



RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

ECONOMIC UPDATE

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RBA Research Center

RBA Research Centre was established in 2023 as a platform for positioning the financial sector as a key driver of the economy's development aspirations. The setting up of the Research Centre was underpinned by the need to anchor market developments on evidence-based insights.

The Centre offers an array of research papers and commentaries, and promotes dialogues on critical policy issues by way of convening conferences and workshops. The pursuit of depth and clarity in our research is a testament of our commitment to the endeavour of transforming the Rwandan banking sector through being at the frontier of knowledge that grounds data-driven insights and forward-thinking solutions.

Our approach is motivated by the objective of embedding the attribute of the Rwandan banking industry being knowledge driven. In that regard, the Research Centre is positioned as a Pillar of Insight with data as the catalyst that shapes policies, decisions, and strategies. That necessitates that the Research Centre adopts a collocative approach of working closely with policy and regulatory agencies, market players as well as local and international stakeholders.

RWANDA ECONOMIC HIGHLIGHTS



Rwanda's economy grew by 7.8% in Q1 2025



The 2025/26 government budget rises by 21% to FRW



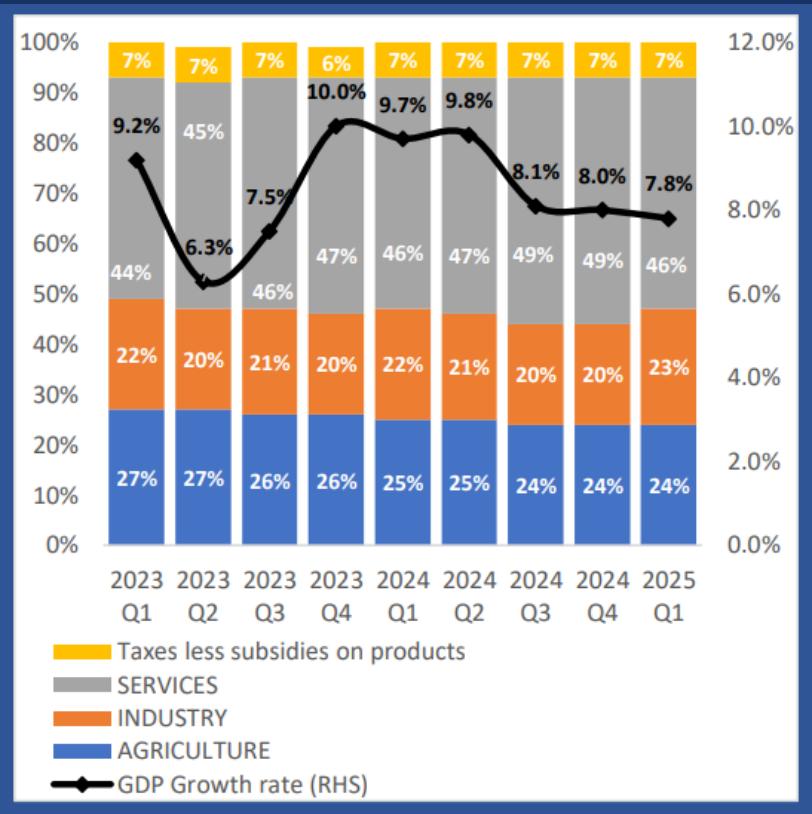
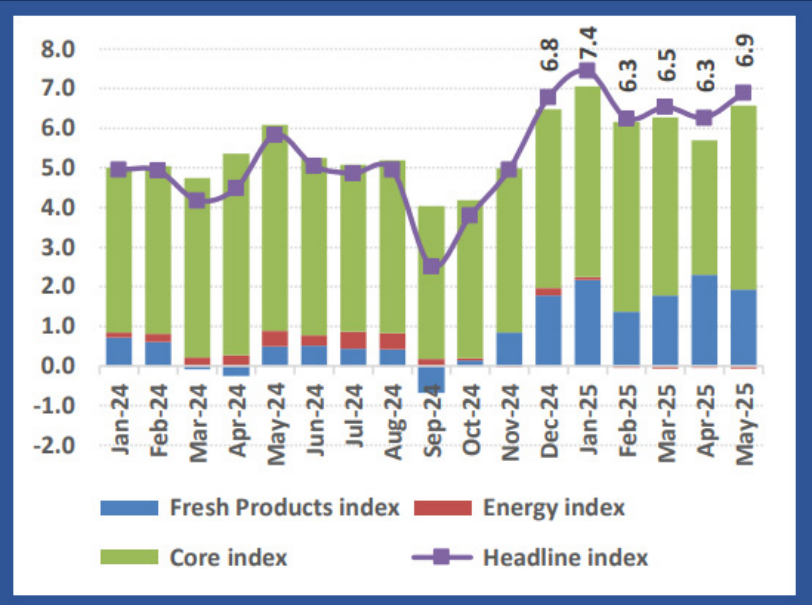
Rwanda's inflation rose to 6.9% in May 2025



