Economic Commentary EC/01/25

RBA
RWANDA BANKERS' ASSOCIATION
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Economic Performance: A test on Resilience

April 24, 2025

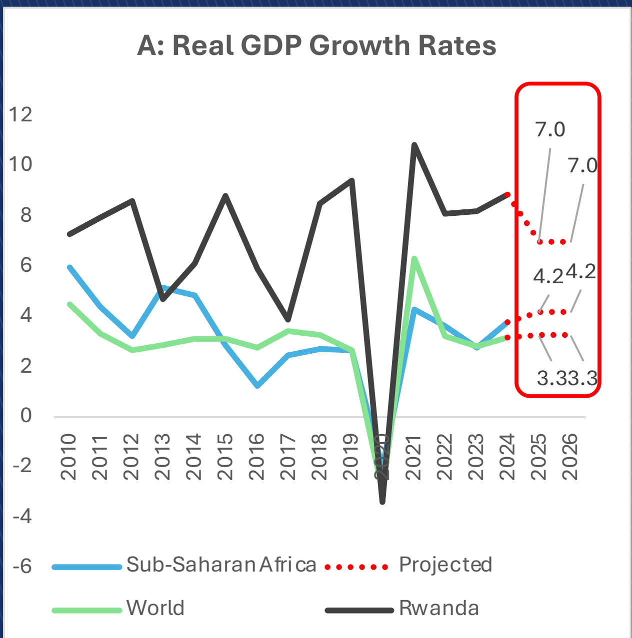
Highlights

- Rwanda's strong economic performance is a commentary on its strong foundation built on macroeconomic stability, and continuous structural and policy reforms. However, a test of its resilience will be on how it navigates the downside risks emanating from disruptions in new global trade and financing regime.
- While public policy is expected to be the main anchor of the resilience, the financial sector is expected to play its contributory role. Based on its stable footing, the sector is anticipated to closely monitor the emerging risks, with a view to positioning its growth aspirations in alignment with the country's economic prospects.

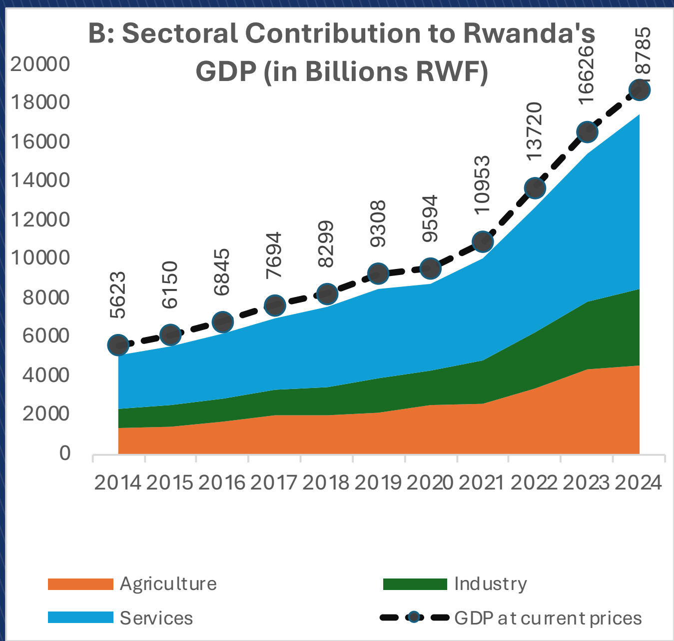
Overview

Economic growth overview

The state of Rwanda's economy reflects consistently strong recovery following the 2020 – 2021 shock, anchored in sound macroeconomic management, continuous structural reforms and strategic investments in productive industries. The latest data from the National Institute of Statistics of Rwanda (NISR) indicates that the economy's Gross Domestic Product (GDP) grew by 8.9% in 2024 compared to 8.2% in 2023 **(Figure 1: A)**. This performance reflects consistent quarterly growth: 9.7% in the first quarter, 9.8% in the second quarter, 8.1% in the third quarter, and 8.0% in the fourth quarter. The steady increase in the services sector's share of nominal GDP – output at current prices – is also evident **(Figure 1: B)**.



