



RWANDA BANKERS' ASSOCIATION

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# Monetary Policy Stance

## Anchoring Stability on the Back of Inflationary Pressure

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**Rwanda Bankers' Association Research Centre**



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## **RBA Research Note**

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*“While headline inflation remains within the National Bank of Rwanda’s target band, it’s position near the upper bound justifies a cautious policy stance. Holding the rate steady allows the MPC to remain vigilant without pre-emptively tightening policy.”*

## Highlights

- Global growth is projected to slow in comparison to 2024 and the pre-pandemic average. However, as trade-related distortions diminish, improved financial conditions and reduced tariffs are expected to provide some support. At the same time, global inflation is easing, largely due to weaker demand and falling energy prices.
- The Rwandan economy recorded a strong performance in the first quarter of 2025, demonstrating a resilient growth path. This was driven by contributions from all sectors of economic activity, led by a significant portion in the services sector.
- While headline inflation remains within the National Bank of Rwanda’s target band, its position near the upper bound justifies a cautious policy stance. Holding the rate steady allows the MPC to remain vigilant without pre-emptively tightening policy. This would be accompanied by a clear signal that the Central Bank will be ready to change the policy stance should the inflationary pressure lead to the target range being breached.

## The Global and Regional Economic outlook

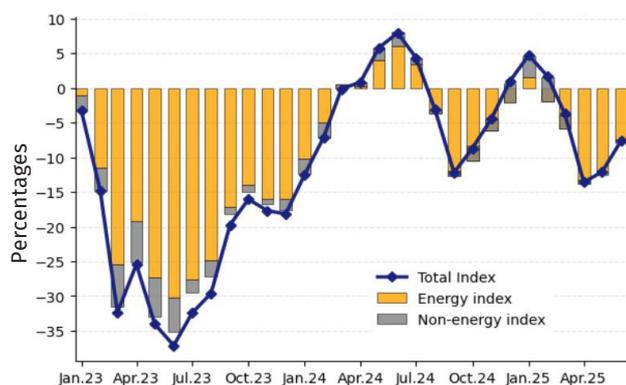
Volatility in global oil prices triggered by the brief military conflict between the Islamic Republic of Iran and Israel in June 2025 appears to have been a temporary shock. The surge in prices was primarily driven by elevated geopolitical risk premiums rather than supply disruption. As the conflict deescalated, price pressures faded, shifting market focus back to bearish fundamentals. The oil market remains adequately supplied, with robust output from both OPEC+ and non-OPEC producers outpacing relatively weak global demand<sup>1</sup>.

This trend is also evident across the broader commodity complex. On a year-on-year basis, the total commodity price index declined by 7.6% in June 2025, with energy and non-energy price indices falling by 11.2% and 1.1%, respectively<sup>2</sup> (Figure 1.a). The Iran-Israel conflict contributed to a sharp month-on-month rise in energy price index in June by 9.7% coinciding with

a significant increase in surge in crude oil prices. For example, the OPEC basket price rose from USD 63.6 per barrel in May to USD 69.7 in June, marking a significant monthly increase of 9.6% (Figure 1.c). However, the momentum eased in July, with the price rising only slightly to USD 70.0 per barrel, a modest 0.4% increase from the previous month (Figure 1.c). Despite these short-term fluctuations, oil prices (OPEC basket price) remain well below last year's levels, as evidenced by year-on-year declines of 23.9% in May, 16.2% in June, and 17.0% in July<sup>3</sup> (Figure 1.c).

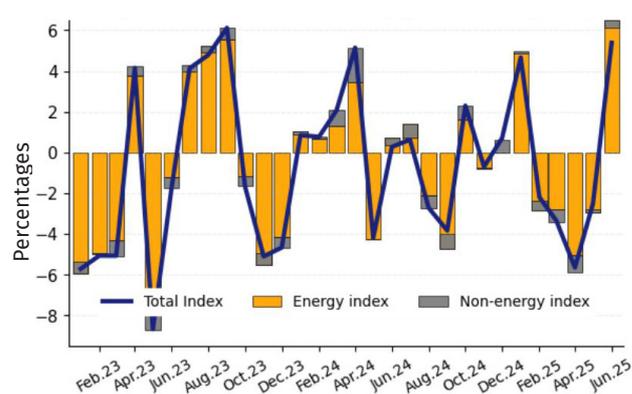
Meanwhile, global trade policy is showing signs of stabilization. U.S. tariffs, which had peaked at 31.3% in April 2025, declined to 17.4% in June – a level expected to persist<sup>4</sup> (Figure 1.c). Taken together, the fading impact of geopolitical shocks, softening commodity markets, and more stable trade dynamics point to easing external inflationary pressures.

