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RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Monetary Policy Stance:
Staying the Course

May 12, 2025

"With inflation trending upwards, albeit within the target range, the monetary policy stance would justifiably tilt towards maintaining the Central Bank Rate (CBR) at its current level."

Highlights

- The National bank of Rwanda (NBR) holds its second quarter of 2025 Monetary Policy Committee (MPC) meeting on the back of the global economic landscape at a pivotal stage following a period of policy uncertainty. By implication, the NBR's monetary policy stance will continue to be driven by a careful consideration of evidence in a manner that balances the strong domestic conditions and the potential downside risks that could emerge from external conditions.
- The prevailing macroeconomic stability, the primary focus of the NBR's MPC, is an anchor for sustained growth. The MPC is seized of the fact that while inflation is within target, it has since September 2024 been trending towards the upper bound of the target range
- The MPC is expected to undertake a balancing act. The prevailing economic and market conditions presents a strong positive position characterized by a generally stable exchange rate regime, improving external sector buffers, and health liquidity in the financial system.
- With inflation trending upwards, albeit within the target range, the monetary policy stance would justifiably tilt towards maintaining the Central Bank Rate (CBR) at its current level. Maintaining the CBR at its current level reinforces policy continuity, supports domestic demand, and anchors inflation expectations without compromising financial stability. It also strengthens the alignment between policy and market interest rates, indicating continued improvement in monetary policy transmission.

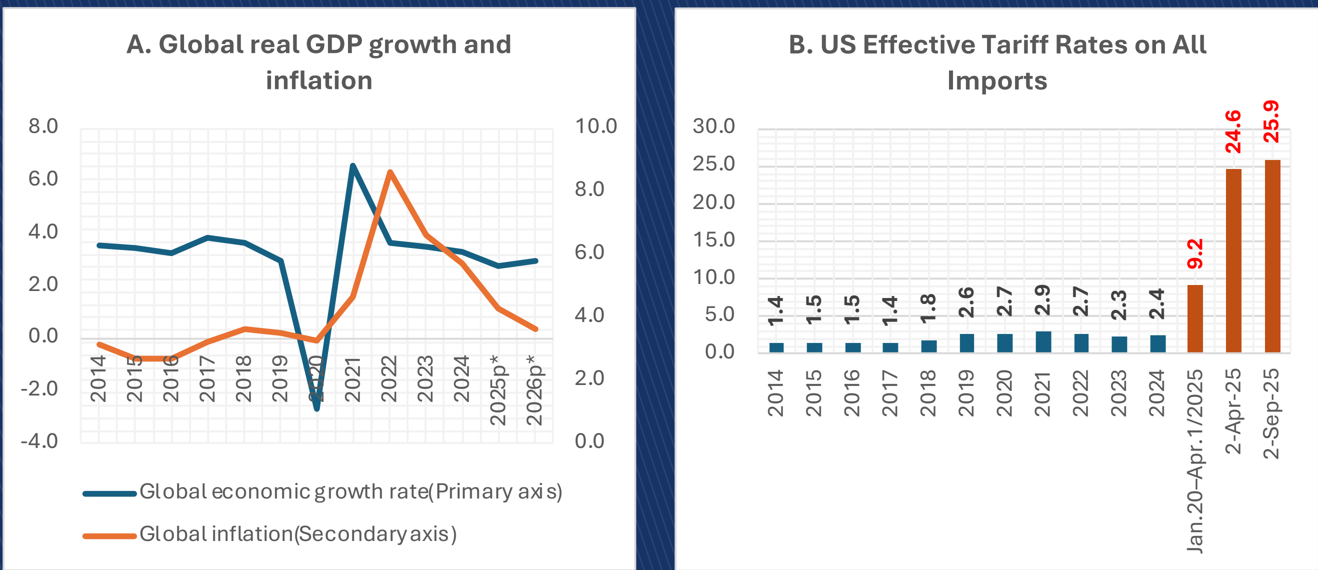
Global Economic Snapshot: Key trends and indicators

The National bank of Rwanda (NBR) holds its second quarter of 2025 Monetary Policy Committee (MPC) meeting on the back of the global economic landscape at a pivotal stage following a period of policy uncertainty. The anticipated global performance is strongly hinged on realignments of major economies. While overall stability evident in 2024 was a pointer to economic resilience, the overall trajectory forecasts a moderation in the pace of expansion. Global Real GDP growth was 3.5 percent in 2023 before slowing down to 3.3 percent in 2024. The declining trend of forecasted, with projected growth anticipated to deceleration to 2.8 percent in 2025[1] **(Figure 1 A)**.

