



RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

Monetary policy stance: The Case for Anchoring Inflation Expectations

Published by:

Rwanda Bankers' Association Research Centre



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RBA Research Note

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“With inflation pressures intensifying, a timely and measured monetary policy response may be required to safeguard price stability and anchor expectations.”

Highlights

- ◇ Based on January 2026 data, headline inflation has breached the upper bound target range, reaching to 8.9% in January 2026, up from 8.0% recorded in December 2025 and 7.2% in November 2025.
- ◇ The domestic economy remained resilient, supported by strong performance in the services sector, which accounted for more than half of overall economic growth.
- ◇ The exchange rate remained broadly stable, underpinned by prudent macroeconomic management and policy measures implemented in mid-2025 governing foreign exchange transactions. This stability contributed to a predictable external environment.
- ◇ Financial sector conditions remained sound, with continued expansion of private sector credit and a sustained decline in non-performing loans throughout 2025, indicating improving asset quality and continued confidence in the banking system.
- ◇ Risks to the inflation outlook remain tilted to the upside, reflecting energy price pass-through, weather-related supply shocks, and heightened global and regional geopolitical uncertainties.
- ◇ Ultimately, “Consistent inflationary pressure is evident. With the upper bound inflation target range having been breached, the monetary policy focus should therefore inevitably be the avoidance of inflation expectations de-anchoring”.

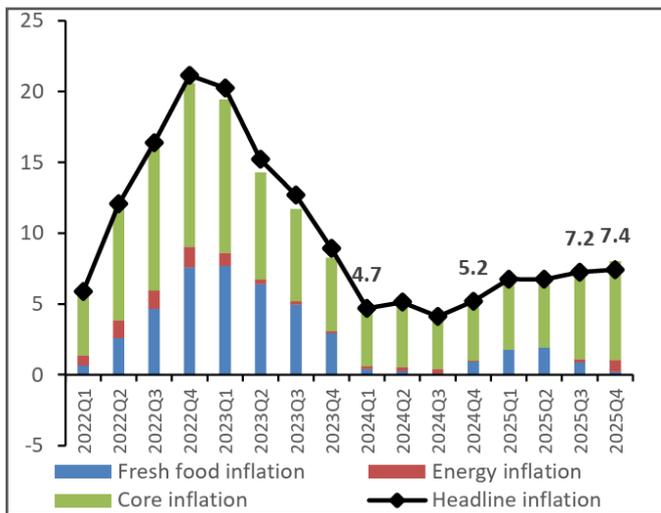
Background

Headline inflation continued on an upward trajectory, rising to 7.4% in 2025Q4 from 7.2% in 2025Q3, the highest level recorded since 2024 and close to the upper bound of the 2 - 8 % target range. This increase was largely driven by energy prices, with energy inflation accelerating from 3.3% in 2025Q3 to 12.4% in 2025Q4 following adjustments in domestic fuel prices announced in November 2025. Core inflation also increased from 8.1% in 2025Q3 to 9.0% in 2025Q4, indicating underlying price pressures, while fresh food inflation declined sharply from 5.6% to 1.6%, partially offsetting the rise in headline inflation (Figure 1.A). More recent data indicate that headline inflation reached 8.9% in January 2026, 8.0% in December 2025, up from 7.2% in November, although easing international oil prices, reflected in the decline in

