



RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Monetary policy stance: Sustaining Growth Guarding Against Inflationary Risks

Published by:

Rwanda Bankers' Association Research Centre

November 14, 2025



RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

RBA Research Note

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.

This Research Note is published by the Rwanda Bankers' Association Research Centre with the objective of offering insights and promoting dialogue on critical policy issues that have an impact on the development of the financial sector. Through informed commentary such as Research Notes, Occasional Papers, Bulletins and Working Papers, the Rwanda Bankers' Association Research Centre provides a platform for constructive engagement among experts on financial markets, banking industry players and policy makers.

The views expressed in this Research Note do not necessarily represent those of the Members of the Rwanda Bankers' Association. The content of this publication is protected by copyright law. Reproduction in part or whole requires express written consent. Comments on this Research Note can be forwarded to the Rwanda Bankers' Association Research Centre at research@rba.rw.

"When growth is steady and inflation restrained, prudence – not haste - is the mark of sound monetary policy"

Highlights

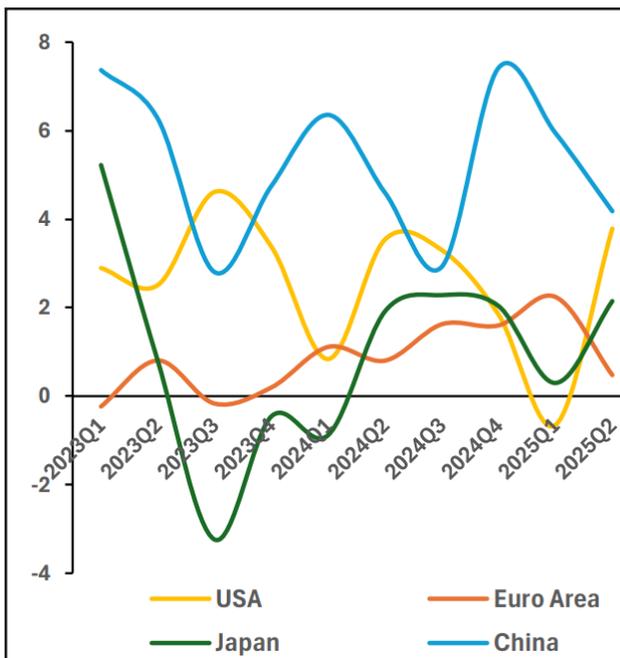
- Amid easing trade tensions, the global economy continues to experience moderated growth and unevenly declining inflation within a volatile policy environment. Significant risks remain, including ongoing uncertainty, protectionist policies, and potential market disruptions.
- Through October 2025, headline inflation remained elevated but broadly stable. The trend however represents a gradual drift towards the upper bound of the target range. While these persistent pressures, largely from imported goods, are evident, maintaining the current Central Bank Rate is justified. This will allow for evaluating the lagged impact of previous adjustments and safeguards economic resilience, advocating for sustained vigilance over further immediate tightening;
- The economy continues to exhibit solid and broad-based growth, supported by resilient activity across key sectors of production and services. This sustained expansion underscores the economy's ability to maintain momentum and recover steadily amid global uncertainties;
- The Rwandan franc has remained broadly stable against major international and regional currencies, supported by sound external fundamentals and improved current account performance. This stability reflects effective macroeconomic management and growing market confidence.
- The banking sector remains robust, well-capitalized, and resilient - providing a strong foundation for continued credit expansion and financial intermediation. These conditions continue to support productive investment and contribute to overall macroeconomic stability.
- The current monetary policy stance is achieving its objectives. A further tightening will only be justifiable if the National Bank of Rwanda (BNR) is of the view that the economics dynamics will result in the upper limit of the inflation target being breached.

Global Economic Developments

The global economy is operating under elevated trade policy uncertainty (**Figure 1.b**). US effective tariff rates, although tempered from their January-April peaks, are now set in a 10-20 percent range for most of its trading partners, significantly exceeding 2024 levels. The global economy initially demonstrated resilience to the trade shocks partly because they materialized on a smaller scale than anticipated. Recent data however reflect a clear deceleration. China's 2025Q2

growth notably fell from 6.1 percent (2025Q1) to 4.2 percent, and the Euro Area's from 2.3 percent to 0.5 percent, as temporary growth drivers diminish. In the US, 2025Q2 GDP grew at an annualized 3.8 percent, but this largely reflects a reversal of a Q1 contraction of -0.6 percent driven by imports and inventories, signalling an underlying slowdown. Japan, however, accelerated to 2.2 percent in Q2 from 0.3 percent in Q1¹ (**Figure 1.a**).