Source: NISR; IMF (World Economic Outlook, 2025)



Source: NISR

The outlined performance is undoubtedly impressive. In 2024, Sub-Saharan Africa's economy was estimated to grow by 3.8%, while the world economy was projected to grow by 3.2%, with forecasts rising to 4.2% and 3.3%, respectively, in 2025 and 2026[1] **(Figure 1: A)**. However, downside risks continue to constrain the growth outlook. Even before accounting for the potential effects of the new global trade and financing regime, global economic forecasts remain below the historical average of 3.7% recorded between 2000 to 2019. This reflects the lingering effects of tight monetary conditions, geopolitical uncertainties, and structural challenges in key economies.

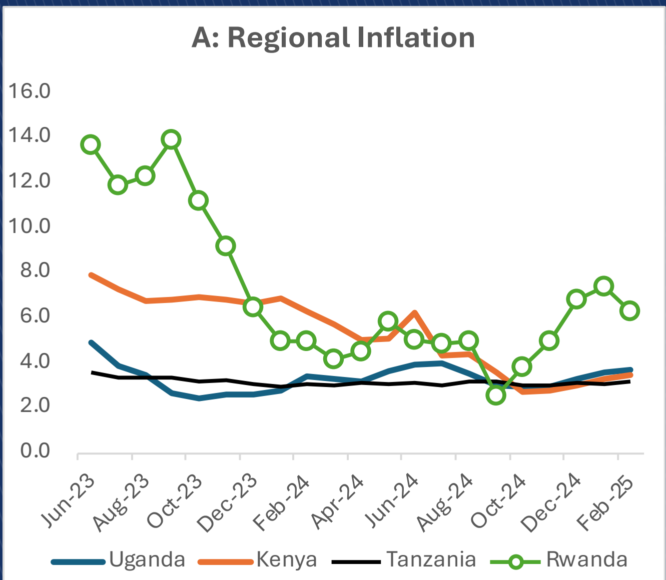
1 https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025

Macroeconomic Stability – a Keen Eye on Inflation trend

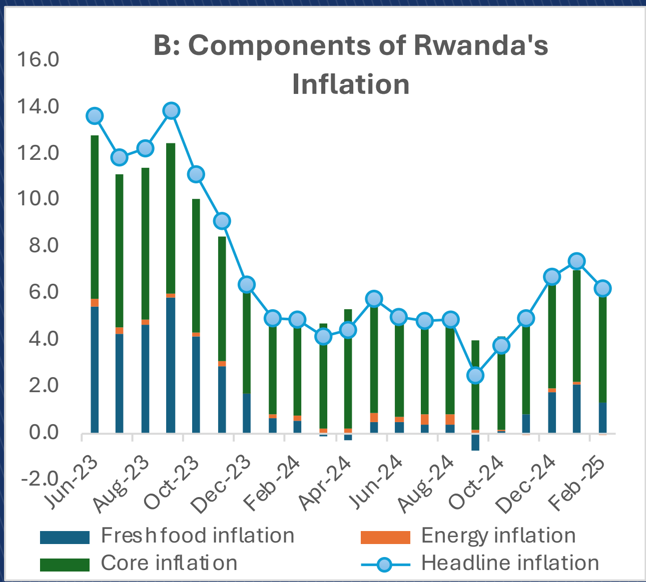
The recent developments regarding the trade regime and how it will share financial flows and the overall economic performance is likely to upset the global headline inflation that was expected to decrease to 4.2% in 2025, and further to 3.5% in 2026. This reduction was anticipated to be largely driven by the effects of tighter monetary policies and the stabilization of commodity and energy prices. In Sub-Saharan Africa, inflation was anticipated to remain in double digits, although on a declining trajectory. It was estimated to reach 18.1% in 2024, with a decrease to 12.3% in 2025[2] **(Figure 2: A).** These trends suggest a gradual improvement in inflationary pressures, although challenges persist in the region. Rwandan inflation persists at a higher level relative to its neighboring countries, including Kenya, Uganda, and Tanzania; however, the inflationary trajectory indicates a discernible deceleration, see **Figure 2 A**.

