Research Note No. RN/02/26

RWANDA BANKERS' ASSOCIATION

"Together for a better banking environment"

# Monetary policy stance:
## Firming Inflation Expectations Anchor Amid Rising Price Pressures

*Published by:*

**Rwanda Bankers' Association Research Centre**

May 18, 2026

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# RBA Research Note

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*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.*

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# Highlights

*“With inflation now breaching the upper bound of the target range and core price pressures remaining elevated, a measured monetary policy tightening would reinforce credibility and confidence in objective of attaining macroeconomic stability."*

- The containment of inflationary pressures remains the primary focus of policy as escalating global tensions and supply shocks continue to influence commodity prices and financial conditions. This necessitates a vigilant policy posture to mitigate external spillovers and ensure that medium term expectations remain firmly anchored.
- The Rwandan economy maintains significant expansionary momentum supported by broad based performance across key sectors despite a restrictive global environment. This provides a solid foundation for continued macroeconomic stability in the face of persistent external headwinds.
- Rwanda’s financial sector demonstrates sustained growth and stability despite escalating global tensions and external shocks. The system maintains orderly market functions and strong buffers, ensuring it remains well positioned to navigate tightening financial conditions and potential spillovers.
- The National Bank of Rwanda’s Monetary Policy Committee has demonstrated capacity to tune policy in a manner that aligns its stance to the strategic mandate of price stability as the grounding for sustainable growth. The risk of inflationary expectations de-anchoring is bigger than any short-term cost on economic growth.

# Background

With inflation now breaching the upper bound of the target range and core price pressures remaining elevated, a measured monetary policy tightening would reinforce credibility and confidence in objective of attaining macroeconomic stability.

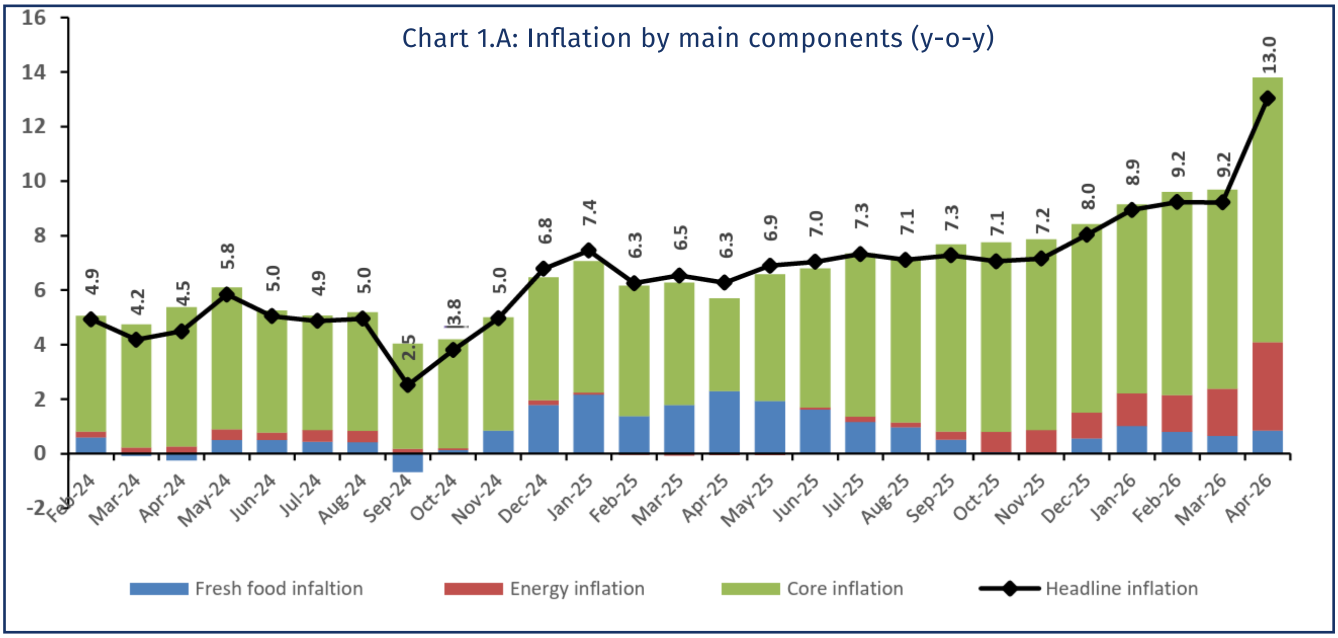
The economy's headline inflation surged to 13.0 percent in April 2026, well beyond the target range **(Chart 1: A)**. The spike is rooted in global shocks associated with geopolitical developments in the Middle East that has occasioned a surge in crude oil prices to USD 104 per barrel from USD 68 dollars per barrel in February 2026 **(Chart1.D).**