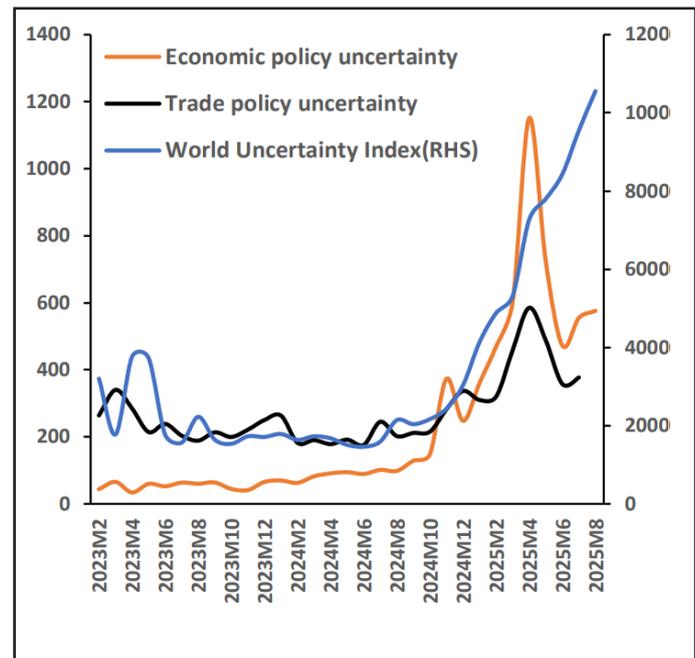
Figure 1 (A) Quarterly growth



Source: IMF

Global price pressures are projected to ease further but remain uneven across countries, staying above target in several major economies, notably the United States. On the commodities side, the FAO Food Price Index declined for the third consecutive month, in September 2025 to 128.8 points, representing a 0.7 percent decrease from August 2025. However, the index remained 3.4 percent higher than in September 2024, though still 19.6 percent below its peak reached

(B) Overall, Economic Policy, and Trade Policy Uncertainty



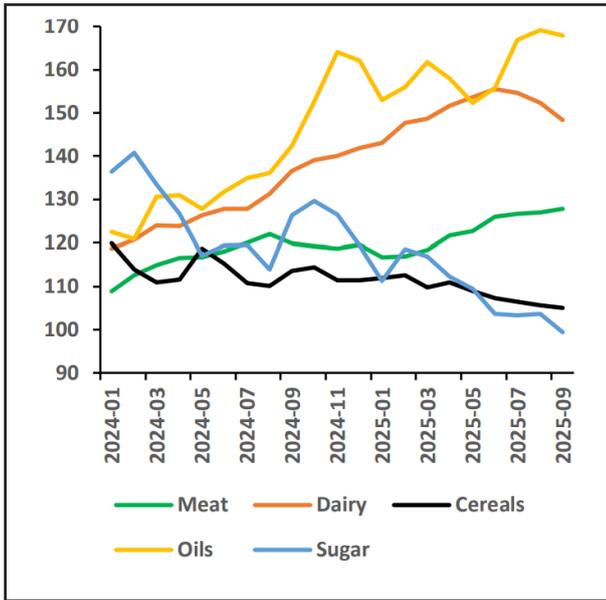
in March 2022 (**Figure 2.b**). The decline was mainly driven by lower prices for cereals, dairy, sugar, and vegetable oils, which offset a moderate rise in meat prices² (**Figure 2.a**). Similarly, the energy price index recorded its third consecutive monthly decrease, falling by 0.5 percent m-o-m, largely due to weaker coal, crude oil, and European natural gas prices³.