In Rwanda, headline inflation decreased to 4.8% in 2024, down from 14.0% in 2023, reflecting the positive impact of strong domestic agricultural performance, easing international commodity prices, and past monetary policy actions by the National Bank of Rwanda (BNR) **(Figure 2: B)**. By 2025, inflation (y-o-y) stood at 6.3% in February, down from 7.4% in January 2025, indicating a disinflationary trend. Inflation is projected to remain within the target range (2% - 8%), averaging around 6.5% in 2025 and 4.1% in 2026[3] . Nonetheless, risks to Rwanda's inflationary trajectory stem from the potential intensification of geopolitical uncertainties and climatic shocks, which could disrupt both domestic production networks and global supply chains, thereby exerting upward pressure on prices.

Figure 2: (A) Regional inflation rates and (B) Components of Rwanda's inflation



Source: Central Banks of the respective countries



Source: NISR

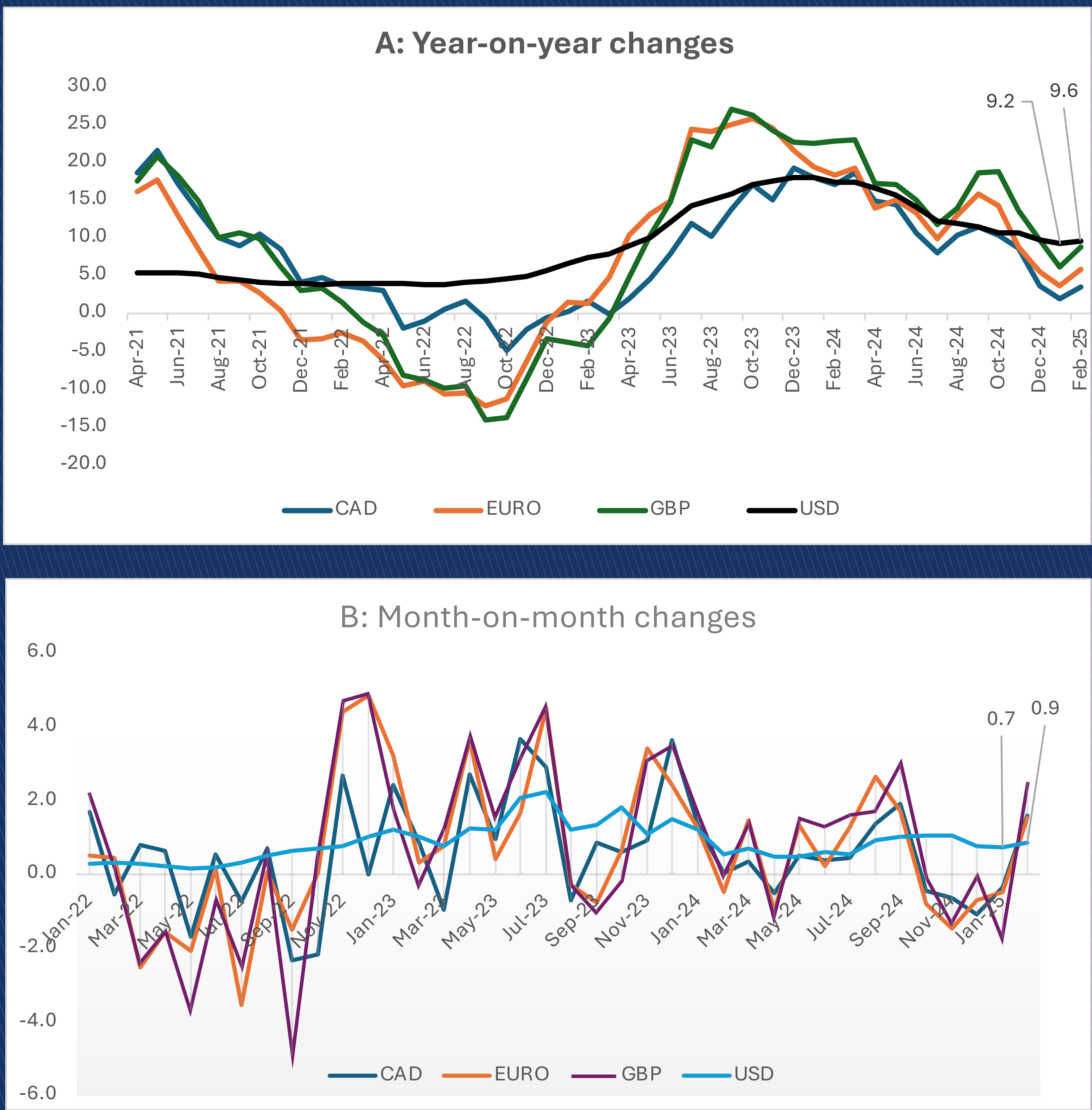
2 https://www.elibrary.imf.org/downloadpdf/display/book/9798400287060/9798400287060.pdf

