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RBA RESEARCH CENTRE
RESEARCH NOTE · NO. RN/03/26

RESEARCH NOTE · AUGUST 2026

Monetary Policy Stance

*The inevitable tightening that minimizes
the short-run stability–growth tradeoff*

RN/03/26

Highlights

The Monetary Policy Committee of the National Bank of Rwanda holds its third meeting of the year against a backdrop of strong inflationary pressure, sustained growth momentum, and a foreign exchange market where stability is gradually being restored.

- 01 Headline inflation remains above the institutional target range, driven primarily by the pass-through of exogenous global shocks and intensified domestic price pressures.
- 02 The Rwandan economy maintains a strong growth trajectory, exhibiting sustained expansion throughout the first quarter of 2026.
- 03 An inevitably tight monetary policy stance amidst inflationary pressure has been accompanied by sustained growth in private sector credit — reflecting, at best, a very minimal tradeoff between stability and growth.
- 04 With the private sector credit market portraying strong underlying demand emanating from robust economic performance, the MPC has room for further monetary policy tightening to stem rising inflation from potentially de-anchoring inflationary expectations.
- 05 Amidst the external imbalance that has kept the local currency under depreciation pressure — albeit with stability being gradually restored — further tightening will support the sustenance of foreign exchange market stability, mitigating the exchange-rate pass-through to inflation amidst elevated international oil prices.
- 06 The tightening need not be aggressive, given the delicate balancing act that the MPC is navigating.

THE BOTTOM LINE

A 25-basis-point increase in the Central Bank Rate is justifiable.

8.25% → 8.50%
CURRENT CBR JUSTIFIABLE

“The MPC has demonstrable policy credibility credentials, carefully juggling its focus on macroeconomic stability and supporting economic growth.”

Inflation has Breached the Target Corridor

The Monetary Policy Committee (MPC) of the National Bank of Rwanda (NBR) holds its third meeting this year on the backdrop of evident strong inflationary pressure. Headline inflation breached the upper bound of the central bank's target range in Q1 2026, averaging 9.1%, and accelerated to 13.6% in Q2, reaching 14.5% in July 2026 (**Figure 1.a**). The increase was largely driven by higher global energy prices amid the Middle East conflict and their transmission to domestic prices, alongside domestic supply-side pressures.

By July, inflation had become broad-based, with the energy index increasing by 44.5%, fresh food by 16.0%, and consequently core inflation by 11.4% year-on-year (**Figure 1.b**). Notable increases

were also recorded in food and non-alcoholic beverages (13.1%), alcoholic beverages, tobacco and narcotics (9.8%), housing, water, electricity, gas and other fuels (21.0%), transport (24.2%), and restaurants and hotels (14.2%).

Within the food category, the meat price index surged by 33.8% year-on-year and increased sharply by 17.8% month-on-month, reflecting domestic supply disruptions associated with livestock movement restrictions and quarantine measures introduced to contain Rift Valley Fever. Headline inflation increased by 0.9% month-on-month in July, with food and non-alcoholic beverages and transport rising by 1.5% and 1.2%, respectively.

FIGURE 1.A · HEADLINE INFLATION AND TARGET CORRIDOR (%)



FIGURE 1.B · COMPONENTS OF INFLATION (Y-O-Y, %)

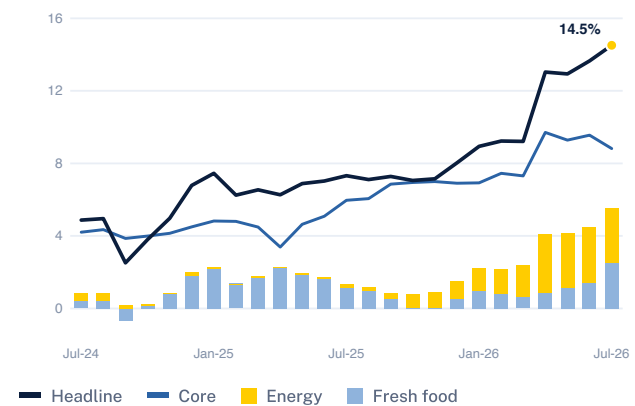


TABLE 1 · COMPONENTS OF HEADLINE INFLATION, JULY 2026 (% Y-O-Y)