¹ <https://www.imf.org/en/Publications/WEO/Issues/2025/10/14/world-economic-outlook-october-2025>

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

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

Figure 2. (A) FAO commodity price indices (B) Food price index (y-o-y and m-o-m)



Source: FAO

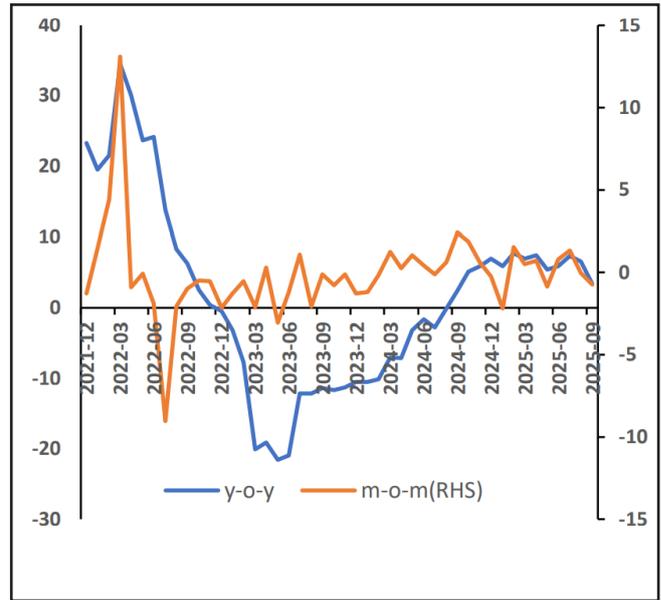


Table 1: Selected energy prices

Commodity	Unit	Monthly Average			% Change	
		July 25	Aug 25	Sept 25	Sept 25/Aug 25	Sept 25/Sept 24
Energy	Index	91.7	88.1	87.6	-0.5	-8.1
Coal, Australia	US\$/boe	10.8	10.7	10.2	-5.2	-23.6
Coal, US	US\$/boe	6.9	6.9	6.9	-0.2	-1.8
Crude Oil, Average	US\$/b	69.2	66.7	66.5	-0.4	-8.2
Natural Gas, US	US\$/boe	17.3	15.7	16.1	2.2	32.1
Natural Gas, Europe	US\$/boe	62.9	60.3	60.1	-0.3	-5.7

Source: OPEC

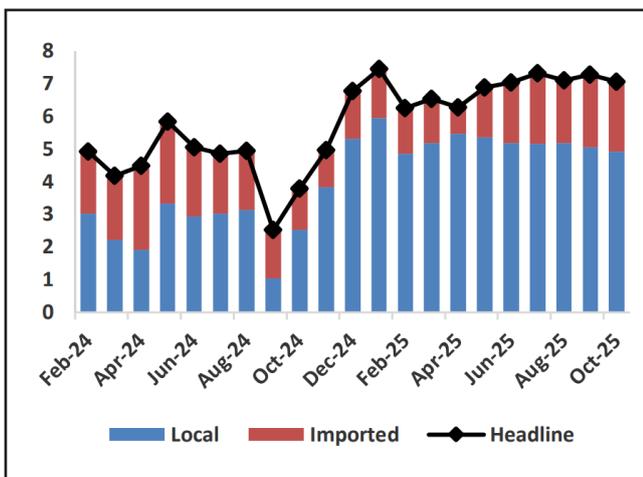
Domestic economic dynamics

Headline inflation in Rwanda remained elevated but broadly stable through October 2025, consistently fluctuating between 7.0 and 7.3 percent from June to October. The inflation rate has shown a gradual drift towards the upper limit of the central bank's 2-8 percent target range. In October, headline inflation registered a 7.1 percent year-on-year increase (lower than the 7.3 percent recorded in September) and a 1.3 percent month-on-month rise. Annually (year-on-year, October), the core index itself increased by 9.0 percent, energy prices rose by 10.9 percent, and fresh products by 0.4 percent (Figure 3.b). Additionally, imported goods prices surged by 9.1 percent and local goods by 6.4 percent (Figure 3.a). These dynamics underscore persistent inflationary pressures, largely driven by imported goods, energy and core components (Figure 3.c,3. d).

The inflation dynamics inform the pragmatic approach that the National Bank of Rwanda (BNR) has taken in adjusting the Central Bank Rate (CBR), currently at 6.75 percent. This approach prioritizes careful assessment of prior rate adjustments' lagged effects, aiming to avoid stifling resilient economic growth amidst global adjustments and a stable domestic financial sector. Thus, continued vigilance and further tightening will be justifiable if the BNR is of the view that the current dynamics risks the anchor on inflation expectations. When growth is steady and inflation restrained, prudence – not haste- is the mark of sound monetary policy.

