

POLICY DIALOGUE ON MONETARY POLICY FRAMEWORK IN RWANDA

6th July, 2021

CORE VALUES: Integrity, Mutual Respect & Team Work, Accountability and Excellence



OUTLINE



- 1. NBR legal mandate**
- 2. Monetary policy framework**
- 3. Monetary Policy Instruments**

NBR LEGAL MANDATE



- Law N°48/2017 of 23/09/2017 governing the National Bank of Rwanda stipulates that:
 - ↳ The general mission of NBR is:
 - ↳ to ensure price stability and
 - ↳ sound financial system.

NBR's Monetary Policy background



NBR monetary policy framework can be regarded in the following time periods:

1964-1990: use of direct monetary instruments (interest rate controls and directed lending by central banks);

1990-1995: transition to financial liberalization

1997-2018: Use of indirect monetary policy instruments

Reserve Money – Operational target

Broad Money - Intermediate target

Price stability – Ultimate objective

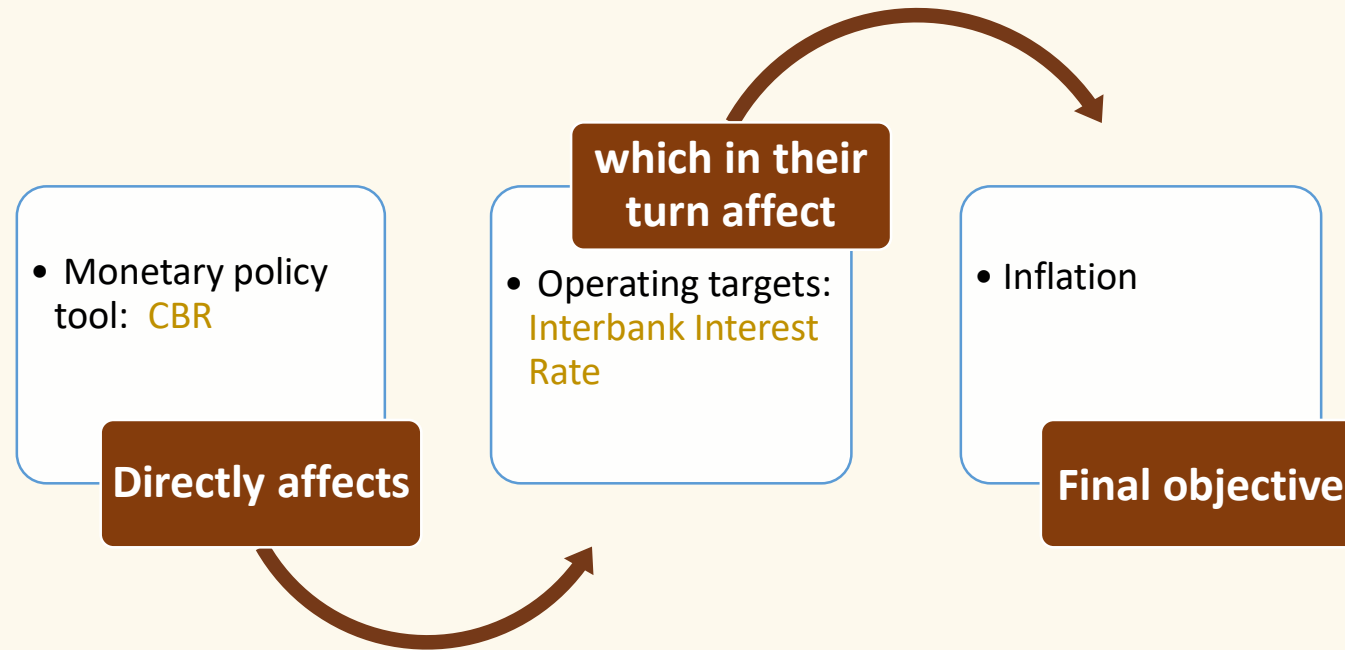
From January 2019: Price-based Monetary Policy Framework

Why a price-based monetary policy framework?



- Economic transformation led to weakened the link between inflation and broad monetary aggregates;
- Economic actors were increasingly focusing on interest rates in their consumption and saving decisions;
- Therefore, interest rates are easily understood and thus facilitating communication.

Price Based Monetary Policy Framework



Monetary transmission mechanism



Price-based Monetary Policy Framework (Ctd)



- NBR focus its monetary operations on aligning the Central Bank Rate (CBR) with interbank market rates to anchor short-term interest rates;
 - ↳ Money market rate band of $\pm 1\%$ around the central bank rate

Who is responsible for Monetary Policy?



Key considerations in the NBR Law:

- The Monetary Policy Committee is responsible for the formulation of a monetary Policy in NBR.
 - The MPC is composed of 9 members.
 - The Monetary Policy Committee meets once a quarter and whenever necessary.



What is the MPC decision making process?