The dynamics of the recent inflationary upsurge present important implications for monetary policy. The drastic rise in the global energy index **(Chart1.C)** has filtered into the domestic market, where the energy component now accounts for 47.9 percent of headline inflation, complemented by core and fresh food contributions of 12.5 percent and 5.4 percent **(Chart1.A)**.

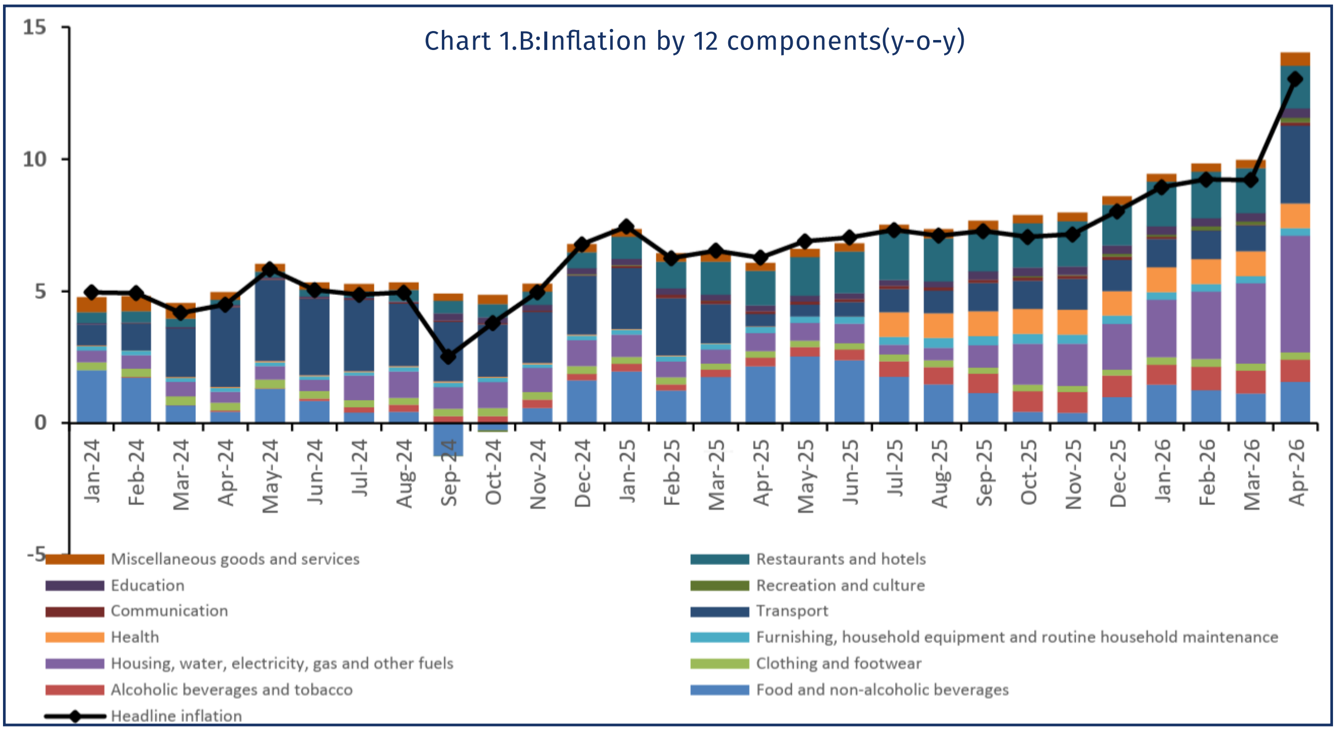
Significant price adjustments are observed across key sectors, including transport at 23.7 percent, housing at 21.3 percent, and alcoholic beverages at 17.1 percent, signalling that imported inflation is rapidly becoming broad based **(Chart1.B)**. It is increasingly becoming clear that inflationary pressure is broad-based, not transient. The demand and cost dynamics revealing themselves in core inflation would potentially persist beyond short-term supply shocks.

