to recover from previous slowdowns, with growth projected to rise to 5.1% in 2024[3].

1 https://www.worldbank.org/en/country/rwanda/overview
2 https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD
3 https://www.imf.org/external/datamapper/profile/EAC-5

The External Sector

Rwanda’s current account deficit widened to 11.7% of GDP in 2023, driven by a significant rise in the trade deficit. Despite positive trends in service exports and steady remittance inflows, the trade deficit remains a challenge, reflecting the ongoing difficulties in balancing imports and exports. The widening current account deficit underscores the need for continued efforts to diversify Rwanda’s export base and enhance its competitiveness in global markets.

On the financing side, Foreign Direct Investment (FDI) inflows continue to show positive trends, providing much-needed support to the external sector. The increase in FDI reflects investor confidence in Rwanda’s economic prospects and is a key factor in maintaining external stability.

Outlook

- Rwanda's monetary policy stance and economic conditions reflect a carefully calibrated approach to navigating global and domestic challenges. The recent reduction in the CBR is a testament to the NBR's commitment to maintaining price stability while fostering economic growth. As the global economy stabilizes, continued vigilance and adaptability in policy-making will be crucial and Rwanda is well-positioned to sustain its growth trajectory, supported by strong domestic demand, robust sectoral performance, and strategic policy interventions.
- Rwanda’s economy demonstrated remarkable resilience in 2023, with real GDP growth averaging 8.2%. This growth was primarily driven by strong performances in the services and industry sectors, which contributed significantly to the overall economic output. Looking ahead, GDP growth is expected to maintain momentum, with an average growth rate of 7.2% projected for the period 2024-2026.
- Despite the global inflationary pressures and economic challenges, Rwanda has managed to keep inflation within the NBR’s target bank of 2% to 8%. Inflation is expected to moderate to 7.0% in 2024 and 5.2% in 2025, reflecting stabilization of supply chains, monetary policy tightening, and falling international commodity price. The recent monetary policy adjustments are expected to help maintain price stability, ensuring that inflation remains under control while supporting economic growth.
- The global economy is expected to stabilize in 2024, with the IMF projecting a growth rate of 3.2%. In emerging markets and developing economies, particularly in Sub-Saharan Africa, growth prospects are more favorable, with the East African Community (EAC) anticipating an average growth recovery of 5.1% in 2024. This recovery in the EAC region is expected to support Rwanda’s economic performance through increased regional trade and investment.
- Rwanda has committed to achieving a debt-to-GDP[4] ratio of 65% by 2031. The current account deficit is projected to rise slightly to 10.9% of GDP in 2024 before narrowing to 10.7% in 2025 as capital imports decline, conference tourism receipts recover, and remittances from the diaspora improve. In addition, the increase in Foreign Direct Investment (FDI) inflows provides a positive counterbalance, supporting the external sector and contributing to overall economic stability.

4 https://www.afdb.org/en/countries/east-africa/rwanda/rwanda-economic-outlook#:~:text=Rwanda%20has%20committed%20to%20achieving,remittances%20from%20the%20diaspora%20improve

This Research Note is published by the Rwanda Bankers' Association Research Centre with the objective of offering insights and promoting dialogue on critical policy issues that have an impact on the development of the financial sector. Through informed commentary such as Research Notes, Occasional Papers, Bulletins and Working Papers, the Rwanda Bankers' Association Research Centre provides a platform for constructive engagement among experts on financial markets, banking industry players and policy makers.

Acknowledgement

This Research Note has benefited from the partnership between Rwanda Bankers' Association (RBA) and Access to Finance Rwanda (AFR) that facilitated the establishment of the RBA Research Centre.

ACCESS TO FINANCE RWANDA

Research Note No. RN/03/24.

RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Rwanda Bankers' Association
PO Box 2101 - Makuza Peace Plaza 5th Floor Bloc C
• Tel. +250 252 577 426
• info@rba.rw
• http://www.rba.rw

September 02, 2024