Each MPC round lasts seven weeks:

Activity	Objective	Participants/ Responsible
Week 1		
Technical preparations	Evaluate the current state of the economy and finalize the near term forecasts (NTF)	Forecasting team
Week 2		
Technical preparations	Evaluate the current state of the economy and finalize the near term forecasts (NTF)	Forecasting team
1 st Pre- MPC Meeting: on initial conditions	Assessment of initial conditions and exchange of views on the current position of the Rwandan economy and global context.	1. MPC members 2. Forecasting Team

MPC process (W3-5)



Activity	Objective	Participants/ Responsible
Week 3		
Technical preparations	Produce and discuss the first version of the baseline forecasts	Forecasting Team
Week 4		
2 nd Pre-MPC Meeting	Present and discuss the first version of projections: (i) Present the first version of the baseline forecasts to the MPC members; (ii) Seek the views from MPC members and agree on what should be the alternative scenarios.	1. MPC members 2. Forecasting Team
Week 5		
Produce the final version of the forecasts	(i) Produce Final Projections – baseline and alternatives - based on the feedback and recommendations received during the 2 nd Pre-MPC meeting; (ii) Finalize policy documents.	Forecasting Team

MPC process (W6&7)



Activity	Objective	Participants/ Responsible
Week 6		
Key MPC Meeting	(i) The coordinator of the forecasting team presents the forecasts and policy recommendations to the MPC; (ii) Deliberation and MPC decision.	MPC members
Communication	(i) Communication through press conference and press release a day after the MPC.	MPC members
Publication of the monetary policy report	Publication of the monetary policy report, which provides national economic status, global economic developments, the Bank's projections and the major risks that could affect the inflation outlook.	Forecasting team coordinator
Week 7		
Post-MPC discussion	Analyze and discuss how the MPC meeting went, provide peer feedback on the policy presentations, what are the lessons learnt from the MPC meeting, what could be done better/differently next time.	Forecasting team



What are the MPC supporting committees?

- ↪ **Monetary policy implementation committee:**
 - ↪ Convenes every Friday for high frequency decisions;
 - ↪ The Governor is the chairperson and the DG is the deputy chairperson.
- ↪ **Monetary policy technical committee (MPTC):**
 - ↪ Convenes once in two weeks and when deemed necessary.
 - ↪ The CE is the chairperson and the ED-Financial Stability is the deputy chairperson.
- ↪ **Financial Market Operations Committee (FMOC):**
 - ↪ Convenes daily at 9:30 AM.
 - ↪ The Director Financial Market (FMD) is the chairperson and the Director Monetary Policy (MPD) is the deputy chairperson.

What are the Monetary Policy Instruments used in the implementation?



- **Open market operations (OMO): initiated by NBR**
 - **Liquidity absorption:**
 - Repo: Mopping liquidity for 1 to 7 days at CBR (Central Bank Rate)
 - C-Bills: Mopping liquidity for 1, 3, 6 and 12 months
 - **Liquidity injection:**
 - Reverse repo (at CBR): 1 to 7 days
 - Refinancing Facility (CBR+2%): up to 30 days (case by case basis)
- **Standing facilities: initiated by commercial banks**
 - Overnight Deposit Facility (ODF): at CBR-1%
 - Overnight Lending Facility (OLF): at CBR+1%
- **Reserve Requirement ratio: currently at 4%**



Most recent MPC decision

Global economy is projected to recover by 6% in 2021 and 4.4% in 2022...



... from -3.3% in 2020 reflecting;

- Additional fiscal support in a few large economies
- Anticipated vaccine-powered recovery in the second half of year