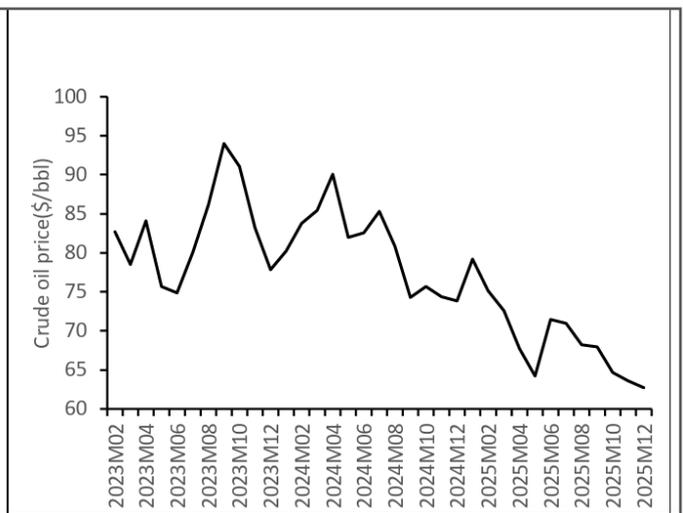
Brent crude prices from USD 79.21 per barrel in January 2025 to USD 62.72 per barrel in December 2025 (Figure 1.B), may help moderate energy related inflationary pressures going forward.

However, domestic fuel prices have remained elevated due to lagged pass-through effects, exchange rate considerations, and distribution costs, limiting the immediate disinflationary impact of declining international oil prices. The recent acceleration in headline inflation suggests emerging persistence, driven not only by energy prices but also by elevated core inflation, which remains above the upper bound of the target range. This trend raises the risk of second-round effects, particularly through transport costs, services pricing, and inflation expectations.

Figure 1.A: Contributors of headline inflation. Figure 1.B: Brent crude oil prices

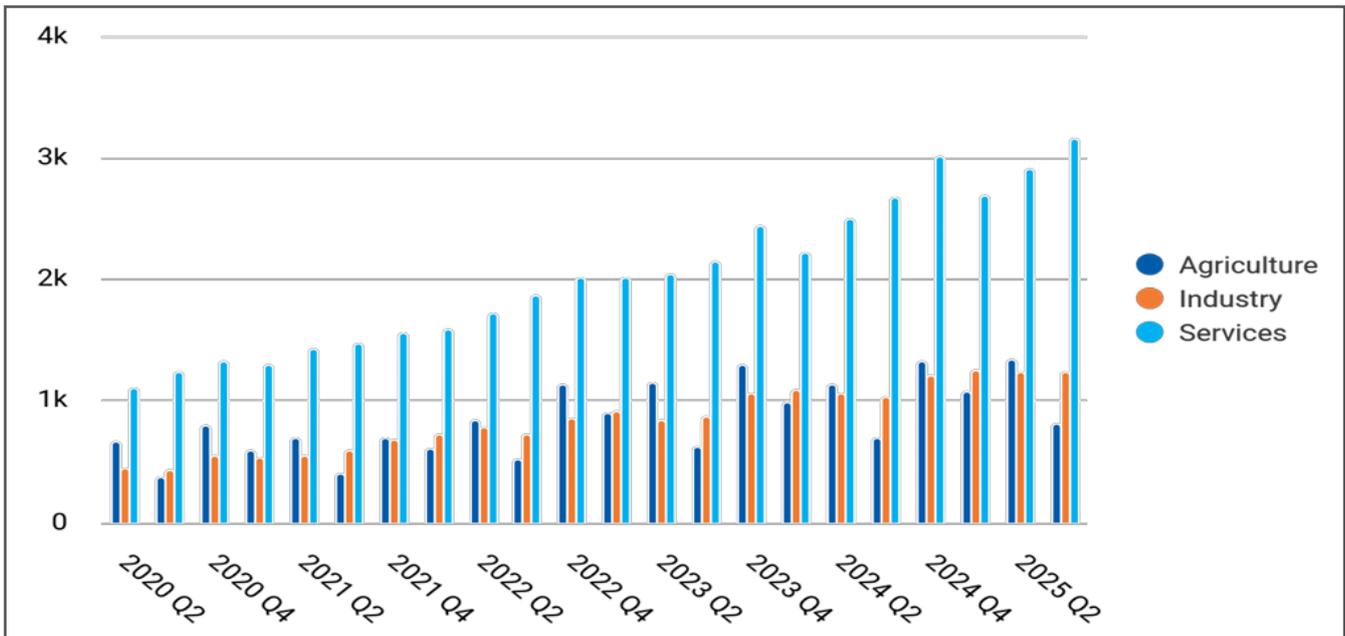


Source: NISR



Source: World Bank Group

Rwanda's GDP by kind of activity at current prices (in billion RWF)



