National Bank of Rwanda

Banki Nkuru y'u Rwanda

QUARTERLY INFLATION REPORT

Third Quarter, 2017

EXECUTIVE SUMMARY

The global economic growth is expected to continue recovering through 2017. In October 2017, the IMF revised up growth forecasts for the global economy to 3.6% from 3.5% that was forecasted in July 2017. Monetary policy remained supportive in most advanced economies, with the Central bank rates remaining unchanged at 0.0% in the Euro area, 0.25% in UK and -0.10% in Japan while global inflation projections were revised up to 3%, from 2.8% in 2016.

The Rwandan economic growth recovered to 4.0% in 2017Q2 after a slowdown in 2017Q1 (1.7%) and 2016Q4 (2.4%). The slow pace in economic performance since 2016Q4 until the first quarter of 2017, resulted from a slowdown in aggregate demand, lower international commodity prices, unfavorable weather conditions as well as completion of major infrastructure projects. However, aggregate demand, international commodity prices as well as season B 2017 food crop harvests improved, helping to fuel growth in 2017Q3, in line with the trend of high frequency indicators of economic activities.

Rwanda's trade deficit reduced by 16.2% in 2017Q3 compared to the corresponding period of 2016, following a high increase in formal exports by 58.9% in value and a slight increase in formal imports value by 5.4%. The uptick in export receipts was mainly due to the improvement in international commodity prices while the slow-paced growth in the import bill largely resulted from the increased domestic production of some items like cement, but also due to the still low level of aggregate demand. As a result, the exchange rate pressures on the Rwandan francs (RWF) continued easing and are broadly expected to remain benign for the rest of 2017.

In line with the BNR accommodative monetary policy stance, Broad Money (M3) increased by 16.4 percent in 2017Q3 compared to 2016Q3 from an increase of 5.8 percent realized in the same period of 2016. However, the stock of credit to the private sector grew by 6.6 percent in 2017Q3 from 20.6 percent recorded in the same period of 2016 due to a deceleration in new authorized loans.

In line with the expectations, headline inflation eased from 6.2% in 2017Q2 to 3.5% in 2017Q3 on average, mainly influenced by the ease in food prices and transport costs. Dominated by downside factors, headline inflation is expected to be around 4.0% in 2017Q4.

LIST OF ACRONYMS AND ABBREVIATIONS

BNR	: National Bank of Rwanda
CIEA	: Composite Index of Economic Activities
CPS	: Credit to the Private Sector
GDP	: Gross Domestic Product
EAC	: East African Community
ECB	: European Central Bank
IMF	: International Monetary Fund
KCC	: Kigali Conventional Centre
M3	: Broad money
NCG	: Net Credit to Government
NDA	: Net Domestic Assets
NFA	: Net Foreign Assets
NISR	: National Institute of Statistics of Rwanda
OPEC	: Organization of the Petroleum Exporting Countries
UK	: United Kingdom
US	: United States
USD	: United States Dollars
WEO	: World Economic Outlook
WTI	: Western Texas Intermediate

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I. GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Global Economic Developments

There is a positive momentum of global growth in the third quarter of 2017, which will continue through to the end of 2017. In October 2017, the IMF revised up growth forecasts for the global economy to 3.6% from 3.5% forecast in July. Global Purchasing Managers' Indices (PMI) remained strong, indicating robust consumer sentiment, supportive financial conditions and improved labor markets that have continued to support this positive macroeconomic backdrop.

In 2017, global inflation projections were revised up by 0.2% to 3%, from 2.8% in 2016. Oil prices, the major drivers of inflation, are expected to rise by 23.8% in 2017 against a 15.7% fall in 2016, after efforts by oil producing countries to cut supply despite pressures from US shale production and large oil inventories. In most developed countries however, core inflation remained below central banks' targets reflecting weak wage growth.

Monetary policy remained supportive in most advanced economies. Central bank rate was unchanged at 0.0% in the Euro area, 0.25% in UK and -0.10% in Japan. In United States, while still accommodative, the Fed, started to gradually tighten policy rates. In July 2017 meeting, the Fed kept the fund rate in the range between 1.00 % and 1.25%.

Short-term interest rates remained low in July and August relative to June 2017 in most developed economies. Three-month deposit rates remained negative in Eurozone and Japan to discourage bank deposits and ensure supportive financial conditions necessary to stimulate the economic recovery. Ten-year bond yields in the US declined in July on weak inflation data, which reduced the expectation for another Fed hike later in the year. In Europe, the hike in 10-year government bond yield reflected a subdued political risk and a strengthening economy.

On foreign exchange markets, the dollar remained weak against major currencies, reflecting the ongoing geopolitical tensions and uncertainty over the US policies. The

Euro continued to strengthen because of the positive economic growth in the Euro area but this may also be a challenge to inflation that is still below target.

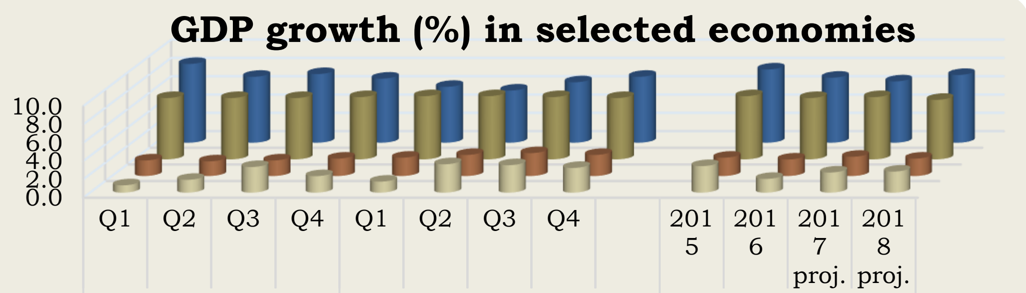
1.1.1 Developed Countries

In the United States, 2017Q2 GDP growth was 3.1% from 1.2% in 2017Q1, while unemployment fell to 4.3%. Retail sales picked up to 4.2%, year on year, and the consumer sentiment index jumped to 97.6, beating estimates and reflecting improved consumer spending. GDP growth increased by 3.0% in 2017Q3 and expected at 2.7% in the fourth quarter and at 2.2% on average for the whole year up from 1.5% in 2016.

Despite a strong economic backdrop in the US, core inflation remains below the Fed's target; this points to a weak wage growth. In 2017Q3 inflation remained at 1.9%, the same rate registered in 2017Q2. In September 2017, headline inflation increased to 2.2% from 1.6% in June 2017.Inflation was mainly driven by increase in energy prices (+10.1% in September 2017) and food (+1.2% for the same period).

It is expected to average 2.1% for 2017. Core inflation stabilized at 1.7 % for the sixth consecutive month against 2.0 % registered in March 2017 indicating a continued weak wage growth. Given the positive economic momentum in the US, the Federal Reserve started its planned balance sheet wind down in October 2017 and is expected to raise interest rates in December 2017.