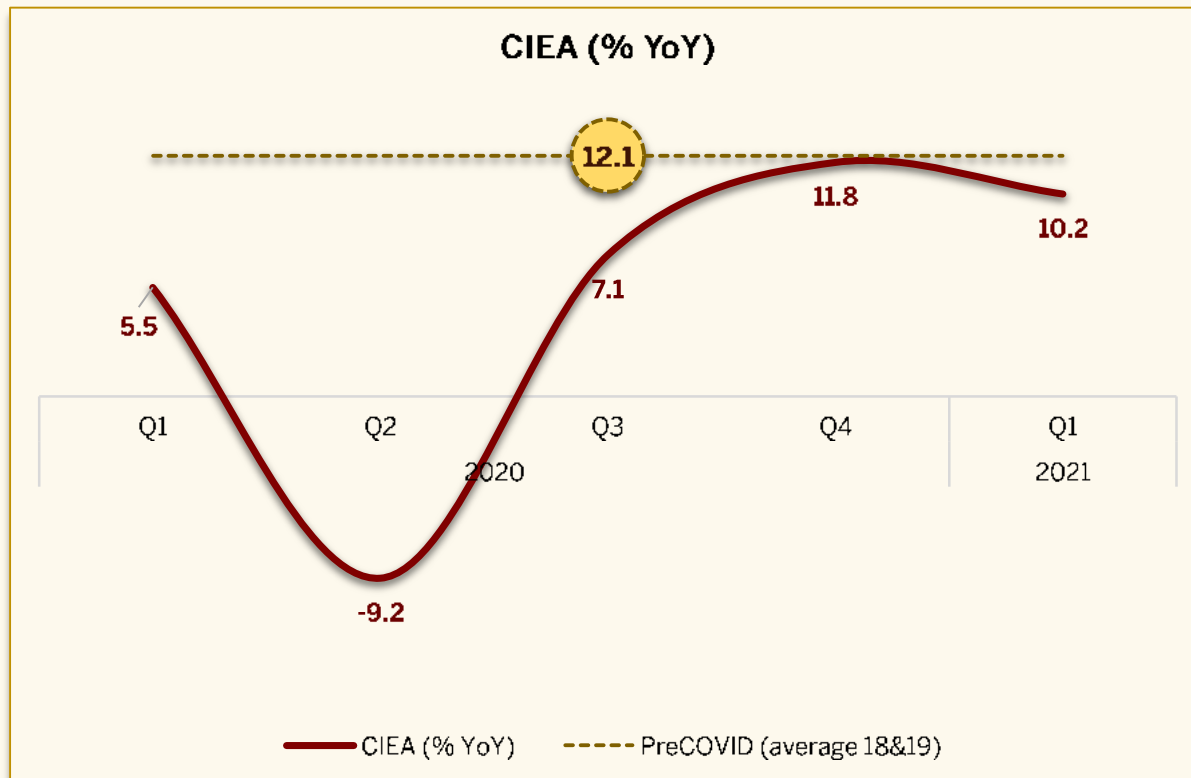
Sub-Saharan Africa growth is projected to record a lower recovery of 3.4% in 2021 after contracting by 1.9% in 2020.



- **World Inflation** is projected to increase from 3.2% in 2020 to 3.5% in 2021 and come back to 3.2% in 2022;
 - As global demand gradually improves and commodity prices increase
- **Global energy index and Non-energy index** : +36.1% & +18.1% in 2021
 - Crude oil prices: +20.9% (2021Q1) after -18.9% (2020Q1)
 - Projected to rise by 35.7% (2021) and 7.1% (2022)
- **Agricultural commodities**: +13.5% (2021) and +1.0% (2022)

The 2nd wave of COVID-19 weighed on economic activities in 2021Q1...

... constraining the recovery observed in the second half of 2020. However, GDP is projected to grow by 5.1% in 2021, recovering from -3.4% recorded in 2020.



Expected good performance of Agriculture driven by Food crop: (2021Q1 & Q2)



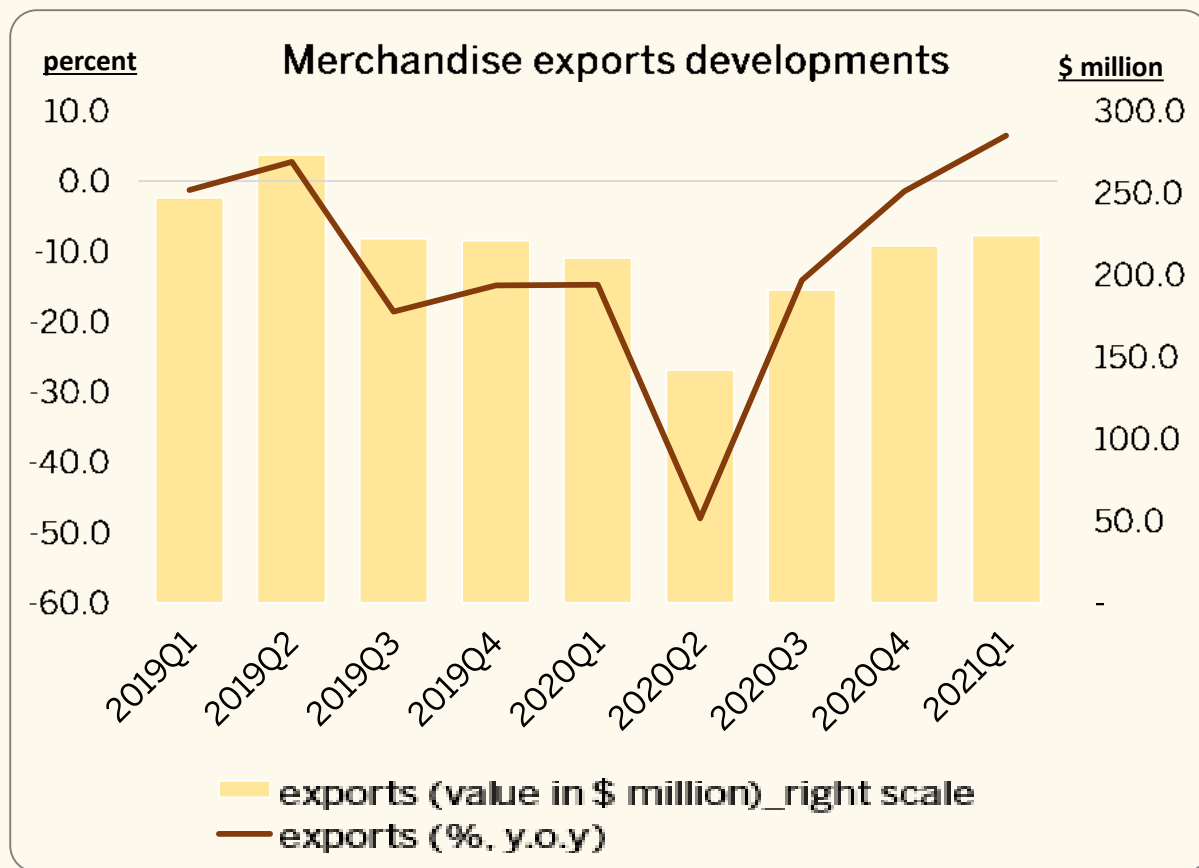
	Season A 20	Season A 21
Cereals	3.9	8.4
Roots & Tubers	-0.6	5.8
Bananas	7.8	4.8
Legumes and Pulses	-11.3	14.0
o.w Beans	-10.3	14.2
Vegetables & fruits	-11.6	0.1