Figure 1.a Global Commodity Price Indices (YoY)



Source: World Bank Group

Figure 1.b Global Commodity Price Indices (MoM)



Source: World Bank Group

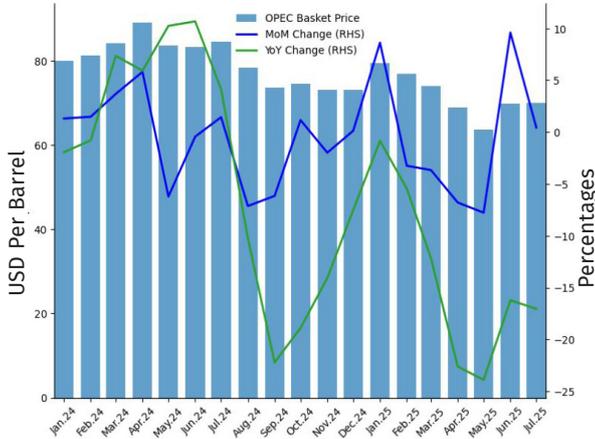
1 <https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025>

2 <https://www.worldbank.org/en/research/commodity-markets>

3 <https://www.opec.org/opec-basket-price.html>

4 <https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025>

Figure 1.c OPEC Basket Price



Source: OPEC

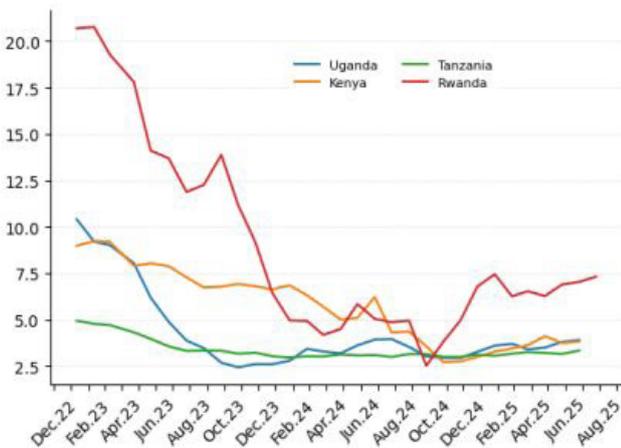
Figure 1.d US Tariffs Rates



Source: IMF

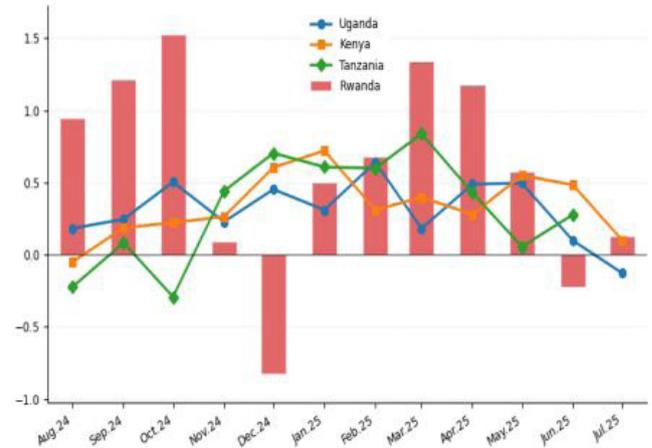
A review of regional inflation in June 2025 shows a converging trend towards price stability across key neighbouring partners, mainly Uganda, Tanzania, and Kenya, creating a favourable external environment for Rwanda. The annual inflation rates (YoY) remained well-anchored within their policy bands, recorded at 3.9% in Uganda, 3.82% in Kenya, and 3.3% in Tanzania – with Rwanda itself at 7.3% (Figure 2.a). While minor price movements were observed, such as in Tanzania, where food costs from supply chain disruptions and price spikes in staples like rice and maize flour pushed annual inflation to 3.3% from 3.2% in May (Figure 2.a) and monthly inflation to 0.3% from 0.1%5, (Figure 2.b) the more significant regional story is one of decelerating momentum. Critically, month-on-month (MoM) inflation in both Kenya and Uganda slowed in June compared to May (Figure 2.b). This collective easing of underlying price pressures among key trading partners substantially insulates Rwanda from the risk of imported inflation and supports a stable domestic outlook.