Parallel to these growth dynamics is an emergent global disinflationary trend, with average rates decreasing from 6.6 percent in 2023 to an estimated 5.7 percent in 2024 and projected further declines to 4.3 percent in 2025 and 3.6 percent in 2026 **(Figure 1 (A))**. While representing progress towards price stability, this reduction has been gradual and uneven, with inflation in many economies still exceeding central bank targets and facing risks from underlying pressures and potential supply shocks. Concurrently, analysis of specific commodity markets, such as the FAO Food Price Index (FFPI), reveals nuances: the index increased by 1.0 percent in April 2025 from March, up 7.6 percent year-over-year[2].

Policy actions also play a significant role in shaping the global outlook, particularly in trade. Notably, recent U.S. tariff policy modifications that elevated rates on all imports to unprecedented levels are anticipated to significantly impact the global trade landscape. The tariff rates averaged 2.4 percent increase in 2024 to 9.2 percent during January 20–April 1, 2025, to 24.6 percent on April 2, and reached 25.9 percent on April 9, 2025—levels noted as the highest in over a century, according to IMF publications **(Figure 1 (B))**. These changes raise import costs, reduce trade volumes, induce retaliatory measures, occasion fragmentation in supply chains, and ultimately increase economic uncertainty.

Figure 1: (A) Global Real GDP Growth and Inflation (B) US Effective Tariff Rates on All Imports



Source: IMF

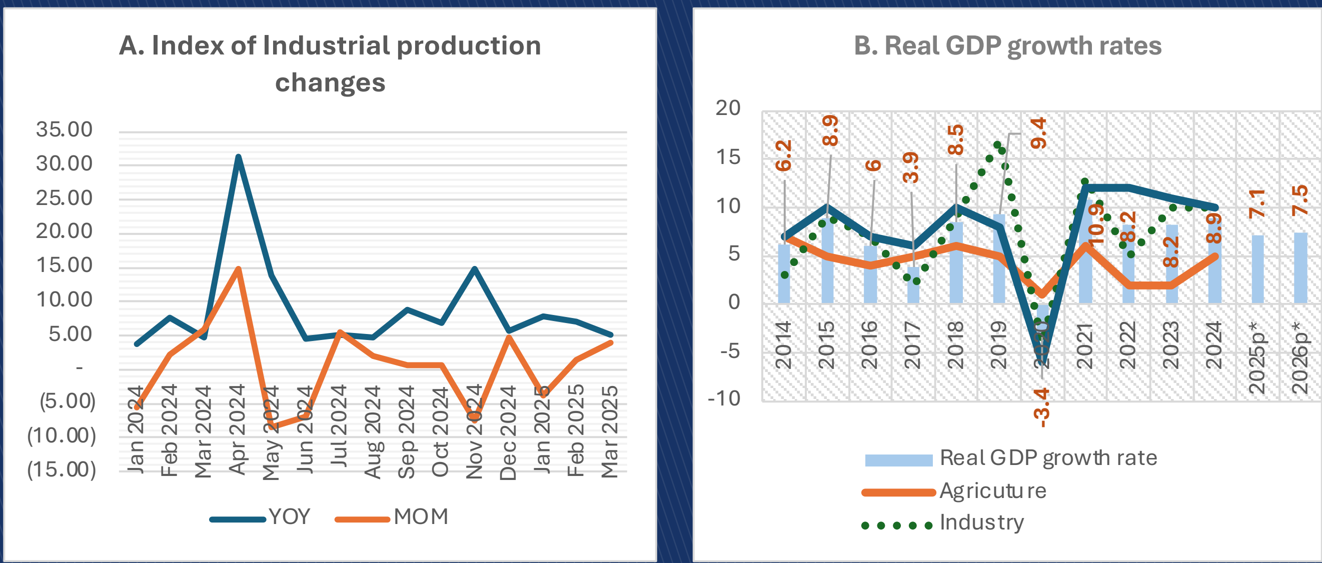
1 https://www.imf.org/en/Publications/WEO/Issues/2025/04/22/world-economic-outlook-april-2025