- Favorable weather conditions,
- Government efforts to increase agricultural productivity:
 - ✓ Increasing the use of Agricultural inputs: (+41.7% for Fertilizer; +80% improved seeds)

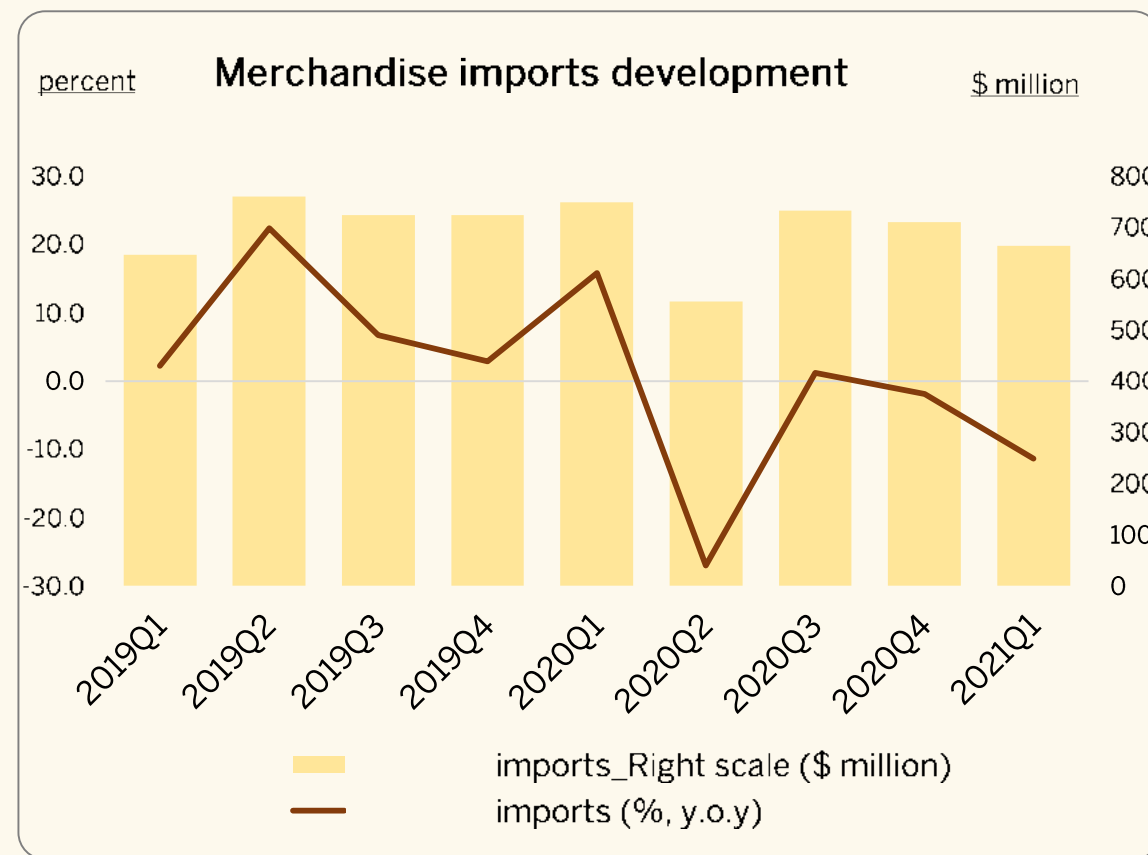
Trade balance improves by 7.4 percent as exports grow while imports decline



Merchandise exports continues to recover, rising by 6.5%, as demand and supply shocks caused by COVID-19 reduce...



