Research Note No. RN/01/25

RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Monetary Policy Stance:

Safeguarding macroeconomic stability through the Central Bank Rate Signal

February 7, 2025

“Keeping the Central Bank Rate (CBR) unchanged will anchor inflation expectations while ensuring stable financial conditions for credit expansion.”

Highlights

- The Monetary Policy Committee (MPC) of the National Bank of Rwanda (NBR) will holds its first meeting in February 12, 2025. The meeting is held on the backdrop of inflation being within target, albeit with a clear upward trend.
- The central bank has pursued an accommodative monetary policy stance in the first three quarters of 2024 by gradually reducing the Central Bank Rate (CBR). The easing stance confirms the central bank’s view that the broader macroeconomic environment allows for monetary policy to support growth, likely aiming to stimulate economic activity.
- On the back of inflationary pressure – even when the rates are within the target range – the NBR’s policy move will be guided by the need to preserve macroeconomic stability.
- The recent developments in regard to macroeconomic stability are a pointer to the possibility of an end to the easing cycle. That does not necessarily translate to the commencement of policy tightening. It instead motivates the expectation that the central bank will keep CBR unchanged as the MPC closely monitors developments at the local, regional and global front.

Background

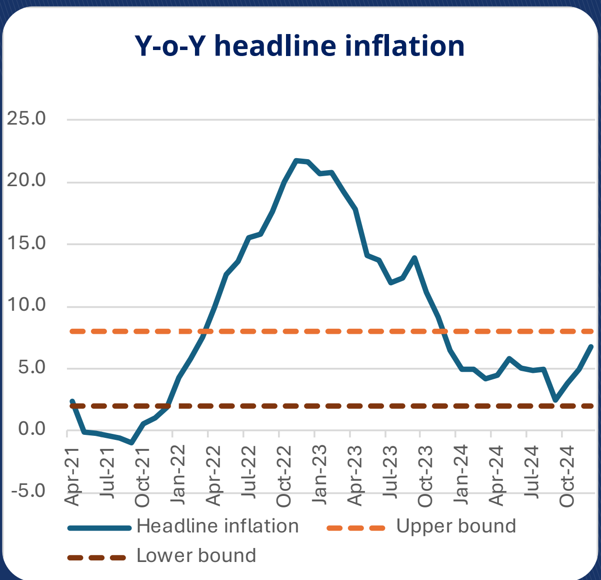
The National Bank of Rwanda (NBR) has pursued an accommodative monetary policy stance during the first three quarters of 2024 by gradually reducing the Central Bank Rate (CBR). The easing stance is a confirmation of the central bank's view that the broader macroeconomic allows for monetary policy to support economic growth by making borrowing cheaper and encouraging investment and consumption.

Even as that is the case, inflation has exhibited a clear upward trajectory, with the year-on-year inflation rate rising from 2.5% in September 2024 to 3.8% in October, 5.0% in November, and 6.8% in December **(Figure 1A)**. This increase reflects broad-based price pressures across key inflation components.

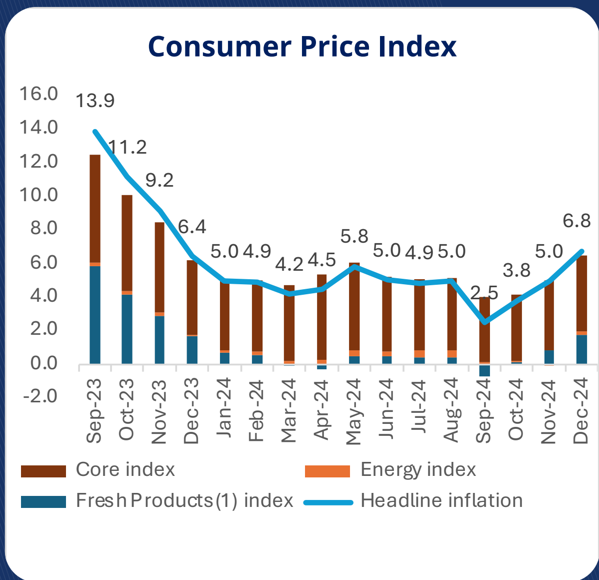
In December 2024, inflationary dynamics were driven by notable increases in both domestic and external price factors. The local goods index rose by 6.9%, while the imported goods index increased by 6.6%. The fresh products index recorded the highest surge at 11.3%, reflecting supply constraints in fresh goods, see **Figure 1B**. Meanwhile, the energy index saw a moderate increase of 2.7%, and core inflation stood at 5.8%, highlighting persistent underlying inflationary pressures.

