NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

MONETARY POLICY REPORT
NOVEMBER 2022

NBR IDENTITY STATEMENT

The National Bank of Rwanda strives to be a World class Central Bank contributing to economic growth & development, by using robust monetary policy tools to maintain stable market prices. The Bank ensures financial stability in a free market economy as it embraces innovation, inclusiveness, and economic integration.

VISION

To become a World Class Central Bank

MISSION

To ensure Price Stability and a Sound Financial System

OUR CORE VALUES

INTEGRITY

We uphold high moral, ethical and professional standards for our people, systems and data

ACCOUNTABILITY

We are result-focused and transparent, and we reward according to performance

MUTUAL-RESPECT AND TEAM-WORK

We keep ourselves in high spirit, committed to each other for success

EXCELLENCE

We passionately strive to deliver quality services in a timely and cost effective manner. We continuously seek improvement by encouraging new ideas and welcoming feedback that adds value to customer services.

NBR
Key Strategic Focus

(2017/18-2023/24)

The National Bank of Rwanda strategic plan sets out six strategic focus areas in which the Bank must excel to achieve its mission and vision. The strategy was designed based on Rwanda's aspirations for economic transformation in line with the National Strategy for Transformation (NST1).

CONTENTS

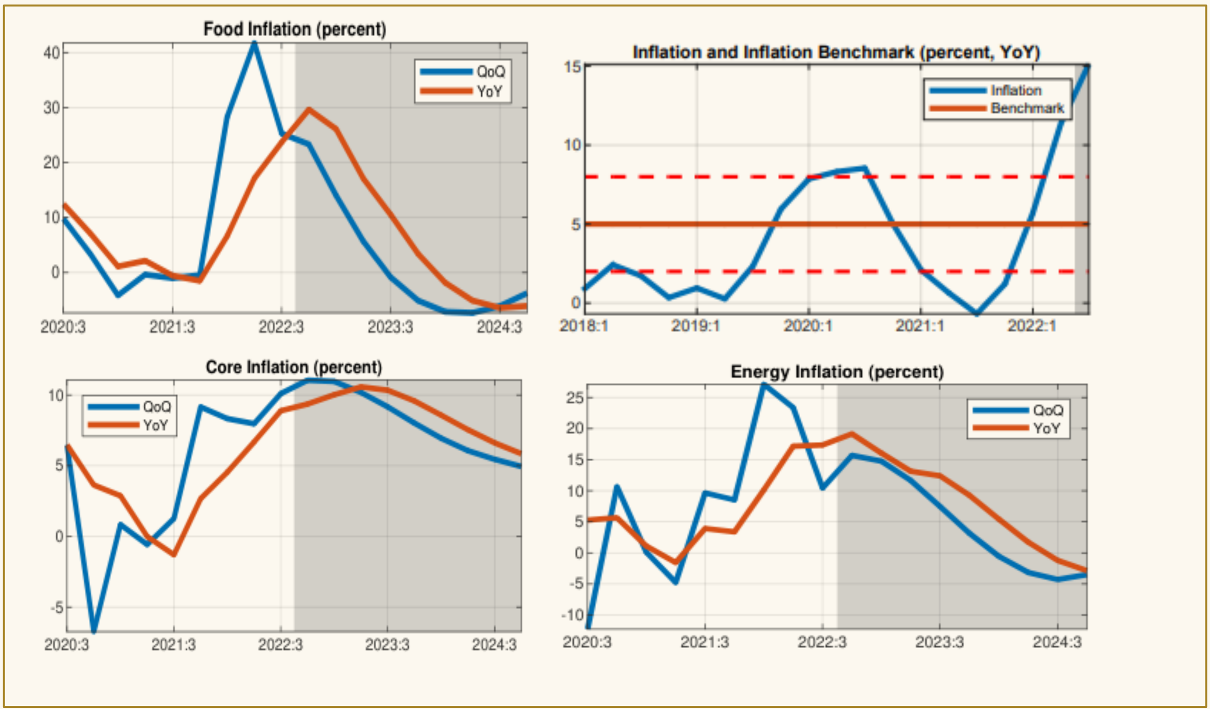
MONETARY POLICY COMMITTEE DECISION, CURRENT OUTLOOK, AND RISKS

The Monetary Policy Committee (MPC) meeting convened on the 14th of November 2022 to review its previous decisions' impact, assess recent global and domestic economic developments and take policy decisions for the following quarter. Analysis indicates that inflationary pressures remain high, with headline inflation projections for 2022 being higher than earlier projected. This is mainly due to continued global economic challenges as well as lower domestic agriculture production. As reported in our August report, the war between Russia and Ukraine (two commodity superpowers producing oil gas, fertilizers, metals, and cereals among other things) exacerbated an already increasing trend of commodity prices. In addition, the US Dollar continues to appreciate against other currencies, and risks of disruptions of global supply chains remain, which might continue affecting logistics and international trade costs, and therefore inflation.

In line with the above, Rwanda's headline inflation is projected to average around 13.2 percent in 2022. Given these developments and the outlook, the MPC decided to increase the CBR by 50 basis points, from 6.0 to 6.5 percent, to reduce inflationary pressures and preserve consumers' purchasing power.

The November 2022 projections indicate that core inflation (core excluding food and beverages) will remain elevated until the first half of 2023, following the resilience of the domestic economy and high imported costs, before it starts reducing. Food inflation is also expected to remain high in 2022Q4, reflecting the effects of the weak agriculture performance and the increase in international food prices. Food inflation is projected to moderate early in 2023 as the next harvest period starts with a normal production. The projected decline is also attributed to the reduction in global food prices in the medium term.

Upward pressures recorded on energy inflation in the first three quarters of 2022 are likely to continue until 2023H1, mainly originating from international oil prices. However, the projections indicate that pressures will fade from 2023Q3 onwards on the back of expected decreases in domestic and imported costs.



I. GLOBAL ECONOMIC DEVELOPMENTS AND OUTLOOK

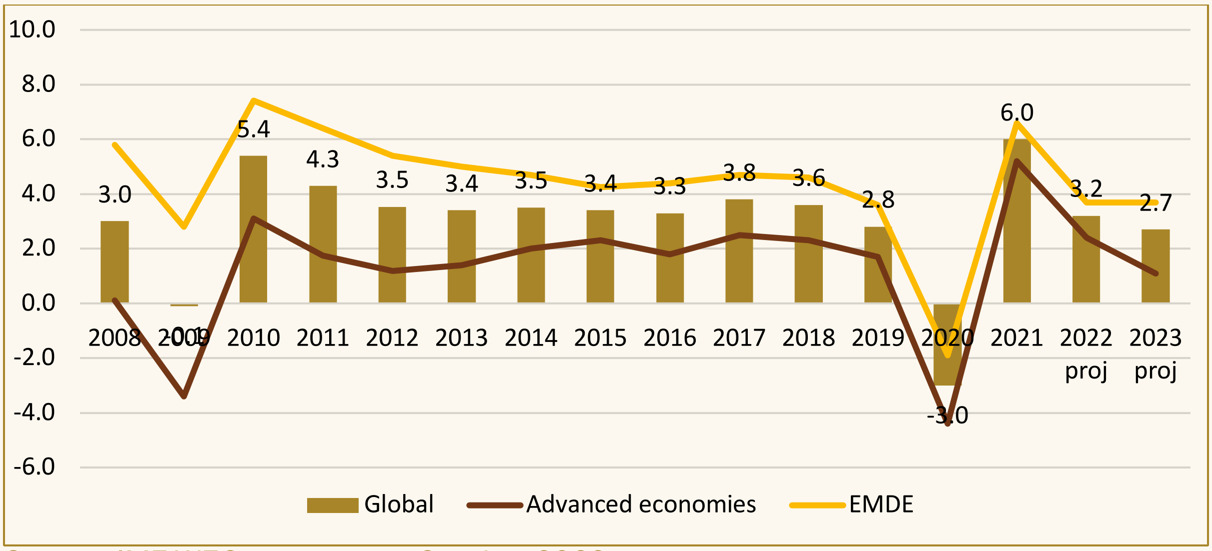
According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) projections published in October 2022, the world economic growth is projected to moderate to 3.2 percent in 2022, from 6.0 percent in 2021. Growth projections for 2022 remained unchanged relative to July 2022 update, reflecting downward revision for advanced economies and upgrade for emerging market and developing economies.

The global economy is projected to moderate in 2022 following steep challenges

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) projections published in October 2022, the world economic growth is projected to moderate to 3.2 percent in 2022 from 6.0 percent in 2021. Growth projections for 2022 remained unchanged relative to July 2022 update, reflecting downward revision for advanced economies and upgrade for emerging market and developing economies.

Economic growth in advanced economies is projected to slow to 2.4 percent in 2022 after 5.2 percent in 2021. Relative to July 2022 update, the US economic growth projections are revised down by 0.7 percentage points to 1.6 percent in 2022 after 5.7 percent in 2021. The downward revision reflects unexpected GDP contraction in the second half of 2022. Declining real disposable income continues to eat into consumer demand, and higher interest rates are taking an important toll on spending especially spending on residential investment.

Chart 1: GDP growth and projections across regional blocks (% change)



Source: IMF WEO projections, October 2022

Eurozone's economy is projected to grow by 3.1 percent in 2022 from 5.2 percent in 2021. This reflects a stronger-than-projected second quarter outturn in most Eurozone economies. In Italy and Spain, a recovery in tourism-related services and industrial production in the first half of 2022 has contributed to the projected growth. Weak 2023 growth across Europe reflects spillover effects from the war in Ukraine, with especially sharp downward revisions for economies most exposed to the Russian gas supply cuts and tighter financial conditions, with the European Central Bank having ended net asset purchases and rapidly rising policy rates three times in 2022.

The United Kingdom's economy is projected to grow by 3.6 percent in 2022 from 7.4 percent in 2021, and growth projections are revised up by 0.4 percentage points relative to July update. Growth for 2023 is projected to slow to 0.3 percent as higher inflation reduces purchasing power and tighter monetary policy takes a toll on consumer spending and business investment.

The Japan's economy is projected to grow by 1.7 percent in 2022 and 1.6 percent in 2023, as growth projections for 2022 remained unchanged relative to July 2022 update. Growth projections for 2023 are revised down by 0.1 percentage points, reflecting mainly external factors, with a negative shift in the terms of trade from higher energy import prices as well as lower consumption as inflation outpaces wage growth.

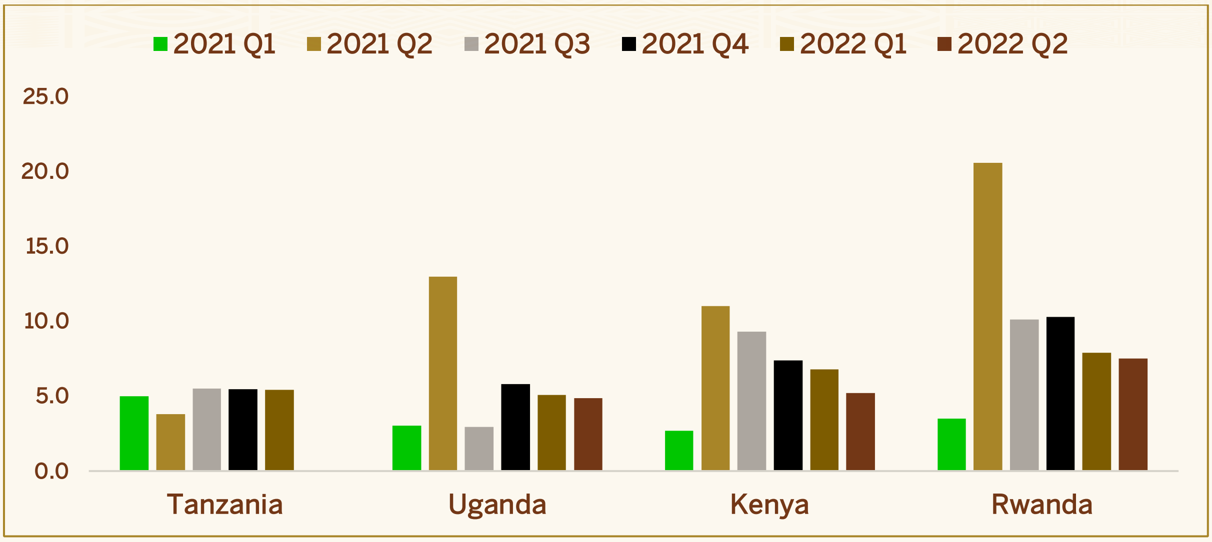
Emerging market and developing economies are projected to grow by 3.7 percent in 2022, after 6.6 percent in 2021. In China, growth is projected to moderate to 3.2 percent in 2022, from 8.1 percent in 2021. The downgrade revision was largely due to Covid-19 outbreaks and lockdowns in multiple localities, as well as the worsening property market crisis, which have held back economic activity, although growth is expected at 4.4 percent in 2023.

India's economy is projected to grow by 6.8 percent in 2022, from 8.7 percent in 2021, reflecting a weaker-than expected outturn in the second quarter and more subdued external demand.

The Sub-Saharan African economy is projected to slow to 3.6 percent in 2022, compared to the growth of 4.7 percent in 2021. This weak outlook reflects lower trading partner growth, tighter financial and monetary conditions, as well as negative shift in the commodity terms of trade.

The economic performance in the East African Community (EAC-5) countries is projected to slow to 4.9 percent in 2022, from 6.7 percent recorded in 2021, following a projected slowdown for all member countries compared to the previous year, largely due to the global subdue and rising commodity prices.

Chart 2 - Economic growth in EAC-5 countries (% change)



Source: Country bureau of statistics

Kenya's real GDP decelerated to 5.2 percent in 2022Q2 from 6.8 percent in 2022Q1, and projected to slow to 5.3 percent in 2022 and 5.1 percent in 2023 from 7.5 percent recorded in 2021. The slowdown in Kenya's real GDP, which accounts for more than 40 percent of the total community's output (EAC-5), will negatively affect the growth of EAC in general.