Figure 1. GDP growth in major countries (%)



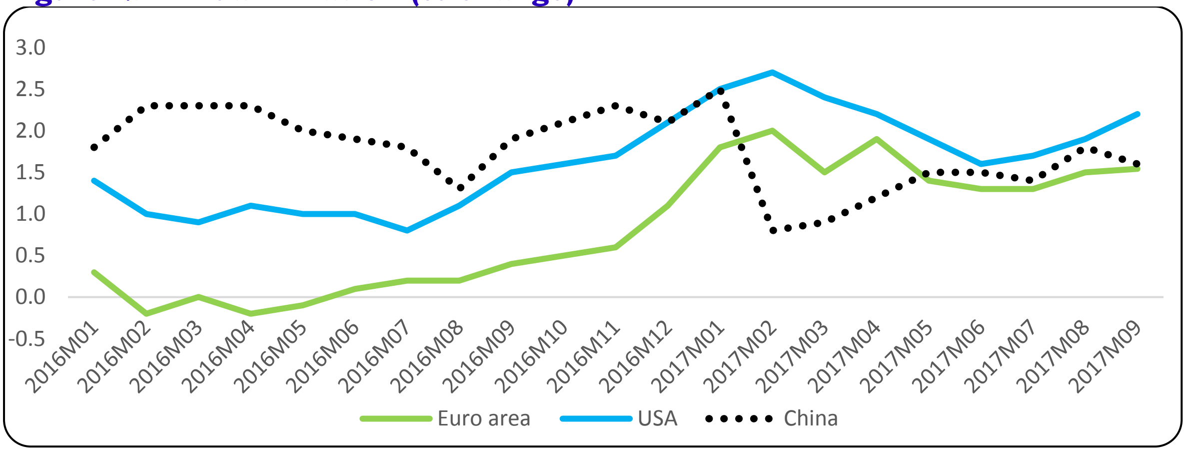
	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	Annual Average 2015	Annual Average 2016	Annual Average 2017 proj.	Annual Average 2018 proj.
USA (QoQ)	0.8	1.4	2.8	1.8	1.2	3.1	3.0	2.7	2.9	1.5	2.2	2.3
Euro area (YoY)	1.7	1.6	1.7	1.9	2.0	2.3	2.5	2.3	2.0	1.8	2.1	1.9
China (YoY)	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.7	6.9	6.7	6.8	6.5
India (YoY)	8.6	7.2	7.5	7.0	6.1	5.7	6.6	7.2	8.0	7.1	6.7	7.4

Source: Bloomberg, IMF, World economic Outlook, October 2017

In Europe, economic momentum improved, with the euro area posting third quarter -quarter GDP growth of 2.5%—the highest level since 2011. 2017Q4 GDP is expected at 2.3% and to average 2.1% for the whole year 2017.

In the second quarter of 2017, inflation accelerated to 1.5% while in third quarter, it eased at 1.4%. Core inflation remained below the European Central Bank (ECB) policy target of 2%. In the near term, the ECB is not expected to end quantitative easing or increase interest rates because core inflation remains below target signaling that the strong economic recovery is not yet translating into higher prices. However, any change in inflation to the upside will likely lead to a change in monetary policy stance.

Figure 2: Annual Inflation (% change)



Source: IMF, Bloomberg

In the UK, the economic environment remains uncertain because of the downside risks posed by Brexit. The prolonged fall in the British Pound has led to a sharp increase in imported inflation. Inflation accelerated to 2.8% in September 2017 up from 2.6% in July 2017. Quarter on quarter inflation rate for 2017Q2 was 2.7% compared to 0.3% in 2016 and increased to 2.8% in 2017Q3. Economic growth for 2017Q3 was 0.4% up from 0.3% in both 2017Q1 and 2017Q2. However, this was lower than the 0.6% q-o-q growth reported in 2016Q4. The Bank of England held interest rates unchanged in September 2017 but the high inflation rate signals a change in monetary policy in the near term.

1.1.2 Emerging Countries

Growth is forecasted to increase in emerging market and developing economies, from 4.3% in 2016 to 4.6% in 2017 and 4.9% in 2018. In China, the economy grew by

6.9% y-o-y in the first quarter and second quarter of 2017, supported by strong credit growth, consumption and a rebound in investment. However, the Chinese economy decelerated to 6.7% in the third quarter and projected to slow down to 6.6% in the fourth quarter due to slowing exports and continued regulatory tightening in the financial sector, which is straining highly indebted firms. Inflation was stable at 1.4% in the first half of 2017 and increased to 1.6% in 2017Q3.

Brazil and Russia are expected to recover from the two previous year's recession supported by recovering commodity prices and an improving domestic consumer spending.

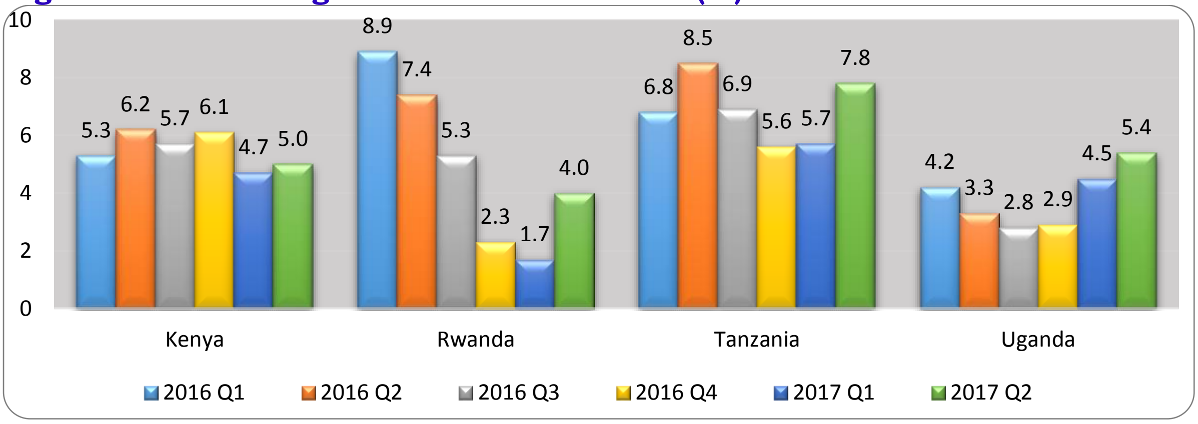
1.1.3 Sub-Saharan Africa

In Sub-Saharan Africa, economic growth is projected to increase to 2.6% in 2017 from 1.4% in 2016. Oil exporting countries such as Nigeria, South Africa and Angola that were previously hit by declining oil prices are expected to slightly improve in 2017 due to a recovery in oil prices. Difficult weather conditions such as the recent drought have led to a poor performance in agriculture, and this continued to create inflationary pressures in the first half of 2017. In 2016, year on year headline inflation was 11.3% and is projected at 11.0% in 2017; the easing in inflation is partly supported by the improving weather conditions in the second half of 2017.

In the East African Community (EAC), member countries also faced challenging weather conditions that had negative effects on agriculture, but economic growth remained resilient in the first half of 2017 besides Burundi where the observed political tensions put a strain on growth. Year on year projections for 2017 show a slight deceleration in EAC's average economic growth as regional economies emerge from challenging weather conditions but a positive rebound in growth is projected in 2018.