In Q1 2025, banking assets and liabilities rose by over 5%, while NPLs dropped to 2.7%.



The lending rate eased by 62 basis points to 15.6% in May 2025



Budget

2024/2025
Frw 5,816.4 bn

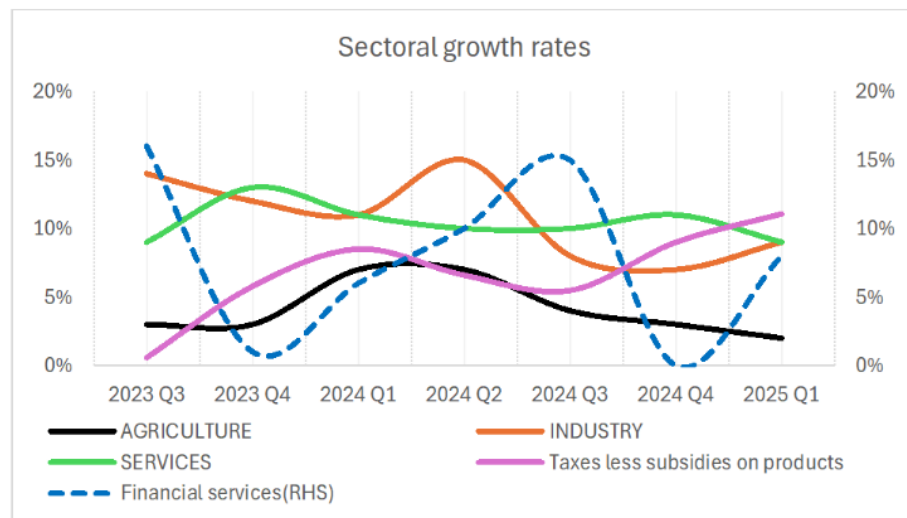
↑ 21%

2025/2026
Frw 7,032.5 bn

Industry and Services functioned as the primary engines of growth, propelling Rwanda's economy to a robust 7.8% expansion in Q1 2025. This strong performance, however, remains short of the ambitious goals outlined in the nation's path to transformation.

Rwanda's economy registered a real GDP growth of 7.8% in the first quarter of 2025, driven by robust performance in both the Industry and Services sectors.

Figure 1: Sector Growth Rates



The services sector, constituting the largest share of the economy at 46% of GDP, expanded by 9%, with notable growth in wholesale/retail trade (+14%) and ICT (+19%). The agriculture sector, representing 24% of GDP, saw modest growth of 2%, constrained by a 1% decline in food crop production. The industry sector, contributing 23% to GDP, also grew by a strong 9%, primarily supported by expansion in construction (+13%) and manufacturing (+7%). Despite this strong overall performance, the growth rate remains below the 9.3% target outlined in the National Strategy for Transformation (NST2).