Rwanda's economy grew by 7.5 percent in 2022Q2 after 7.9 percent in 2022Q1, and projected to moderate to 6.0 percent in 2022 and 6.7 percent in 2023 after 10.9 percent in 2021, following global economic slowdown, rising commodity prices and persistent supply chain disruptions. Uganda's GDP growth slowed to 4.9 percent in 2022Q2 after 5.1 percent in 2022Q1, and projected to slow to 4.4 percent in 2022 and 5.9 percent in 2023 from 6.7 percent recorded in 2021. Tanzania's economic growth is projected to slightly moderate to 4.5 percent in 2022 after 4.9 percent in 2021. In Burundi, the economy is projected to grow by 3.3 percent in 2022 and 4.1 percent in 2023 after 3.1 percent in 2021.

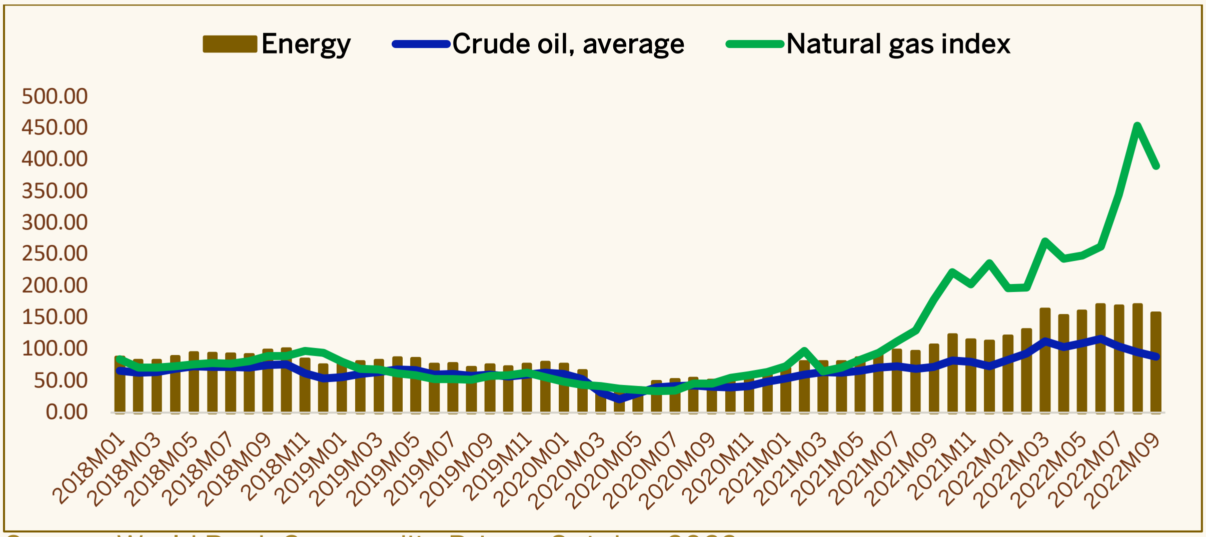
High uncertainty however surrounds global economic prospects, and risks to the outlook dominate, as outlined here below:

- Policy mistakes due to either under tightening or over tightening of monetary policy;
- Slowdown of China's economy due to worsening of the real estate;
- Widespread debt distress in vulnerable emerging market and developing economies;
- Fragmentation of the world economy disrupting trade and international cooperation;
- Divergence in economic policies may continue to contribute to the US dollar strength;
- Further shocks to energy and food prices may keep inflationary higher for longer, and
- Halting of gas supplies to Europe in 2022 is likely to increase energy prices further.

Commodity prices continues to increase in 2022, at a slowing pace, but projected to decline in 2023 due to the slowing global demand

In 2022Q3 (y-o-y), global commodity prices increased, reflecting supply disruptions linked with Russia-Ukraine standoff. Energy prices increased by 64.7 percent compared to 92.1 percent in 2021Q3, attributed mainly to the rise in prices of crude oil and natural gas.

Chart 3 – Energy commodity prices index in nominal US dollar (2010=100)



Source: World Bank Commodity Prices, October 2022

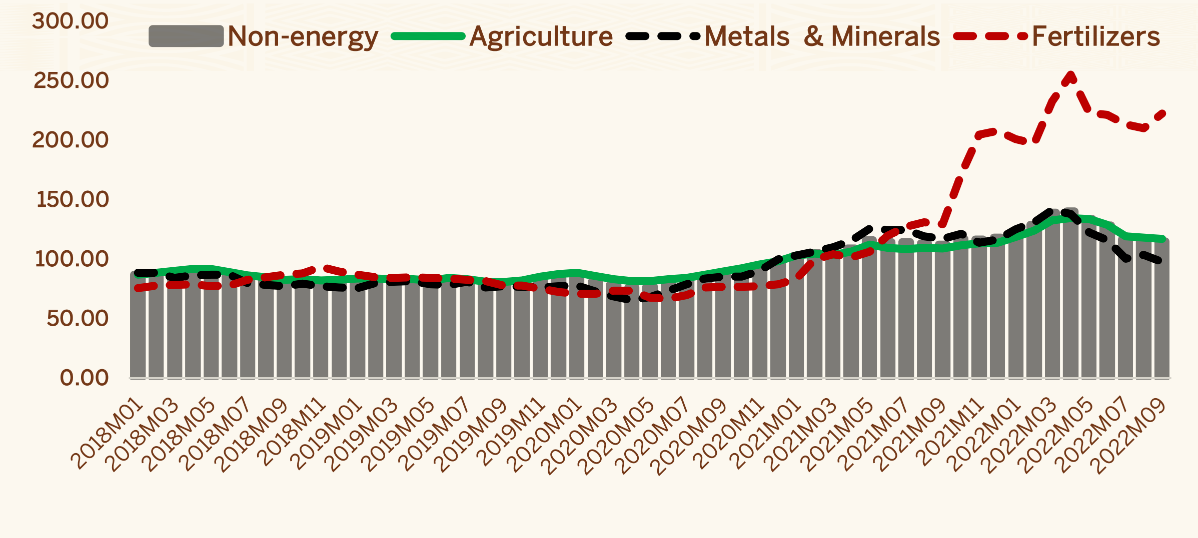
In 2022Q3, crude oil prices increased by 34.6 percent on average compared to an increase of 70.6 percent in 2021Q3, following supply disruptions due to the war in Ukraine. In October 2022, World Bank projects oil prices to increase by 42.0 percent in 2022, from USD 70.4/barrel in 2021 to USD 100.0/barrel in 2022, and later drop by 8.0 percent in 2023, amid slowing global growth and concerns about a possible global recession.

Natural gas prices surged by 182.5 percent in 2022Q3 compared to 231.8 percent in 2021Q3, following the outbreak of the war in Ukraine, which disrupted Russia's natural gas exports. World Bank projects natural gas prices to increase by 133.0 percent in 2022, from 284.6 percent in 2021, which reflects disruptions to energy supplies as a result of the war in Ukraine and related sanctions and policies.

Non-energy commodity prices slightly increased by 2.6 percent in 2022Q3, after 32.9 percent in 2021Q3, owing largely to low prices of agricultural commodities, declining metals & mineral prices, offset by higher prices for fertilizers.

In 2022Q3, average prices for agricultural commodities increased by 8.5 percent after 25.2 percent in 2021Q3. This increase reflects trade and production disruptions for some agricultural prices as well as a surge input costs, especially energy and fertilizers. Agricultural commodities prices are projected to increase by 13.3 percent in 2022 from 24.2 percent in 2021, and drop by 4.5 percent in 2023.

Chart 4: Non-energy commodity price developments (USD/barrel)



Source: World Bank commodity prices, October 2022

Food prices increased by 12.1 percent in 2022Q3 compared to 33.2 percent in 2021Q3, of which oils & meals (+5.1 percent), grains, (+19.2 percent), and other foods (+15.5 percent). Global food prices are projected to increase by 17.9 percent in 2022 from 30.8 percent in 2021, before dropping by 6.2 percent in 2023, reflecting expectations of improved yields, continuation of Ukraine's return to the global market, and weakening demand in response to the slowdown in the global economy.

Beverages prices increased by 12.2 percent in 2022Q3 after 15.7 percent in 2021Q3, mainly led by coffee prices due to weather-related production shortfalls in Brazil following a frost that affected the country's coffee production. Coffee prices are projected to increase by 30.8 percent in 2022 but drop by 6.8 percent in 2023.Tea prices (Mombasa) increased by 15.5 percent in 2022Q3 after 5.0 percent in 2021Q3, as tea production reflects weather-related production shortfalls in East Africa, especially in Kenya, the world's largest black tea exporter. Tea prices are projected to increase by 15.2 percent in 2022 before dropping by 9.7 percent in 2023.

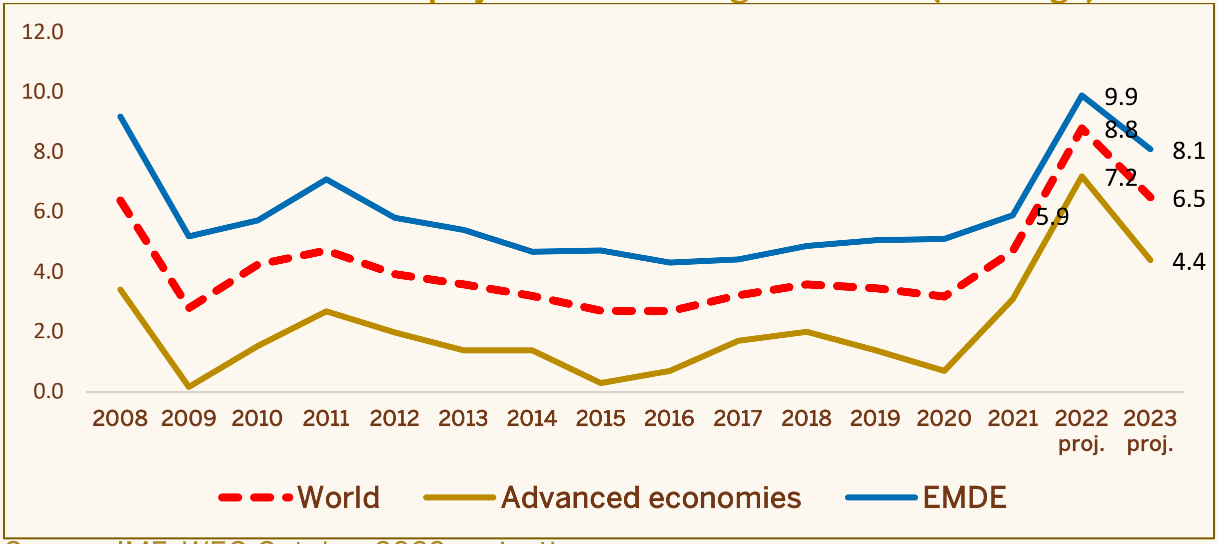
Metals & minerals prices went down by 16.2 percent in 2022Q3, after increasing by 45.5 percent in 2021Q3, reflecting slowing global demand. Tin prices dropped by 31.5 percent in 2022Q3 compared to a surge of 95.8 percent in 2021Q3, undermined by a reduced demand from the electronics sector. World Bank projected metal and mineral prices to drop by 2.2 percent in 2022 and further drop by 15.2 percent in 2023.

Prices for fertilizers increased by 66.7 percent in 2022Q3 after 73.9 percent in 2021Q3. The increase follows last year's surge due to supply disruptions, soaring energy costs, and trade restrictions in China and Russia. The Ukraine war threatens further disruptions, as Russia and Belarus are major producers and exporters of fertilizers and their main input, natural gas. The World Bank projects fertilizers prices to rise by 66.0 percent in 2022, but later drop by 12.4 percent in 2023, as supply disruptions ease gradually.

Global inflation is expected to remain high over the year 2022 but ease in 2023

World annual average inflation is projected to increase to 8.8 percent in 2022, an upward revision of 0.5 percent points relative to July update, from 4.7 percent in 2021, and later decelerate to 6.5 percent in 2023. The upward inflation revision is especially large for advanced economies, reflecting higher energy and food prices.

Chart 5- Global inflation and projections across regional blocks (% change)



Source: IMF, WEO October 2022 projections

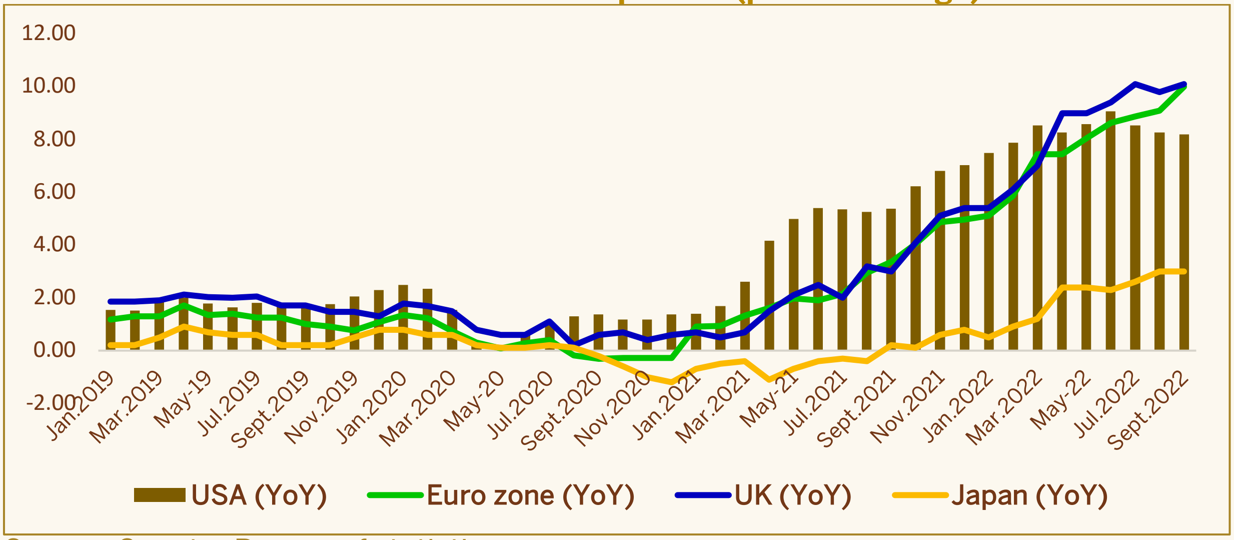
In advanced economies, consumer price inflation is projected to increase to 7.2 percent in 2022 (0.6 percentage points higher than in July 2022 update), from 3.1 percent in 2021, driven by significant increases in headline inflation among major economies such as the United Kingdom (9.1 percent), Euro area (8.3 percent), and United States (8.1 percent).