Uganda's GDP growth for the second quarter of 2017 was 5.4% from 4.5%, recorded in the previous quarter, supported by public investment, while Tanzania grew by 7.8% up from 5.7% also supported by substantial government investment in infrastructure. In Rwanda, second quarter growth for 2017 increased to 4.0% from 1.7% in the first quarter. Rwanda as well as Kenya had low first quarter growth because of prolonged drought that affected the agriculture sector in the region and due to the completion of large construction projects in Rwanda, which had a negative impact on the performance of the industry sector. However, in the second quarter, improving weather conditions and a rebound in economic activity supported growth.

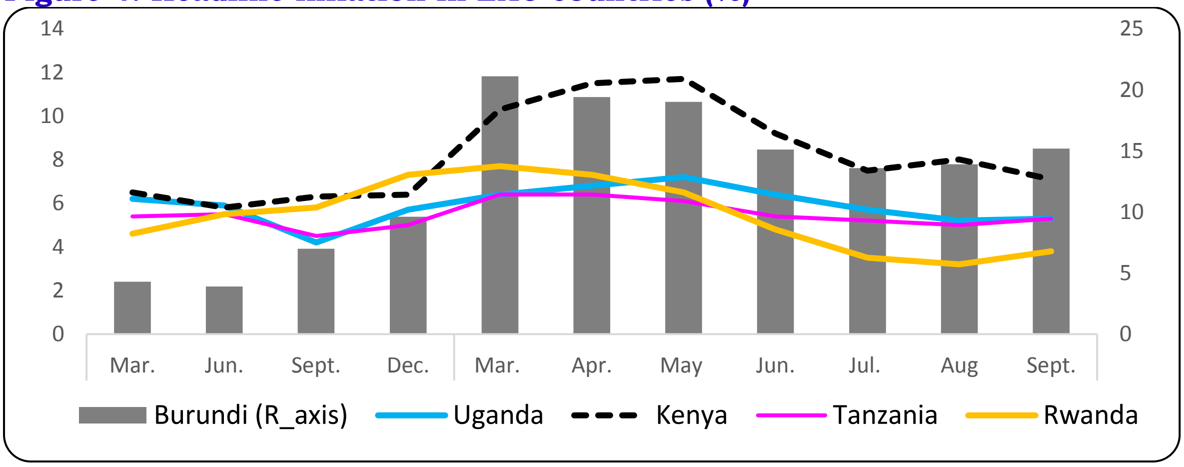
Figure 3. Economic growth in EAC countries (%)



Source: National Bureau of Statistics Websites and IMF WEO, October 2017

Although year on year inflation projections for 2017 are high, improving weather conditions that will support a recovery in the agriculture sector, should support the ease of inflationary pressures in the second half of 2017.

Figure 4: Headline inflation in EAC countries (%)

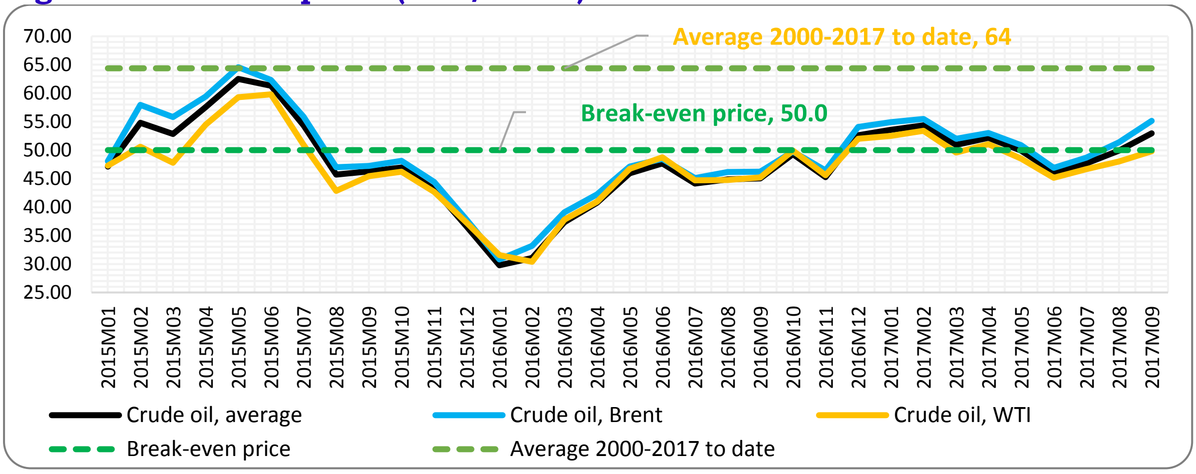


Source: Country Bureaus of Statistics

1.1.4 Global commodity prices

There was an increase in global commodity prices in the third quarter of 2017, reversing the negative trend of prices in the second quarter of 2017. Energy prices rose by 2.0% in 2017Q3 while non-energy prices increased by 2.3%. Supply side adjustments, particularly the oil production cut by leading oil producers and a rise in global demand for coal and natural gas led to the rise in energy prices while strong construction and manufacturing sectors that increased demand for metal and minerals as well as geopolitical tensions that increased demand for safe haven assets – all supported the rise in non-energy prices.

Figure 5: Crude oil price (USD/barrel)



Source: World Bank

Adverse weather conditions that affected output in the agriculture sector led to the increase in agricultural commodity prices in the first half of 2017. As the weather improved in the first months of the second half, the prices eased.

Table 1: IMF commodity prices forecasts (% change)

	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017	2018
oil	-0.2	9.8	7.9	-6.7	1.6	23.8	5.7
Metals and minerals							
Aluminum	3.1	5.6	8.2	3.0	5.4	21.6	0.9
Tin	10.0	12.0	-3.9	-0.4	3.0	12.8	1.0
Iron ore	4.7	20.6	21.3	-26.2	13.3	19.9	-18.6
Beverages							
Coffee Arabica	8.6	1.8	-5.7	-9.4	-0.6	-7.2	0.0
Robusta coffee	11.8	10.6	4.0	-5.5	1.6	15.4	-0.9
Tea(*)	5.9	6.7	0.2	8.2	1.1	17.4	-0.3
Cereals							
Wheat (US HRW)	-15.2	-1.6	4.1	15.9	3.0	4.8	2.3
Maize	-10.3	-0.8	5.5	-1.8	-4.2	-2.5	2.6
Rice (Thai, 5%)	-2.2	-10.8	0.6	13.0	-3.7	1.0	0.8
Barley	-17.0	-4.6	0.7	0.3	4.1	-11.9	2.9