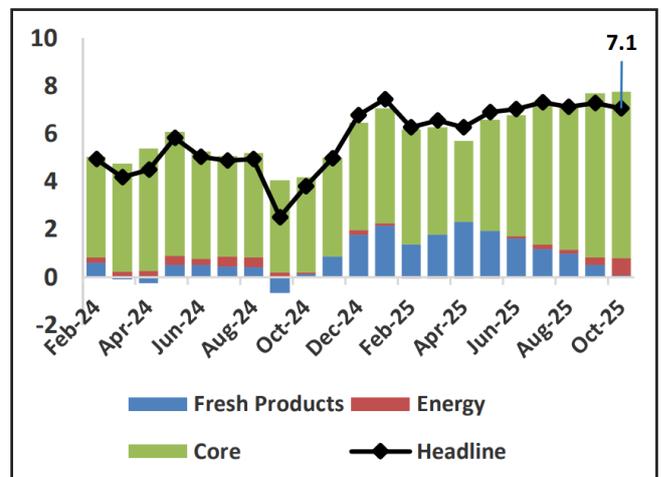
Figure 3: Inflation trends and components

3.a: Contribution to Annual Inflation by Origin

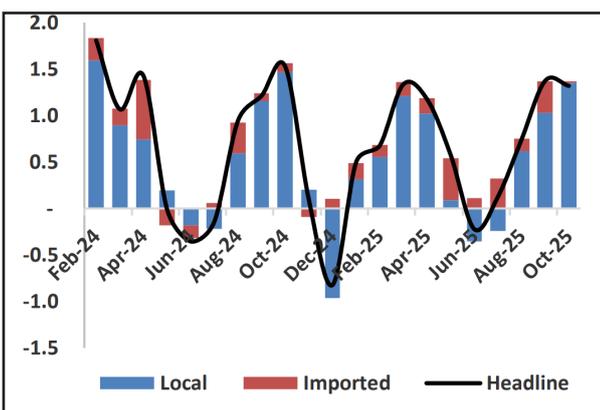


Source: NISR

3.b: Annual Inflation Breakdown by Key Components

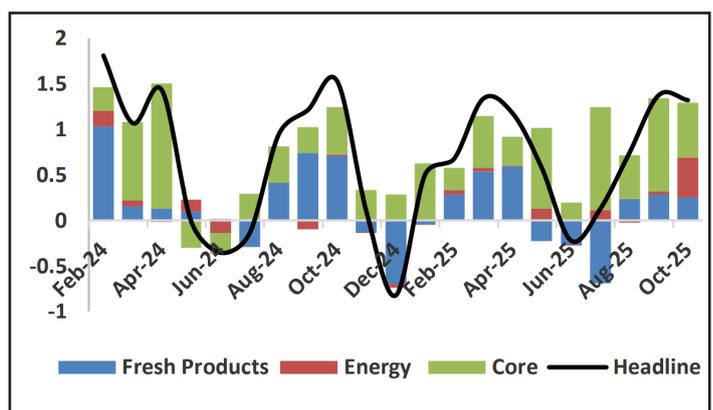


3. (C) Contribution to Monthly Inflation by Origin



Source: NISR

3. (D) Monthly Inflation Breakdown by Key Components

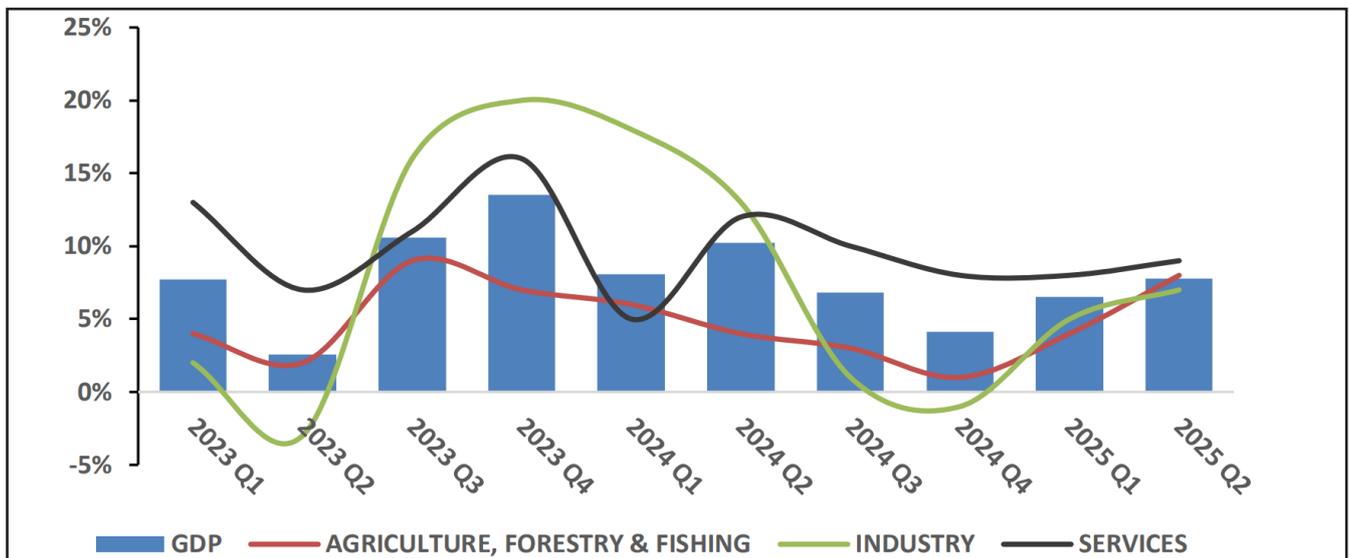


The inflation dynamics are on the back of Rwanda's economy demonstrating robust growth in the second quarter of 2025, with GDP expanding by 7.8 percent. At current market prices, the national output was estimated at Frw 5,798 billion, a significant increase from Frw 4,966 billion recorded in Q2 2024. This growth was broadly based, with the Services sector contributing the largest share to GDP at 50.0 percent, followed by Agriculture at 23.0 percent, and Industry at 21.0 percent, with net direct taxes accounting for the remaining 5.0 percent.