Maintaining the current CBR is essential to balancing inflation control and economic growth. Keeping the rate unchanged will anchor inflation expectations while ensuring stable financial conditions for credit expansion. This measured approach supports macroeconomic stability by mitigating inflationary risks without restricting economic activity.

Figure1: (A) Headline inflation **(Y-o-Y)** and **(B)** Components of headline inflation **(Y-o-Y)**



Source: National Bank of Rwanda(NBR)

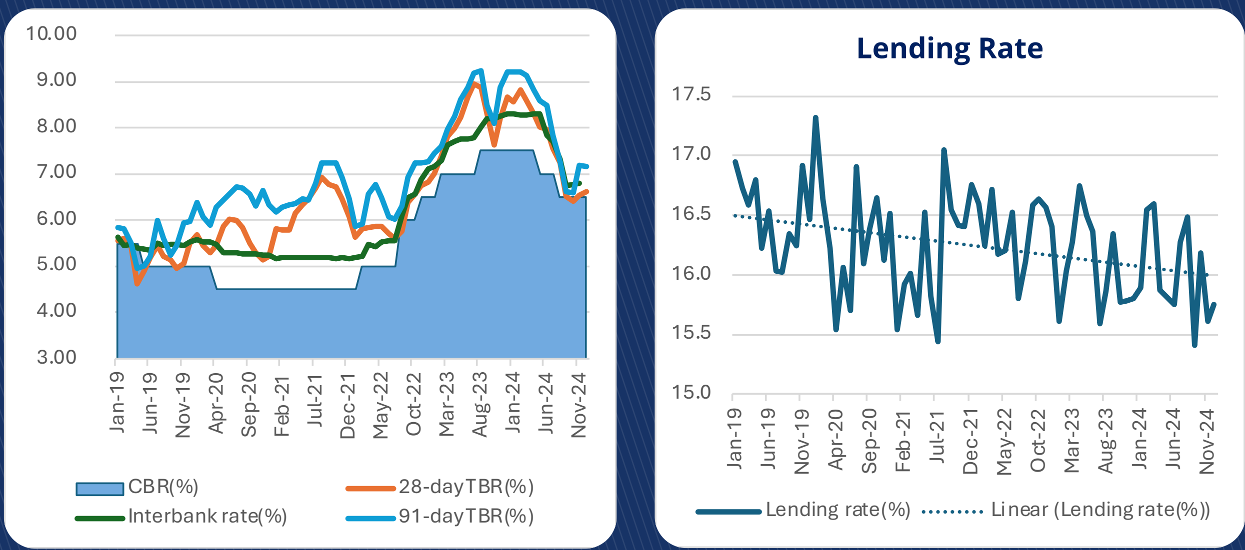


Source: National Institute of Statistics Rwanda(NISR)

The NBR's monetary policy framework has appropriately coordinated the short end of the market **(Figure 2 A)**. Short-term interest rates in tandem with the Central Bank Rate (CBR). The average lending rates, which responding with a lag, have been stable, albeit with a gradual declining trend **(Figure 2 B)**.

Maintaining the central bank rate at its current level is crucial for ensuring financial stability and supporting economic growth. Given the fluctuations in interbank and Treasury Bill rates, a stable CBR will help prevent excessive borrowing costs, ensuring that financial institutions can access liquidity at predictable rates **(Figure 2 A)**. This stability is essential for sustaining credit flows to businesses and households, thereby fostering investment and consumption. Additionally, with inflation on an upward trend, keeping the CBR unchanged will balance the need for price stability while avoiding unnecessary tightening of credit conditions that could hinder economic expansion. By maintaining the CBR at its current level, the central bank can sustain market confidence, support economic resilience, and ensure a smooth transmission of monetary policy.