Source: World Bank

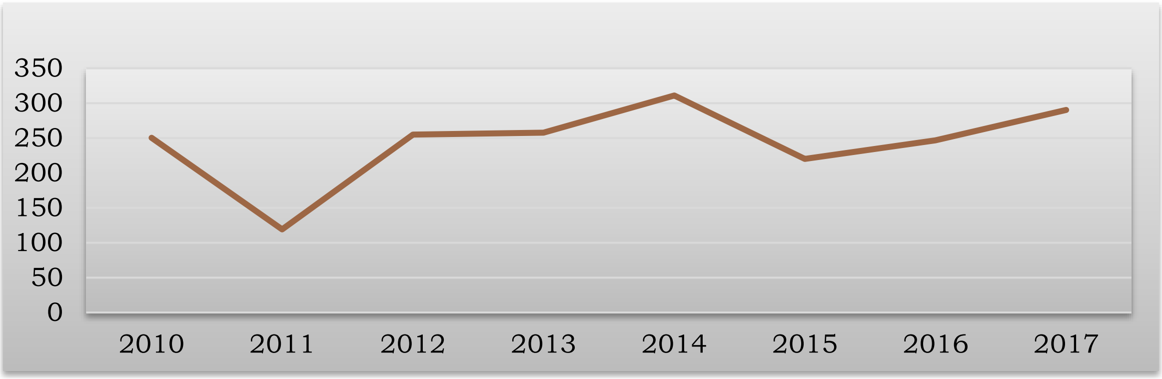
(*) Average price of three auctions, Mombasa, Colombo and Kolkata

Risks to the global economic outlook seem roughly balanced in the near term, but tilted to downside for the medium and long term. Geopolitical tensions in the Korean Peninsula although subdued, remain a challenge to the global economy, so is the high indebtedness of countries that has risen because of increased borrowing. A strong economic momentum in advanced economies is likely to lead to a tightening of monetary policy in the medium term, which may reverse capital flows from emerging economies and increase the cost of funding for most developing countries. Volatility in commodity prices and a potential economic slowdown in China remain key risks to Africa's economic outlook.

1.1.5 Implications to Rwanda's economy

A strong and synchronized global economy should continue to support Rwanda's economic outlook. Strong PMI data in all major economies point to a revival in animal spirits and should therefore continue drive global consumer spending which as a result should continue to drive demand for Rwandan exports. Acceleration in global manufacturing will provide a stable demand for Rwandan minerals such as Tin, Wolfram and Coltan while sustained global consumption will support the sales of Rwandan Tea and Coffee on international markets, helping to increase export receipts and reduce Rwanda's trade deficit.

Figure 6: FDI to Rwanda (USD million)



Source: SD, BOP

Low interest rates in developed economies are pushing investors to emerging and developing countries to seek for higher returns. As yield-searching investors explore investments in frontier markets that offer high returns relative to those in advanced economies, foreign direct investments to Rwanda and demand for Rwandan bonds will continue to increase since Rwandan bonds offer high yield compared to developed markets and bears little default risk.

A strong USD relative to the local currency and a continued increase in oil prices will likely lead to Rwanda's inflation. However, the easing of food prices following improved weather conditions could moderate this impact.

II. DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS

2.1 Domestic Demand and Output

The Rwandan economy is progressively improving in 2017Q2 after a slowdown in 2016Q4 and 2017Q1. The slow pace in economic performance in 2016Q4, which prolonged to the first quarter of 2017, resulted from a slowdown in aggregate demand, lower international commodity prices, unfavorable weather conditions as well as completion of major infrastructure projects. However, as evidenced by the economic data for the second quarter (GDP and leading indicators), the economy is picking up supported by improving aggregate demand, increase in international commodity prices as well as food crop harvest for season 2017B.

2.1.1 Domestic demand

In 2017Q2, GDP growth reversed the downward trend observed since 2016Q1, and this was mainly driven by external demand as evidenced by high increase in exports of goods and services (+29.0%). Despite this good performance, private consumption continued to fall as Households and NGOs total consumption fell by 9.0% after decreasing by 2.0% in 2017Q1, relative to an increase of 13.0% in 2016Q2. Representing 77.4% of the real GDP in 2017Q2, household and NGO's outweighed the increase in government consumption (+18.0%) leading to total final consumption to decrease by 5.0%.

Table 2: Domestic demand (% change)

	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross Domestic Product	**8.0**	**9.4**	**8.2**	**10.1**	**8.9**	**7.4**	**5.3**	**2.4**	**1.7**	**4.0**
Total final consumption Expenditure	14.0	18.0	13.0	20.0	3.0	11.0	1.0	2.0	0.0	-5.0
Government	9.0	-6.0	7.0	13.0	10.0	0.0	13.0	15.0	6.0	18.0
Households and NGOs	15.0	23.0	14.0	21.0	2.0	13.0	-1.0	0.0	-2.0	-9.0
Gross capital formation	13.0	16.0	28.0	17.0	30.0	6.0	15.0	-13.0	-11.0	2.0
Gross fixed capital formation	13.0	18.0	28.0	17.0	30.0	8.0	16.0	-13.0	-10.0	2.0
Construction	13.0	18.0	29.0	7.0	14.0	-8.0	14.0	-9.0	-5.0	1.0
Change in inventories	-5.0	-16.0	13.0	-5.0	41.0	-34.0	-16.0	-6.0	-35.0	-10.0
Exports of goods & serv.	13.0	9.0	1.0	3.0	8.0	8.0	17.0	19.0	15.0	29.0
Imports of goods & serv.	29.0	37.0	33.0	40.0	8.0	15.0	5.0	-3.0	-8.0	-11.0

Source: National Institute of Statistics of Rwanda

Total investment increased by 2.0% in 2017Q2 after contracting by 11.0% in 2017Q1 and this growth was driven by investments in construction which represent 56.5% of the total investments. Construction investment recovered in 2017Q2, growing by 1.0% against a decrease of 5.0% and 9.0% recorded in 2017Q1 and 2016Q4 respectively.

Net export continued to improve in 2017Q2 boosted by increase in export of goods and services as well as a decline in imports of goods and services (-11.0%). Exports of goods and services increased by 29.0% in 2017Q2 after 15.0% in 2017Q1 and 8.0% in 2016Q2, supported by the increase in international commodity prices. The price of coffee increased by 3.9% in 2017Q2 from a decrease of 12.8% in 2016Q2 and the price of tea rose by 39.0% from a decrease of 19.4% while metals and minerals prices increased by 19.6% after decreasing by 16.1% in 2016Q2.

2.1.2 Economic performance by sector

The real GDP grew by 4.0% in 2017Q2 from 1.7% in 2017Q1 and 2.4% in 2016Q4 driven by the service sector (+7.0%) and agriculture sector (6.0%). The industry sector recovered to 1.0% in 2017Q2 from -1.0% in 2017Q1 mainly due to the recovery in mining and quarrying sub-sector (+3.0%) as well as manufacturing industries. The performance of mining and quarrying sub-sector was attributed to the increase in international prices of metals and minerals by 19.6% in 2017Q2 after falling by 16.1% in 2016Q2. For instance, the price of cassiterite, one of Rwanda's main mineral export, rose by 17.9% in 2017Q2 against 8.4% in 2016Q2.

The low performance of industry sector compared to the same period of the previous year was attributed mainly to the poor performance of the construction sub-sector (-4.0%) after the completion of big infrastructure projects.