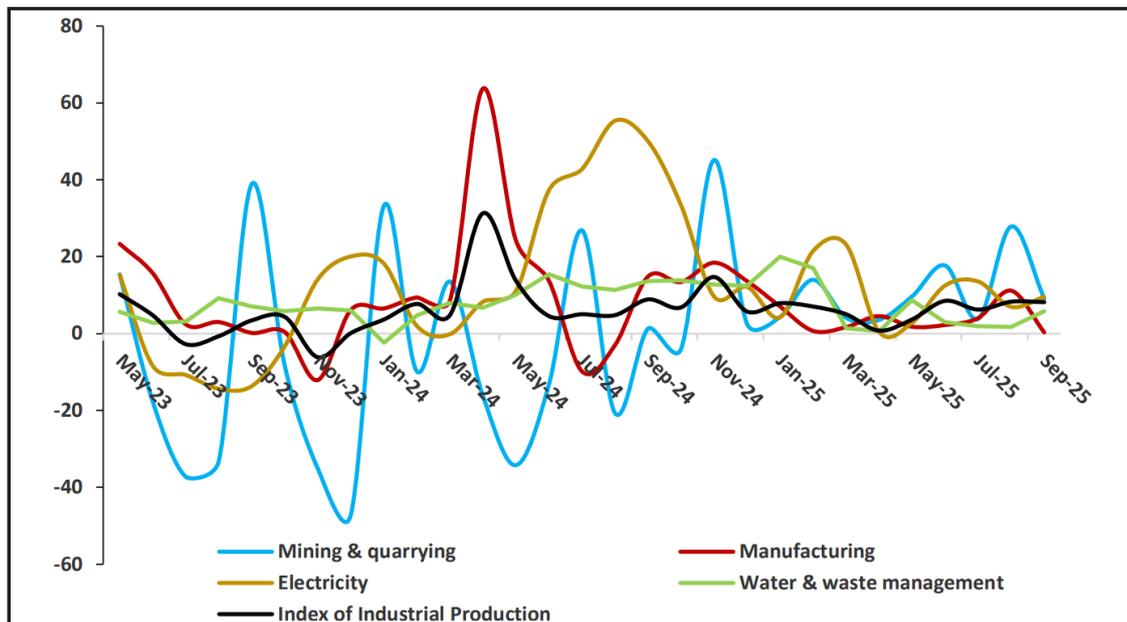
Sectoral performance further underscored this resilience. The Services sector grew notably by 9.0 percent, while Agriculture expanded by 8.0 percent

(the highest recorded growth since 2021 Q4, driven by a 42.0 percent increase in export crops), and Industry by 7.0 percent (Figure 4.a). Complementing this, formal sector industrial output, as of September 2025, registered an increase of 8.2 percent year-on-year. This was propelled by strong performances across its sub-components, including a 9.2 percent rise in Mining and Quarrying, an 0.3 percent increase in Manufacturing, and a 9.6 percent growth in electricity, alongside a 5.8 percent expansion in Water & Waste Management (Figure 4.b). These diversified and strong sectoral growth rates collectively affirm the economy's underlying strength and resilience, providing a firm foundation for sustained development.