Rwanda's economy faced noticeable inflationary pressures in May 2025, with the year-on-year consumer price index accelerating to 6.9%. Despite this upward trend, monetary authorities project that headline inflation will remain within the target range, indicating confidence in underlying macroeconomic stability.

In May 2025, Rwanda's year-on-year headline inflation rate accelerated to 6.9%, primarily driven by significant price pressures in key commodity and service categories, including food and non-alcoholic beverages (+9.2%), transportation (+3.7%), and housing-related utilities (+3.3%). A month-on-month price increase

of 0.6% further signals persistent inflationary momentum. Despite the inflation rate exceeding the National Bank of Rwanda's near-term projection, authorities are confident that inflation will remain within the manageable annual target range of 2% to 8% for 2025, indicative of a stable economic environment.

Table 1: Headline inflation composition

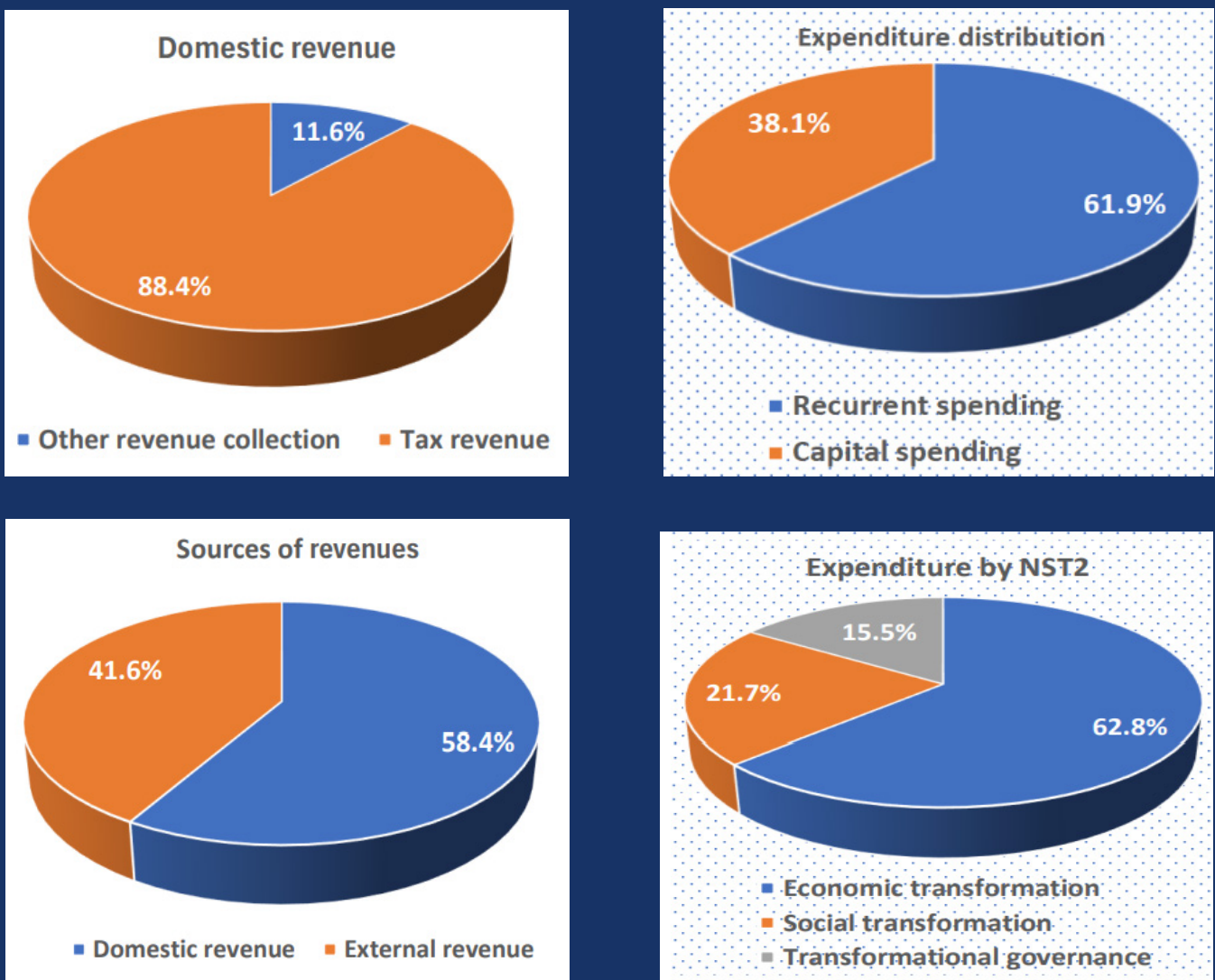
Components of inflation	Jan - 25	Feb - 25	March - 25	April - 25	May - 25
Food and non-alcoholic beverages	7.2	4.5	6.4	7.9	9.2
Alcoholic beverages and tobacco	6.0	5.0	5.6	6.7	7.5
Clothing and footwear	5.0	4.8	4.6	4.7	4.4
Housing, water, electricity, gas, and other fuels	4.0	2.9	2.6	3.3	3.3
Furnishing, household, equipment and routine household maintenance	5.1	5.6	5.6	6.0	6.4
Health	2.0	1.9	1.1	1.8	-0.1
Transport	18.5	17.4	12.0	3.8	3.7
Communication	2.8	4.6	4.0	3.3	3.3
Recreation and culture	1.1	-1.0	0.1	-1.4	-1.4
Education	8.4	8.4	8.4	8.3	8.3
Restaurants and hotels	9.5	11.6	14.1	14.7	16.6
Miscellaneous goods and services	4.6	4.8	5.0	4.7	4.8
Headline inflation	7.4	6.3	6.5	6.3	6.9