2 https://www.fao.org/worldfoodsituation/foodpricesindex/en

Review of Domestic Economic Trajectory

Rwanda's real GDP growth rate reached 8.9 percent in 2024, up from 8.2 percent in 2023[3], reflecting the country's strong macroeconomic resilience despite persistent global headwinds, including ongoing geopolitical tensions **(Figure 2 (B)**. This robust performance was underpinned by sustained expansion across key sectors, namely services, industry, and agriculture. Furthermore, data for early 2025 provides additional insights. The Index of Industrial Production (IIP) for March 2025 registered a year-on-year increase of 5.0 percent[4], while also maintaining a positive month-on-month trajectory, signaling continued momentum in industrial activity. These developments underscore the growing contribution of the industrial sector to overall economic performance in early 2025.

Figure 2: (A) Index of Industrial Production changes (B) Real GDP Growth Rates



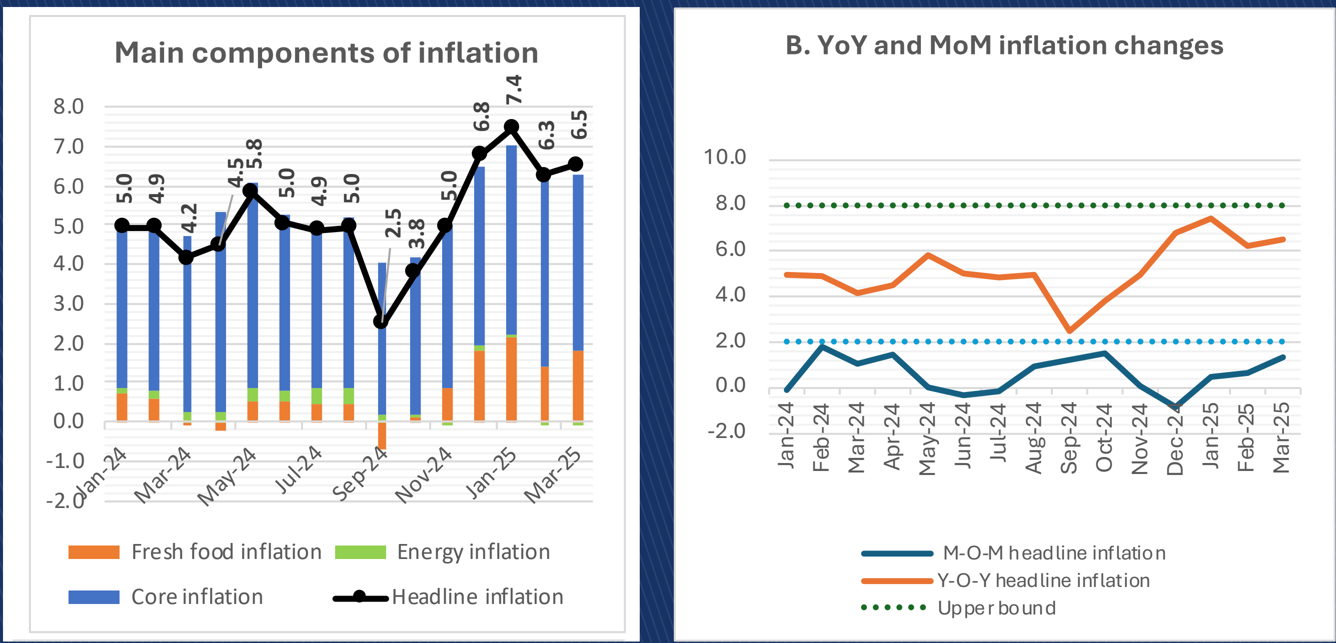
Source: NISR

The overall growth dynamics have implications on stability. Rwanda's annual headline inflation experienced noticeable deceleration, declining to 4.8 percent in 2024 from 14.0 percent in 2023. This trend is primarily attributable to the abatement of international commodity price pressures, robust domestic agricultural output, and the lagged effects of sustained monetary policy tightening.

This progress occurred despite persistent external shocks, including geopolitical tensions and adverse weather conditions, which continue to pose risks to global and domestic price stability. Recent data indicates an uptick in headline inflation in March 2025 from the February 2025 level[5] (Figure 3 A). Nonetheless, headline inflation remains contained within the central bank's target range (Figure 3 (B)), underscoring the effectiveness of current policy frameworks in anchoring inflation expectations amid a challenging external environment.