Source: NISR

Domestic economic activity in Rwanda strengthened markedly, with real GDP growth reaching 11.8% in 2025Q3 and nominal output estimated at FRW 5,525 billion, up from FRW 4,659 billion in 2024Q3 (Figure 2). Growth remained broad based, with services accounting for 57% of GDP, industry contributing 22%, and agriculture 15% (NISR, 2025). Sectoral expansions were notable, with agriculture growing by 10%, industry by 17%, and services by 10%¹. At the global level, growth is projected to remain resilient at around 3.3% in 2026 and 3.2% in 2027 (Table1).

However, risks to the outlook remain tilted to the downside, including potential shifts in investment sentiment, trade tensions, and geopolitical developments that could adversely affect financial markets, supply chains, and commodity prices. On the upside, activity could be further supported by increased investment related to artificial intelligence, which may translate into sustainable productivity gains and stronger business dynamism if adoption accelerates².

¹ <https://www.statistics.gov.rw/statistical-publications/gross-domestic-product/gdp-national-accounts-thirdquarter-2025>

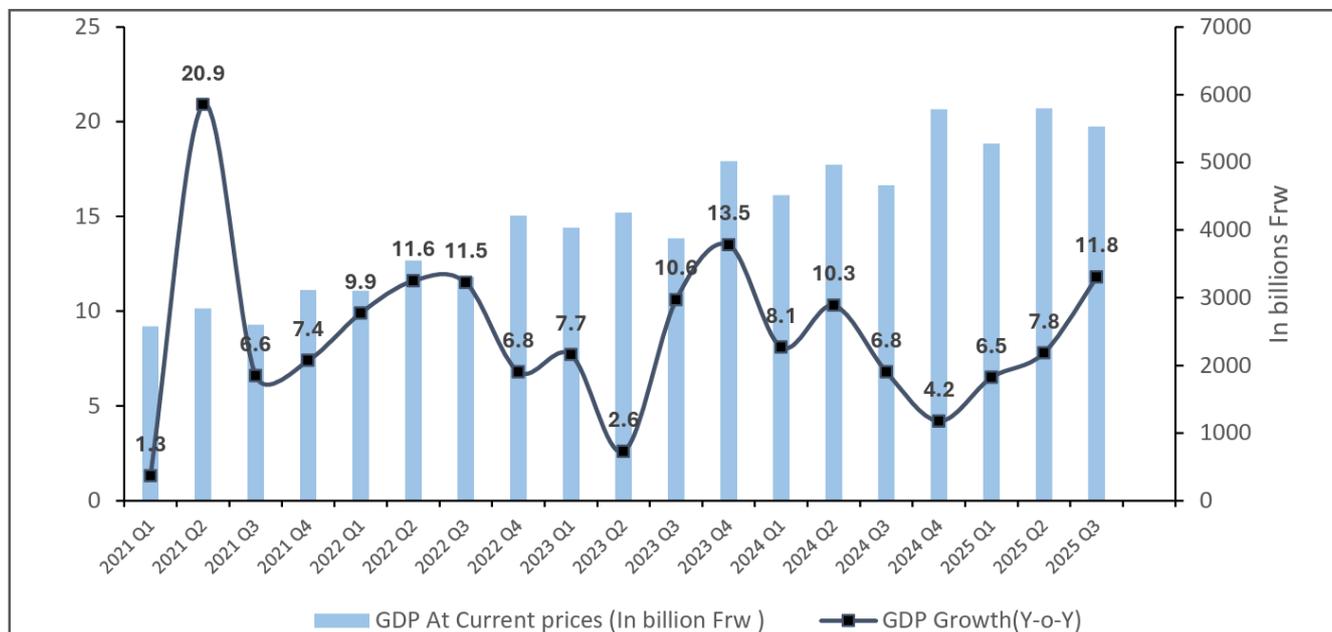
² <https://www.imf.org/-/media/files/publications/weo/2026/january/english/text.pdf>