The US annual headline inflation slowed for the 3rd month to 8.2 percent in September 2022, the lowest in seven months after 8.3 percent in August 2022. Energy index eased due to easing gasoline, fuel and electricity. Food prices also slightly reduced to 11.2 percent from 11.4 percent which was the highest since 1979. Core inflation rose to 6.6 percent in September, the highest since August 1982, as a sign of inflationary pressures remain elevated. The annual average inflation is projected to increase to 8.1 percent in 2022 from 4.7 percent in 2021, but expected decelerate to 3.5 percent in 2023.

Annual headline inflation in the Eurozone rose to 9.9 percent in September 2022, from 9.1 percent in August, and this was the highest inflation since 1991, as the euro hit a 20-year low and the bloc's energy crisis deepened. Headline inflation remained well above ECB target of 2 percent, suggesting policymakers to continue tighten monetary policy despite risks of recession. The main upward pressure came from energy, followed by food, alcohol & tobacco, services, and non-energy. Annual core inflation increased to 4.8 percent, the highest on record. The annual average inflation is projected to increase to 8.3 percent in 2022 from 2.6 percent in 2021, but expected to decelerate to 5.7 percent in 2023.

Inflation rate in the United Kingdom rose to 10.1 percent in September 2022, from 9.9 percent in August, returning to the 40-year high hit in July and surpassing market expectations. The largest contribution to the increase was from food, namely oils & fats, and dairy products. The annual core inflation, rose to a record-high of 6.5 percent. The annual average inflation is projected to increase to 9.1 percent in 2022 from 2.6 percent in 2021, and expected to remain high at 9.0 percent in 2023.

Chart 6- Annual headline inflation developments (percent change)



Source: Country Bureau of statistics

Japan's inflation was 3.0 percent in September 2022 unchanged from the previous month, the highest inflation since September 2014, amid high prices of food and raw materials as well as yen weaknesses. The core CPI increased to 3.0 percent in September 2022 from 2.8 percent in August, the fastest pace in eight years as businesses continue to pass on rising import costs driven by higher commodity prices and a weakening Yen. Core inflation exceeded the Central Bank's 2 percent target for six consecutive months, presenting a challenge to the Bank of Japan which is increasingly pressured to adjust its policy of ultra-low interest rates. The annual average inflation is projected to increase to 2.0 percent in 2022 and to 1.4 percent in 2023.

In Sub-Saharan Africa, annual headline inflation is projected to rise to a double digit of 14.4 percent in 2022, from 11.1 percent in 2021, following the projected higher inflation rates in Zimbabwe (284.9 percent), Ethiopia (33.6 percent), Ghana (27.2 percent) and Angola (21.7 percent). In some Sub-Saharan African countries, food prices have increased significantly, amid local shortages and the rise in global food prices.

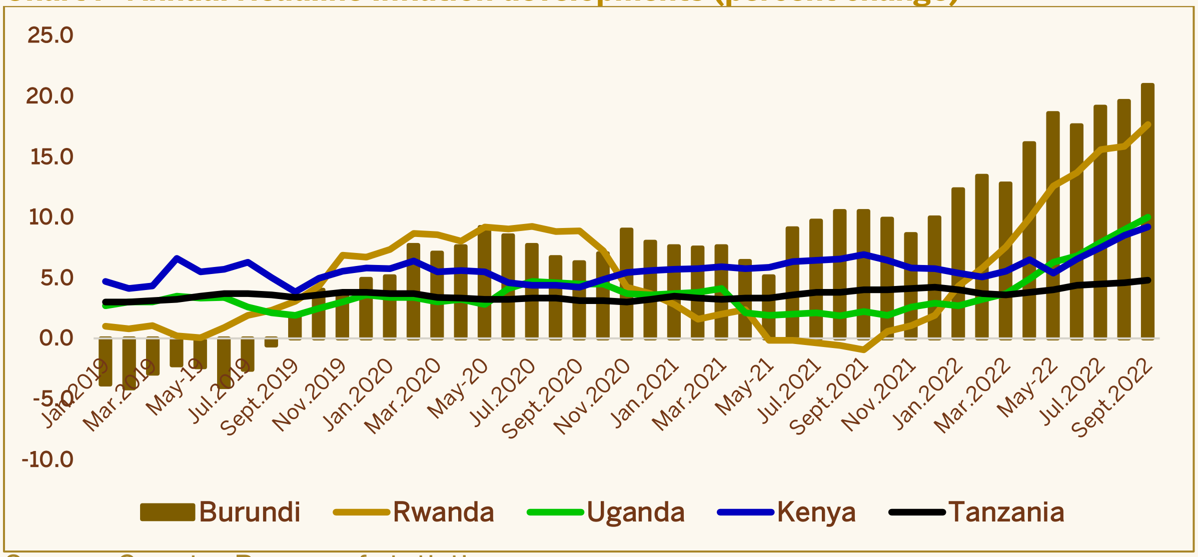
With regard to price developments in the EAC-5 countries, annual average inflation is projected to increase to 6.4 percent in 2022 and to 6.3 percent in 2023, from 4.4 percent in 2021, following projected increase across all EAC-5 countries. In Kenya, the annual headline inflation increased to 9.2 percent in September 2022 from 9.0 percent in August, the highest inflation rate since June 2017, amid a continued increase in food prices, fuel and housing. The annual average inflation is projected to increase to 7.4 percent in 2022 from 6.1 percent in 2021, and ease to 6.6 percent in 2023.

Rwanda's headline inflation increased to 17.6 percent in September from 15.9 percent in August 2022, the highest inflation rate since February 2009, amid rising prices of food & non-alcoholic beverages (33.2 percent), energy (20.3 percent), restaurants & hotels (18.8 percent), furnishing & household equipment (16.8 percent), and transport (14.5 percent). Core inflation, which excludes volatile products increased to 13.6 percent in September from 12.7 percent in the previous month. The annual average inflation is projected to increase to 13.2 percent in 2022 from 0.8 percent in 2021, but ease to 8.0 percent in 2023.

Headline inflation in Tanzania increased to 4.8 percent in September 2022, from 4.6 percent in August, the highest inflation rate since October 2017, amid rising prices of food & non-alcoholic beverages, and transport, as inflation remained stable for furnishings & household equipment. The annual average inflation is projected at 4.0 percent in 2022 and 5.3 percent in 2023 from 3.7 percent in 2021.

Uganda's annual headline inflation reached a double-digit of 10.0 percent in September 2022, up from 9.0 percent in August, as prices rose mostly for food & non-alcoholic beverages. Core inflation, which excludes volatile goods from food and energy, also soared to 8.1 percent from 7.2 percent in the previous month. The annual average inflation is projected to increase to 6.4 percent in both 2022 and 2023 from 2.2 percent in 2021.

Chart 7- Annual Headline Inflation developments (percent change)



Source: Country Bureau of statistics

Monetary conditions tighten globally amid heightened inflation risks

At the beginning of 2022 most advanced economies as well as some emerging market and developing economies started monetary policy tightening to help inflation return to central bank targets. Following the FOMC statement issued on 2nd November 2022, the US Federal

Reserve hiked interest rate by 75 basis points, and decided to raise the target range for the federal funds, its highest benchmark policy rate since 1994. The US policy rate has moved up from the range of 0 – 25 percent to 3.75 – 4.00 percent, tightening global financial conditions and tempting investors. Fed has tightened six times since the beginning of 2022.

The Bank of England increased the Bank rate by 75 basis points, following the monetary policy meeting held on 3rd November 2022. The Bank's monetary policy committee voted by a majority to increase the bank rate by 75 basis points to 3.0 percent, following the 50 basis points hike on 22nd September and 3rd August, and 25 basis points hike on 16th June, 5th May, 17th March and on 3rd February 2022. The BoE has increased its bank rate seven times in 2022 following another hike at the end of 2021.

At its monetary policy meeting held on 27th October 2022, the European Central Bank (ECB) decided to raise the three key ECB interest rates by 75 basis point. Interest rate on the main refinancing operations, marginal lending facility and deposit facility were increased to 2.00 percent, 2.25 percent and 1.50 percent, respectively. Since the beginning of 2022, ECB has increased its bank rate three times.

The 10 Year government bond rate increased in the United Kingdom, United States, Eurozone and Japan to 4.093 percent, 3.829 percent, 2.108 percent and 0.238 percent, respectively, from 0.971 percent, 1.510 percent, -0.177 percent and 0.065 percent in December 2021.

On the foreign exchange market, the US dollar is appreciating against all major currencies, notably the Japanese Yen, the British Pound, the Euro, and the Chinese Yuan. By end of September 2022 (y-o-y), the US dollar appreciated by 25.8 percent against the Japanese Yen, by 21.1 percent against the British pound, by 16.0 percent against the Euro, and by 12.0 percent against the Chinese Yuan. It is estimated that more than half the rise in the dollar this year could be explained by the Fed's comparatively aggressive monetary tightening.

II. EXTERNAL SECTOR DEVELOPMENTS

Rwanda's trade recovery continued in the third quarter of 2022.

In 2022Q3, merchandise exports[1] rose by 39.9 percent amounting to USD 417,8 million, up from USD 298.5 million recorded in the same quarter of 2021. The increase is owed to rising global commodity prices, value addition in minerals and good performance of domestic manufacturing activities.

Traditional exports receipts grew by 14.2 percent (y-o-y) in 2022Q3 amounting to USD 99.2 million from USD 86.9 million. This is due to increased receipts from mineral exports (+23.2 percent), coffee (+6.2%) and tea (+6.3%), as a result of improved value addition for minerals and improved commodity prices for coffee and tea that rose by +29.1 percent and 5.5 percent respectively.

Furthermore, non-traditional exports rose by 35.3 percent in 2022Q3, registering USD 97.5 million from USD 72.1 million a year ago, mainly attributed to increased manufacturing exports of construction and agro-processing products such as cereal products exported to neighboring countries, despite the decline of horticulture products.

Lastly, receipts from re-exported products increased by 61.1 percent year-on-year in 2022Q3, standing at USD 187.8 million from USD 116.6 million recorded in 2021Q3, largely driven by higher global fuel prices. Exports revenues from Informal Cross-Border Trade (ICBT)[2] amounted to USD 33.3 million in 2022Q3 from USD 31.0 million in 2021Q3, following the decrease in COVID-19 travel restrictions.

Merchandise imports rose by 38.9 percent mainly driven by higher international commodity and fuel prices combined with the recovery of domestic economic activities. Similarly, energy imports rose by 137.4 percent due to increasing global oil prices, followed by consumer goods (+38.2 percent), intermediate goods (+14.5 percent) and capital goods (+11.5 percent). Lastly, imports revenues from ICBT grew by 15.1 percent, amounting to USD 1.4 million in 2022Q3 from USD 1.2 million in 2021Q3.

As a result, Rwanda's trade deficit widened by 38.3 percent, amounting to USD 721.2 million in 2022Q3 from USD 521.6 million in 2021Q3.

The external sector projections indicate that the current account deficit (CAD) is expected to improve to 10.5 percent of GDP in 2022 due to higher current transfers mainly

[1] Merchandise exports/ imports refers to exports/imports excluding gold. It includes formal exports and informal cross-border trade (ICBT).
[2] ICBT trade was suspended during April-October 2020 due to closure of borders in order to reduce the spread of the pandemic. However, at the end of November some borders with DRC resumed.

remittances and official grants, offsetting the deterioration of trade deficit. In 2023, the trade balance and CAD is projected to deteriorate on higher global fuel and food prices and increased demand of intermediate and capital goods imports as domestic economic activities improve. However, the CAD is projected to improve in the medium-to-long-term thanks to policy reforms, mainly exports diversification and fiscal consolidation. On the financing side, the CAD will continue to be sufficiently financed by private capital flows mainly foreign direct investment (FDI) as well public borrowings. As a result, Rwanda's external vulnerability is projected to be marginal as the gross international official reserves remain adequate. The coverage of foreign reserves is estimated at 4.7 months of imports in 2022 and will remain adequate in the medium term close to 5 months of prospective imports.