3 https://www.bnr.rw/documents/MPC_Press_Release__Feb._2025_English.pdf

Exchange rates

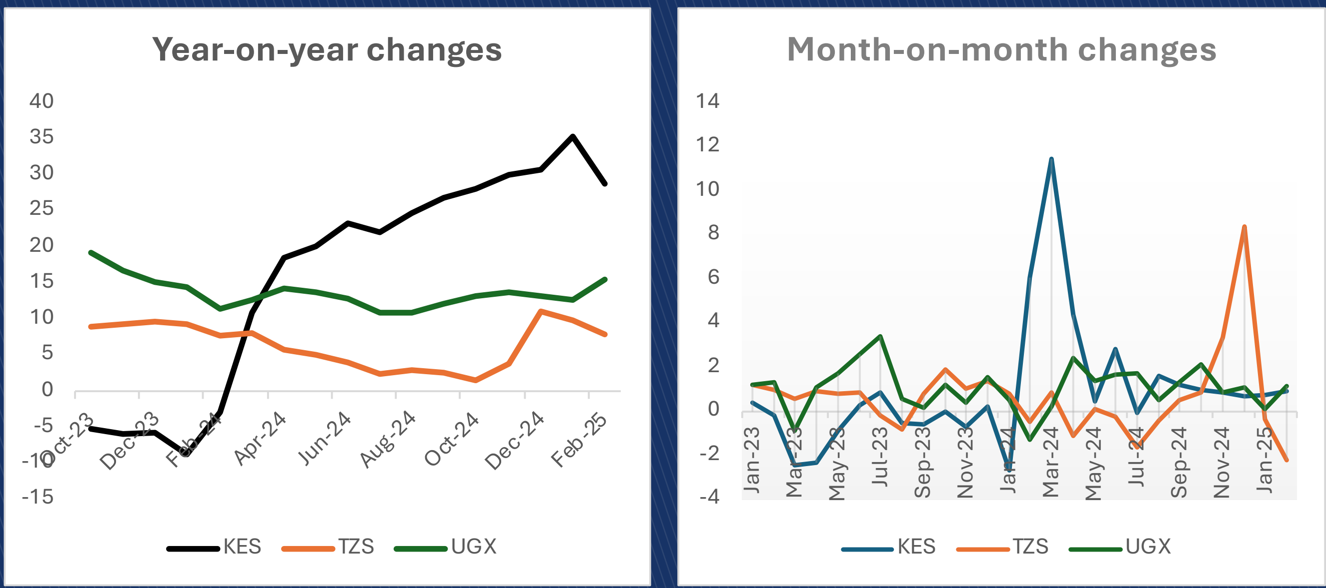
In February 2025, on a year-on-year basis, the Rwandan franc (RWF) depreciated by 9.6% against the US dollar, a notable deceleration from the 17.4% depreciation recorded in the same period of the previous year **(Figure 3: A)**. This indicates improved exchange rate stability; however, the RWF remains under upward pressure against major currencies, as reflected in month-on-month fluctuations, see **Figure 3: B**.

Figure 3: Exchange rate of RWF against regional currencies, (A) Year-on-year changes and (B) Month-on-month changes.