The recent inflation trajectory suggests that price pressures are becoming increasingly broad-based rather than temporary in nature. The sustained rise in core inflation points to underlying demand and cost dynamics that may persist beyond short-term supply shocks.

## Chart 1: inflation Trend




*Source: NISR*

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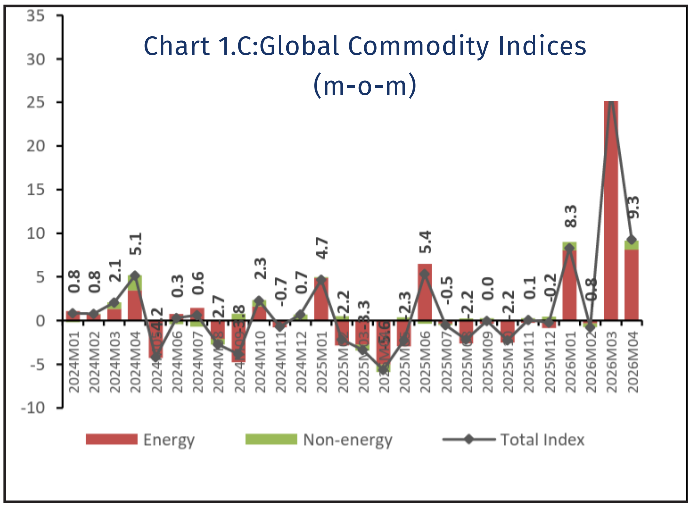
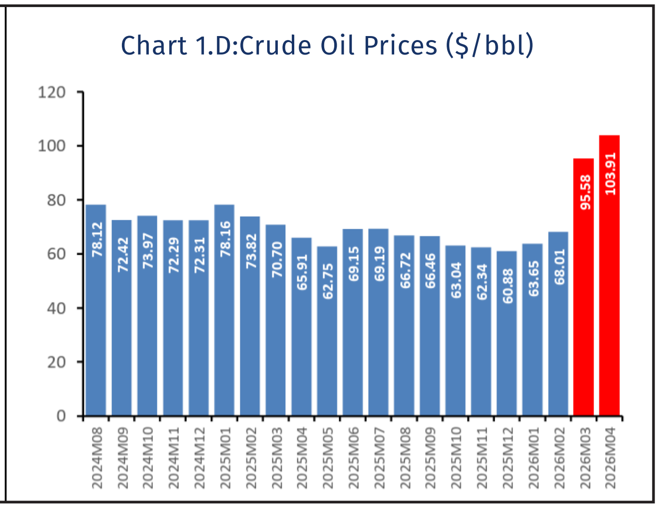