III. DOMESTIC ECONOMIC DEVELOPMENTS

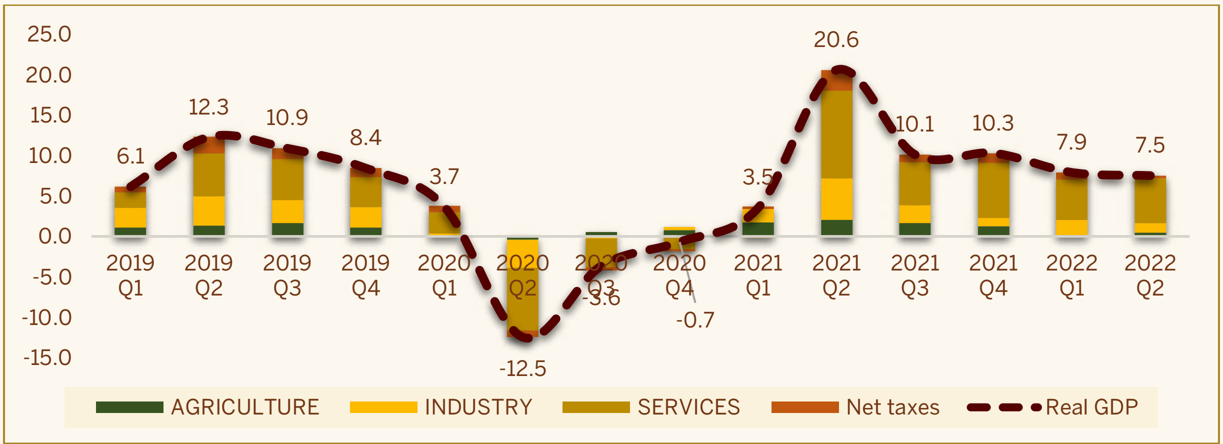
3.1 Economic growth in 2022

The Rwandan economy has recorded a strong economic recovery from the negative shock of COVID-19. The real GDP grew by 7.7 percent in the first half of 2022 following a growth of 10.9 percent in 2021 and a contraction of 3.4 percent in 2020. This momentum continued in 2022Q3, as evidenced by high frequency indicators that recorded high growth rate.

Steady economic recovery in 2022Q2 despite weak agricultural production

Rwanda's economy rebounded by 7.5 percent in 2022Q2, primarily driven by the strong performance of service and industrial sectors.

Chart 8: Real Gross Domestic Product (y-o-y, percentage change)



Source: National Institute of Statistics of Rwanda

The service sector recovers strongly, facilitated by extensive easing of travel restrictions as well as a steady improvement of business activity in other economic sectors. Growth of services sector stood at 12.0 percent in 2022Q2 after 23.9 percent registered in 2021Q2 and it accounted for 74 percent of the real GDP growth. This strong performance was mainly driven by trade (+16.9 percent), transport (+27.3 percent) and hotels and restaurants (+193.5 percent), that generated about 75 percent of the overall services growth. The strong performance of transport services and hotels and restaurants reflected the strong recovery of the Rwandan tourism industry. In 2022Q2, MICE delegates increased to 10470 from 2439 in 2022Q1, of which CHOGM that recorded 4000 international delegates and USD 18.4 million of revenue. International tourist arrivals have been increasing also. UNWTO indicates that, by end of May 2022, Rwanda recorded 80.6 thousand international tourist arrivals, that is 112.7 percent compared to the same period of 2021 and 37.8 percent compared to the end of 2021. However, when compared to their level of 2019, international tourist arrivals were still lower by 41.3 percent, which is in line with the lagging recovery of the global tourism. The later was, in July 2022, 27.8 percent lower than the 2019 global level. These developments supported transport services, particularly air transport that increased by 119.0 percent in 2022. IATA states that the airline industry rebound continues vigorously; supported by the reopening of multiple major markets and the recovery to 2019 levels is expected in 2024, led by the US in 2023 while China and Africa are unlikely to reach that level until 2025.

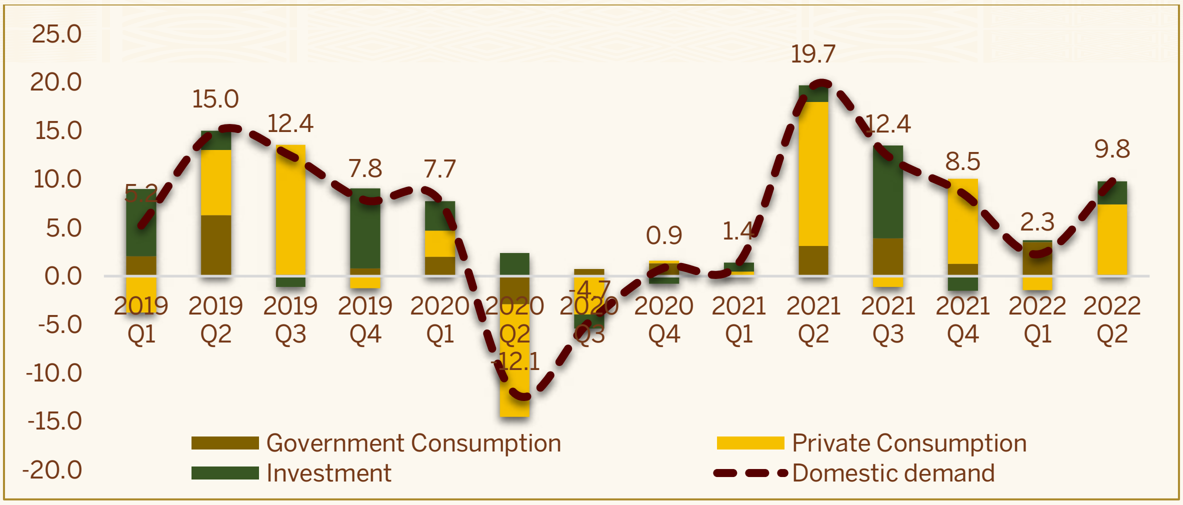
The industrial sector registered modest growth (+6.0% from 29.9% year-on-year), driven mainly by meager construction, robust mining activity and by the base effects. Construction subsector recorded a lower growth of 0.1 percent following the slowing construction activities relative to the fast implementation of mass school construction projects, Integrated Development Program (IDP) model projects (such as KINIGI IDP model village), and roads construction which led to the 32.9 percent growth in 2021Q2. The mining subsector (+8.8 percent in 2022Q2 from 87.5 percent in 2021Q2) continued to be buoyed by high international mineral prices. In year-on-year terms, the later increased by 24.5 percent in 2022Q2 after 76.3 percent in 2021Q2. Regarding the manufacturing industries, the 2022Q2 growth was generated primarily by food processing (8.1 percent from 10.5 percent), beverages (13.7 percent from 8.6 percent), textiles (18.3 percent from 37.6 percent) and cement production (47.6 percent from -14.1 percent) that accounted for 86 percent of the overall growth of 9.8 percent against 22.7 percent recorded in 2021Q2.

Poor food crop production (-1.2 percent in 2022 season A against 7.0 percent recorded in 2021 season A) has led to poor performance of agriculture sector (1.9 percent from 7.3 percent). Given its share of 64 percent of agriculture sector output, it outweighed the good performance of exports crops (16.6 percent from -2.2 percent) and livestock (10.1 percent from 8.6 percent).

Private consumption and investment rebound dominated the expansion of the domestic demand.

The domestic demand gained by 9.8 percent in 2022Q2, mainly driven by the expansion in private consumption (11.8 percent) and investment (10.4 percent). Investment was led by fixed investment, mainly investment in machines and equipment that increased by 10.8 percent in 20222. Investment related to construction (0.0 percent) and government consumption (0.9 percent) somehow stabilized closer to their levels of 2022Q1.

Chart 9: Domestic demand (percentage change)



Source: National Institute of Statistics of Rwanda

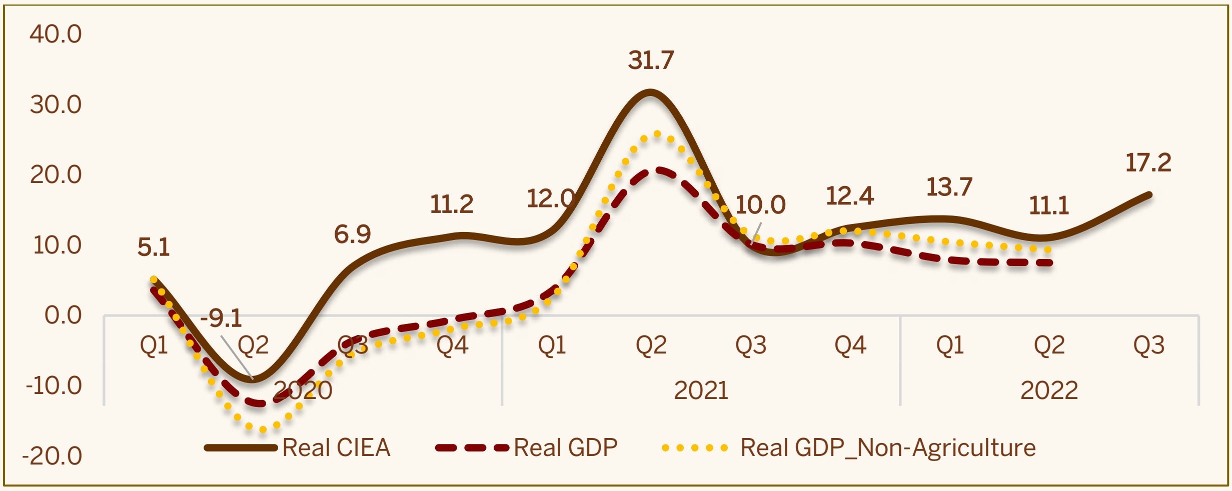
3.2 High frequency indicators in the third quarter of 2022

The evolution of high frequency indicators in 2022Q3 evidence solid aggregate demand and sustained economic recovery from COVID-19 shocks. However, agriculture performance continued to be weak.

High-frequency indicators point to strong economic growth in 2022Q3.

Aggregate demand continued to expand in 2022Q3, as evidenced by the Composite Index of Economic Activities (CIEA) which grew by 17.2 percent after 11.1 percent and 10.0 percent in 2022Q2 and 2021Q3 respectively. This signals a strong economic growth in 2022Q3, despite the unfavorable global environment.

Chart 10: Quarterly real GDP growth vs CIEA (% change, y-o-y)

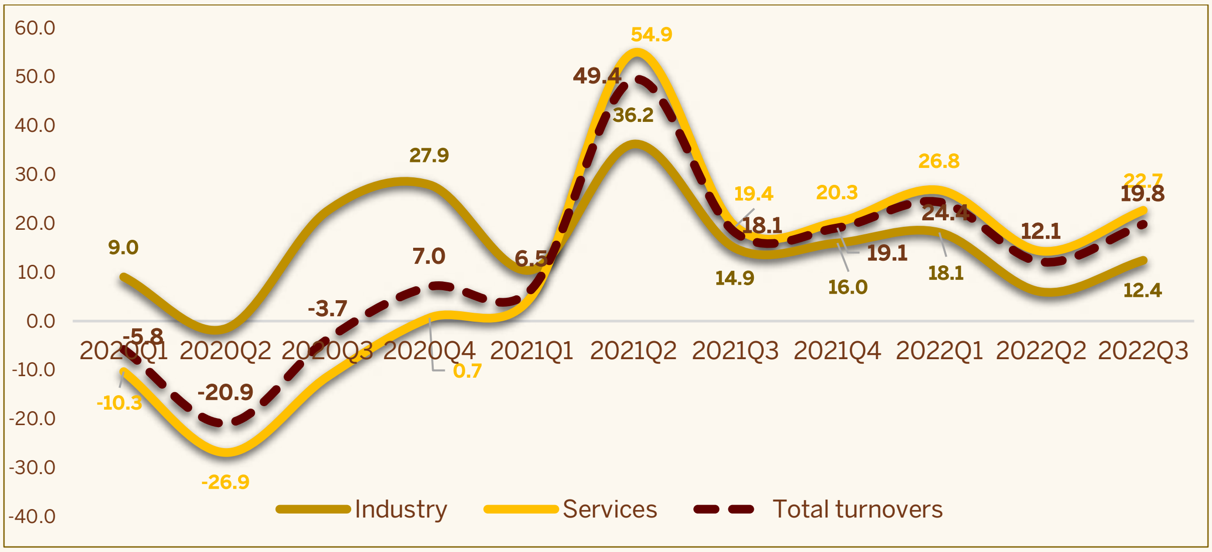


Source: NBR, Monetary Policy Department

The robust expansion of aggregate demand is reflected by high growth of total turnovers of industry and services sectors (19.8 percent), imports (34.4 percent), exports (37.2 percent) and credit to private sector (14.4 percent).

The strong recovery of the tourism industry as well as trade services prosperity were the major drivers of the services sector turnovers growth (22.7 percent), that accounted for 16.3 percentage points of the total turnovers of industry and services sectors. Trade services expanded by 19.9 percent in 2022Q3 from 16.3 percent in 2021Q3, while services related to tourism such as transports and hotels & restaurants increased by 54.6 percent and 97.2 percent in 2022Q3 respectively, from 70.3 percent and 67.4 percent recorded in the same period of 2021. The strong recovery of the Rwanda's tourism industry is evidenced also by the robust demand of MICE as conference delegates were more than 10 thousand and more than 9 thousand in 2022Q2 and 2022Q3 respectively from a number around 2 thousand in the beginning of the year. This trend is expected to continue in the future, in line with global tourism recovery cited above.

Chart 11: Turnovers of industry & services sectors (% change, y-o-y)



Source: NBR, Monetary Policy Department

The industry sector's performance remained strong, with the total turnovers growing by 12.4 percent in 2022Q3. This performance was mainly led by mining and manufacturing industries and construction activities. The mining and quarrying recorded a growth of 24.9 percent in 2022Q3 from 67.0 percent in 2021Q3, being constantly supported by high prices of minerals on international market. Metal and minerals price index remain high when compared to the five years average pre-pandemic level of 73.8, despite that it slid to 100.6 in 2022Q3 from 121.1 index in 2021Q3. Sales in manufacturing industries recorded overall growth of 13.4 percent from 8.4 percent, reflected also by a broad-based increase in manufactured output. The index of industrial production rose by 22.2 percent in 2022Q3 from a contraction of 1.8 percent in 2021Q3. The construction subsector was boosted by on-going public and private infrastructure projects. Turnovers of construction companies rose by 10.8 percent from 18.3 percent and the domestic demand of cement (4.0 percent from -24.2 percent) signals a sustained increase in investment construction.