Figure 2: (A) Short term rates and **(B)** Lending Rates



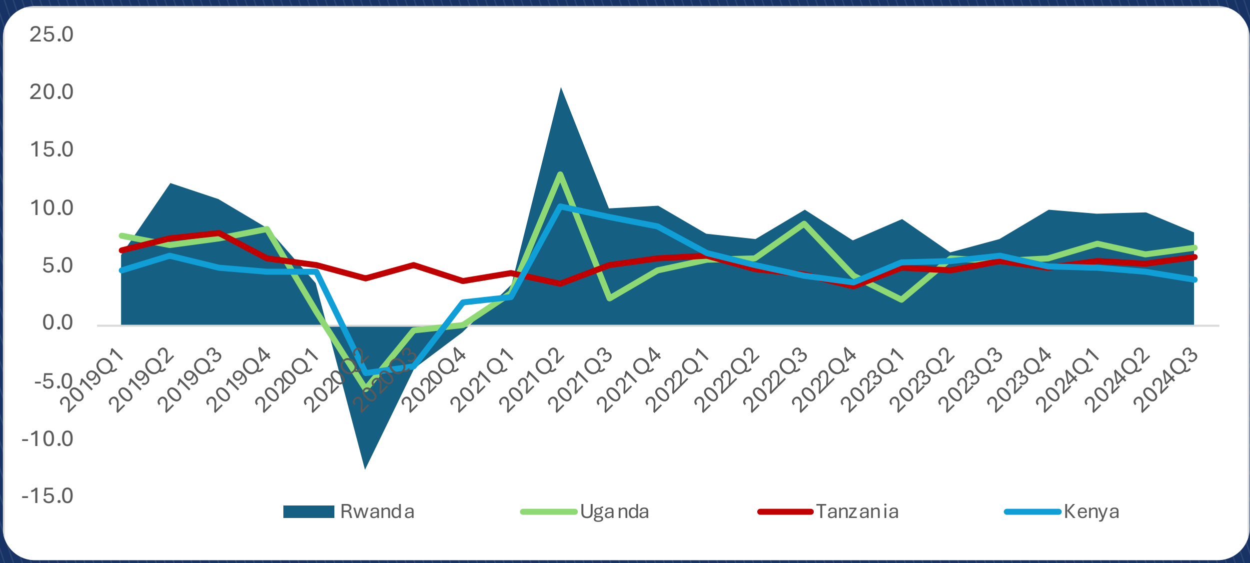
Source: National Bank of Rwanda(NBR)

Regional economic outlook

Rwanda's economic growth trajectory in recent quarters has remained resilient, outperforming its East African counterparts. The economy expanded by 9.7% in the first half of 2024, following a strong 8.2% average growth in 2022-2023. This sustained expansion is driven by robust performance of key sectors such as services, industry, and agriculture, alongside government-led infrastructure investments and private sector dynamism. The IMF's forecast of 7.0% for 2024 and 6.5% for 2025 underscores Rwanda's macroeconomic stability and effective policy interventions.

However, external risks such as global inflationary pressures, exchange rate volatility, and regional trade disruptions could pose challenges. Compared to other East African economies, Rwanda continues to register one of the highest growth rates, indicating a strong post-pandemic recovery and a well-anchored economic policy framework, see **Figure 3A**.