The services sector registered a good performance in 2017Q2 (+7.0%) compared to 2017Q1 (+4.0%), attributed mostly to Professional, scientific & technical activities (+21.0%), Administrative & support services (+20.0%), hotels and restaurants (+9.0%), real estate activities (+7.0%) and transport services (+6.0%). However, the performance of the service sector was slightly lower compared to the same period of the previous year (+9.0%) and this was a result of a decline in wholesale and retail trade (-6.0%), representing 14.8% of the services sector, and this is linked to the decrease in private consumption.

Table 3: Quarterly Real GDP growth (% change, y-o-y)

	2015				2016				2017	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	8.0	9.3	8.1	10.0	8.9	7.5	5.4	2.4	1.7	4.0
Agriculture	4.0	5.0	5.0	5.0	8.0	3.0	1.0	3.0	3.0	6.0
Food crops	4.0	4.0	4.0	4.0	5.0	5.0	1.0	1.0	4.0	4.0
Export crops	8.0	26.0	17.0	7.0	73.0	-21.0	-13.0	3.0	-24.0	22.0
Industry	6.0	9.0	5.0	16.0	11.0	9.0	6.0	1.0	-1.0	1.0
Mining & quarrying	-3.0	2.0	-23.0	15.0	10.0	15.0	19.0	-1.0	-1.0	3.0
Manufacturing	10.0	8.0	7.0	8.0	7.0	9.0	6.0	4.0	7.0	6.0
Electricity	8.0	9.0	8.0	7.0	16.0	13.0	14.0	12.0	5.0	6.0
Water & waste management	2.0	0.0	0.0	1.0	3.0	5.0	7.0	6.0	2.0	2.0
Construction	7.0	13.0	17.0	24.0	15.0	7.0	2.0	-3.0	-7.0	-4.0
Services	10.0	11.0	10.0	11.0	9.0	9.0	7.0	4.0	4.0	7.0
Wholesale & retail trade	14.0	15.0	11.0	11.0	10.0	14.0	8.0	-8.0	-13.0	-6.0
Transport services	10.0	7.0	10.0	12.0	9.0	15.0	5.0	4.0	2.0	6.0
Hotels & restaurants	10.0	10.0	6.0	12.0	12.0	10.0	13.0	11.0	17.0	9.0
Information & communication	26.0	9.0	14.0	24.0	11.0	16.0	1.0	7.0	2.0	6.0
Financial services	9.0	9.0	22.0	10.0	9.0	5.0	2.0	-2.0	1.0	6.0
Real estate activities	3.0	3.0	7.0	5.0	4.0	7.0	5.0	10.0	8.0	7.0
Taxes less subsidies on products	12.0	17.0	14.0	14.0	10.0	10.0	6.0	-8.0	-10.0	-12.0

Source: National Institute of Statistics of Rwanda

The performance of agriculture sector in 2017Q2 was high (+6.0%) compared to 3.0% recorded in 2017Q1, 2016Q4 and 2016Q2 mainly due to export crops that were helped by the aforementioned high international coffee and tea prices. Consequently, export crops growth increased to 22.0% in 2017Q2 from a decrease of 24.0% in 2017Q1.

The performance of agriculture sector was also attributed to the good performance of food crops (+4.0%) and agriculture sector is expected remain good in the second half of 2017 supported by food crop production since weather conditions have been better during the rainy season and boosted food crop production of Season B as echoed by farmers during price expectation survey of June and September 2017.

This is also evidenced by the decline in fresh products' prices since June 2017. On average fresh food inflation stood at 5.1% during June-September 2017 lower than 14.5% in the same period of 2016.

Leading economic indicators of economic activities signal that improvement in economic activities continued after 2017Q2. Economic data for 2017Q3 show a better picture compared to the same period of 2016, and economic performance 2017Q3 is slightly higher compared to the same period of 2016.

In real terms, the CIEA increased by 13.2% during 2017Q3 after growing by 12.4% in 2016Q3 compared to 10.3% in 2017Q2 and 7.2% in 2017Q1.

Table 4: CIEA (% change, y-o-y)

CIEA	Real	Nominal
2016Q1	18.1	22.0
2016Q2	14.6	20.3
2016Q3	12.4	17.2
2017Q1	7.2	10.1
2017Q2	10.3	13.7
2017Q3	13.2	14.1
Jan.-Sept. 2016	14.9	21.0
Jan.-Sept. 2017	10.3	12.4

Source: BNR, Monetary Policy and Research Department

Growth in total turnovers stood at 13.0% in 2017Q3 compared to 11.4% in the same period of the previous year. The services sector, representing 74.3% of total turnovers, is the main driver of this performance, increasing by 16.3% from 9.1% recorded in the corresponding period of 2016.

The performance of service sector in 2017Q3 was supported by wholesale and retail trade (+29.3%), transport and storage (22.1%), hotels (+4.8%), banks (+4.7%) and petroleum products (+4.2%). Sales of petroleum products have been buoyed by an increase in international oil prices and the increase in re-exports, which increased by 41.3% in 2017Q3 from 15.0% in the same period of 2016. The Transport and storage sub-sector continue to be sustained by business expansion of RwandAir whose turnovers representing 47.9% of the total turnovers of the sub-sector rose by 56.0% in 2017Q3.

Table 5: Turnovers of industry & services (% change, y-o-y)

	% change							
	2016Q1	2016Q2	2016Q3	2017Q1	2017Q2	2017Q3	Jan.-Sept 2016	Jan.-Sept 2017
Total turnovers	**11.8**	**10.1**	**11.4**	**14.8**	**16.2**	**13.0**	**11.8**	**14.6**
Industries	**13.4**	**4.2**	**18.2**	**10.1**	**12.6**	**4.7**	**11.8**	**8.9**
Mining & Quarrying	-48.2	-21.6	-11.4	9.1	8.8	23.6	-29.1	14.5
Manufacturing	24.9	5.0	9.5	9.6	27.0	11.8	12.6	15.8
Energy Sector	57.5	73.5	57.1	19.1	5.8	13.2	62.7	12.3
Construction	6.5	-6.0	31.0	7.7	-4.2	-12.6	9.0	-3.9
Services	**11.5**	**12.5**	**9.1**	**16.5**	**17.6**	**16.3**	**11.0**	**16.8**
Wholesale and Retail trade	9.5	4.2	4.7	16.7	27.1	29.3	6.0	24.6
Petroleum distributors	1.9	22.7	14.4	44.1	14.4	4.2	13.1	19.0
Transport and Storage	12.8	25.6	23.2	18.8	10.6	22.1	20.7	17.2
Hotels and Restaurants	16.9	15.3	17.7	2.7	1.7	-6.4	16.6	-0.8
Hotels	12.0	10.7	12.2	5.5	7.4	4.8	11.6	5.9
Restaurants	37.0	33.7	37.4	-6.7	-17.1	-39.7	36.1	-22.5
Information and Comm.	11.4	30.0	-0.3	0.9	-4.8	0.1	13.0	-1.4
Financial & insurance	31.6	28.6	20.2	8.1	12.3	8.4	26.5	9.5
Banks	11.6	15.2	19.8	10.7	11.5	4.7	15.7	8.8
Real Estate Activities	-13.0	14.0	3.5	13.5	-11.9	-44.8	1.5	-19.6

Source: BNR, Statistics Department

The industry sector which represents 25.7% of the total sales in 2017Q3 rose by 4.7%, attributed to the mining & quarrying (+23.6%), manufacturing (+11.8%), and energy (+13.2%) sub-sectors. However, the industry sector recorded a lower growth compared to the same period of 2016 (+18.2%), following poor performance of construction sub-sector (-12.6%) which outweighed the good performance of other sub-sectors. The poor performance of construction sub-sector is also linked to the decrease in new loans for public works and building in 2017Q2 (-7.5%).