Table 1: Selected Economies: Real GDP Growth

	Estimate		Projections	
	2024	2025	2026	2027
World Output	3.3	3.3	3.3	3.2
United States	2.8	2.1	2.4	2
Euro Area	0.9	1.4	1.3	1.4
Japan	-0.2	1.1	0.7	0.6
United Kingdom	1.1	1.4	1.3	1.5
Canada	2	1.6	1.6	1.9
China	5	5	4.5	4
India	6.5	7.3	6.4	6.4
Russia	4.3	0.6	0.8	1
Brazil	3.4	2.5	1.5	2.3
Mexico	1.4	0.6	1.5	2.1
Saudi Arabia	2.6	4.3	4.5	3.6
Nigeria	4.1	4.2	4.4	4.1
South Africa	0.5	1.3	1.4	1.5

Source: WEO

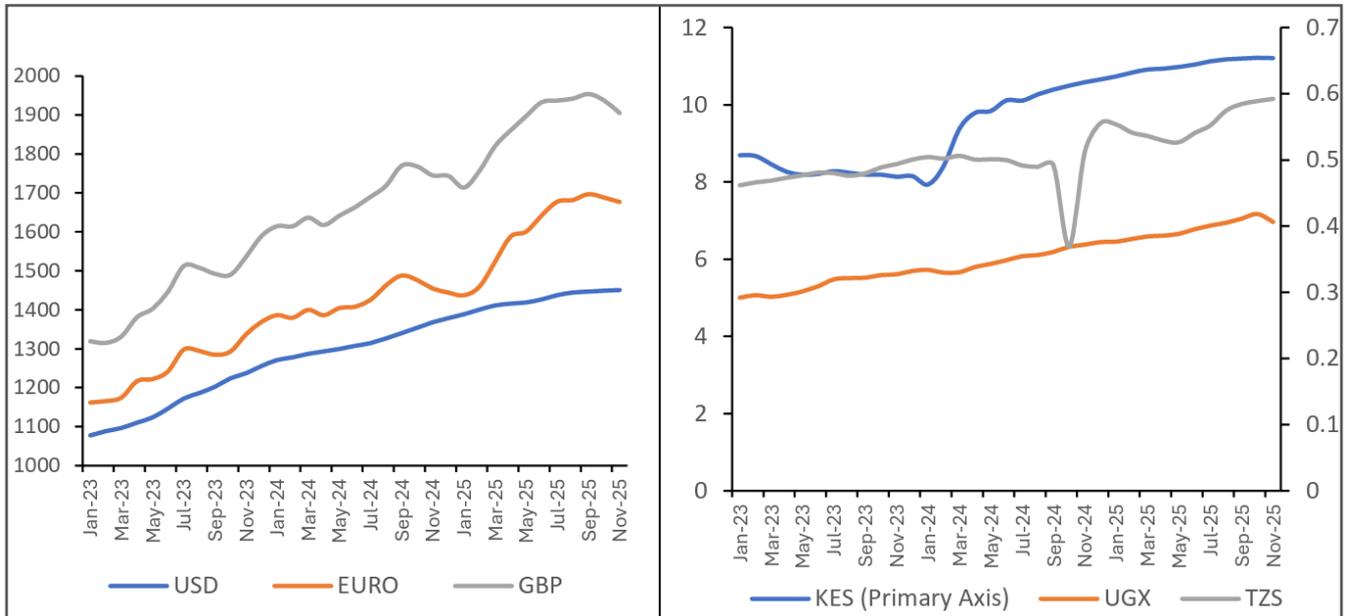
Figure 2: Real GDP Growth (year on year)



Exchange rate developments in 2025 reflect the impact of the National Bank of Rwanda's (BNR) policy measures implemented in mid-2025, which tightened restrictions on domestic use of foreign currencies while specifying the categories of businesses and individuals that remain exempt. These measures are broadly aligned with the policy of the the foreign exchange market being-market based, and are solely meant to obviate volatility. The interventions helped maintain the stability of the Rwandan franc against both international and regional currencies.

