Research Note No. RN/04/24

RBA
RWANDA BANKERS' ASSOCIATION
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Monetary Policy Stance: Justifiable Sustenance of the Easing Cycle

November 18, 2024

Highlights

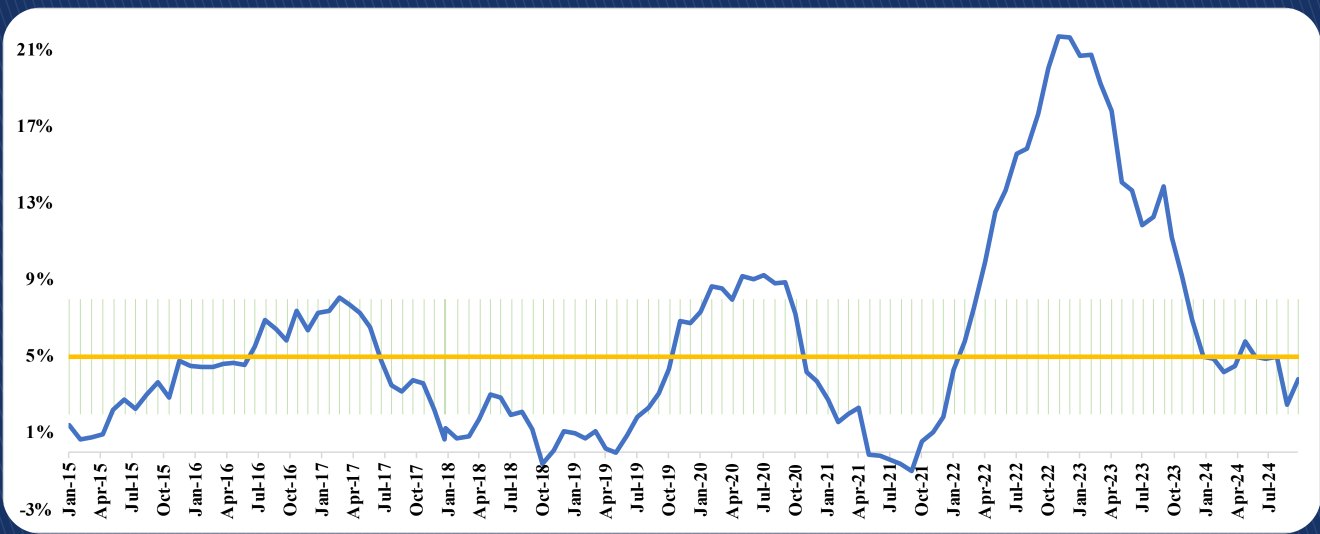
- The Monetary Policy Committee (MPC) of the National Bank of Rwanda (NBR) holds its final meeting for 2024 against an interesting backdrop. The central bank's monetary policy stance has since the second quarter of 2024 been accommodative, and justifiably so.
- The current macroeconomic stability reflects a more balanced inflation landscape, with core inflation – often less influenced by temporary factors – indicating a contained demand-side pressure. The NBR's strategic focus on a 5% inflation target reflects its commitment to long-term price stability while maintaining flexibility to navigate potential future pressures, positioning Rwanda for a more resilient economic environment.
- The prospect for the upcoming MPC meeting sustaining the easing cycle hinge upon the outcome and projections of macroeconomic indicators. With the MPC's decisions grounded in balancing growth and inflation management, the next review will likely focus on enhancing monetary transmission to foster credit expansion while safeguarding economic stability.
- The NBR's stance aligns with emerging trends in major international markets where easing policies reflect softening inflationary pressures. This alignment is particularly crucial for an open economy like Rwanda's, which is subject to potential spillovers both from regional and global economic dynamics.

Background

The Monetary Policy Committee (MPC) of the National Bank of Rwanda (NBR) holds its final meeting for 2024 against an interesting backdrop. The central bank's monetary policy stance has since the second quarter of 2024 been accommodative, and justifiably so. This is reflected in the two consecutive reductions of the Central Bank Rate (CBR) – the policy signaling rate – to 6.5% prior to the November 20, 2024 meeting.