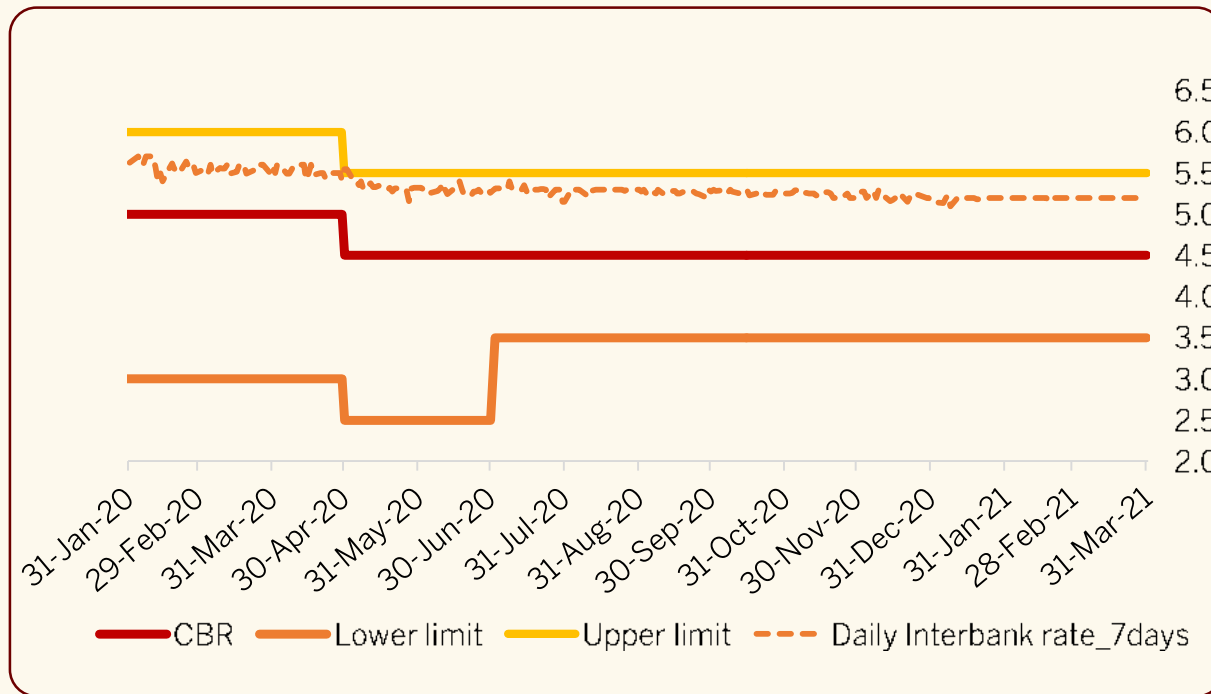
BUT, imports demand dropped by 11.3%, partly reflecting subdued demand following strict measures re-imposed early 2021.



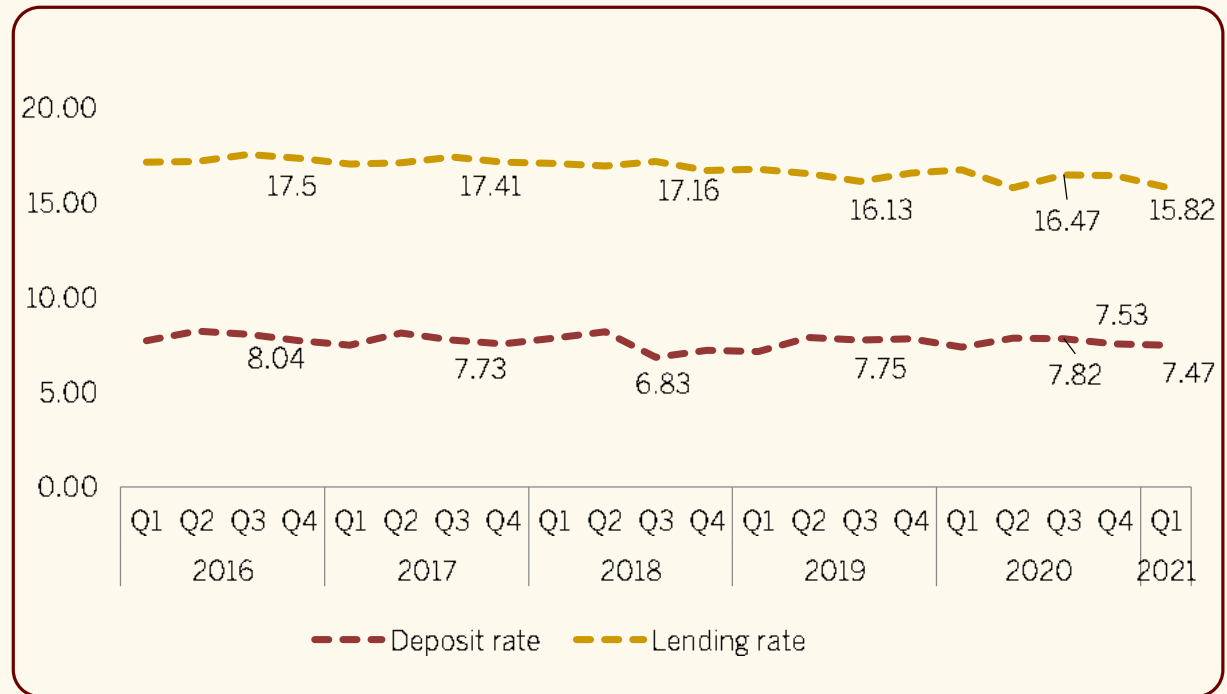
Interbank & Lending rates continue to decrease in tandem with CBR