Figure 2.a Inflation Rates in Selected East African Countries



Source: Central Banks of the respective countries

Figure 2.b MoM prices in selected East African Countries

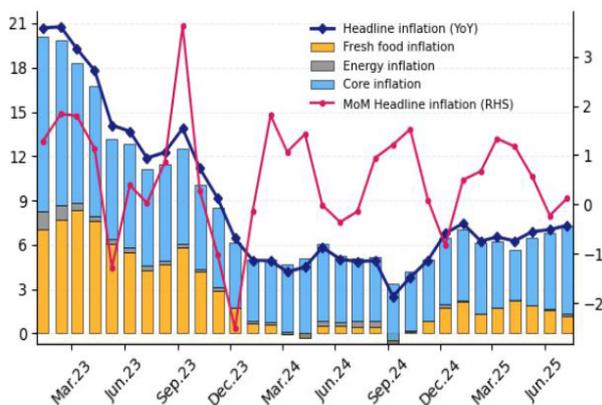


Source: Central Banks of the respective countries and Institute of Statistics

## Domestic economic outlook

On the macroeconomic dynamics, Rwanda's headline inflation remained within the monetary policy band in July 2025, albeit edging closer to the upper bound (Figure 3.b). The annual headline inflation rate rose to 7.3% in July, up from 7.0% in June, 6.9% in May, and 6.3% in April, indicating a continued upward trend in consumer price levels (Figure 3.a). Concurrently, core inflation – which excludes volatile items such

Figure 3.a: Inflation Breakdown: Components vs Headline Trends

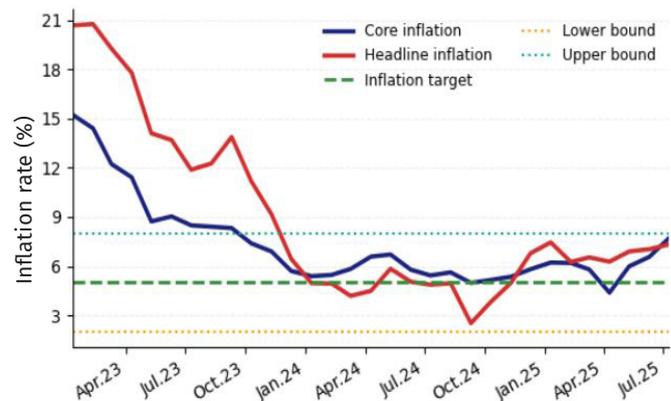


Source: NISR

Recent adjustments in fuel prices and the introduction of a comprehensive package of new tax measures took effect from early July 2025, with the Rwanda Utilities Regulatory Authority (RURA) revising petroleum product prices on 1 July (effective from 2 July)<sup>6</sup> and several taxes including VAT and excise duties on hybrid vehicles, VAT on goods transportation, a tourism tax on accommodation, and an environmental levy on imported plastic-packaged goods came into force from 1 July<sup>7</sup>. While these changes officially took effect in early July, their prior announcement and the resulting price expectations may have already contributed to inflationary pressures observed before implementation. The pass-through of these new taxes and higher energy costs into final consumer and business prices will be a critical factor influencing the Consumer Price Index (CPI). This will have both an immediate, direct impact on the transport component of inflation and potential second-round effects, as higher logistics and operational costs are passed on to consumers across a wide array of goods and services. Their potential impact justifies the MPC's current cautious stance and underscores the need for close monitoring of their pass-through into core inflation and inflation expectations.

as fresh food and energy – accelerated for the second consecutive month, reaching 7.7% in July, from 6.6% in June and 6.0% in May (Figure 3.a). The successive upticks in core inflation suggest a build-up of underlying inflationary pressures, warranting continued monetary policy vigilance to preserve price stability and anchor inflation expectations.