The NBR monetary policy stance is supportive of economic growth backed by price stability revealed by inflation being within the target band **(Figure 1).** As the monetary policy measures are transmitted through the financial system to the wider economy, credit demand is anticipated to be bolstered by the attendant easing of borrowing costs and in the process providing growth stimulus to key sectors.

Figure 1: Year-on-Year inflation

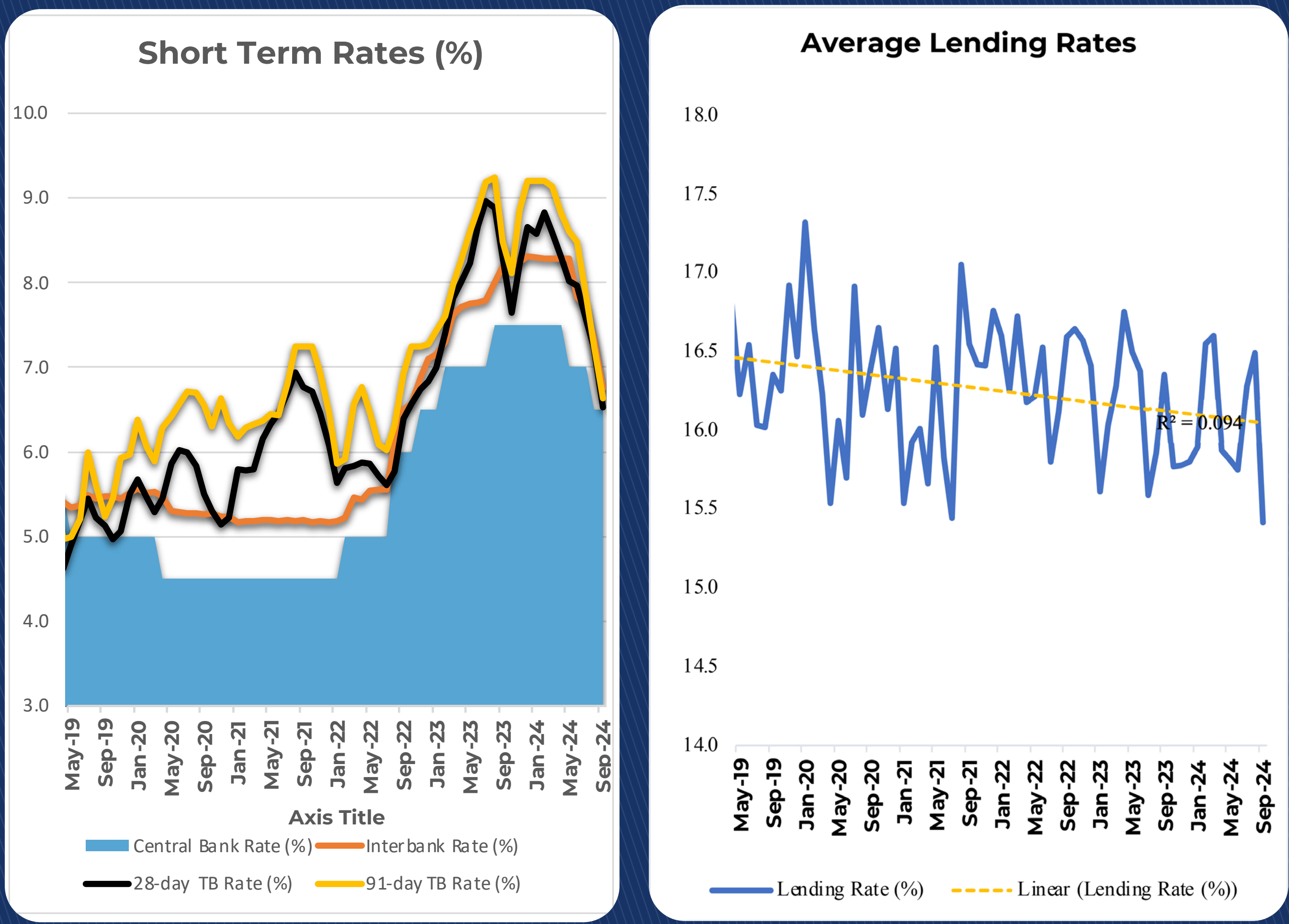


Source: National Institute of Statistics

The current stability reflects a more balanced inflation landscape, with core inflation – often less influenced by temporary factors – indicating a contained demand-side pressure. The NBR's strategic focus on a 5% inflation target reflects its commitment to long-term price stability while maintaining flexibility to navigate potential future pressures, positioning Rwanda for a more resilient macroeconomic environment.