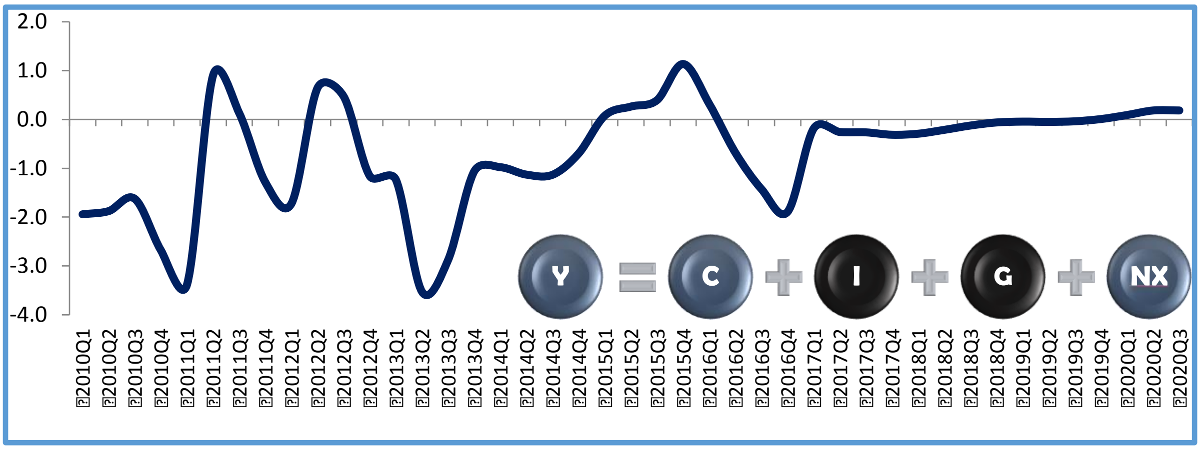
The good performance of manufacturing followed the increase in sales of MOUNT MERU SOYCO LTD (+59.4%), SKOL BREWERY (+47.7%), STEELRWA INDUSTRIES LTD (+40.4%), CIMERWA LTD (+37.4%), BAKHRESA GRAIN MILLING (RWANDA) LTD (+27.3%), Tea and coffee companies (+25.5%), INYANGE INDUSTRIES LTD (+12.7%) and SULFO RWANDA INDUSTRIES (+9.1%).

The mining sub-sector performed well supported by the increase in international prices of metals and minerals. Specifically Rwanda's Cassiterite export revenues highly increased by 60.4% compared to 12.5% in 2016Q3. Also coltan and wolfram minerals increased by 59.2% and 4.1% from a decline of 31.8% and 18.4% in the same period of 2016, respectively. The energy sub-sector also continues to perform well, supported by recent new plants that include Kivuwatt power station, but growth in 2017Q3 is still low compared to that of the same period of 2016 since the effect of the increase in electricity price (+35.8% in September 2015) faded away.

2.1.3 The Output gap

The output gap remains negative, indicating absence of inflationary pressures from demand side. However, during the third quarter of 2017, it trended upward, showing the improvement in aggregate demand reflected in private consumption as shown by total turnovers of industry and service sectors and by net export. The new authorized loans increased by 28.5% in 2017Q3 after a decline of 10.1% recorded in the same period of 2016 while outstanding loans rose by 9.6% end September 2017 from 12.1% during the same period.

Figure 7: The Output gap for Rwanda (%)



Source: BNR, Monetary Policy and Research Department

2.1.4 Outlook of the domestic demand and output

The output gap shows that domestic demand is picking up but still below potential, inducing no inflationary pressures expected from the domestic demand side in the fourth quarter of 2017. In the third and fourth quarters of 2017, the economy is expected to continue recording a performance higher than in 2017Q2, backed by increasing commodity prices, low inflationary pressures, low depreciation of Rwandan franc and new construction projects such as Bugesera airport, Century Park complex Rwanda. However, the expected improvement in economic growth might be limited by still low loan applications, the increase in non-performing loans as well as delays in the execution of new and current construction projects.

2.2 Public domestic debt development

The ended 2017Q3 closed with total domestic debt which grew by 16.2% compared to 22.5% realized in the corresponding period of the previous year, largely emanates from 34.2% increase in banking sector outstanding debt. The upsurge in banking sector was mainly supported by 20.0% increase in uptake of short term securities, contrary to non-banking sector that declined by 43.5%. Non-banks were highly interested in long term securities which grew by 32.2% against the same quarter in 2016 due to better rates which stood at around 12.2%, above the average rate of 7.9% for short term securities. The preference of short-term securities by banks is due to inadequate term deposits to invest in long term securities.

Table 6: Sectoral Composition of Public Domestic Debt (billion FRW)

Sector	2016			2017			Y-O-Y change Q3 2017
	Q2	Q3	Q4	Q1	Q2	Q3	
BNR (excluding monetary instruments)	**43.2**	**58.2**	**37.5**	**66.8**	**79.1**	**66.0**	**13.5**
Consolidated debt	38.1	38.1	37.5	37.5	37.5	37.5	-1.5
Overdraft	5.1	20.1	0	29.3	41.6	28.5	41.8
Banking Sector	**279.4**	**244.7**	**242.1**	**258.5**	**276.7**	**328.3**	**34.2**
Development bonds	70.3	72.1	75.0	73.7	74.7	78.97	9.5
Bonds issued at MINECOFIN	0.4	0.4	0.2	0.2	0.2	0.2	-50.0
Treasury bills (issued at BNR for treasury issues)	208.7	172.2	166.9	184.6	201.8	249.2	44.7
Non-Banking Sector	**152.2**	**185.1**	**196.5**	**195.4**	**202.3**	**172.9**	**-6.6**
Development bonds	69.3	80.4	91.4	91.9	100.6	106.3	32.2
Consolidated debt to RSSB	38.3	36.3	35.2	27.8	25.9	24.8	-31.6
Bonds issued at MINECOFIN	0.9	0.9	0.9	0.9	0.9	0.9	0
Treasury bills (issued at BNR for treasury issues)	37.3	61.1	62.5	68.4	68.5	34.5	-43.5
Other bonds for old arrears	6.4	6.4	6.4	6.4	6.4	6.4	0
TOTAL DOMESTIC DEBT STOCK	**474.8**	**488.0**	**476.1**	**520.7**	**558.1**	**567.3**	**16.2**

Source: BNR, Statistics Department

In terms of debt composition by type of creditors, banking sector remains the main creditor of the government with a total share of 57.9%. In terms of securities, banks remain the main holder of short dated securities with a share of 87.8% to the total outstanding short term securities against 12.2% held by non-bank institutions. Non-banks dominate in T-bonds securities with 57.4% share of long term bonds against 42.6% held by banks.