Figure 3.b: Inflation Metrics Comparison



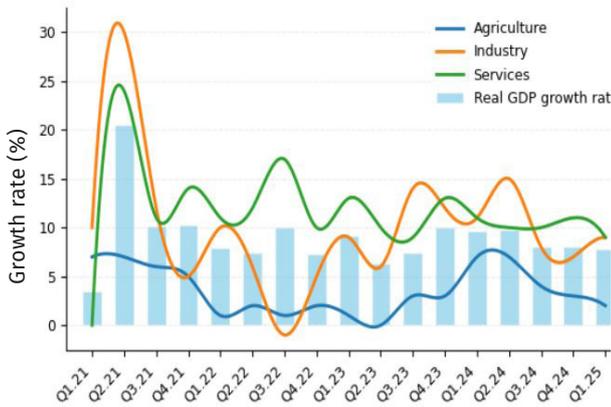
Source: NISR

In parallel with inflation developments, Rwanda's economic growth performance has remained solid. The economy maintained strong momentum in the first quarter of 2025, following a solid annual real GDP growth rate of 8.9% in 2024. In 2025Q1, the economy expanded by 7.8%, supported by solid performances across the services, industry, and agriculture sectors (Figure 4.a). The services sector (which accounts for over 45% of GDP) remains the primary driver of economy grew by 9%, driven by a 10% increase in trade and transport services and a 9% rise in other service activities, including a substantial 19% growth in information and communication technologies (Figure 3.b). The industry sector expanded by 9%, buoyed by a 7% increase in manufacturing, a strong 20% rise in electricity production, and a 13% gain in construction; however, mining and quarrying contracted by 3%, reflecting a downturn in extractive activities (Figure 3.b). The agriculture sector recorded moderate growth of 2%, with notable increases in livestock and livestock products (8%), forestry (6%), and fishing (4%), which helped offset weaker crop performance (Figure 3.a). These 2025Q1 results indicate that Rwanda's economy continues on a resilient and broad-based growth trajectory, despite external and regional challenges.

<sup>6</sup> [http://rura.rw/fileadmin/publication/Fuel\\_pump\\_prices\\_effective\\_from\\_July\\_2025.pdf](http://rura.rw/fileadmin/publication/Fuel_pump_prices_effective_from_July_2025.pdf)

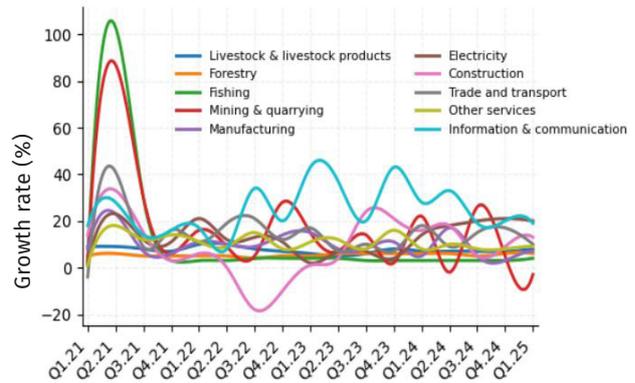
<sup>7</sup> [https://www.rra.gov.rw/en/details?tx\\_news\\_pi1%5Baction%5D=detail&tx\\_news\\_pi1%5Bcontroller%5D=News&tx\\_news\\_pi1%5Bnews%5D=2789&cHash=d919adffd339027c7fc50e47008a070e](https://www.rra.gov.rw/en/details?tx_news_pi1%5Baction%5D=detail&tx_news_pi1%5Bcontroller%5D=News&tx_news_pi1%5Bnews%5D=2789&cHash=d919adffd339027c7fc50e47008a070e)

Figure 4.a: Quarterly Economic Growth Rates



Source: NISR

Figure 4.b: Growth Rates of Major Economic Activities

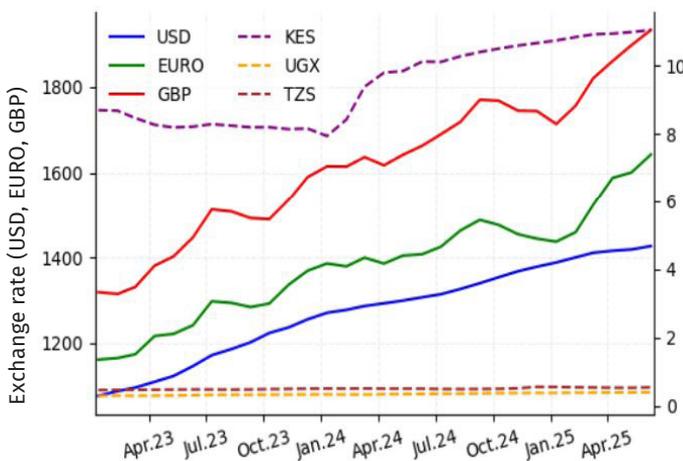


Source: NISR

On the foreign exchange market, the Rwandan franc continued to depreciate against major currencies due to sustained external pressures and heightened demand for foreign currency, largely driven by import needs. Notably, the year-on-year depreciation of the Rwandan franc against the US dollar stood at 9.1% in June, marking the lowest rate since May 2023 and signalling a relative easing of exchange rate pressures (Figure 5.b). The most recent monthly average exchange rate data reveal notable trends against both international and regional currencies. Between May and June 2025, the Rwandan franc depreciated further against international and regional currencies. The Euro appreciated from 1,600.5 to 1,642.4 RWF (2.6%), while the British pound rose from 1,897.2 to 1,932.8 RWF (1.9%). Among regional currencies, the Tanzanian shilling strengthened from 0.53 to 0.54