The downward trajectory in short-term rates, reflecting the fact that the CBR is playing a coordinating role in the short end of the market, confirms the easing stance of monetary policy **(Figure 2).** Therefore, a short-term rates have a direct influence on liquidity within the banking sector, improving access to funds and driving a broader reduction in borrowing costs for businesses and individual alike. The stability of the average lending rate within the 15.5% to 17% range, recently trending down to 15.41% as of September 2024, translates into reduced financing costs, which could further encourage private sector investment. Additionally, the decline in non-performing loans (NPLs) reflects improved loan quality and borrower resilience, highlighting the positive impact of accommodative monetary policy on debt sustainability and financial health across sectors.

Figure 2: Central Bank Rate and Market Rates



Source: National Bank of Rwanda

The NBR's stance aligns with emerging trends in major international markets where easing policies reflect softening inflationary pressures. This alignment is particularly crucial for an open economy like Rwanda's, which is subject to potential spillovers both from regional and global economic dynamics.

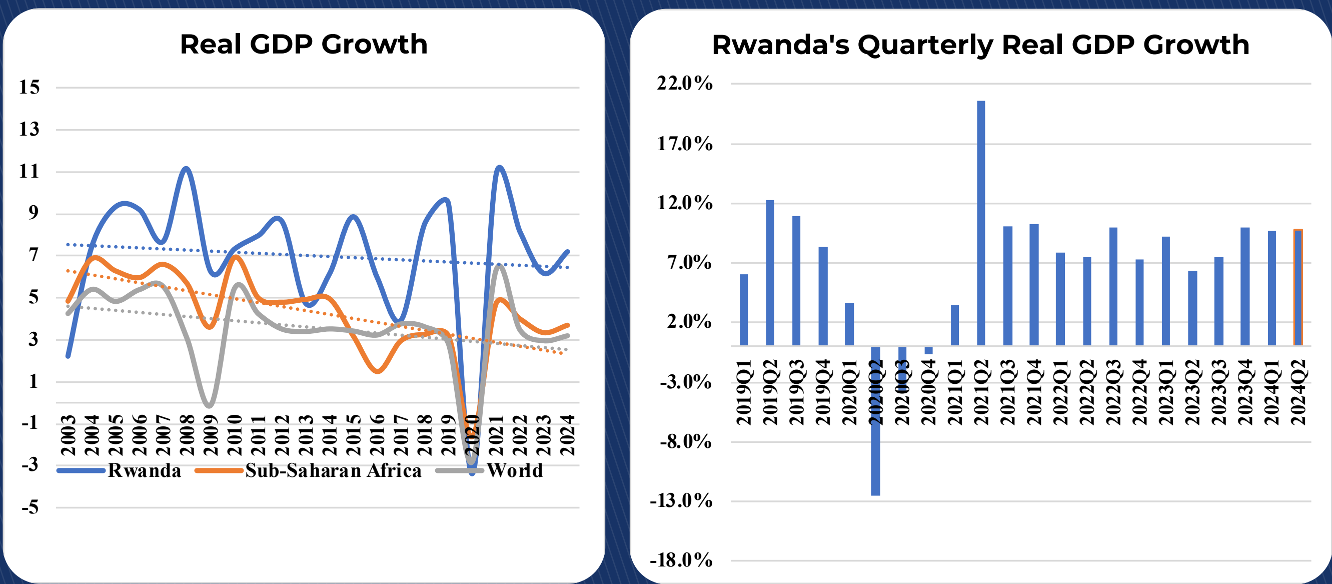
Monetary Policy Outlook Harbingers

The prospect for the upcoming MPC meeting sustaining the easing cycle hinge upon the outcome and projections of macroeconomic indicators. Key among them is inflation rates, especially the view that the MPC takes with regard to the second-round effects on food prices and exchange rate dynamics that could impact import costs. Additionally, the sustained stability of lending rates and a favorable outlook in the East African Community (EAC) region offer further support for Rwanda's economic trajectory. With the MPC's decisions grounded in balancing growth and inflation management, the next review will likely focus on enhancing monetary transmission to foster credit expansion while safeguarding economic stability.