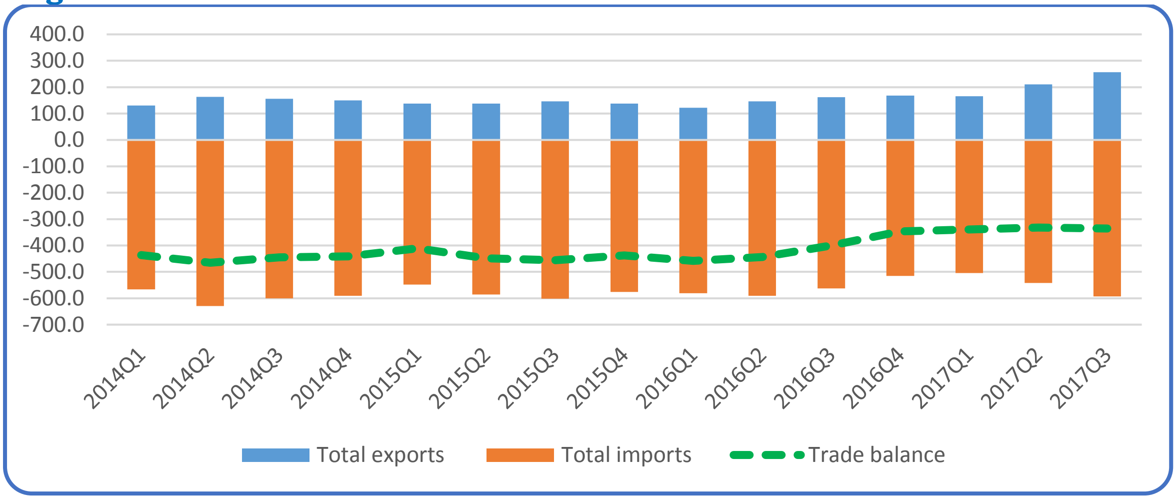
During the period, the government spending facility amounted to FRW 28.5 billion up from FRW 20.1 billion in the same period in 2016. The overall growth in government domestic borrowing against the corresponding month in 2016 was mainly accountable to increased uptake of short term and long term securities as well as in spending facility from Central bank that stood at FRW 28.5 billion from FRW 20.1 billion but remained well below the facility ceiling of FRW 114.4 billion.

2.3 External Sector Developments

2.3.1 Formal trade balance

Rwanda's trade deficit reduced by 16.2% in 2017Q3 to a deficit of USD 335.6 million from a deficit of USD 400.4 million in 2016Q3, following a high increase in formal exports by 58.9% in value and a slight increase in formal imports value by 5.4%. Formal exports covered 43.4% of formal imports in 2017Q3 from 28.8% in 2016Q3.

Figure 8: Trade balance in millions of USD



Source: BNR, Monetary Policy & Research Department

2.3.1.1 Formal exports of goods

In 2017Q3, Rwanda's formal exports are dominated by other exports (non-traditional exports) with 39.5% of the total formal exports, compared to 33.3% in 2016Q3, followed by traditional exports (main exports) which account for 31.0% of the total formal exports in 2017Q3, compared to 36.2% in the same period of 2016. Re-exports which are composed by petroleum products, vehicles, and machines & engines represent 29.6% of the total formal exports.

Formal exports recorded a growth of 58.9% in value (USD 257.09 million from USD 161.78 million in 2016Q3), after an increase of 10.9% in 2016Q3, due to the high increase in exports value of other exports (+105.1%), re-exports (+41.3%), coffee

(+19.9%), tea (+37.5%), cassiterite (+60.4%), coltan (+59.2%) as well as pyrethrum (+1021.2%). Formal exports volume also increased by 46.0% in 2017Q3, due to the growth in re-exports (+57.4%), other exports (+45.4%), coffee (+8.3%), tea (+6.4%), cassiterite (+44.7%), coltan (+26.9%) and pyrethrum (+883.9%).

Table 7: Exports developments (annual % change)

	Volume				Value			
	2016Q2	**2016Q3**	**2017Q2**	**2017Q3**	**2016Q2**	**2016Q3**	**2017Q2**	**2017Q3**
Total exports	**24.1**	**15.0**	**27.2**	**46.0**	**6.6**	**10.9**	**43.5**	**58.9**
Traditional export	-6.6	-11.4	1.5	5.6	-23.5	-19.9	19.2	36.1
Coffee	-20.5	-18.4	10.9	8.3	-28.8	-14.6	14.0	19.9
Tea	4.8	-8.5	-2.6	6.4	-16.0	-29.8	35.9	37.5
Mining	-13.6	0.5	7.2	25.8	-30.3	-17.9	12.3	51.8
Tin	-3.6	-3.3	25.6	44.7	-3.6	12.5	46.4	60.4
Coltan	-17.7	-7.5	4.7	26.9	-34.4	-31.8	-5.0	59.2
Wolfram	-25.6	17.8	-25.8	-12.2	-53.2	-18.4	-12.9	4.1
Hides and Skins	-17.7	-2.6	-1.8	-27.3	-23.9	13.9	18.4	-8.4
Pyrethrum	153.3	-91.1	-38.1	883.9	172.9	-91.5	-39.7	1021.2
Re-exports	59.3	24.6	34.6	57.4	34.1	15.0	20.7	41.3
Other export	5.3	15.3	25.0	45.4	34.6	89.8	123.2	105.1

Source: BNR, Statistics Department

Coffee exports (mainly exported to China) increased by 19.9% in value and 8.3% in volume due to the rise in its unit price by 10.7%, rising to 3.88 USD/Kg in 2017Q3, from 3.51 USD/Kg in the corresponding period of 2016, despite the decrease of coffee production and stock exported by 3.1% to 6,969 tons in 2017Q3 from 7,195 tons in the same period of 2016.

Compared to 2016Q3, tea exports value increased by 37.5% in 2017Q3, to USD 18.5 million from USD 13.4 million, due to the increase in unit price by 29.2% rising from 2.55 USD/Kg in 2016Q3 to 3.29 USD/Kg in 2017Q3. In addition, tea exports increased in volume by 6.4% from 5,269.6 tons to 5,607.6 tons, as a result of the increase in tea production by 24.2%, to 4,288.6 tons in 2017Q3 from 3,453.5 tons in 2016.

The mining sector performed well in 2017Q3, increasing in both value and volume by 51.8% and 25.8% respectively, mainly due to the recovery in international mineral prices. This increase is due to increased exports of coltan (+59.2%in value and +26.9% in volume) and cassiterite (+60.4% in value and +44.7% in volume), mainly exported to China, USA and Singapore, constituting 39.2% of the total minerals exports receipts. Coltan which is mainly exported to China and Hong Kong increased by 59.2% and 26.9% in value and volume respectively, due to the increase in its unit price by 25.5%. Despite the improvement in its price which increased by 18.5%, wolfram increased by 4.1% in value, but decrease by 12.2% in volume due to low production following high competition from China which resulted into closure of some wolfram mines.