... and it remained within its corridor.



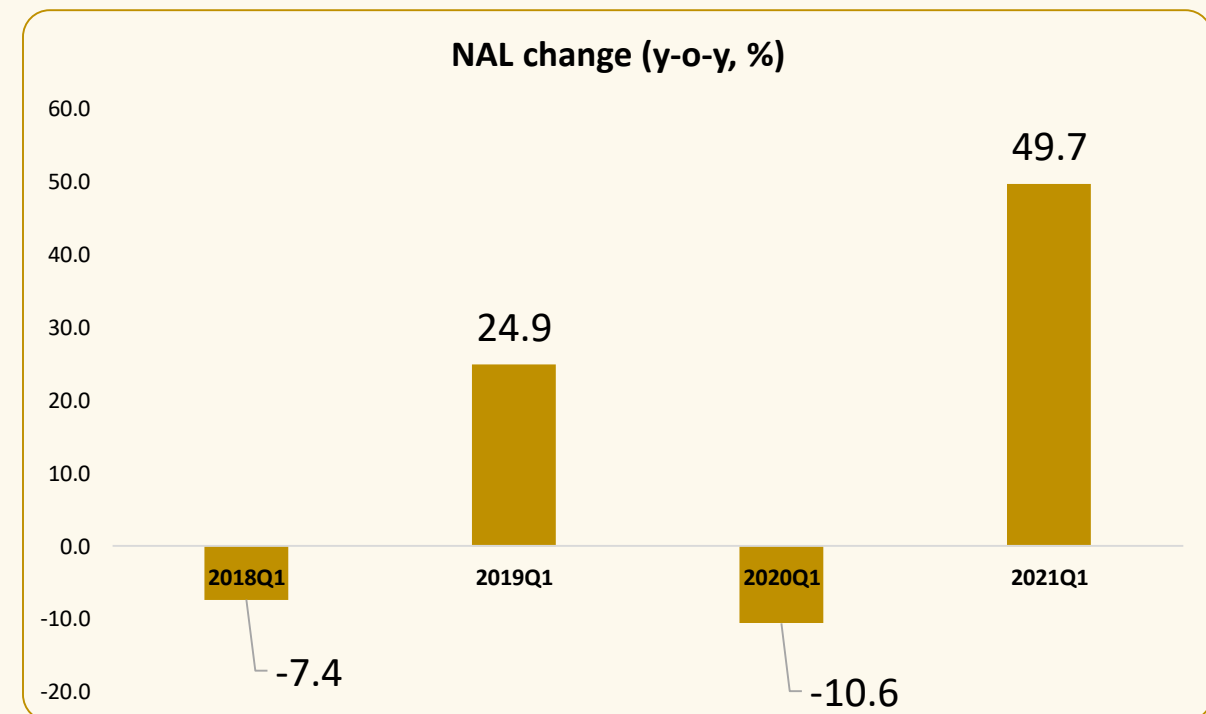
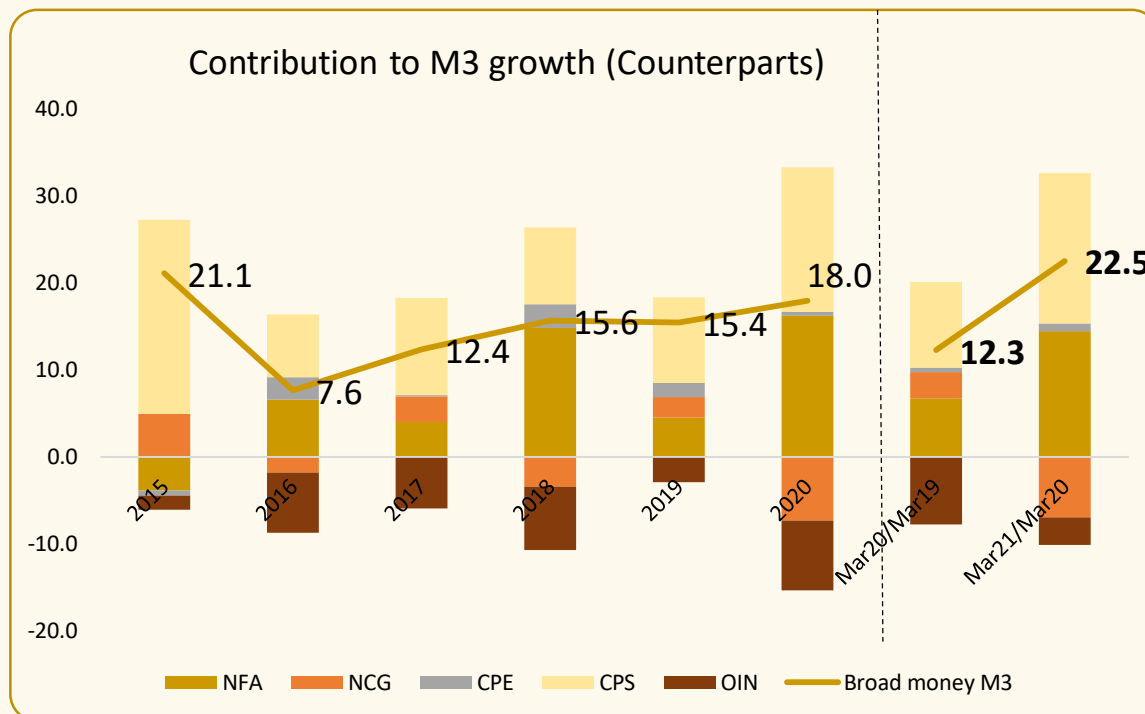
- In 2021Q1 (y-o-y), the **LR reduced by 91 bps**, DR rose by 9 bps and the spread reduced by 100 bps