Two core considerations are expected to persuade the NBR's monetary policy direction.

- First, the rebounding economic growth showing the continuation of Rwanda's GDP growth rates to outpace global and regional averages, **(Figure 3)**. In the first half of 2024, Rwanda's real GDP[1] expanded by 9.7% and further 9.8% in the second quarter of 2024, following an average growth rate of 8.2% during 2022-2023.The country's real GDP growth remains stable, with quarterly growth rates consistent throughout 2021 and into 2024. However, to sustain this momentum, the NBR acknowledges the need for a flexible policy stance that adapts to both domestic and global economic dynamics. While recovery trends are evident, the continued growth stability is contingent on balancing inflation control with stimulative policy levers.

Figure 3: Real Output Growth



Source: National Institute of Statistics of Rwanda (NISR), IMF WEO Database

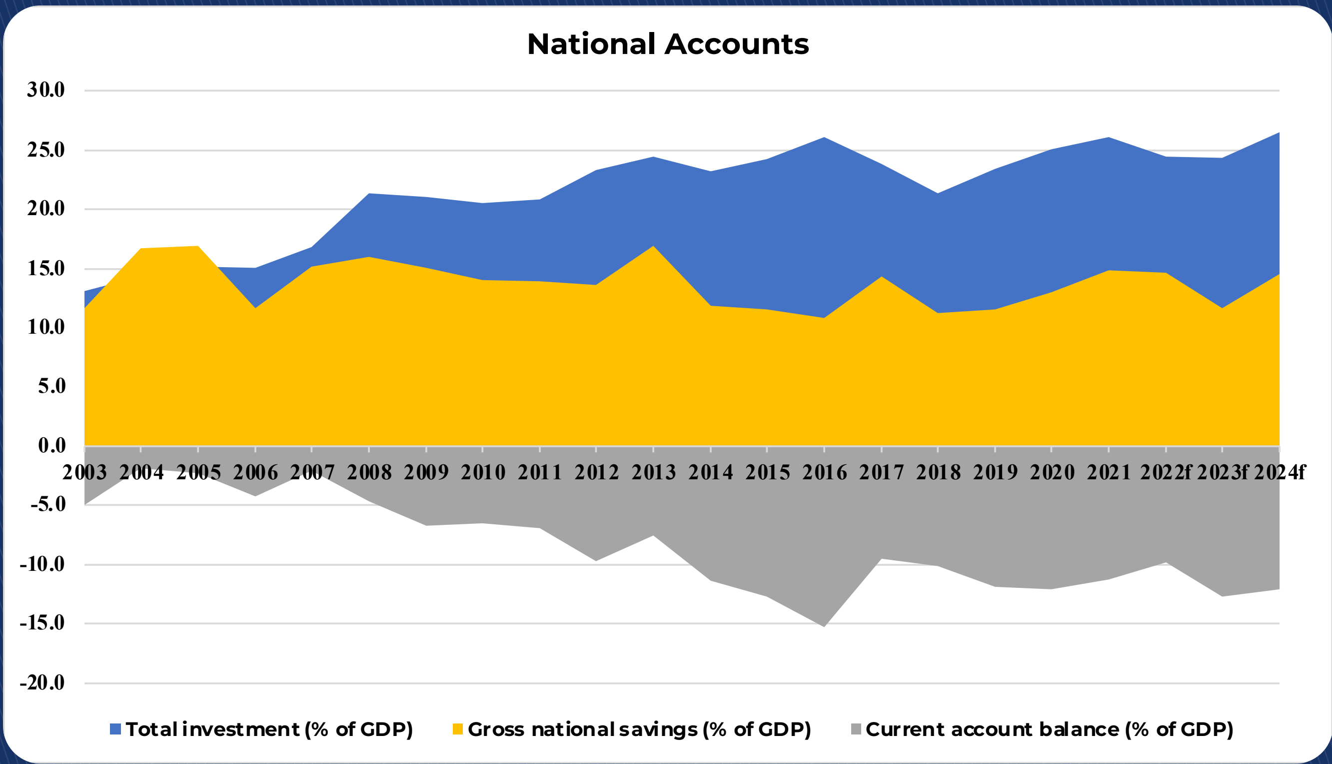
- Second, Rwanda's balance of payments position reflects a cautiously optimistic outlook as the repair of the external position take hold in 2024. The projected decline in the current account deficit to 12% suggests a positive trends, pointing to narrowing external imbalances through modest export gains and potentially moderated import growth[2], **(Figure 4)**. A rise in Gross National Savings (GNS), expected to reach 14.5% of GDP, underlines an improved domestic savings culture, signaling a stronger financial buffer against external shocks.