The 2025/26 fiscal year will be defined by a record RWF 7.03 trillion national budget, outlining a clear and decisive roadmap for investment and growth. This plan signals a dual commitment: to aggressively fund transformative economic projects, and to maintain a course of careful fiscal management. This balanced approach aims to build a more resilient and prosperous economy for the future.

Aligned with its National Strategy for Transformation (NST2), Rwanda's RWF7.03 trillion budget for 2025/26 prioritizes long-term economic development by dedicating the largest allocation, 62.8% (RWF4.4 trillion), to economic transformation initiatives. This commitment is exemplified by a major \$600 million

investment to fast-track the new international airport. The budget, marking a 21% year-on-year expansion, balances this ambitious capital spending with a continued focus on increasing domestic revenue mobilization and carefully managing public debt to ensure sustainable growth.

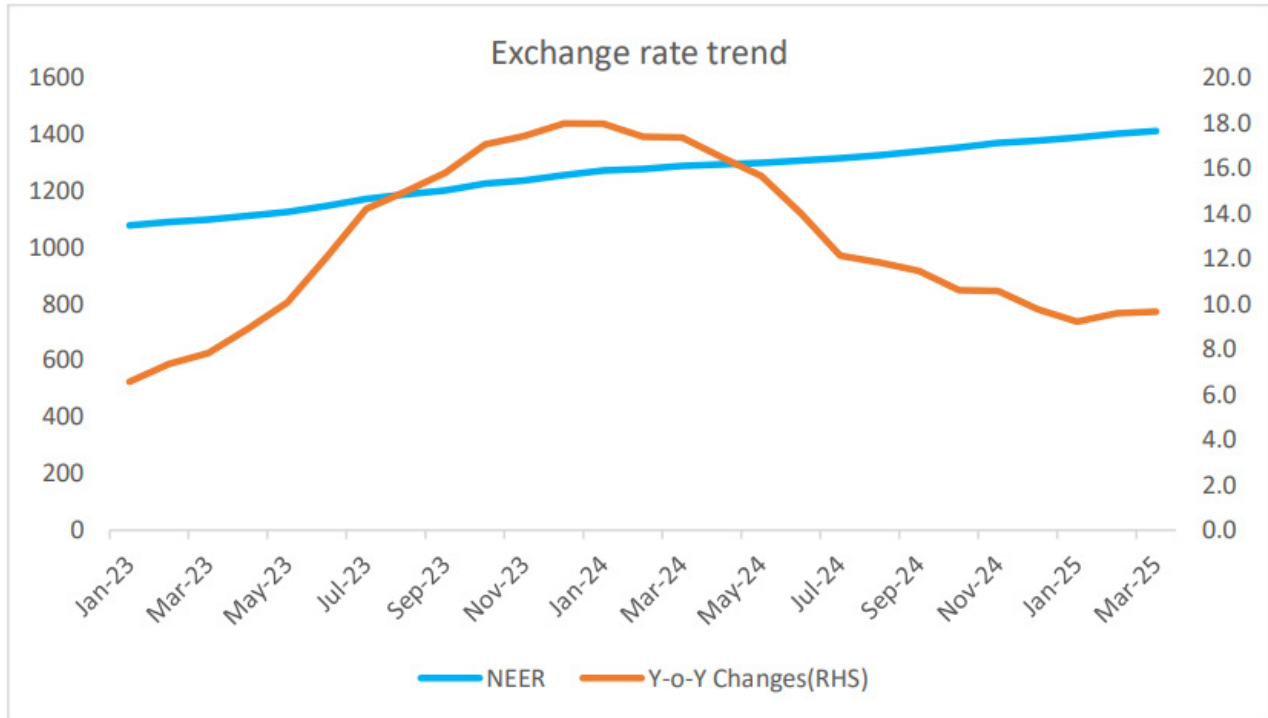
Figure 2: Government Revenue and Expenditure



To combat the destabilizing economic effects of domestic 'dollarization', the National Bank of Rwanda has implemented stringent new regulations targeting the widespread practice of pricing local services, particularly real estate rentals, in foreign currency.

The National Bank of Rwanda (BNR) has issued a new policy, Regulation No. 89/2025, to combat the widespread use of foreign currency in local transactions. The regulation explicitly prohibits the pricing of local goods and services in foreign currency and introduces substantial penalties for

non-compliance, with fines reaching up to 10 million RWF and 100% of the transaction's value. This decisive intervention follows a BNR study that revealed the scale of this practice— over 863 such contracts—and its direct role in heightening the risk of undermining the stability of the Rwandan Franc.

Figure 3: Exchange Rate Trend

The lending rate environment in Rwanda reached a notable turning point in May 2025, reversing a four-month upward trend.

After the average monthly lending rate peaked at 16.22% in April, it fell sharply by 62 basis points to 15.60%. Beyond its immediate benefit of lowering borrowing costs, this development may indicate heightened competition within the banking sector or improved liquidity conditions, fostering a more favourable environment for credit growth across the economy.

The banking sector's risk profile has strengthened considerably, driven by a sustained corrective trend in asset quality over the last three quarters. This amelioration phase has successfully reversed the period of elevated stress seen in mid-2024, with the NonPerforming Loans (NPL) ratio now standing at a robust 2.7%.