Figure (4.a) Economic growth



(4.b) Index Industrial Production growth by components



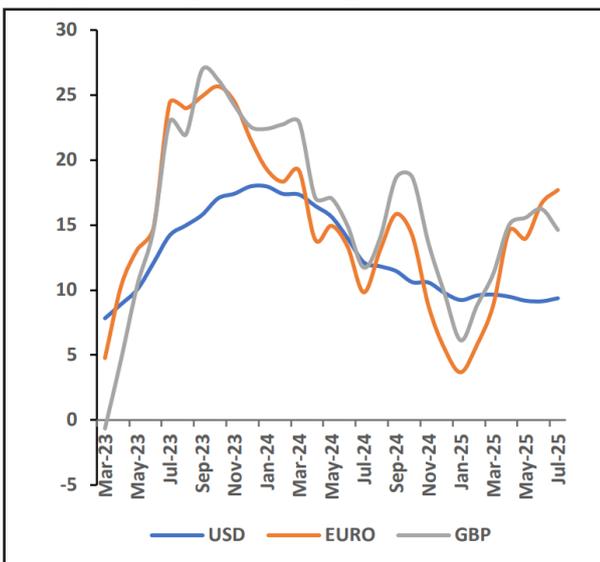
Source: NISR

The Rwandan franc (RWF) demonstrates a stabilizing trajectory against major international currencies, with its year-on-year depreciation against the US Dollar consolidating within a narrow band of 9.1 percent to 9.7 percent throughout 2025, while pressures persisted against the Euro (17.7%) and British Pound (14.6%) as of July 2025 (Figure 5.a). A positive short-term shift is evident, with month-on-month changes for the USD, Euro, and British Pound easing to 0.8%, 2.1%, and 0.2% respectively by July 2025 (Figure 5.b). This stabilizing momentum is markedly more pronounced against regional peers. The Rwandan franc has shown significant strengthening against the Kenyan Shilling, with the year-on-year depreciation plummeting to 10.1% in July 2025 from a peak of 35.3 percent in January 2025 (Figure 6.a).

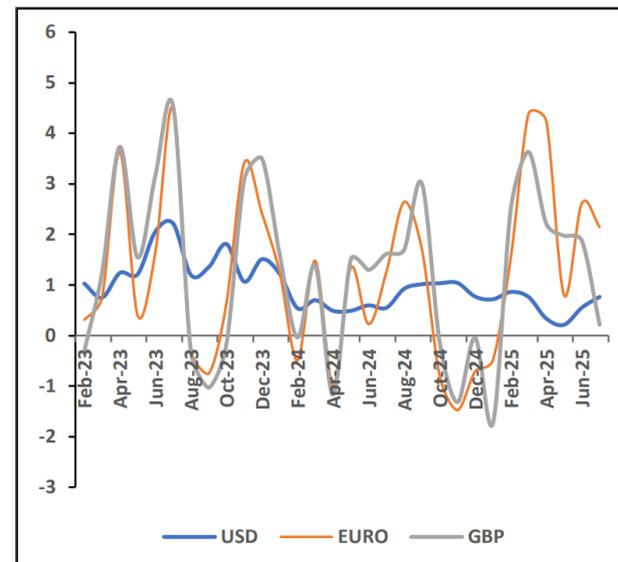
Concurrently, the RWF maintained relative stability against the Ugandan Shilling (13.0% yoy) and exhibited manageable volatility against the Tanzanian Shilling (12.3% yoy). This robust regional performance is further underscored by a return to subdued monthly movements, with monthly changes for all three regional currencies remaining below 2.0 percent for most of Q2 2025 before a slight uptick in July (Figure 6.b). These positive developments are anticipated to be reinforced by Regulation No. 89/2025, which is designed to fortify the foreign exchange market by prioritizing legitimate currency demand and curbing speculative activities.