On average, the franc traded at FRW 1,426.31 per USD, FRW 1,606.47 per EUR, and FRW 1,877.79 per GBP (Figure 3.A). Stability was also observed against regional currencies, with average rates of FRW 11.03 per KES, FRW 0.39 per UGX, and FRW 0.55 per TZS (Figure 3.B), indicating contained exchange rate pressures and orderly market conditions. Maintaining exchange rate stability remains critical in limiting imported inflation pressures, particularly in the context of elevated global commodity prices and tightening global financial conditions.

Exchange rates of FRW against **Figure 3 (A)** major currencies; **Figure 3 (B)** Regional currencies



Source: BNR

Credit to the private sector expanded to FRW 5,133.8 billion in September 2025, up from FRW 4,294.7 billion in September 2024, reflecting a year-on-year growth of 19.5% and a month-on-month increase of 2.4% relative to August 2025 (Figures 3.A and 3.B). The banking sector maintained sound asset quality, with the non-performing loan (NPL) ratio remaining stable at 2.6% in the third quarter of 2025, well below the regulatory ceiling of 5% (Figure 3.C). Against the backdrop of broadly stable lending and deposit rates (Figure 4.D),

the expansion in private sector credit continued to support financial intermediation, promote credit deepening, and facilitate productive economic activity, thereby underpinning macro-financial stability. While supportive of growth, the continued expansion in private sector credit may also contribute to demand-side inflation pressures if not carefully balanced with price stability objectives.

Figure 4.A: Credit to the private sector

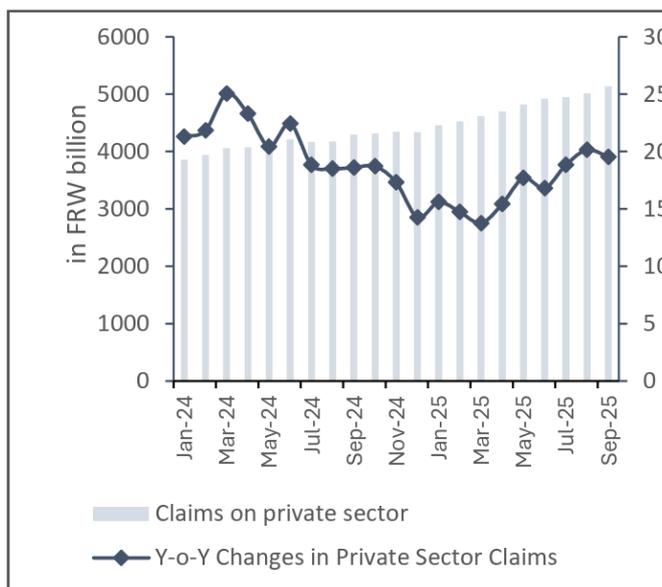
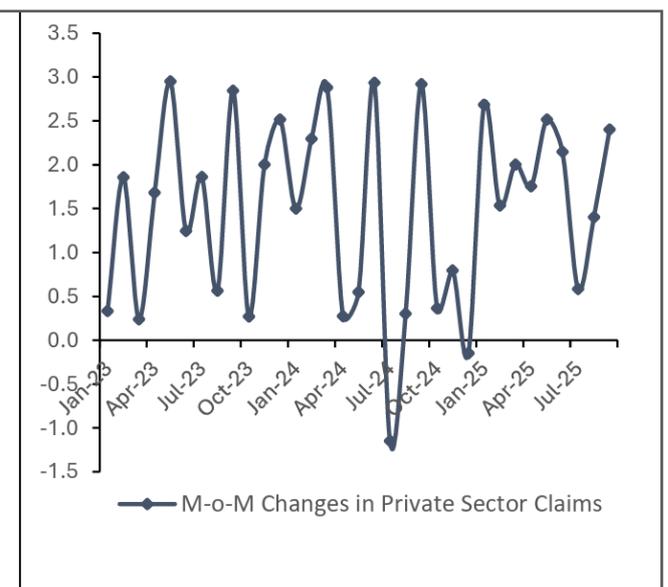