Energy index	44.5
Meat	33.8
Transport	24.2
Housing, water, electricity & gas	21.0
Fresh food	16.0
Restaurants & hotels	14.2
Food & non-alcoholic beverages	13.1
Core inflation	11.4
Alcoholic beverages & tobacco	9.8

Source: NISR

14.5%

HEADLINE INFLATION, JULY 2026 · WELL ABOVE THE 2-8% TARGET BAND

+33.8%

Meat prices year-on-year, on livestock movement restrictions to contain Rift Valley Fever.

02 The Economy Sustains a Strong Trajectory

10.0%

REAL GDP GROWTH, Q1 2026

FRW

6,346^{bn}

NOMINAL GDP, Q1 2026 ·
FROM 5,276 BN

14.0%

INDUSTRY GROWTH ·
STRONGEST SECTOR

52.0%

SERVICES SHARE OF GDP

Rwanda's economy continued to demonstrate resilience as reflected in sustained growth momentum in Q1 2026 despite a challenging global environment characterized by elevated commodity prices and external uncertainties. Nominal GDP increased to FRW 6,346 billion from FRW 5,276 billion in the corresponding quarter of 2025, reflecting continued expansion in economic activity. Real GDP growth remained robust at 10.0% in Q1 2026, following exceptionally strong growth of 11.2% in Q4 2025 and 11.8% in Q3 2025 (**Figure 2.a**).

Noteworthy, output growth remained broad-based across the major sectors of the economy, reducing reliance on a single economic activity. Industry recorded the strongest expansion at 14.0%, followed by agriculture at 8.0% and services at 7.0% (**Figure 2.b**). The services sector remained the largest contributor to economic activity, accounting for 52.0% of GDP, while industry and agriculture contributed 24.0% and 19.0%, respectively (**Figure 2.c**). The combination of sustained growth and broad-based sectoral expansion highlights the economy's capacity to absorb external shocks while maintaining strong domestic economic activity.

FIGURE 2.A · GDP AT CURRENT PRICES (FRW BN) AND GROWTH

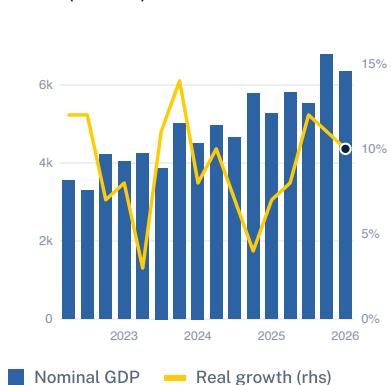


FIGURE 2.B · GDP GROWTH BY SECTOR (%)

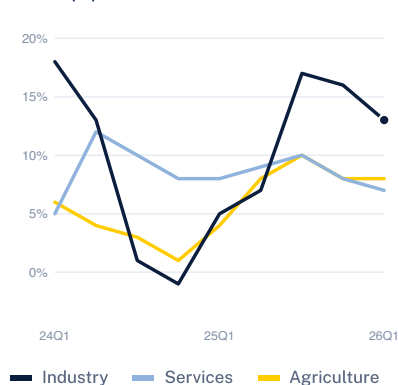
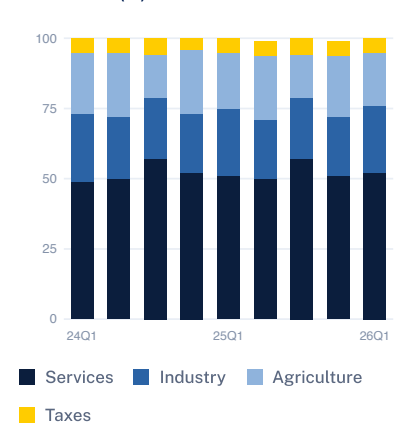


FIGURE 2.C · SECTORAL SHARE OF GDP (%)



Source: NISR

The combination of sustained growth and broad-based sectoral expansion highlights the economy's capacity to absorb external shocks.