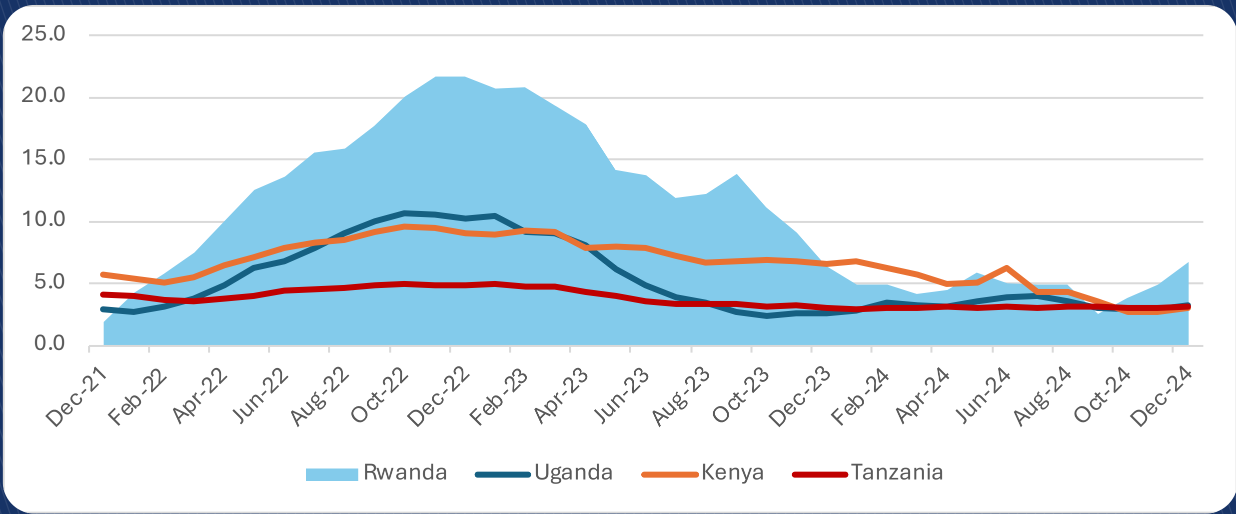
Figure 3A: Real GDP growth rates of regional countries



Source: Central banks and national statistics bureaus of the respective countries

Rwanda's headline inflation declined significantly throughout 2023 but has recently shown an upward trend in late 2024, posing a challenge for the MPC in maintaining a constant central bank rate. The headline inflation for Rwanda remains above, indicating that inflationary pressures are still elevated compared to the regional trend.

Figure 3B: Headline inflation of regional countries

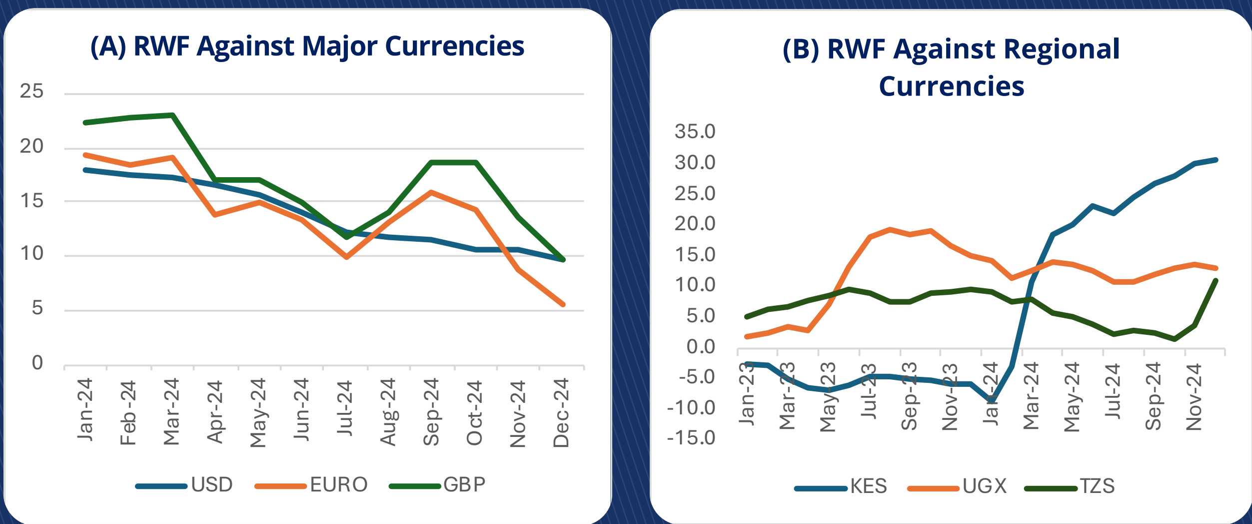


Source: Central banks and national statistics bureaus of the respective countries

A Snapshot of the Foreign Exchange Market Dynamics

In the last quarter of 2024, the year-on-year depreciation trend of the Rwandan franc shows a clear sign of a gradual adjustment towards sustained stability across three major currencies, indicating reduced exchange rate pressures. This is a vindication of the NBR's policy stance **(Figure 4A)**.