Source: BNR

Figure 4: Exchange rate of RWF against major currencies,
(A) Year-on-year changes and (B) Month-on-month changes



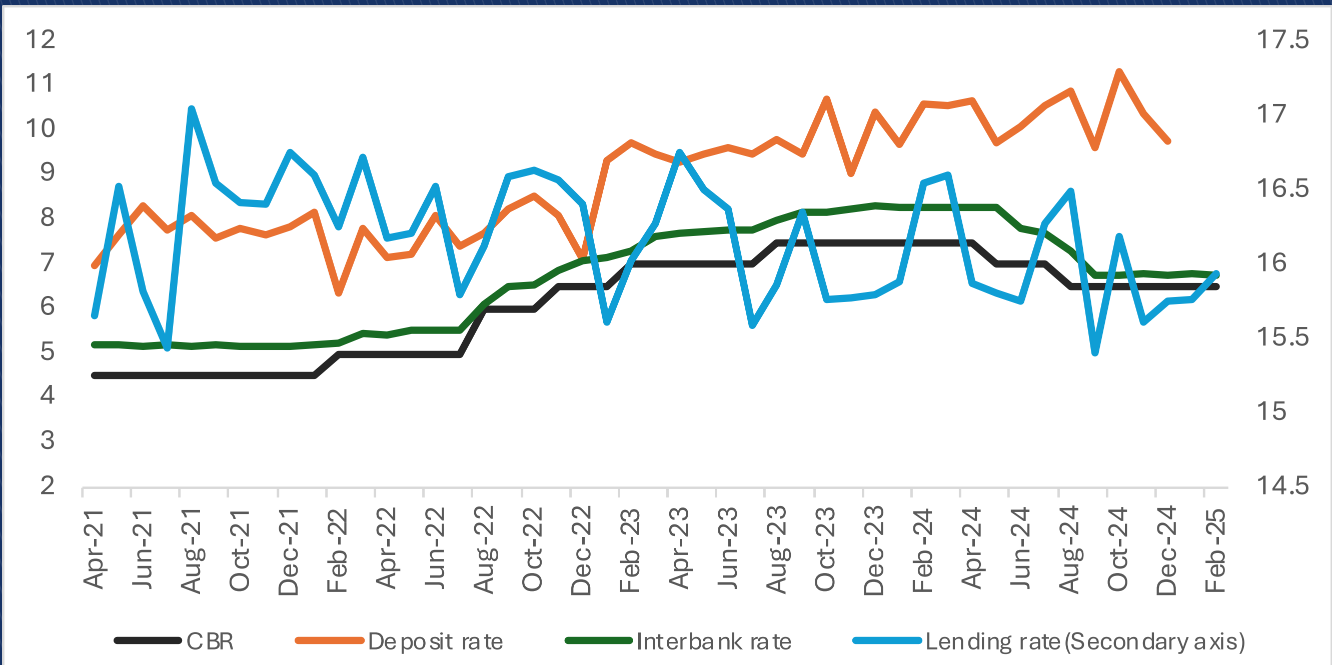
Source: BNR

Cautious Monetary Policy

The National bank of Rwanda is evidently keen on entrancing macroeconomic stability as a platform for sustained growth. Its monetary policy stance – reflected through the Central Bank Rate (CBR), which signals the direction of monetary policy - has been set in a manner that protects stability as a growth prerequisite. The interaction between the CBR and the inter-bank rate showcases the intention to ensure adequate liquidity as a way of continually lowering the cost of funds **(Figure 5)**.

However, the lending rate saw only a slight drop from 16.06% in 2023 to 16.02% in 2024, indicating cautious loan pricing due to credit risks. Meanwhile, the deposit rate rose from 9.65% in 2023 to 10.33% in 2024, likely to attract deposits. These changes support credit growth, but banks may manage liquidity, profitability, and risk exposure effectively.

Figure 5: Monetary and Interest Rates Indicators



Broad Inferences

The performance of the Rwanda economy is undoubtedly strong. However, the outlook will be shaped by the extent to which the major global downside risks interact with the local conditions. This will be the test of the resilience that has been demonstrated in the aftermath of the 2020 -2021 shock.

The financial sector, especially the banking industry, is at the center of that resilience. Based on its stable footing, the sector is anticipated to closely monitor the emerging risks with a view to positioning its growth aspirations in alignment with the country's economic prospects.

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