The observed sustained economic recovery in non-agriculture sectors stimulated employment, contributing to the recovery of the labour market. The unemployment rate slid from 19.4 percent in 2021Q3 to 18.1 in 2022Q3. However, the market has not yet reached the pre-pandemic level, as evidenced by the current unemployment rate which is still higher compared to the pre-pandemic level of 15.8 percent.

The agriculture performance continued to be weak mainly due to the bad harvest of Irish potatoes and beans, which play important role in food security. The 2022 agricultural season B has recorded mixed results, with good harvest for cereals (7.9 percent from 6.6 percent) and fruits (6.0 percent from 2.1 percent), while moderate for banana (2.5 percent from 6.4 percent) and vegetables (1.3 percent from 4.0). However, the production declined for Irish potatoes (-15.9 percent from 11.6 percent) outweighing cassava (2.6 percent from 2.5 percent) and sweet potatoes (2.7 percent from 3.5 percent), resulting in a decline in roots and tubers category (0.9 percent from 4.8 percent). Furthermore, beans and peas production fell by 8.5 percent and 18.0 percent from a growth of 9.7 percent and 15.5 percent respectively. The decline in production of Irish potatoes resulted from the consequence of lingering effects of COVID-19 and the war in Ukraine which caused the increase in prices of fertilizers and pesticides. The high prices of these items caused their low use in the cultivation of Irish potatoes. Regarding beans, farmers opted for more profitable crops like chia seeds, sorghum and soy beans after facing losses on beans production during 2022 agricultural season A. Despite this disappointing agricultural output, a significant economic growth of 6.8 percent is predicted for 2022.

IV. INFLATION DEVELOPMENTS AND OUTLOOK

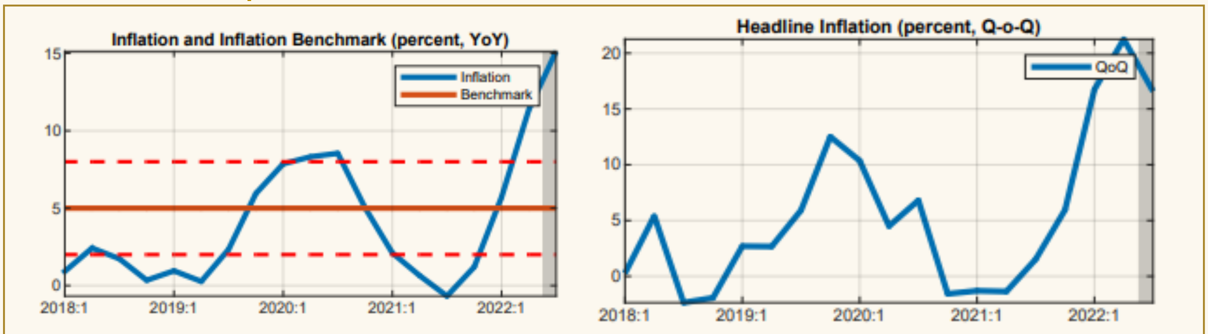
4.1 INFLATION DEVELOPMENTS

In 2022Q3, headline inflation (y-o-y) accelerated to 16.4 percent from 12.1 percent recorded in the previous quarter. The acceleration in headline inflation was reflected mainly in core and fresh food components. The uptick in core inflation is consistent with both imported and domestic costs, while the rising trend observed in fresh food inflation is attributed to reduced supply of fresh food production. Over the same period, energy inflation stabilized as an increase recorded in liquid fuels inflation that followed the hike in the international oil prices in 2022Q3, was outweighed by a decrease recorded in solid fuels.

Headline inflation accelerated in 2022Q3, reflecting the rise in inflation recorded in core and fresh food inflation.

Headline inflation in both y-o-y and q-o-q terms rose and the upsurge was mostly reflected in core and fresh food CPI components. Core inflation (y-o-y) picked up to 12.9 percent in 2022Q3 from 10.4 percent recorded in 2022Q2, while fresh food inflation accelerated to 29.7 percent from 16.4 percent of the previous quarter. Energy inflation stood at 18.9 percent in 2022Q3 from 18.7 percent. The recent uptick in core inflation is consistent with both imported and domestic costs. The rising trend in fresh food inflation is on the back of the shortage in fresh food supply that followed poor performance of crop production for Season B 2022. During the same period, energy inflation stabilized in line with the developments observed from liquid fuels and solid fuels CPI components.

Chart 12: Developments in headline inflation

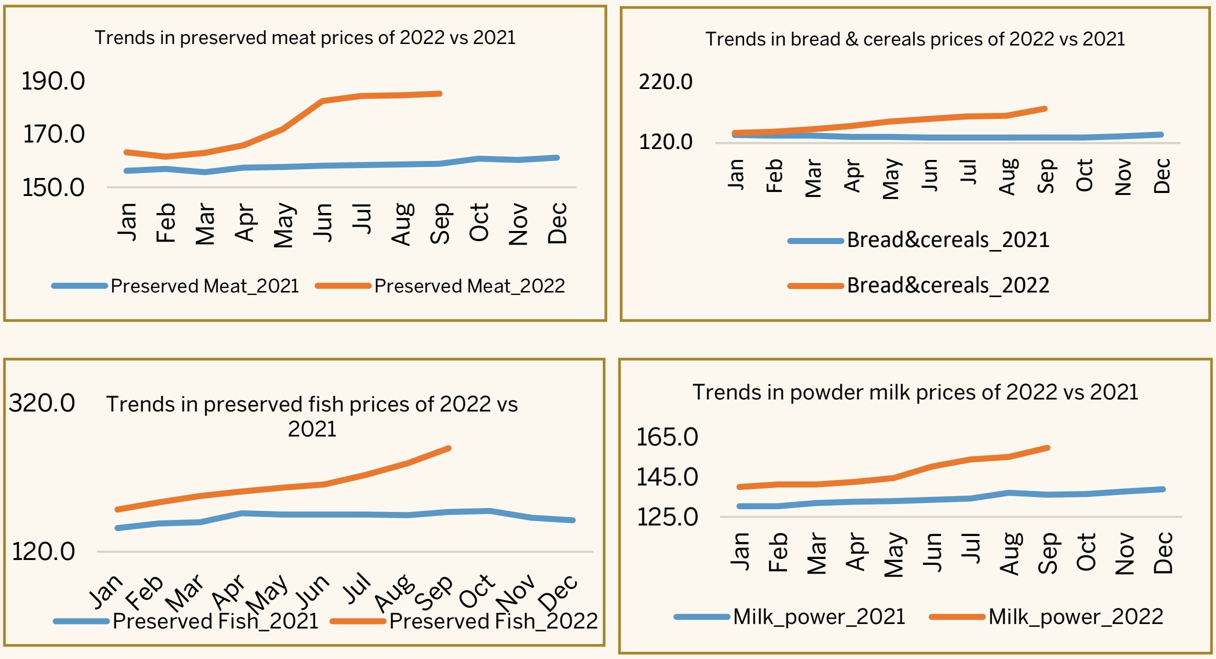


Core inflation in both y-o-y and q-o-q terms increased in 2022Q3 on the back of the rise in imported and domestic costs.

The uptick observed in core inflation reflects mainly the increase in core food inflation (from 25.7 percent to 27.0 percent), core furnishing inflation (from 10.0 percent to 16.5 percent) and core transport inflation (from 5.9 percent to 9.2 percent). The hike recorded in core food inflation originated from mild upticks in the prices of some processed food items following the upward trends observed in the international food prices. Core transport inflation picked up, reflecting the increase in prices of cars, bicycles and spare parts due to the increase in costs following the supply chain disruptions.

The prices of these core food components in 2022 evolved above 2021 price levels consistent with the increases in international food prices as supply reduced.

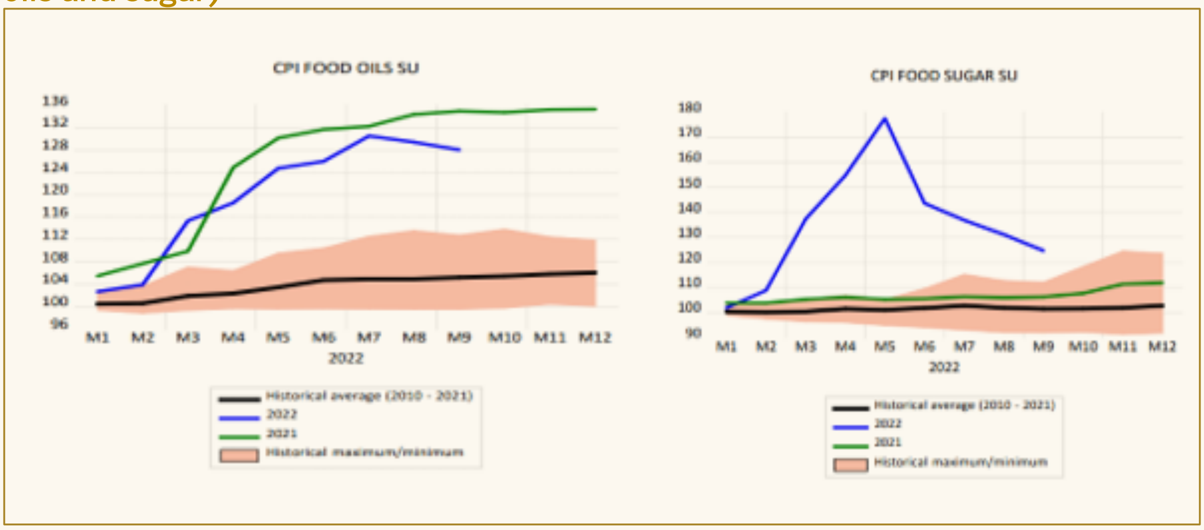
Chart 13 : Trends in prices of some core food CPI



Source: NBR, Monetary Policy and Research Directorate

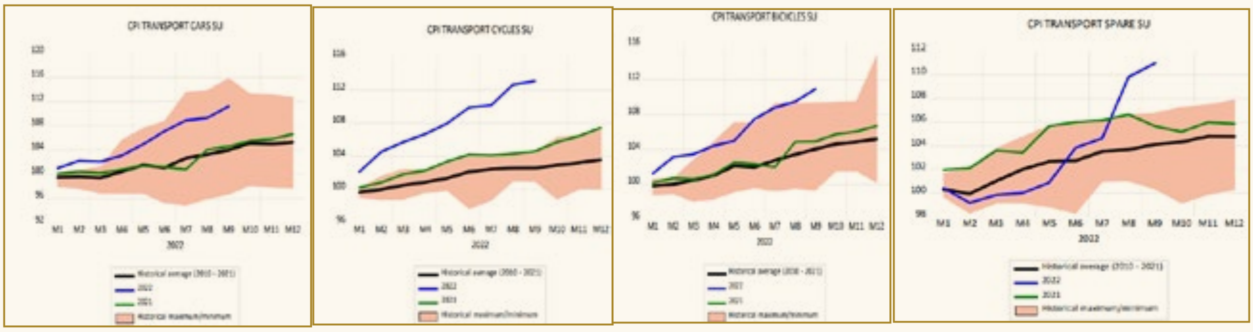
Unlike preserved meats, bread & cereals and powder milk prices that were on rising trend in 2022Q3, other food products such as sugar (local & domestic) and cooking oils were on the easing trend in line with decreases in international prices as supply increased. Despite the declines recorded in 2022Q3, the prices of 2022 remain elevated.

Chart-14 : Evolution in prices of some core food with a decreasing trend (cooking oils and sugar)



Prices for some transport components in 2022 evolved above the 2021 price levels and its historical average.

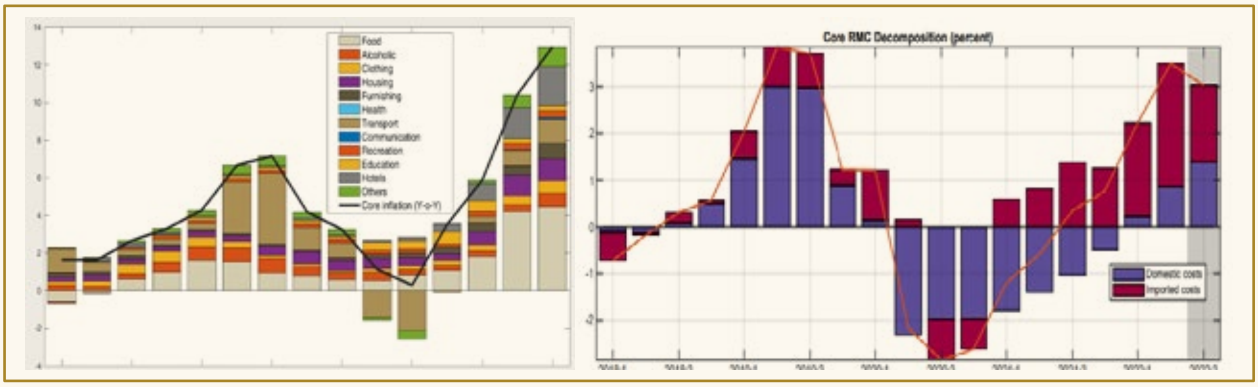
Chart-15 : Trends in some core transport CPIs



Source: NBR, Monetary Policy and Research Directorate

Over the same period, core inflation excluding food and beverages picked up in both y-o-y and q-o-q terms. The upward trend in core excluding food and beverages is attributed to the continuous increases in domestic and imported costs of production that started in 2021Q3.