Monetary aggregates increased despite the effect of COVID-19 pandemic

- M3 : +22.5% in Mar/2021 (Y-o-Y)
 - O/W, CPS rose by 22.% compared to 12.5% last year

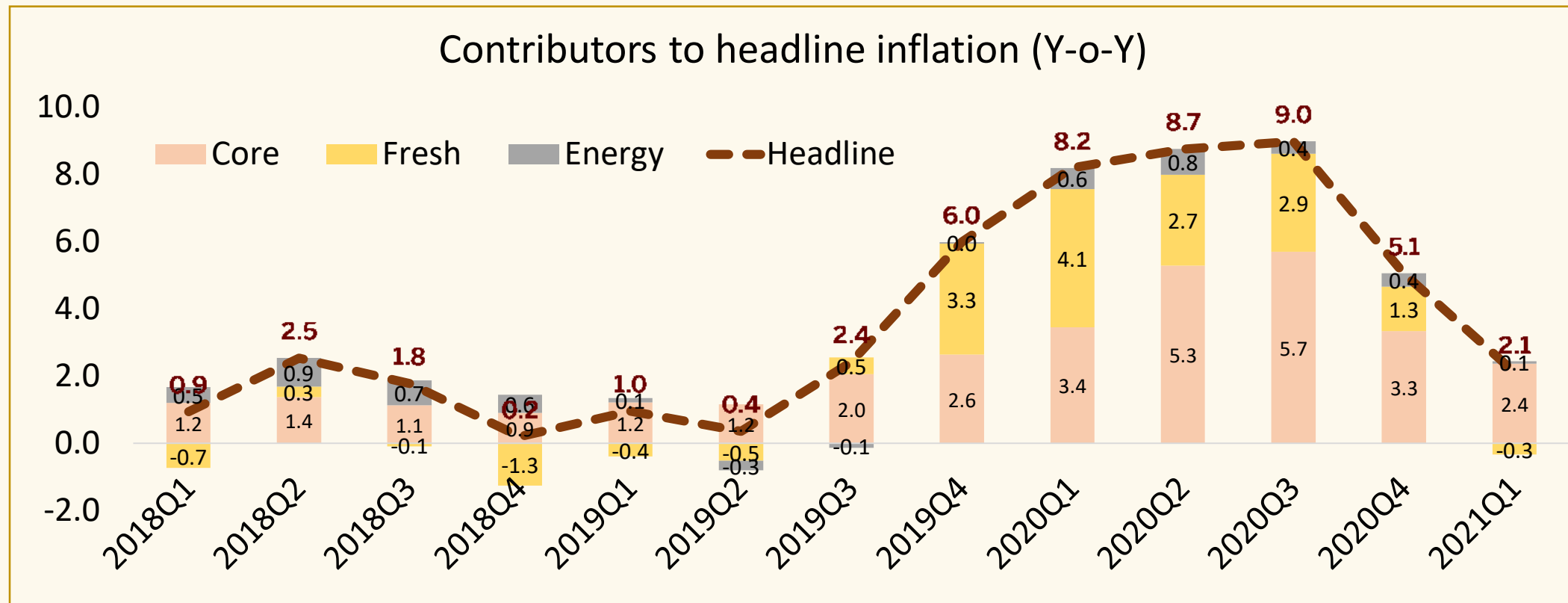
- A significant increase (49.7%) in New loans values in 2021Q1 (y-o-y)