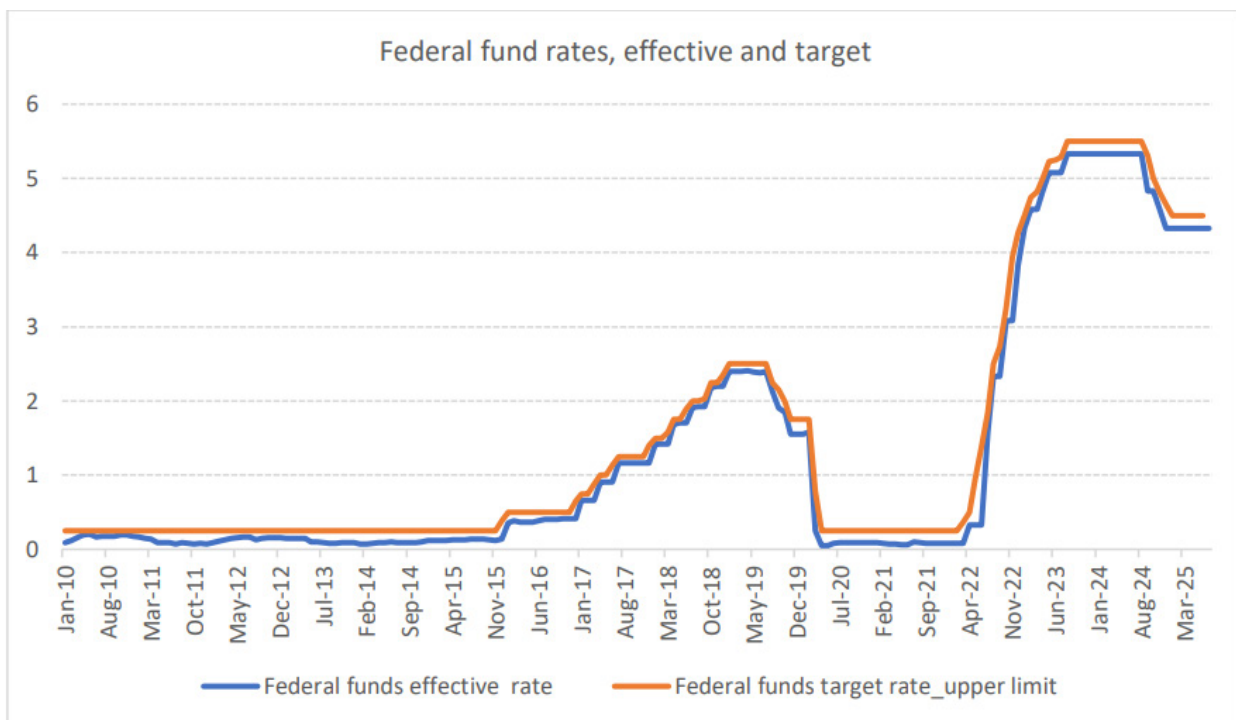
A sustained corrective trend in asset quality has become the defining characteristic of the banking sector's credit risk profile over the past three quarters. This amelioration phase saw the Non-Performing Loans (NPL) ratio decline systematically from its peak, culminating in a recent low of 2.7% in March 2025. This represents a dramatic reversal from the period of significant stress in the first half of 2024, when the NPL ratio had escalated to the regulatory maximum of 5.0%. The total 230-basis-point contraction from this peak indicates a successful deleveraging of risk and positions the sector in a state of enhanced resilience.

Does the divergence between a surprisingly resilient core Consumption Expenditures (PCE) inflation and a concurrent decline in consumer spending signal the emergence of stagflationary pressures in the US economy? The latest data forces policymaker to confront a difficult trade-off, complicating the outlook for near-term interest rate cuts.