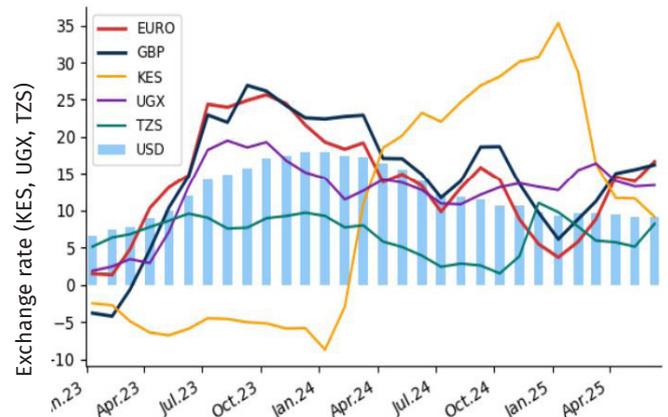
RWF (2.7%), and the Ugandan shilling increased from 0.39 to 0.40 RWF (1.8%) (Figure 5.a). These shifts underscore ongoing short-term pressures on the local currency. Nevertheless, the exchange rate remained relatively stable and well-managed, supported by the National Bank of Rwanda's (BNR) prudent monetary policy stance. In addition, BNR introduced Regulation No. 89/2025 of 23/05/2025, which amends the earlier Regulation No.42/2022 to strengthen the governance of foreign exchange operations by clarifying key definitions, simplifying trade-related payment procedures, and enhancing enforcement mechanisms<sup>8</sup>. Maintaining a stable exchange rate helps anchor inflation expectations, fosters investor confidence, and facilitates sustainable economic growth.