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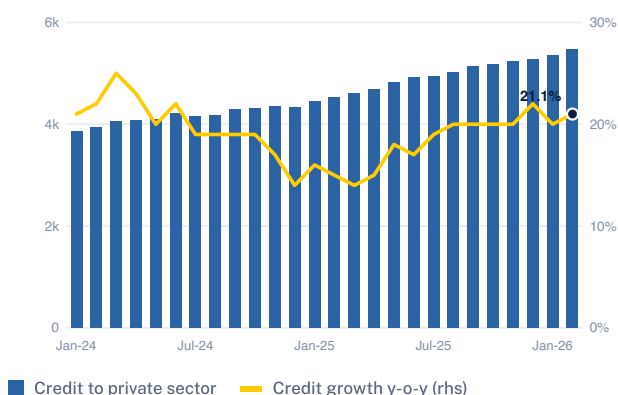
CREDIT CONDITIONS

Tighter Money, Undeterred Credit

Private sector credit continued to expand steadily, reaching FRW 5,477.1 billion in February 2026, up from FRW 4,522.7 billion in February 2025. Year-on-year credit growth remained robust, rising to 21.6% in December 2025, before moderating slightly to 20.1% in January 2026 and 21.1% in February 2026 (Figure 3.a). This sustained expansion reflects continued credit demand and resilience in financial intermediation despite the gradual tightening of monetary conditions.

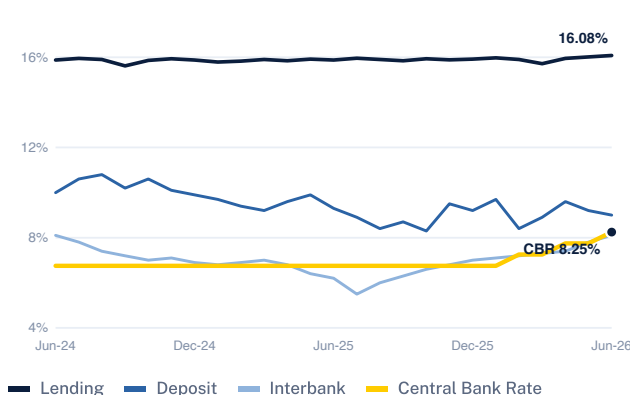
The increase in the Central Bank Rate (CBR) from 6.75% in January 2026 to 8.25% by June 2026, accompanied by a rise in the lending rate from 15.88% to 16.08% (Figure 3.b), suggests that tighter monetary conditions were increasingly reflected in borrowing costs, although this had not translated into a weakening of credit growth.

FIGURE 3.A · PRIVATE SECTOR CREDIT (FRW BN) AND GROWTH



Source: MINECOFIN and BNR

FIGURE 3.B · KEY INTEREST RATES (%)