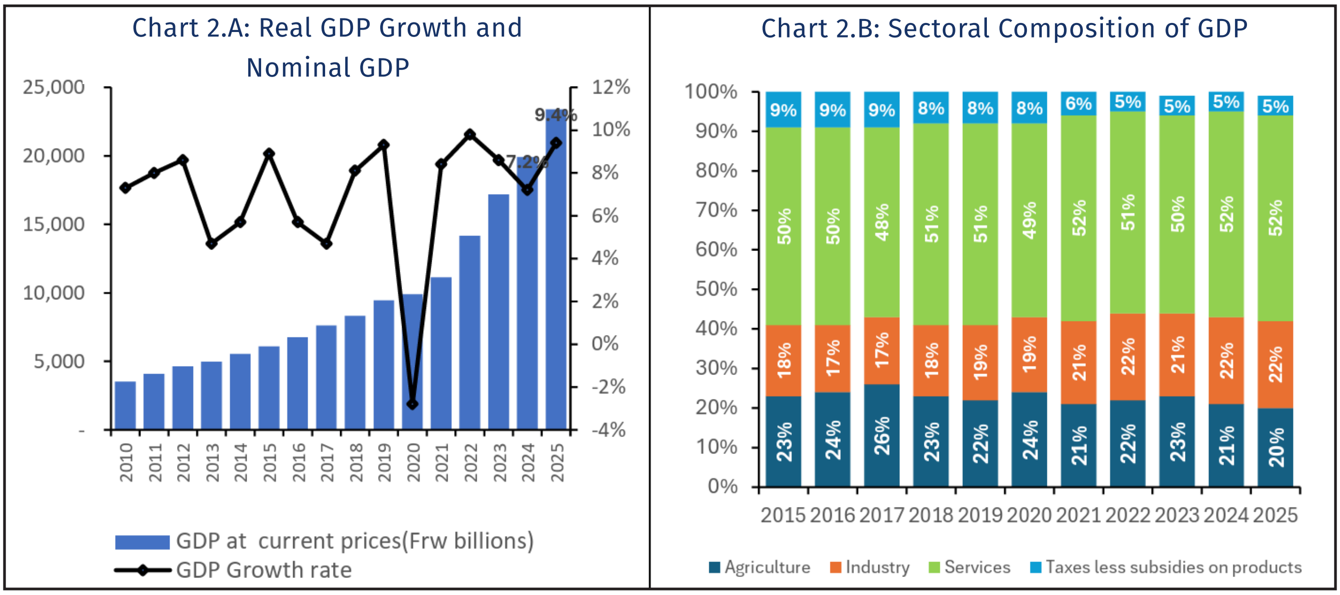




*Source: World Bank Group*

# Resilient Output Growth

The Rwandan economy has demonstrated notable resilience, with real GDP growth reaching 9.4 percent in 2025 and nominal output expanding to FRW 23,387 billion **(Chart 2.A)**. Growth is broad based with the industrial sector expanding by 11 percent, services by 9 percent and agriculture by 7 percent. The structural distribution of GDP shows services at 52 percent, industry at 22 percent and agriculture at 20 percent **(Chart 2.B)**.

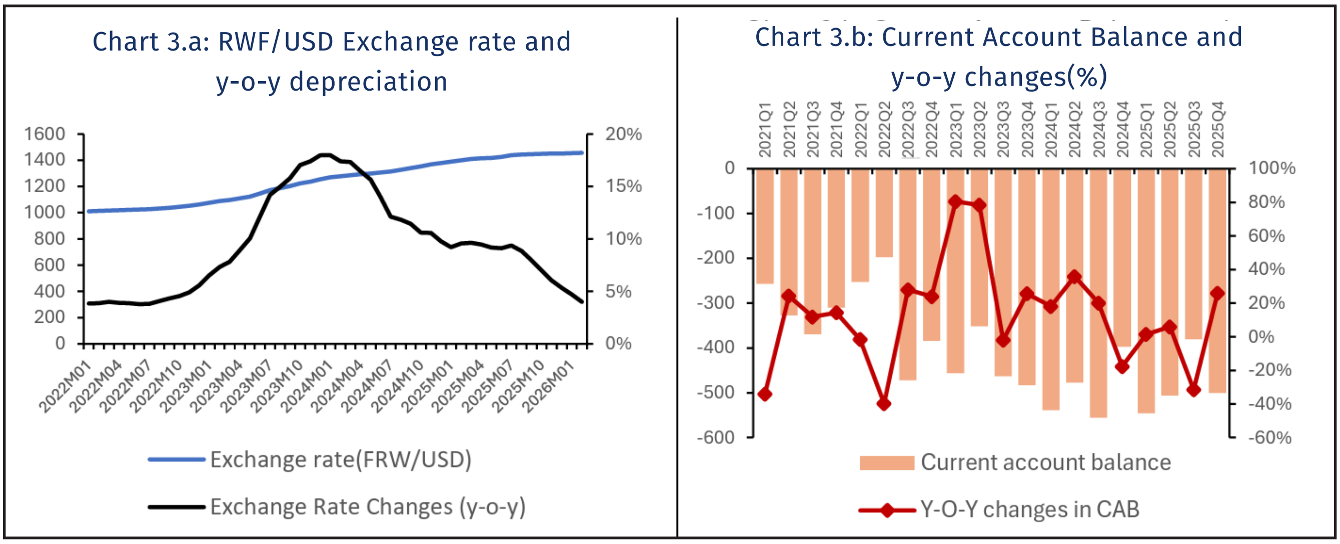
## Chart 2: Economic growth




*Source: NISR*

On the back of the growth and inflationary developments, the economy's foreign exchange market has been characterised by stability. The Rwandan Franc's stable path against the US Dollar is underpinned by the economy's a strong external position that allows for the supply of foreign currency to support import demand **(Chart 3).** The recent proactive MPC stance has supported the market by way of its positive influence portfolio inflows to the economy. effective domestic policy interventions and a strategic improvement in the current account position which has mitigated the demand for foreign currency. This currency stability partially mitigates the challenge of externally-induced inflationary pressure.