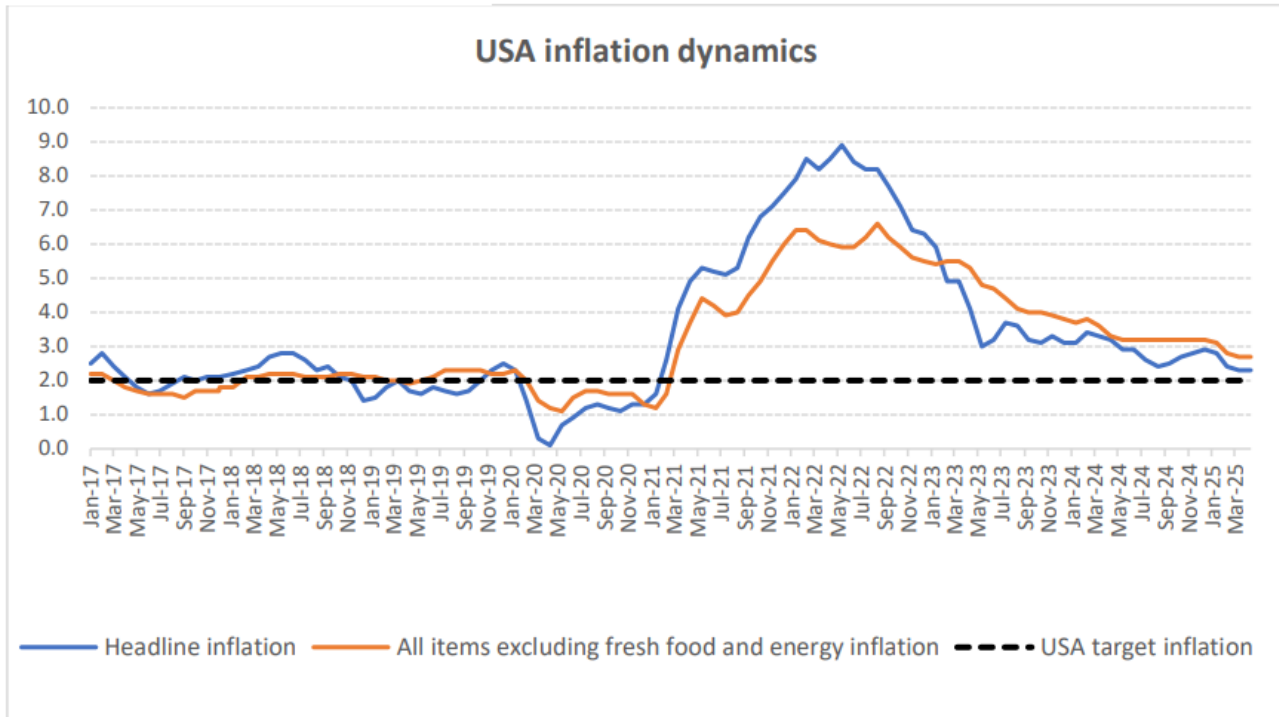
The May Personal Consumption Expenditures (PCE) report presented a challenging dynamic for the Federal Reserve, as underlying inflation proved more persistent than anticipated, complicating the path for monetary policy. While the headline PCE index rose a modest 0.1% month-over-month, the more influential core index—which excludes volatile food and energy prices—accelerated by 0.2%, pushing annual core inflation to 2.7% and further from the central bank's 2% target. This policy hesitation, occurring despite mounting evidence of a slowing economy like the surprising decline in consumer spending, cements market expectations that the Federal Open Market Committee (FOMC) will forgo an interest rate cut

in July, likely deferring any potential easing until at least its September meeting. This domestic policy dilemma has profound and adverse implications for the global economy, as the decision to keep U.S. interest rates high sustains a strong dollar, which significantly increases the debt-servicing burden for other countries. Simultaneously, as American consumer spending weakens, nations that rely on exporting goods to the U.S. will suffer from reduced revenues, leaving the rest of the world confronting a difficult dual predicament: the drag of slowing global growth combined with the strain of persistently high borrowing costs.

Figure 4: Federal Fund Rates, Effective and Target



Source: Federal Reserve Bank

Figure 5: USA Inflation Dynamics

The conflict between Israel and Iran made global oil prices unstable, and the effects were felt around the world. For Africa, this development created a two-sided story: presenting significant challenges for countries that import oil, but new opportunities for the continent's oil-producing nations.