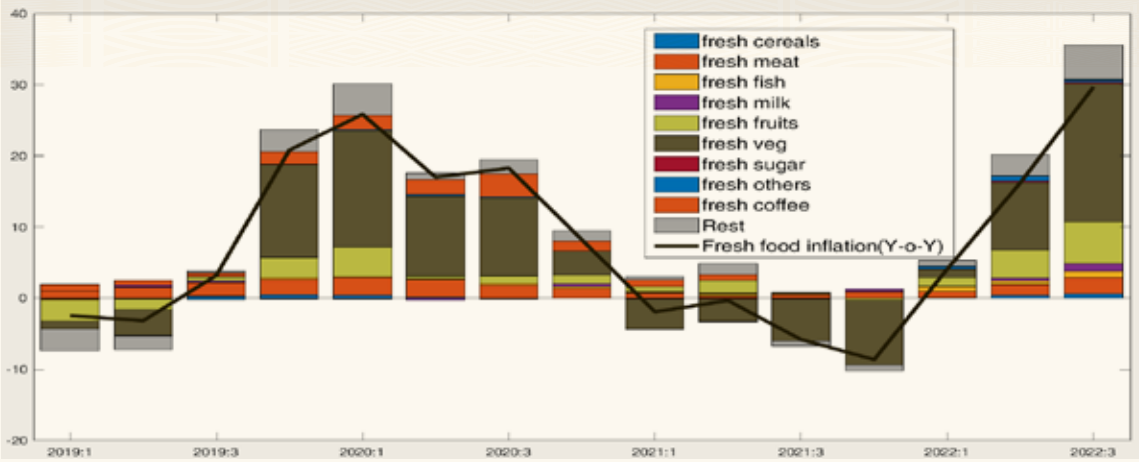
Chart- 16 : Core inflation (percentage change)



Fresh food inflation (y-o-y and q-o-q) surged on the back of the reduction of food supply on the market.

The increasing trend in fresh food inflation in y-o-y and q-o-q terms for 2022Q3 was mainly reflected in vegetables and fruits inflation. Vegetables inflation (y-o-y) picked up to 37.4 percent in 2022Q3 from 19.0 percent recorded in 2022Q2. Similarly, fruits inflation (y-o-y) rose to 29.5 percent in 2022Q3 from 20.1 percent of the previous quarter. These recent developments in vegetables and fruits inflation (y-o-y) are attributed to the shortage of food supply over the same period.

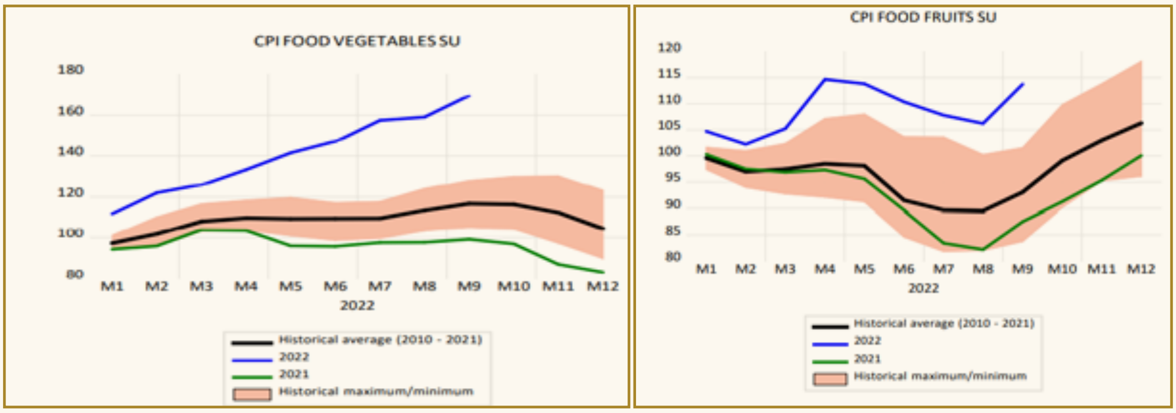
Chart-17 : Fresh food inflation (y-o-y)



Source: NBR, Monetary Policy and Research Directorate

Vegetables and fruits prices in the first nine months of 2022 evolved above the 2021 price levels as well as the historical average prices (2010-2021).

Chart-18 : Trends in vegetables and fruits CPI



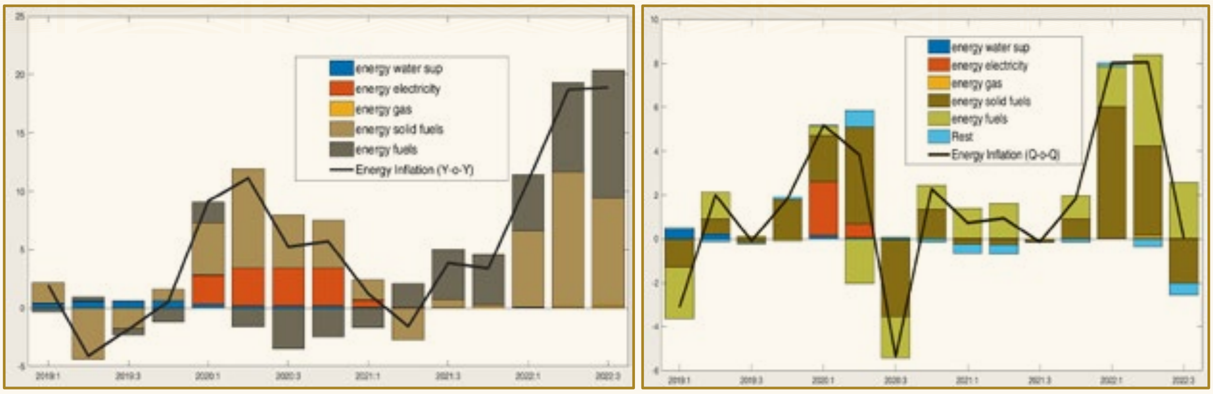
Source: NBR, Monetary Policy and Research Directorate

Energy inflation (y-o-y) in 2022Q3 stabilized following the developments recorded in liquid fuels and solid fuels components.

In 2022Q3, energy inflation (y-o-y) stood at 18.9 percent from 18.7 percent recorded in the previous quarter. The surge in liquid fuels inflation from 29.8 percent to 42.6 percent was outweighed by the drop noted in solid fuels inflation from 22.3 percent to 17.8 percent. The deceleration in solid fuels inflation originated from the increased supply of charcoals and firewood on the market while the hikes recorded in liquid fuels inflation was attributed to increasing trend in the international oil prices.

In q-o-q terms, energy inflation stood at 0.0 percent as an increase in liquid fuels inflation was offset by a reduction noted in solid fuels inflation during the same period.

Chart-19 : Energy inflation (y-o-y ; q-o-q)

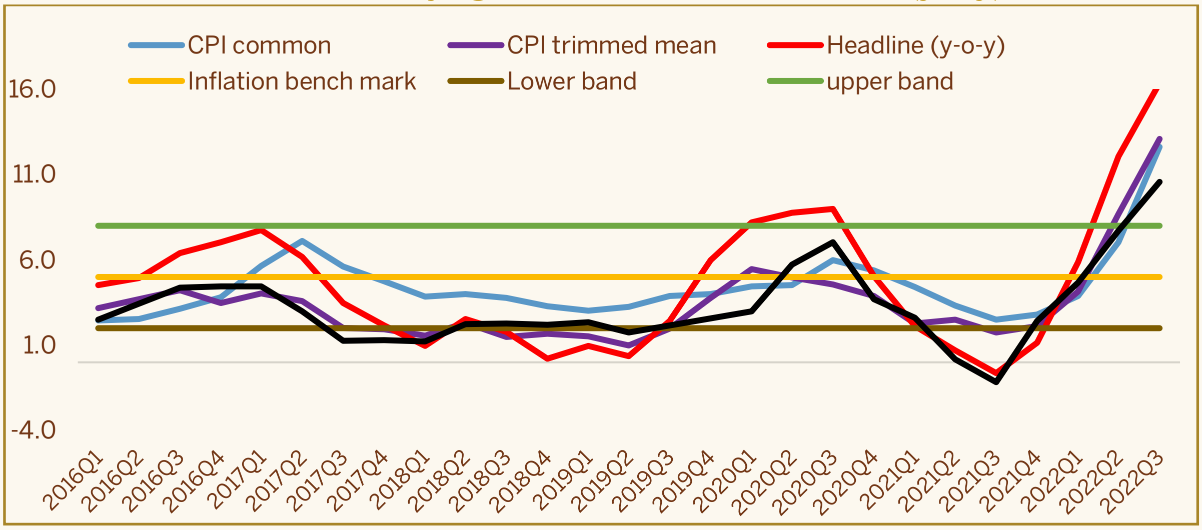


Source: NBR, Monetary Policy and Research Directorate

Underlying inflation measures indicate a broad-based increase in inflation.

In 2022Q3, the underlying measures of inflation indicate upticks in prices, above the upper bound, and they are associated with the developments recorded in both domestic and imported CPI components. CPI Trimmed mean picked up to 13.1 percent in 2022Q3 from 8.7 percent recorded in 2022Q2, CPI Common surged to 12.6 percent in 2022Q3 from 7.0 percent in 2022Q2, and CPI core (excluding food and beverages) hiked to 10.6 percent in 2022Q3 from 7.7 percent noted in 2022Q2.

Chart-20: Indicators of underlying inflation vs headline inflation (y-o-y)



Source: NBR, Monetary Policy and Research Directorate

4.2 INFLATION OUTLOOK

4.2.1. Forecast assumptions

In 2022, the global economy evolved above the potential level, supportive of the domestic economy. However, in 2023, the global economy is projected to slow down slightly below the potential level and will have a mild impact on the domestic economy over the same period.

The projections released by IMF in October 2022 indicate that global growth is expected to moderate from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. Economic growth forecasts for the key advanced economies in 2022, such as the USA and the Eurozone, were revised. The USA revised downward the economic growth forecasts by 0.7 percentage points for 2022, attributed to a decrease in real disposable income and higher interest rates. On the contrary, economic growth for the Eurozone was revised upward by 0.3 percentage points. This positive increase will result from the recovery in tourism-related services and industrial production in some member countries such as Italy and Spain. However, the positive trend in economic growth projection of the Eurozone will decelerate, as indicated by the downward revisions for 2023 and 2024 by 1.2 and 0.2 percentage points, respectively, reflecting the impact of energy supply disruptions, higher inflation, and relative fall in consumer's confidence.

Despite this downward revision in global economic growth, the domestic economic recovery is expected to continue at a slower pace. Consequently, the global economy will likely not further stimulate domestic demand in the medium term.

Global inflation trends and international commodity prices (food and energy) are expected to remain elevated and will continue exerting pressures on imported inflation.

Since 2021H2, inflation rates have accelerated above targets worldwide, mainly due to supply factors. In 2022, inflationary pressures picked up, primarily reflecting upticks in food and energy prices due to the shortages in supply following the Ukraine-Russia war. In October 2022, global inflation was revised up to 8.8 percent and entailing tighter financial conditions compared to July 2022 World Economic Outlook. Consistent with the current projected path in global inflation, imported prices will continue to pressure domestic inflation. In addition, as the US dollar continues to appreciate against other currencies throughout 2022-2023, its impact will also exert pressure on imported inflation by increasing the costs of imported goods and constricting financial conditions. Over the medium term, despite the projected easing trend, inflation rates will remain above the target globally. As a result, imported costs will likely maintain pressure on imported inflation.

4.2.2 Baseline projections of key macroeconomic variables

Over the policy horizon, domestic economy is projected to evolve close to potential, on the back of the non-contractionary fiscal policy, and the neutral global demand. Inflation will remain in double digits before declining below 8 percent before the end of 2023.

4.2.2.1. Drivers of inflation projections

Over the medium term, the domestic economy is projected to evolve around the potential level.

In the first three quarters of 2022, the recovery of the domestic economy continued on the back of the expansionary fiscal policy, the recovery in global demand, and supportive monetary conditions. Currently, the domestic economy is evolving above potential, creating upward demand pressures. However, the pressures will ease in 2024 as the economy grows closer to its potential level. The fiscal stimulus that increased in 2022 will wane over the policy horizon. The projections indicate that monetary conditions will remain favorable to the economy in the next three quarters. Consistent with the aforementioned expected trends in monetary conditions and global demand over the policy horizon, domestic demand is projected to be subdued in 2024 and will not exert pressure on core inflation.

The imported and domestic costs of production are projected to remain high throughout 2022 but ease after 2023Q3.

The increasing trend in the international commodity prices that led to the continuous upticks in global inflation since 2022Q1 affected imported and domestic inflation by rising pressures on production costs. In 2023, global commodity prices are projected to decline - though they remain high - which will ease pressure on production costs over the medium term. Easing pressures will also be supported by global and domestic demand, projected to stabilize around the potential level. Current pressures from agriculture production will also dissipate as the projections indicate an agriculture GDP growth above the historical level in 2023H1.