1 NBR's Monetary Policy Report _ August 2024: https://www.bnr.rw/documents/Monetary_Policy_Report_Aug2024.pdf

2 IMF WEO Database – Rwanda: https://www.imf.org/en/Publications/WEO/weo-database/2024/October/select-subjects?c=714

- This increase enhances Rwanda's capacity to fund domestic investments without relying heavily on external borrowing. Meanwhile, a projected boost in total investment from 24.3% of GDP in 2023 to 26.6% by the end of 2024 aligns with the surge in capital imports[3], underscoring the nation's focus on long-term resilience through infrastructure and productive capacity expansion.

Figure 4: National Accounts Balance



Source: IMF WEO Database; f = forecast

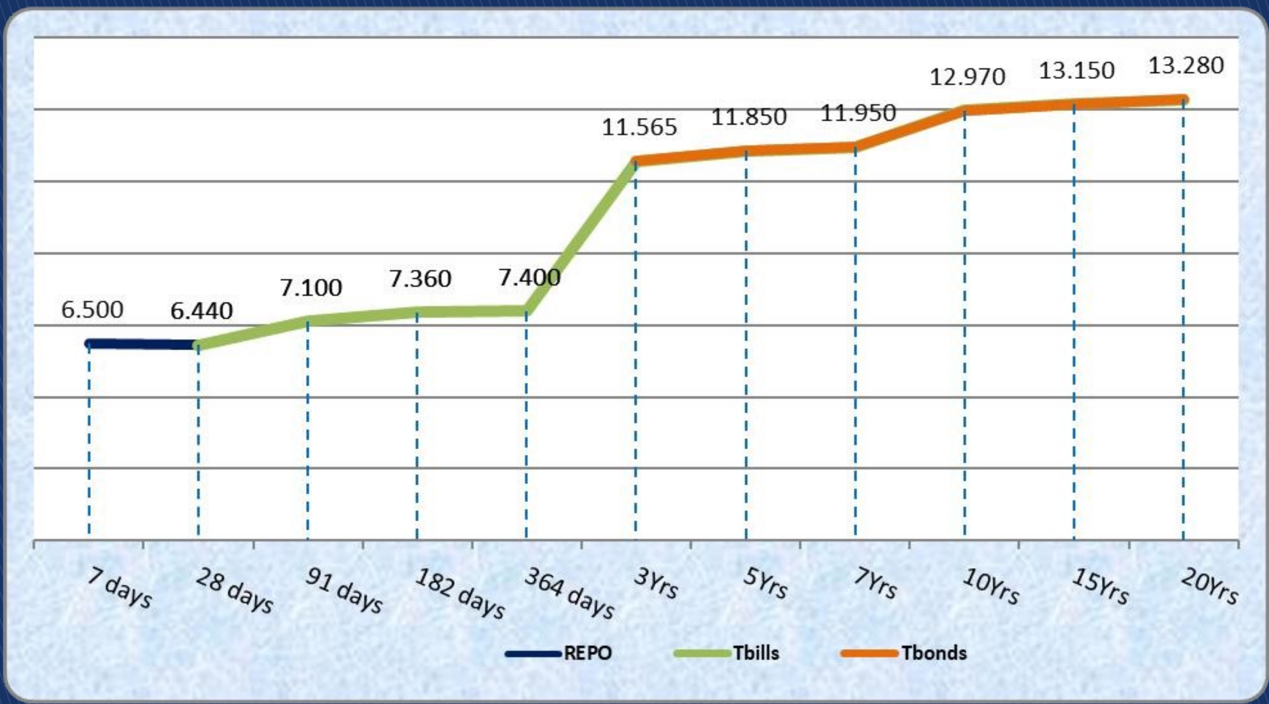
On the backdrop of the foregoing the NBR's monetary policy stance will maintain the focus on a balanced CBR reduction can bolster the domestic credit environment while counteracting exchange rate pressures. The MPC's commitment to anchoring inflation while fostering investment-led growth is likely to remain key, aiming to harmonize immediate exchange rate stabilization efforts with the broader objective of sustainable economic development.