Figure 4: Y-o-Y Depreciation Trend on Rwanda Currency



Source: National Bank of Rwanda (NBR)

It is notable though that the Rwandan franc (RWF) has experienced noticeable year-on-year depreciation against key regional currencies in the final quarter of 2024 **(Figure 4B).** Specifically, the RWF has depreciated by 30.7% against the Kenyan shilling (KES) when compared to December 2023. Additionally, the RWF has weakened by 13.2% against the Ugandan shilling (UGX) and by 11.0% against the Tanzanian shilling (TZS) over the same year-on-year period. These substantial pressure against the regional currencies calls for a strategic approach to address the underlying economic factors as a complement to the appropriate policy interventions that the NBR could consider.

Global economic outlook

Amid uncertainty over trade policy and ongoing adverse geopolitical developments affecting markets such as oil, the global economic outlook remains generally positive.

- Global growth is projected at 3.3% in both 2025 and 2026, below the historical (2000-2019) average of 3.7%. Global headline inflation is expected to decline to 4.2% in 2025 and to 3.5% in 2026, converging back to target earlier in advanced economies than in emerging market and developing economies[1].
- The decline in the FAO Food Price Index (FFPI) in December 2024 point to a mixed picture. The annual decrease in the index (2.1% lower than in 2023) could ease imported food price pressures, particularly for commodities like sugar, cereals, dairy, and vegetable oils. Given Rwanda’s reliance on food imports, , the extent of relief will depend on currency fluctuations and domestic supply conditions[2].
- Growth prospects in emerging markets and developing economies remain favorable, particularly in Sub-Saharan Africa, where economic growth is projected to grow at 3.8 % in 2024 and 4.2% in 2025 and 2026. However, rising conflict and violence across the region pose a challenge to economic activity, while climate shocks further threaten stability and growth. The East Africa (EA) region is expected to experience a robust recovery, with average growth projected at approximately 5.1% in 2024, increasing further to 5.7% in 2025[3]. This positive outlook for the EA region is expected to bolster Rwanda’s economic performance by enhancing regional trade and investment opportunities, contributing to sustained growth momentum.

Policy Expectations

The NBR's monetary policy framework has entrenched transparency upon which expectations on its stance are based. On the back of inflationary pressure – even when the rates are within the target range – the NBR's policy move will be guided by the need to preserve macroeconomic stability.

The recent developments in regard to macroeconomic stability are a pointer to the possibility of an end to the easing cycle. That does not necessarily translate to the commencement of policy tightening. It instead motivates the expectation that the Central Bank will keep CBR unchanged as the MPC closely monitors developments at the local, regional and global front.

An outline of the key guiding parameters is:

- **Managing inflation expectations without having a quick policy turn:**
  - Although inflation remains within the target band, it has been rising steadily, reaching 6.8% in December.
  - Maintaining the current CBR will help contain inflationary pressures without unnecessarily constraining economic growth. However, the MPC should remain vigilant and ready to act if inflationary trends persist beyond projected thresholds.
- **Supporting private sector credit growth:** Keeping the policy rate unchanged will provide continuity for lending conditions, ensuring that credit continues flowing to key productive sectors, particularly SMEs and export-driven industries.
- **Managing exchange rate stability:** Given ongoing external pressures, a stable monetary stance will help mitigate exchange rate fluctuations and support external sector resilience.
- **Monitoring global and regional risks:** Continued assessment of geopolitical tensions, commodity price volatility, and regional economic trends is crucial to ensuring timely and adaptive policy responses.
- **Enhancing liquidity management:** Strengthening liquidity monitoring and open market operations will ensure financial sector stability while preventing excessive liquidity buildup that could reignite inflationary pressures.

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