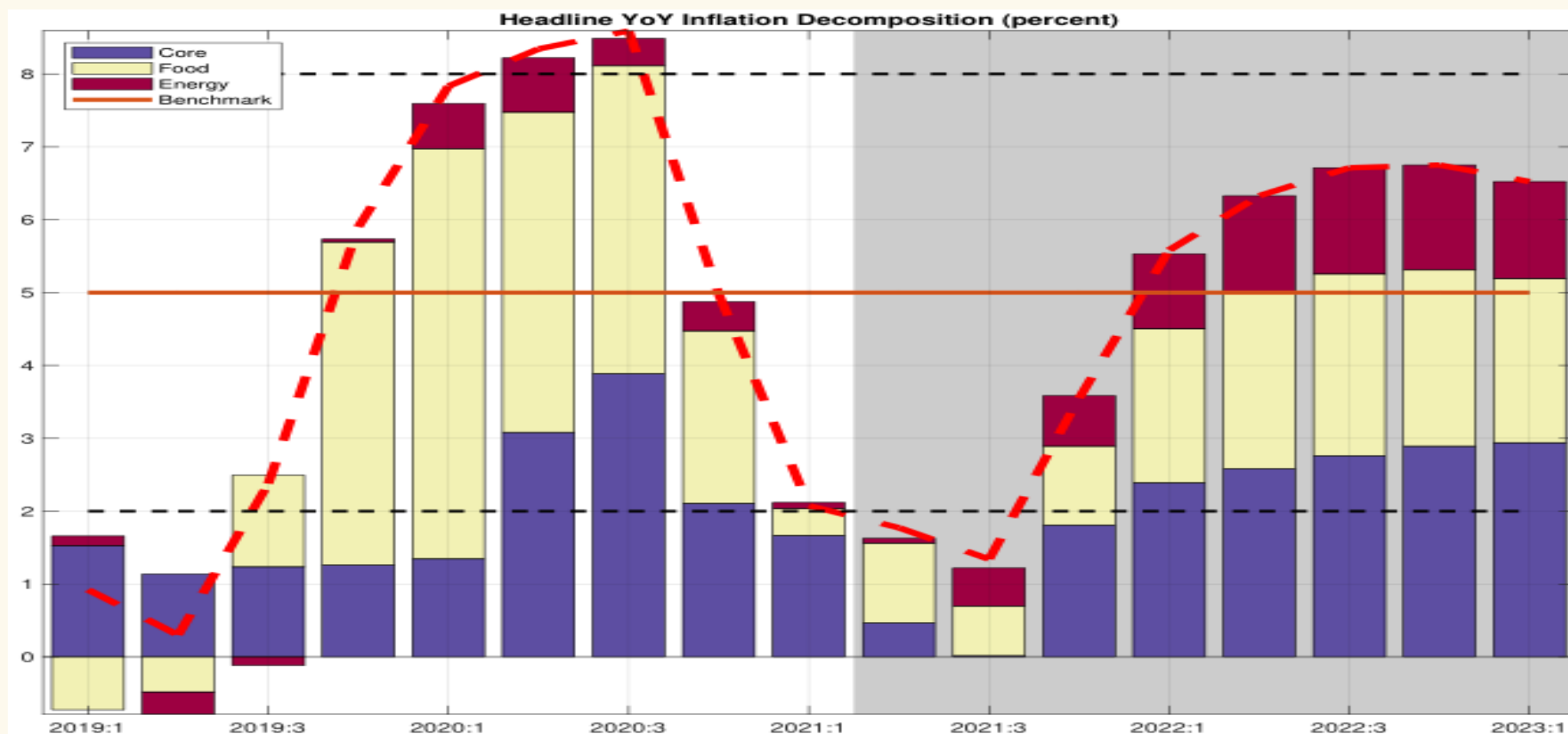
Headline inflation eased from 5.1% in 2020Q4 to 2.1% in 2021Q1; driven by all its main components



- Core inflation stood at 3.2% in 2021Q1 from 4.2% recorded in the previous quarter
- Food inflation decelerated to -0.4% from 6.2%, and energy inflation also reduced to 1.3% from 5.2% over the same period.



Inflation is projected at 2.2% in 2021 and 6.5% in 2022



Policy decision



- Given that inflation is projected to evolve below the benchmark of 5% in 2021,
 - **MPC decided to maintain an accommodative monetary policy stance by keeping the CBR at 4.5%.**



THANK YOU!