Figure 5: International currencies

(a) yoy exchange rate changes



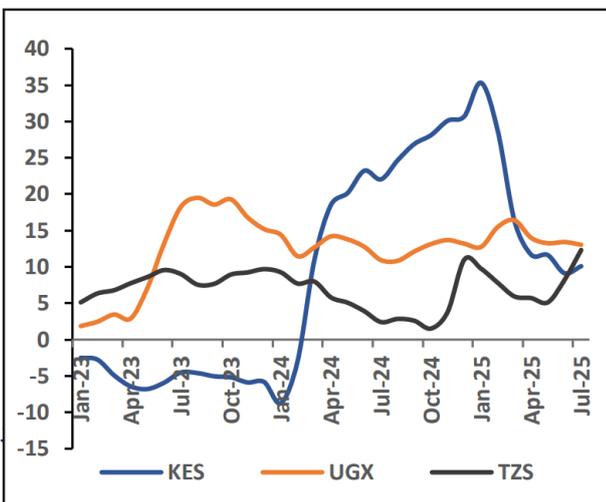
(b) mom exchange rate changes



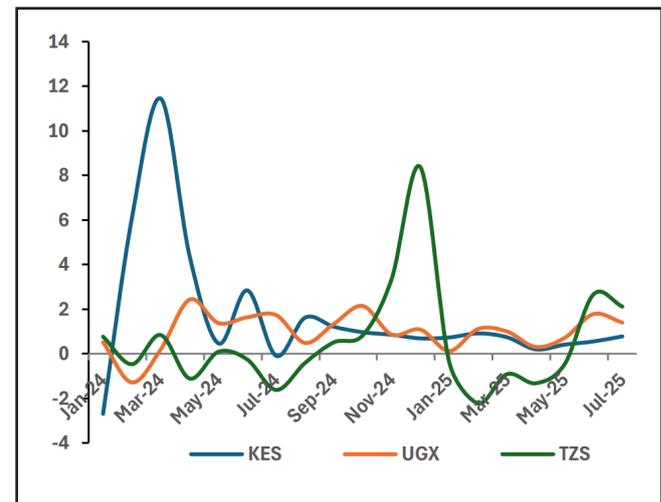
Source: National Bank of Rwanda (BNR)

Figure 6: Regional currencies

(a) yoy exchange rate changes



(b) mom exchange rate changes

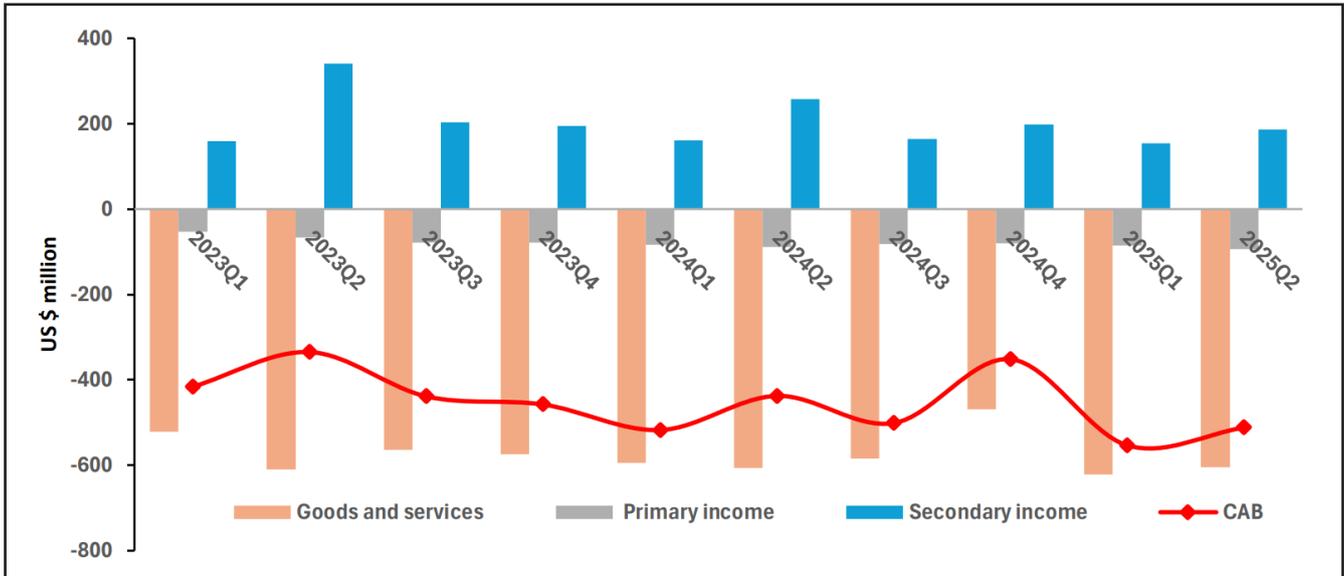


Source: National Bank of Rwanda (BNR)

In the second quarter of 2025, the current account deficit narrowed to USD 511.7 million from USD 553.2 million in the previous quarter. This improvement occurred despite a significant trade deficit in goods and services (USD -604.5 million) and a record high deficit in primary income (USD -94.0 million) (Figure

7). The overall deficit was mitigated by a substantial surplus in the secondary income account, which recorded an inflow of USD 186.8 million, highlighting the crucial role of current transfers in offsetting the nation's trade imbalance.