Source: BNR

FRW
5,477 bn

PRIVATE SECTOR CREDIT, FEB 2026

21.1%

CREDIT GROWTH Y-O-Y, FEB 2026

+150 bps

CBR INCREASE, JAN-JUN 2026

16.08%

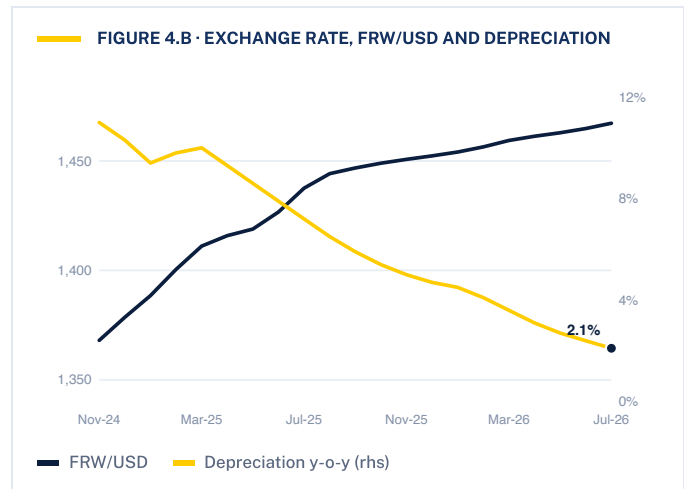
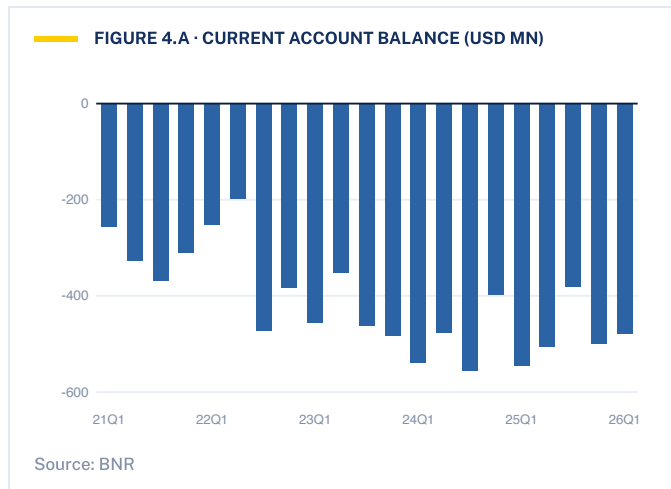
AVERAGE LENDING RATE, JUN 2026

Tighter monetary conditions are increasingly reflected in borrowing costs — yet credit growth has not weakened, signalling strong underlying demand.

04 Exchange Rate Stability is Gradually Restored

Despite persistent external-sector pressures, the Rwandan Franc demonstrated resilience, with the pace of depreciation moderating significantly during 2026. As shown in **Figure 4.b**, the FRW/USD nominal exchange rate reflected a sustained depreciation trend. However, the year-on-year rate of depreciation declined markedly from approximately 10–18% in 2024 to below 5% during the first half of 2026, reaching 2.1% by July 2026.

This moderation occurred despite the persistent current account deficit (**Figure 4.a**), highlighting the improved resilience of the foreign-exchange market. Recent reforms in the domestic foreign-exchange market, together with measures promoting the use of the Rwandan Franc in domestic transactions, have contributed to a more orderly exchange-rate adjustment and moderated depreciation pressures.



05 CONCLUSION

Room to Tighten, No Need for Aggression

The MPC has demonstrable policy credibility credentials, carefully juggling its focus on macroeconomic stability and supporting economic growth. That an inevitably tight monetary policy stance amidst inflationary pressure has been accompanied by sustained growth in private sector credit reflects, at best, a very minimal tradeoff between stability and growth.

The monetary policy stance is now subject to the test of persistent inflationary pressure. With the private sector credit market portraying strong underlying demand emanating from robust economic performance, the rise in interest rates notwithstanding,

the MPC has room for further monetary policy tightening to stem rising inflation from potentially de-anchoring inflationary expectations.

On the back of the external imbalance that has seen the local currency under depreciation pressure, albeit with stability being gradually restored, further monetary policy tightening will lend support to the sustenance of foreign exchange market stability — in the process mitigating the exchange-rate pass-through effect to inflation amidst elevated international oil prices. The tightening need not be aggressive, given the delicate balancing act that the MPC is navigating: a 25-basis-point increase in the CBR, from 8.25% to 8.50%, is justifiable.

A 25-basis-point increase in the CBR — from 8.25% to 8.50% — is justifiable.

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