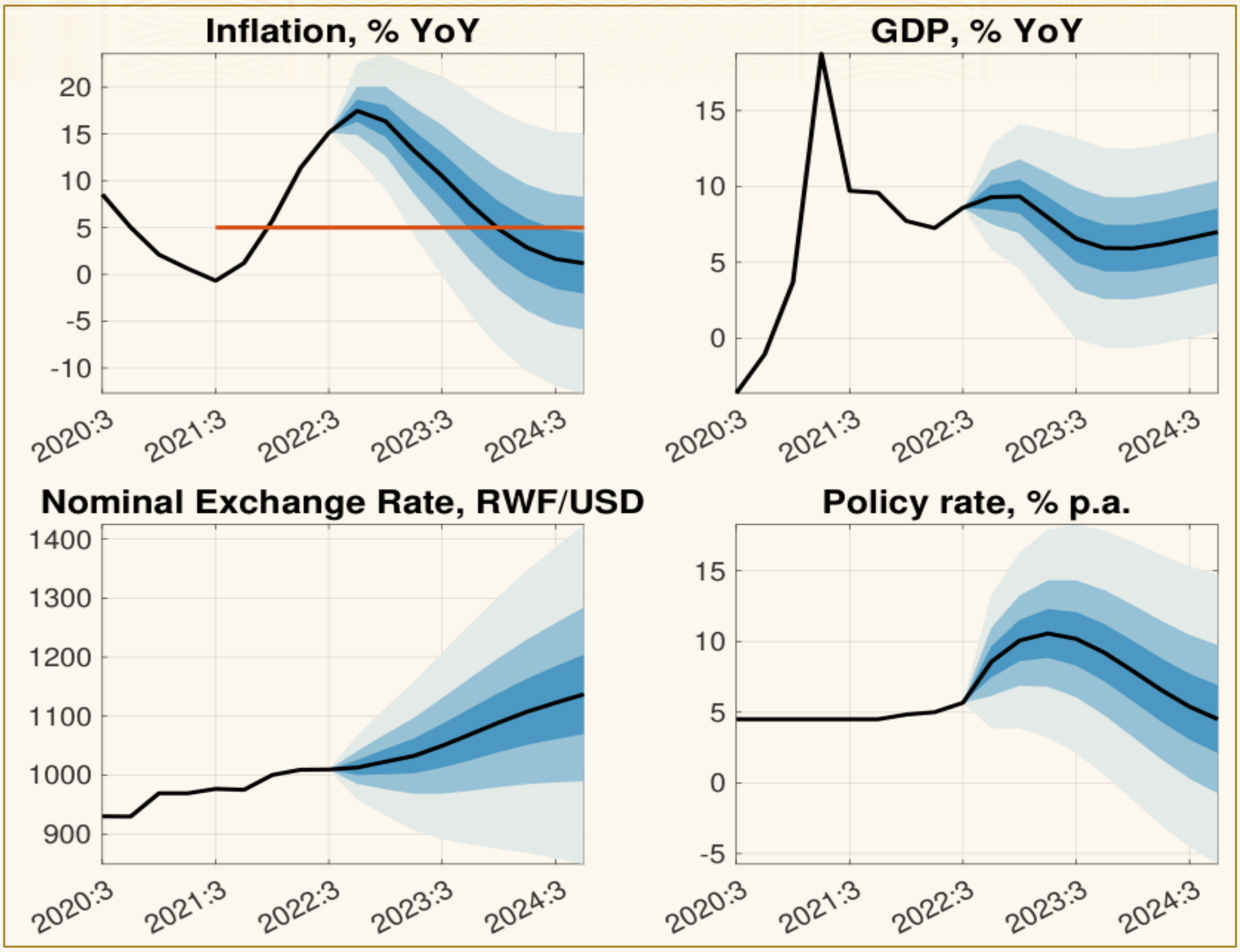
4.2.2.2. Projections of key macroeconomic indicators

In line with the recent economic developments, assumptions on the global economy, and other macroeconomic variables, headline inflation is projected to evolve above the upper bound in the upcoming quarters. Headline inflation is projected to evolve around 13.2 percent in 2022, while it will be easing in 2023. From the 2022 August MPC cycle, BNR revised inflation projections for new developments in the global and domestic economies and in outlook.

Core inflation will remain high until 2023H1, but pressures will decelerate over the policy horizon. In the medium term, domestic production costs are expected to be moderate due to a slowdown in economic growth and the predicted easing trend in imported costs.

Upward pressures from domestic costs will continue to impact food inflation in 2022, but pressures will reduce in 2023, as international food prices stabilize. Similarly, energy prices will remain elevated until the second half of 2023. Still, projections point to a declining trend over the medium term that will originate from the expected drop in international oil prices.

The figure below indicates the outlook for key macroeconomic variables over the policy horizon.



Source: NBR, Monetary Policy, and Research Directorate

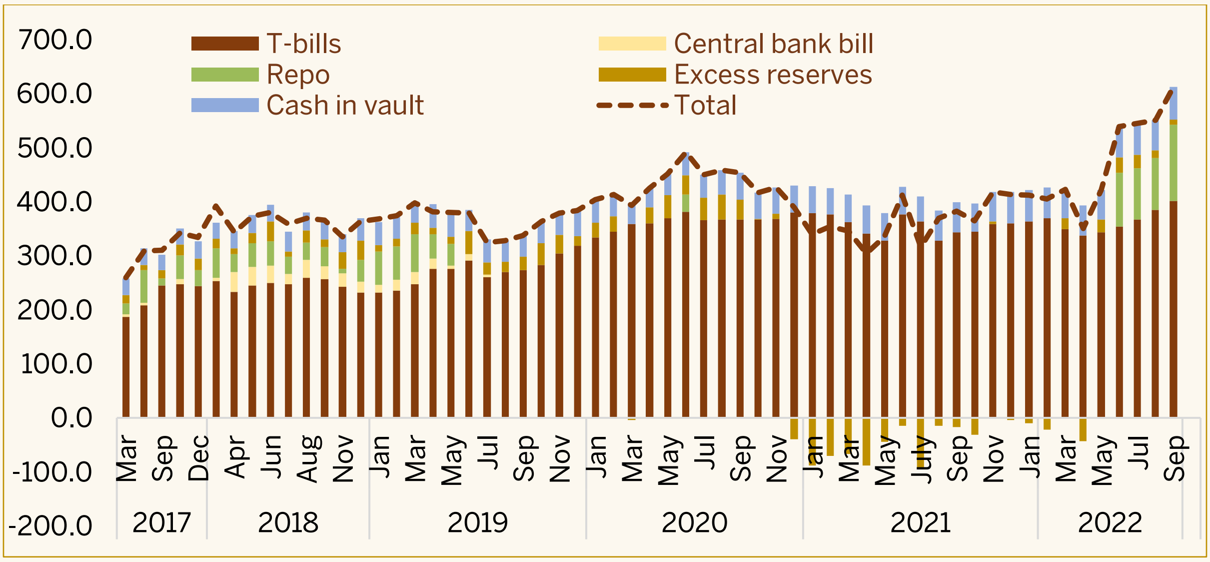
V. FINANCIAL AND MONETARY DEVELOPMENTS

In 2022Q3, the interbank interest rate increased by 86 basis points to 6.05 percent y-o-y, thanks to prudent monetary policy implementation that steered money market rates around the central bank rate. Regarding lending rate, it reduced by 18 basis points to 16.17 percent in 2022Q3. During the same period, broad money increased by 23.7 percent (y-o-y) while outstanding credit to the private sector growth decelerated to 12.6 percent (y-o-y).

The growth of banking system liquidity stems from the rebound in excess reserves.

In September 2022, the bank's most liquid assets rose by 60.4 percent to FRW 612.6 billion, from FRW 382.0 billion recorded in September 2021, compared to a decline of 2.0 percent recorded in the corresponding period of the previous year. This growth resulted from high excess reserves that resulted from increased government spending in 2022Q3.

Chart 21: Most liquid assets of commercial banks (FRW billion)

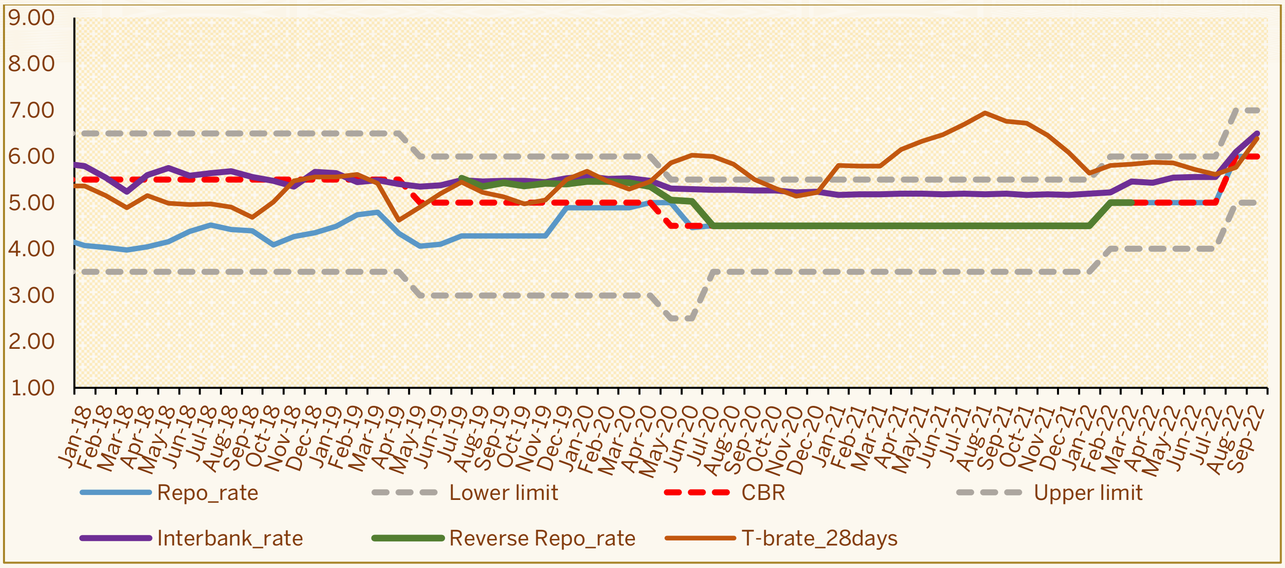


Source: NBR, Monetary Policy and Research Directorate

Money market interest rates remained close to the central bank rate.

In August 2022, the Central Bank Rate was increased by 100 basis points to 6 percent with the aim to reduce inflationary pressures and therefore preserve the purchasing power of consumers. This decision was mainly aimed at limiting second-round effects from higher imported prices resulting from global shocks. As a result, money market rates were steered around the central bank rate, with the interbank rate increasing by 51 basis points to 6.05 percent on average in 2022Q3 from 5.54 percent in 2022Q2.

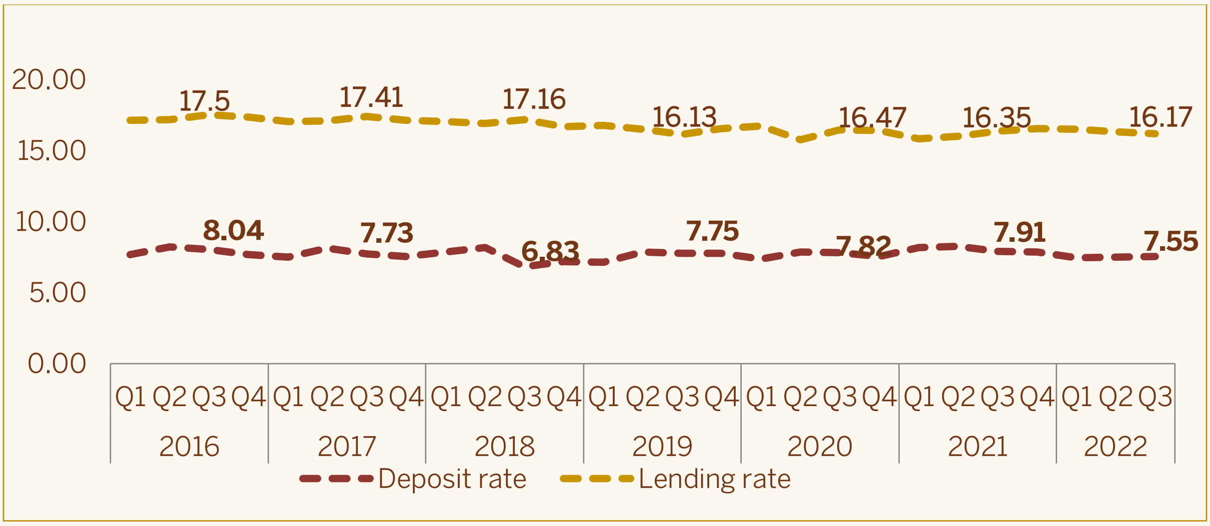
Chart 22: Money market rates developments



Source: NBR, Monetary Policy and Research Directorate

Regarding market rates, the deposit rate increased by 28 basis points to 7.78 percent y-o-y in 2022Q3 from 7.50 percent in 2022Q2. However, the lending rate declined by 14 basis points to 16.17 percent in 2022Q3 from 16.31 percent in 2022Q2, reflecting the increased share of loans allocated to corporates, which were priced at low rates.

Chart 23: Market interest rates (percent average)



Source: NBR, Monetary Policy and Research Directorate

The foreign exchange market remains stable.

In line with recovering economic activities, the need for imports to support the recovery of the domestic production sector led to higher demand for foreign exchange. On the other hand, with faster US interest rate hike, the dollar is getting much stronger, impacting almost all currencies across the World. Taken together, the two factors created some pressures on the franc exchange rate which have been moderated by increased export proceeds, rising foreign inflows from development partners and improving remittances. In the quarter ending September 2022, the Rwandan franc depreciated year-on-year by 4.45 percent compared to the US dollar, faster than 4.26 percent depreciation recorded in the corresponding period last year.

However, the franc continued to gain against other major currencies undermined by the war in Ukraine. The Franc appreciated by 13.76 percent, 11.74 percent and 19.15 percent versus the Pound, Euro and the Japanese Yen respectively, compared to 9.21 percent, 3.10 percent and -1.74 percent depreciations recorded in the corresponding period of 2021.