Figure 7: Current account and its components



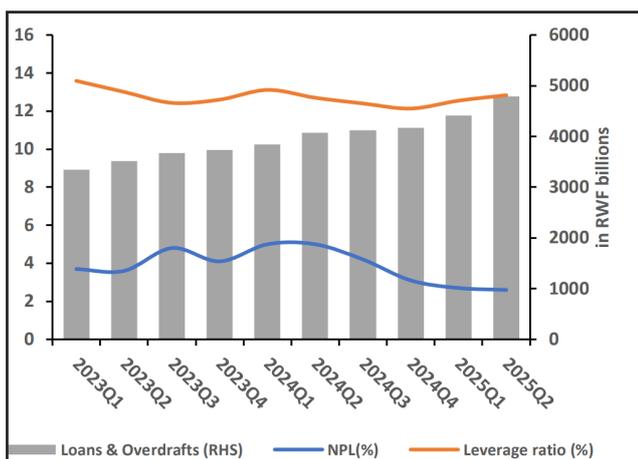
Source: National Bank of Rwanda (BNR)

The banking sector's key financial soundness indicators demonstrated a continued strengthening of its position in Q2 2025. Capital adequacy was enhanced, with the leverage ratio rising to 12.8 percent, improving from 12.5 percent in the previous quarter and 12.7 percent in the same quarter of the prior year (Figure 8.a). This solid capital base supported a marked improvement in asset quality, as the NPL ratio contracted to a multi-year low of 2.6 percent (Figure 8.a).

strong capitalization facilitated a significant expansion of credit to the economy, which grew by 17.8 percent year-on-year and 8.6 percent quarter-on-quarter to reach RWF 4,795.1 billion. Concurrently, liquidity buffers remained ample; although the Liquidity Coverage Ratio moderated to 289.1 percent—compared to 337.4 percent in Q1 2025 and 305.9 percent in Q2 2024—it remained substantially above the regulatory floor (Figure 8.b). These combined trends underscore a resilient financial system capable of accommodating robust credit growth without generating undue systemic risk.

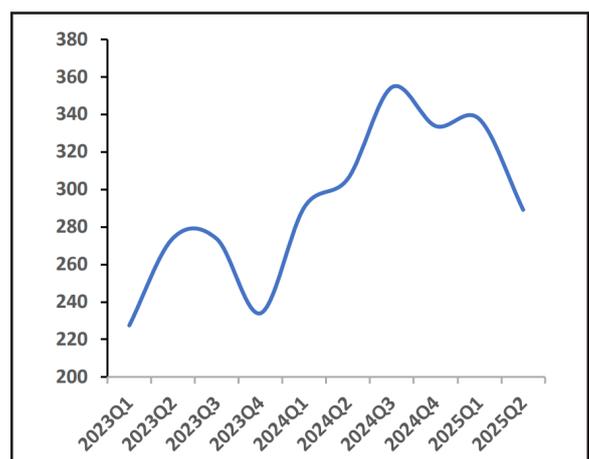
The combination of a healthier loan portfolio and

Figure (8.a) Trends in Selected Banking Sector Indicators



Source: National Bank of Rwanda (BNR)

Figure (8.b) Liquidity Coverage Ratio



Conclusion

In conclusion, the economy is performing strongly, the combination of a stable exchange rate, an improving current account balance, and a sound financial system, suggests that the current monetary policy stance is

achieving its objectives. A further tightening will only be justifiable if the National Bank of Rwanda (BNR) is of the view that the economics dynamics will result in the upper limit of the inflation target being breached.



RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Rwanda Bankers' Association

PO Box 2101 - Yyussa City Center 5th Floor Bloc C

- Tel. +250 252 577 426
- research@rba.rw / info@rba.rw
- <http://www.rba.rw>