Figure 5.a: Exchange Rate Trends



Source: BNR

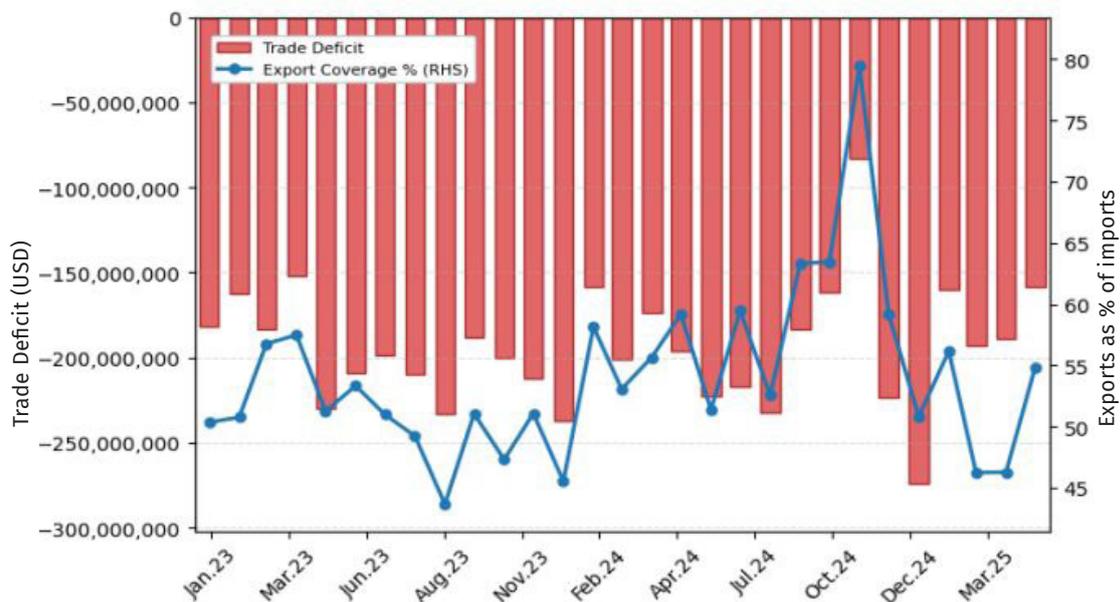
Figure 5.b: YoY Exchange Rates



Source: BNR

While exchange rate movements play a critical role in shaping trade dynamics, we cannot overlook the persistent imbalances Rwanda's external sector. The country has consistently run trade deficits, with the gap peaking at -\$274.5M recorded in January 2025 (Figure 6). Export coverage has remained weak, ranging between 43% and 63%, underscoring a significant dependence on imports (Figure 6). The coverage ratio dropped to a low of around 46%, reflecting severe external vulnerability. However, recent trends show cautious optimism, with the trade deficit narrowing from -\$188.9 to -\$158.7M and export coverage improving to 54.8%, signalling gradual recovery (Figure 6).

Figure 6: Deficit and Export Coverage Ratio

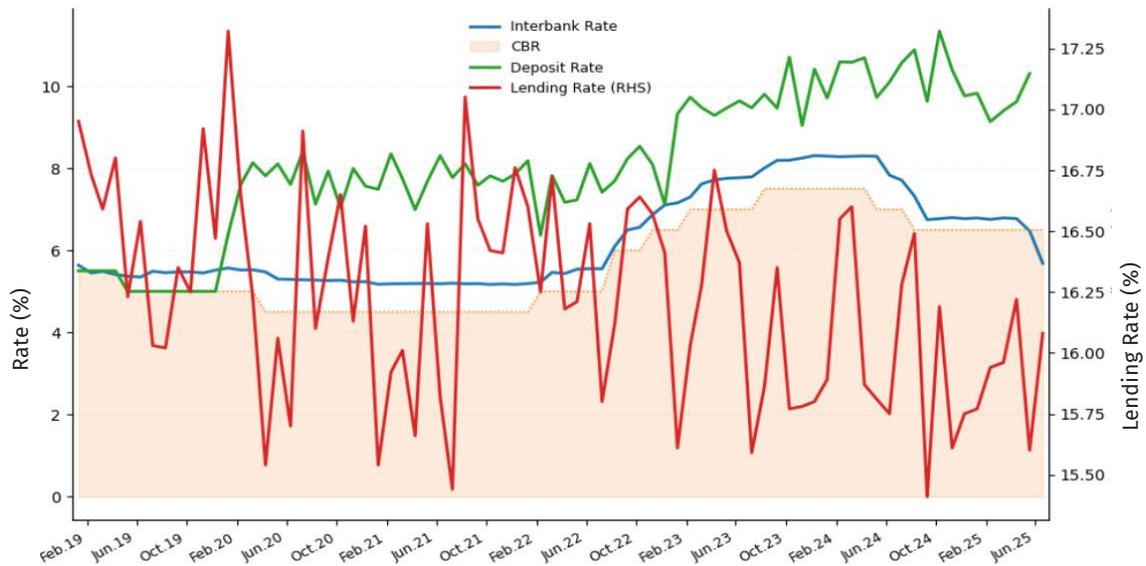


Source: BNR

Recent monetary developments reflect a period of policy stability and effective transmission within interest rate corridor. Since August 2024, the Central Bank Rate has remained unchanged at 6.5%, while the interbank rate averaged 6.54% in the first half of 2025, a decline of 1,640 basis points (16.4%) compared to the 2024 annual average (7.62%), signalling an easing of liquidity pressures (Figure 7). Deposit rates have shown a steady upward trend, increasing by 14.0%

between February and May 2025 (from 9.13% in Feb to 10.31% in May), while lending rates have been hovering around 16% (Figure 7). These dynamics, as depicted in the accompanying graph, demonstrate that monetary policy signals are effectively guiding market rates within the established corridor, underscoring the continued importance of sound liquidity management to preserve financial and price stability.

Figure 7: Key Interest Rate Trends



Source: BNR

## Monetary Policy Stance Expectations

We anticipate continued vigilance of the Monetary Policy Committee towards ensuring that the prevailing inflationary pressure does not occasion the deanchoring of inflation expectations. Inflation has remained elevated within the upper range of the 2–8% target band and is currently approaching the upper bound, highlighting the importance of maintaining a vigilant and data-driven policy stance. Under the

circumstances, keeping the CBR steady at its current level of 6.5% would support continued price stability without undermining the momentum of economic recovery. This would be accompanied by a clear signal that the Central Bank will be ready to change the policy stance should the inflationary pressure lead to the target range being breached.

## Acknowledgement

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