The latest inflation of 3.8% for October 2024 provides a favorable backdrop for stable economic policy, now comfortably with the National Bank of Rwanda's (NBR) target range. This controlled inflation environment reflects eased pressures on household budgets and business costs, fostering a climate where private sector lending can flourish and consumer purchasing power remains strong. As lending rates maintain a declining trend, Rwanda's banking industry is well-poised to support increased credit expansion to SMEs, thereby promoting financial inclusion and fueling growth in sectors that are critical to job creation and poverty reduction.

3 Monetary Policy Report – August 2024: https://www.bnr.rw/documents/Monetary_Policy_Report_Aug2024.pdf

The recent shape of Rwanda's yield curve reflects expectations of strong economic growth paired with moderate inflation risks. An upward-sloping yield curve **(Figure 5)** indicates positive market sentiment, aligned with investor anticipation of economic expansion[4]. As short-term rates remain accommodative, long-term rates reflects confidence in the future trajectory of the economy, with businesses expected to ramp up capital investments. For banks, this curve shape facilitates longer-term lending with favorable conditions, supporting initiatives aligned with Rwanda's Vision 2050[5] targets for sustainable economic growth.

Figure 5: Yield curve shape end October 2024



Source: National Bank of Rwanda

Fiscal policy, in alignment with monetary policy adjustments, remains focused on a consolidation path to ensure debt sustainability while prioritizing strategic investments. Government efforts to enhance spending efficiency and expand revenue sources are intended to support the economy's longer-term resilience.

Further, sustainability remains central to Rwanda's policy agenda, demonstrated by successful sustainable finance initiatives that attract both domestic and foreign investors. The oversubscription of BRD's Series II Sustainability-Linked Bond[6], at 130.2% with a 12.9% coupon, speaks to the growing appetite for sustainable investments in Rwanda.

4 *Yield Curve Shape _ National Bank of Rwanda:* https://www.bnr.rw/documents/Yield_curve_end_October_2024-.pdf

5 *Rwanda's Vision 2050:* https://www.minecofin.gov.rw/fileadmin/user_upload/Minecofin/Publications/REPORTS/National_Development_Planning_and_Research/Vision_2050/English-Vision_2050_Abridged_version_WEB_Final.pdf

6 *BRD's Series II SLB oversubscribed at 130.2%:* https://www.brd.rw/the-development-bank-of-rwandas-series-ii-slb-oversubscribed/

Additionally, Prime Energy Plc's Rwf9.58 billion green bond issuance[7] – the first of its kind, listed on the Rwanda Stock Exchange, exceeded its target, with significant interest from institutional investors like RSSB. These developments signal not only confidence in Rwanda's green economy transition but also a robust appetite for new financing models. As climate risks continue to rise, these instruments position Rwanda to channel more funds into resilience and adaptation projects, showcasing innovative paths for the private sector to contribute to sustainable growth.

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.

7 *Prime Energy Green Bond: https://primeenergyltd.com/green-bond/*

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