## Chart 3: Exchange rate and Current account balance

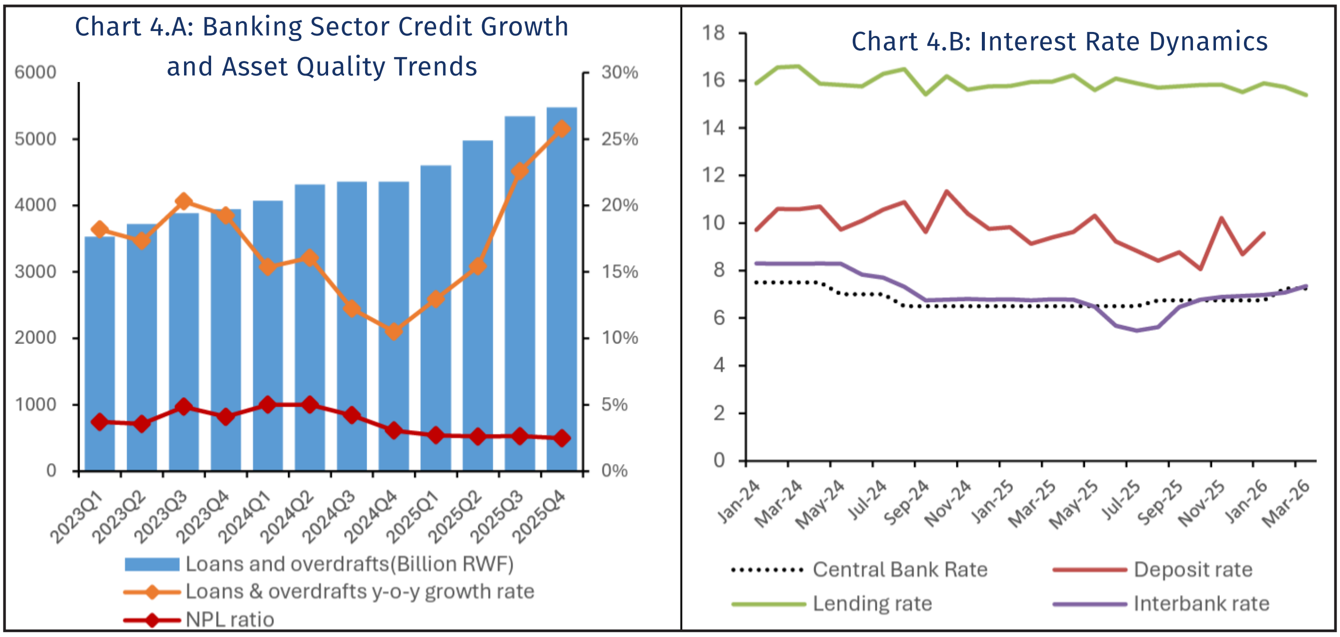



*Source: BNR*

While global financial conditions remain restrictive and subject to abrupt tightening, the domestic banking sector continues to provide a stable foundation for economic activity. The steady increase in the volume of loans and overdrafts to RWF 5,478 billion underscores the sector's capacity to support broad based growth despite external headwinds **(Chart 4.A)**.

Crucially, the systemic risk profile has improved, characterized by a consistent downward trajectory in the non-performing loans ratio, which halved between 2024 and 2025 **(Chart 4.A)**. The stickiness of commercial lending rates, which average approximately 16 percent, suggests that banks are pricing in the current risk environment with caution **(Chart 4.B)**. Sustained monitoring of these dynamics is essential to ensure that the financial sector remains a resilient conduit for national development amid ongoing international market volatility.

## Chart 4: Banking asset quality and market interest rates




*Source: BNR*

# Conclusion

As a net energy-importing economy, Rwanda is confronted with the downside risk of prolonged geopolitical tensions and elevated global commodity prices. The external pressure complicates the monetary policy environment. The MPC has demonstrated capacity to tune policy in a manner that aligns its stance to the strategic mandate of price stability as the grounding for sustainable growth. The risk of inflationary expectations de-anchoring is bigger than any short-term cost on economic growth. Therefore, the case for the MPC maintaining a tightening stance by way of a further increase in the Central Bank Rate (CBR) is compelling.

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May 18, 2026