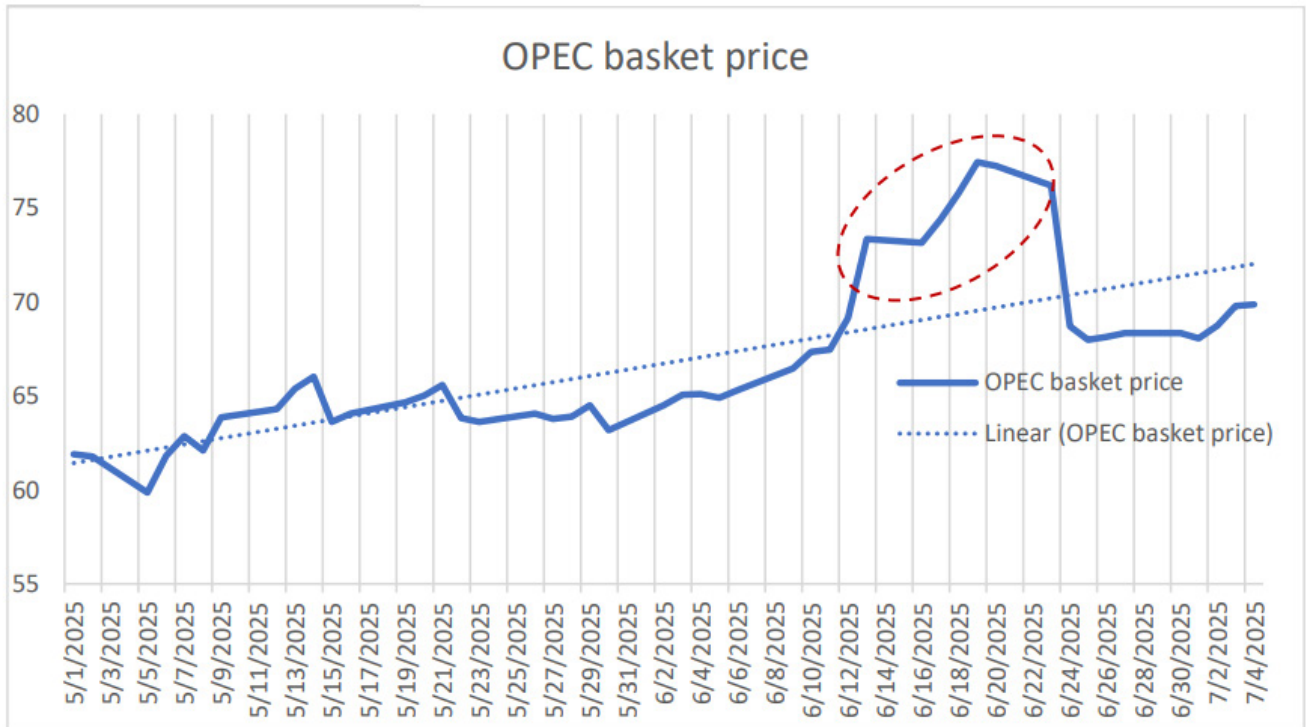
The price surge was principally driven by heightened geopolitical risks surrounding a critical shipping route in the Middle East, which precipitated a 7% spike in crude oil prices. For the continent's net oil-importing nations, this translated into adverse economic pressure in the form of elevated energy import bills and a likely pass-through to consumer-level fuel prices. Conversely, for Africa's oil-exporting

economies, the higher price environment presented an opportunity for increased export revenues and could potentially attract new capital investment into the sector. However, the upward pressure on prices was partially offset by the fact that global oil markets remained well-supplied, providing a buffer against more extreme volatility.

The convergence of global market volatility and national tax policy has directly translated into higher costs at the pump for Rwandan consumers.

Effective July 2, 2025, the Rwanda Utilities Regulatory Authority (RURA) has implemented a new fuel price structure, which will remain in effect for the next two months. This upward adjustment stems from a dual pressure: firstly, the surge in global crude prices driven

by geopolitical instability, and secondly, the domestic reintroduction of the Value Added Tax (VAT) on fuel products. Consequently, the maximum retail price for petrol has been set at Rwf1,803 (+10.4%) per litre, with diesel now priced at Rwf1,757(+6.7%) per litre.

Figure 6: OPEC Basket Price

Source: OPEC



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