Table 1: Appreciation/Depreciation rate of FRW against selected currencies (y-o-y)

	FRW/USD	FRW/GBP	FRW/EUR	FRW/JPY	FRW/KES	FRW/TZS	FRW/UGX	FRW/BIF
Dec-18	4.04	-1.96	-0.07	6.20	5.46	1.24	1.77	1.93
Dec-19	4.94	8.48	2.81	6.25	4.53	3.73	5.13	-0.24
Dec-20	5.42	9.42	15.71	11.43	-1.34	5.66	7.17	2.53
Dec-21	3.82	2.94	-4.39	-6.96	0.24	4.78	6.85	1.00
Mar-21	5.22	17.06	11.81	2.76	0.57	4.90	9.01	2.08
Jun-21	5.34	18.61	11.55	2.69	4.07	5.34	10.86	1.72
Sep-21	4.26	9.21	3.10	-1.74	2.41	4.74	9.29	1.33
Dec-21	3.82	2.94	-4.39	-6.96	0.24	4.78	6.85	1.00
Mar-22	4.01	-0.60	-0.82	-5.67	-0.87	4.01	6.11	-1.25
Jun-22	3.78	-9.10	-8.83	-16.02	-4.99	3.30	-2.12	-0.12
Sep-22	4.45	-13.76	-11.74	-19.15	-4.41	3.49	-4.05	0.51

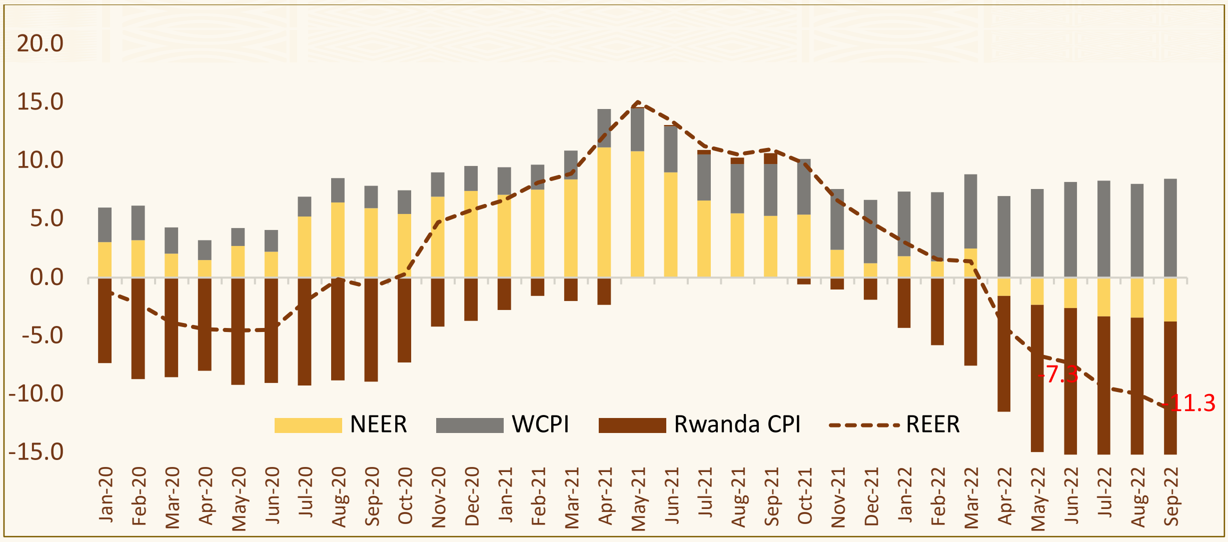
Source: NBR, Monetary Policy Department

Relative to regional currencies, the FRW rose against the Kenyan and Ugandan shillings, adding 4.41 percent and 4.05 percent in September 2022, after respective depreciations of 2.41 percent and 9.29 percent in the corresponding period last year. The franc weakened by 3.49 percent relative to the Tanzanian shilling and by 0.51 percent versus the Burundian franc, slower than 4.74 and 1.33 percent recorded in September 2021.

For the fourth quarter and beyond, the FRW exchange rate is expected to remain stable as the country has sufficient reserve buffers that may allow for higher than 4 months of imports of goods and services.

Relative to a basket of currencies of Rwanda's main trading partners, the franc nominal effective exchange rate has been appreciating since April 2022. In September 2022, it appreciated by 3.8 percent after a depreciation of 5.3 percent in September 2021. In real effective terms, the franc appreciated by 11.3 percent year-on-year in September 2022, while it had depreciated by 11.0 percent in September 2021. This appreciation reflected a combined effect of large negative inflation differential (higher domestic than foreign inflation) and the appreciation of the FRW in nominal effective terms. Rwanda consumer price index rose by 17.6 percent, faster than the weighted foreign consumer price index that increased by 8.5 percent in September 2022. Therefore, domestic imports were relatively cheaper as of September 2022 compared to September 2021.

Chart 24: Drivers of REER movement

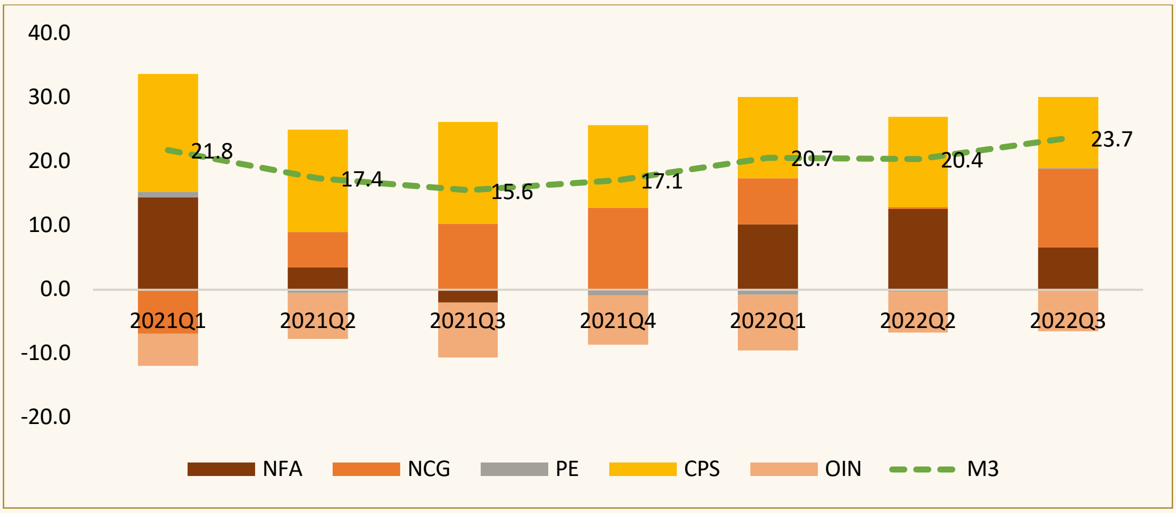


Source: NBR, Monetary Policy and Research Directorate

Broad money (M3) kept increasing, despite the monetary policy tightening path.

The Money supply (M3) increased by 23.7 percent in September, year-on-year, mainly driven by the growth in Net Foreign Assets (NFA) by 15.1 percent and Net Credit to Government (NCG) by 160.7 percent. The growth in credit to private sector (CPS) decelerated to 12.6 percent.

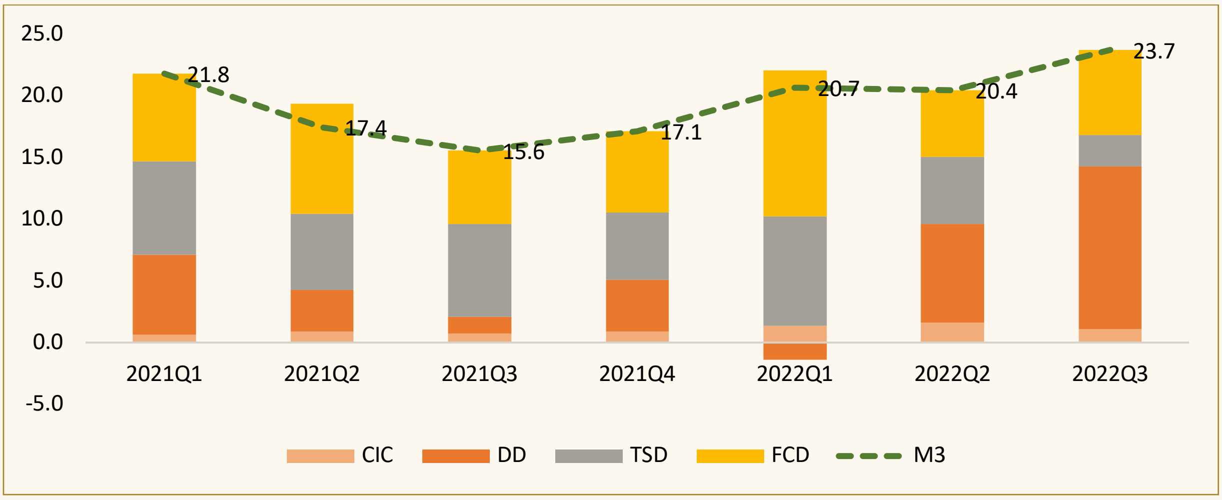
Chart 25: Contributors to M3 growth from the assets side(Y-o-Y)



Source: NBR, Monetary Policy and Research Directorate

The increase in broad money (M3) was attributed to the increase in demand deposits by 42.0 percent and foreign currency deposits by 27.7 percent.

Chart 26: Contributors to M3 growth from the liabilities side(Y-o-Y)

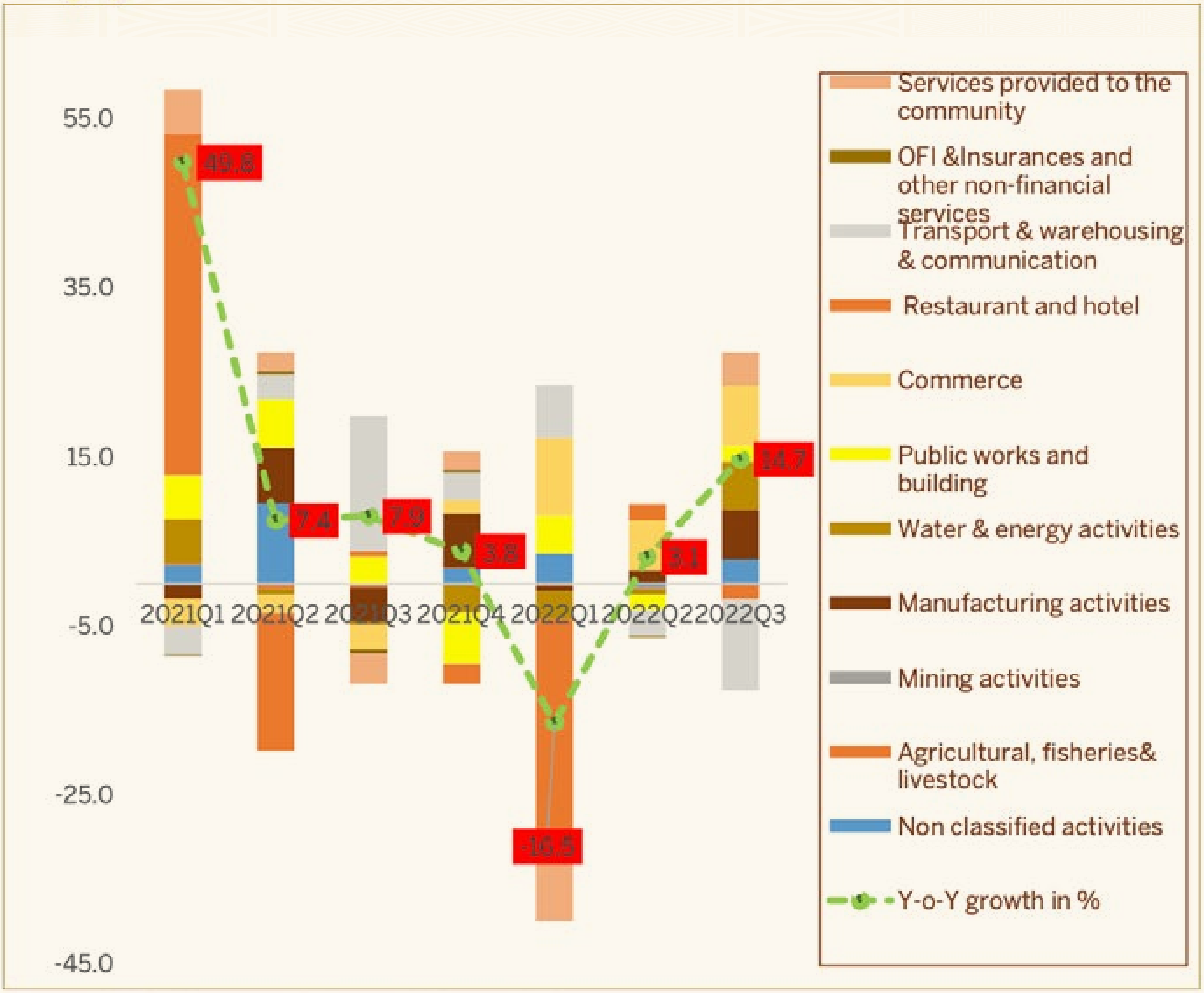


Source: NBR, Monetary Policy and Research Directorate

New Authorized loans (NALs) grew by 14.7 percent, y-o-y, in the third quarter of 2022 compared to a growth of 7.9 percent recorded in the corresponding period of 2021. The growth of NALs in 2022Q3 is driven by big loans provided to corporates in sectors such as water & energy, commerce, manufacturing and Services provided to the community. In q-o-q terms, NALs grew by 16.5 percent in 2022Q3 compared to a growth of 11.8 percent recorded in 2022Q2.

Short-term debts predominate other loans especially for corporates. They account for 41.6 percent of the total loans provided in 2022Q3, while medium and long term loans account for 37.6 percent and 20.8 percent, respectively. This is due to working capital financing, especially in trade and manufacturing sector. Trade holds 56 percent of the corporates short term debts in 2022Q3, while manufacturing holds 13 percent.

Chart 27: Contributions of Sectors to the Change in New Authorized Loans (Y-o-Y % changes)



Source: NBR, Monetary Policy and Research Directorate

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