3 https://www.statistics.gov.rw/publication/gross-domestic-product
4 https://www.statistics.gov.rw/publication/index-industrial-production-march-2025
5 https://www.statistics.gov.rw/publication/rwandas-inflation-65-percent-year-year-march-2025

Figure 3: (A) Inflation and its main components (B) YoY and MoM inflation changes



Source: NISR

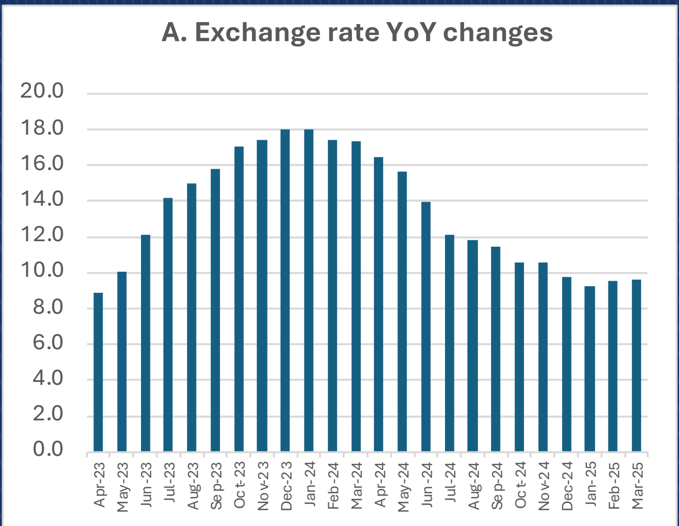
Market Dynamics

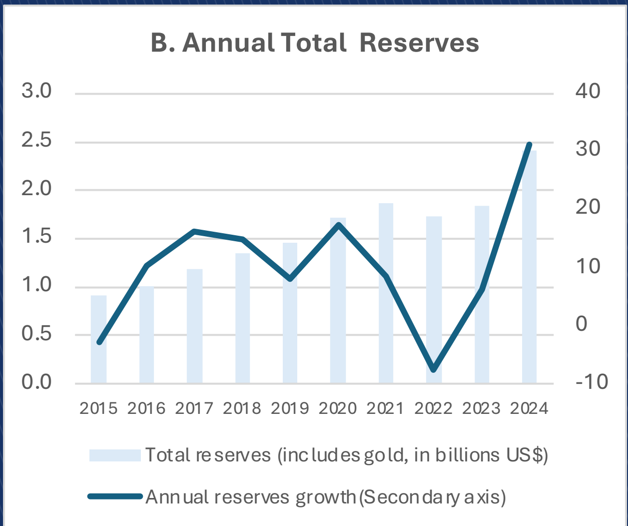
Rwanda's external sector demonstrated improved resilience in 2024, supported by a more stable exchange rate environment and stronger foreign exchange reserves. The current account deficit widened moderately by 5.2 percent, from USD -1,647 million to USD -1,807 million, reflecting persistent structural trade imbalances and robust import demand driven by domestic economic expansion. However, this was offset by substantial growth in total reserves, which rose by 31.2 percent to over USD 2.4 billion **(Figure 3 B)**, including gold holdings[6], significantly reinforcing Rwanda's external buffers.

Significantly, the depreciation pressure on the Rwandan franc eased considerably, with the year-on-year depreciation rate falling from double-digit levels earlier in the year to single-digit territory from December 2024, **(Figure 4 (A))**. This reduction in exchange rate volatility signals the effectiveness of macroeconomic policy in dampening external shocks. Taken together, these dynamics underscore Rwanda's strengthening external position and enhanced capacity to absorb external vulnerabilities.