Figure 4.B: MoM changes in private sector credit



Source: MINECOFIN

Figure 4.C: Banking sector NPL Ratio

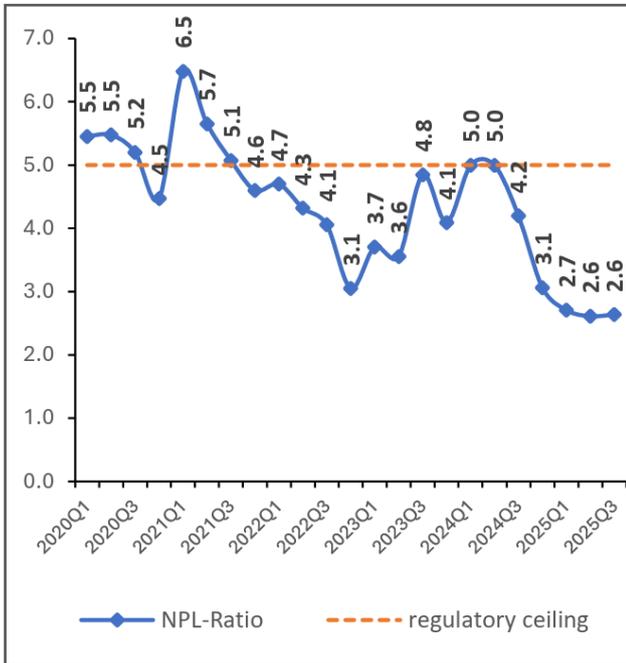
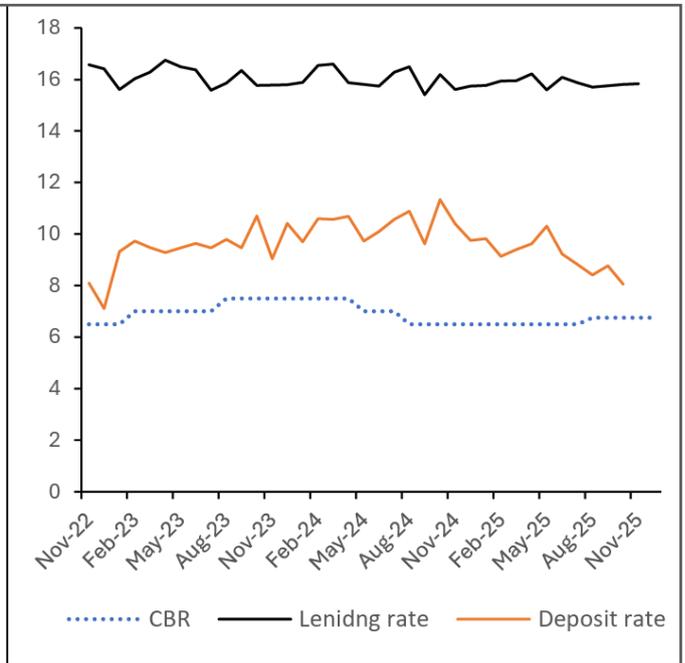


Figure 4.D: Market rates



Source: BNR

Conclusion

In light of accelerating inflation, which reached 8.9% in January 2026, alongside robust economic activity, stable exchange rate conditions, and a sound financial system, an upward adjustment of the Central Bank Rate by 25 basis points – from 6.75% to 7.0% - at the forthcoming Monetary Policy Committee meeting is justified. The tightening stance will help anchor inflation expectations while supporting ongoing

economic activity, and should be accompanied by continued vigilance against potential risks from adverse weather events or global and regional external developments. The stance will affirm the central bank's commitment to price stability at no risk of upsetting the momentum of economic growth.

“With headline inflation breaching the target ceiling and core inflation remaining elevated, delaying policy action could increase the risk of inflation expectations becoming unanchored.”



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