6 https://data.worldbank.org/indicator/FI.RES.TOTL.CD

Figure 4: (A) Exchange rate YoY Changes (B) Annual Total Reserves





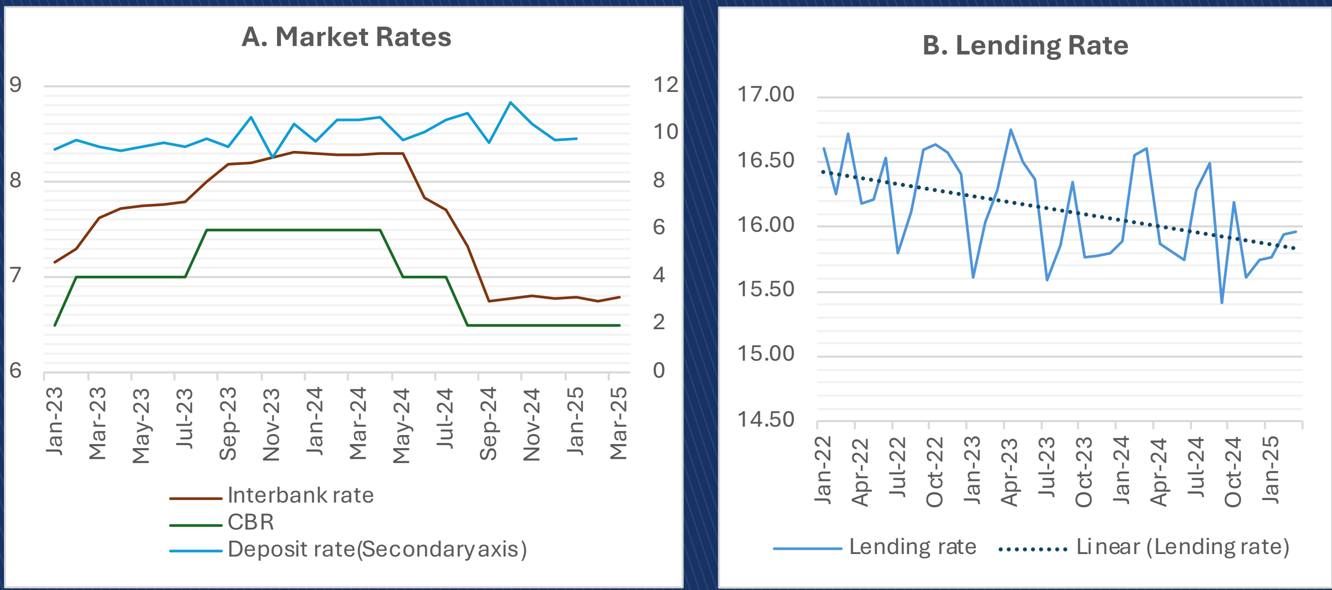
Source: BNR and World Bank Group

A review of interest rate trends highlights Rwanda's broadly stable monetary policy stance, reflected in the continued maintenance of the Central Bank Rate (CBR) in recent periods. This consistency underscores the NBR's commitment to anchoring inflation expectations and ensuring macroeconomic stability. Interbank rates have remained relatively stable, fluctuating within a narrow range, signaling balanced liquidity conditions and effective short-term interest rate management by the central bank.

Meanwhile, the lending rate has risen slightly since December 2024, increasing from 15.61 percent in November 2024 to 15.75 percent in December 2024, before reaching 15.96 percent in March 2025[7] **(Figure 5)**. This upward trend has been largely driven by evolving perceptions of credit risk. Similarly, deposit rates have seen a modest rise, reflecting increased competition among financial institutions for savings mobilization.

7 https://www.bnr.rw/yieldcurve

Figure 5: (A) Market Rates (B) Lending Rates



Source: BNR

Ultimately

The NBR's monetary policy stance will continue to be driven by a careful consideration of evidence in a manner that balances the strong domestic conditions and the potential downside risks that could emerge from external conditions. The prevailing macroeconomic stability, the primary focus of the NBR's MPC, is an anchor for sustained growth. The MPC is seized of the fact that while inflation is within target, it has since September 2024 been trending towards the upper bound of the target range.

The MPC is expected to undertake a balancing act. The prevailing economic and market conditions presents a strong positive position characterized by a generally stable exchange rate regime, improving external sector buffers, and health liquidity in the financial system. With inflation trending upwards, albeit within the target rage, the monetary policy stance would justifiably tilt towards maintaining the Central Bank Rate (CBR) at its current level. Maintaining the CBR at its current level reinforces policy continuity, supports domestic demand, and anchors inflation expectations without compromising financial stability. It also strengthens the alignment between policy and market interest rates, indicating continued improvement in monetary policy transmission.

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