Exports receipts from hides and skins decreased by 8.4% from USD 2.2 million to USD 2.0 million, while its volume decreased by 27.3% from 1,686.6 tons to 1,226.0 tons due to the fact that hides and skins are no longer exported in raw form but transformed into intermediate form known as wet blue which fetches relatively higher price than the raw hides and skins. The unit price of hides and skins increased by 26.0% from 1.30 USD/Kg in 2016Q3 to 1.64 USD/Kg in 2017Q3.

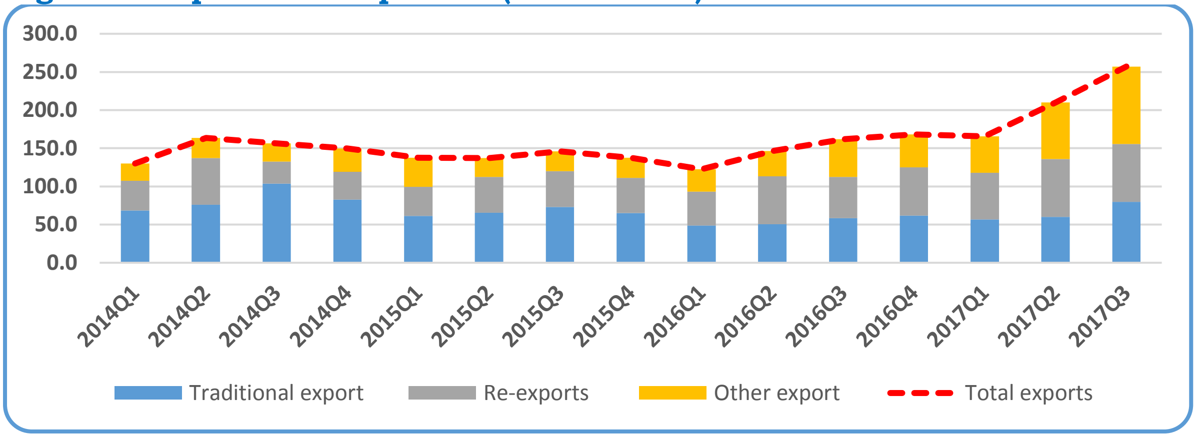
Pyrethrum exports value and volume highly increased by 1021.2% and 883.9% respectively in 2017Q3 compared to the corresponding period of 2016 due to the fact that SOPYRWA's exports are based on contracts with the buyers and for 2017 they have agreed with buyers to sell to them during the second, third and fourth quarters.

Non-traditional exports (other exports) increased by 105.1% and 45.4% in value and volume respectively. The increase was mainly driven by the surge in other minerals component which is composed of gold, beryllium and unwrought lead, iron ore and gemstones which rose by 129.6% in 2017Q3. The increase in other minerals category reflects the recovery in international commodity prices.

In addition, the products of milling industry, whose main products are wheat and other cereals flours, as well as residues and waste from the food industries, increased by 144.5% and 84.5% in value and volume respectively. This increase is mainly attributed to the industry sector development through increased domestic production which enabled milling industries to boost their exports and DRC remains the main destination of their products. Cement and similar products exports (of which cement emerges as the main product contributing to over 93%) increased by 70.3% in value and 42.9% in volume owing the growth to increased CIMERWA production and is largely exported to DRC.

Re-exports products are mainly composed of petroleum products, machines and engines, vehicles as well as other re-exports. The re-exports category increased by 41.3% and 57.4% in value and volume respectively, mainly driven by increase in re-exports of petroleum products by 53.9% in value and 64.3% in volume. The main destination of re-exports of petroleum products is DR Congo followed by Burundi and Kenya. However, exports receipts from machines & engines and vehicles declined in both value and volume by 67.2% and 59.3% respectively following low demand from the main importing countries especially Burundi.

Figure 9: Exports developments (USD million)



Source: BNR, Monetary Policy & Research Department

2.3.1.2 Formal imports of goods

In 2017Q3, formal imports increased by 5.4% in value (to USD 592.72 million from USD 562.20 million in 2016Q3), after a decrease of 6.5% in the corresponding period of 2016, following the increase in the value and volume of all import components except consumer goods.

Imports of consumer goods which represent 37.2% of the total imports volume and 33.1% in value decreased by 0.7% in value and increased by 9.9% in volume. The main components of the consumer goods category are food products with a share of 48.5% in value and 83.4% in volume and other consumer goods with a share of 51.5% in value and 16.6% in volume. The decline in imports value of consumer goods is mainly driven by the decline in other consumer goods such as domestic articles which declined by 65.0%, health and care which declined by 6.4%. In contrast, food products increased by 24.1% in value and 14.2% in volume respectively, mainly driven by increased payments on sugars and sweet which rose by 49.5% followed by milk and milk products (+112.6%), cereals, flours and seeds (+19.6%) and fats & oils of animals (+50.1%). The increased imports bill for food products is attributable to poor domestic production due to unfavourable weather conditions that affected agricultural production.

Table 8: Imports developments (annual % change)

	Volume				Value			
	2016Q2	**2016Q3**	**2017Q2**	**2017Q3**	**2016Q2**	**2016Q3**	**2017Q2**	**2017Q3**
Total imports	-10.4	-5.6	-1.3	15.5	0.8	-6.5	-8.2	5.4
Consumer goods	-6.2	9.2	1.4	9.9	1.5	16.5	8.8	-0.7
Food products	-10.7	15.5	10.0	14.2	-15.6	35.7	28.5	24.1
Health and care	16.2	3.6	-20.0	7.4	15.5	18.6	2.1	-6.4
Domestic articles	-4.4	84.1	-11.7	-49.0	-5.0	124.8	-38.1	-65.0
Capital goods	15.1	-15.5	-23.1	5.0	29.2	-10.4	-30.8	3.0
Transport Materials	38.9	-9.4	-18.7	3.7	60.3	6.2	-10.4	11.3
Machines, devices and tools	8.5	-15.8	-23.7	-8.3	22.8	-8.8	-33.3	-6.5
Intermediary goods	-12.0	-18.7	-1.7	23.4	-15.0	-20.8	-3.7	17.7
Construction materials	-28.6	-25.9	-10.6	-4.2	-29.7	-36.8	-22.0	-3.8
Industrial products	14.0	5.4	12.8	41.9	-19.0	-7.7	19.2	30.5
Fertilizers	82.9	-51.9	-54.9	122.1	123.8	-66.4	-62.0	154.7
Energy and lubricants	-19.5	7.4	-0.7	10.5	-26.5	-14.5	10.4	3.0
Petroleum products	-12.1	0.5	-1.2	4.4	-26.2	-15.8	9.2	9.1
Trade balance					-444.1	-400.4	-332.0	-335.6
Cover rate of imports/ exports, %					24.8	28.8	38.8	43.4

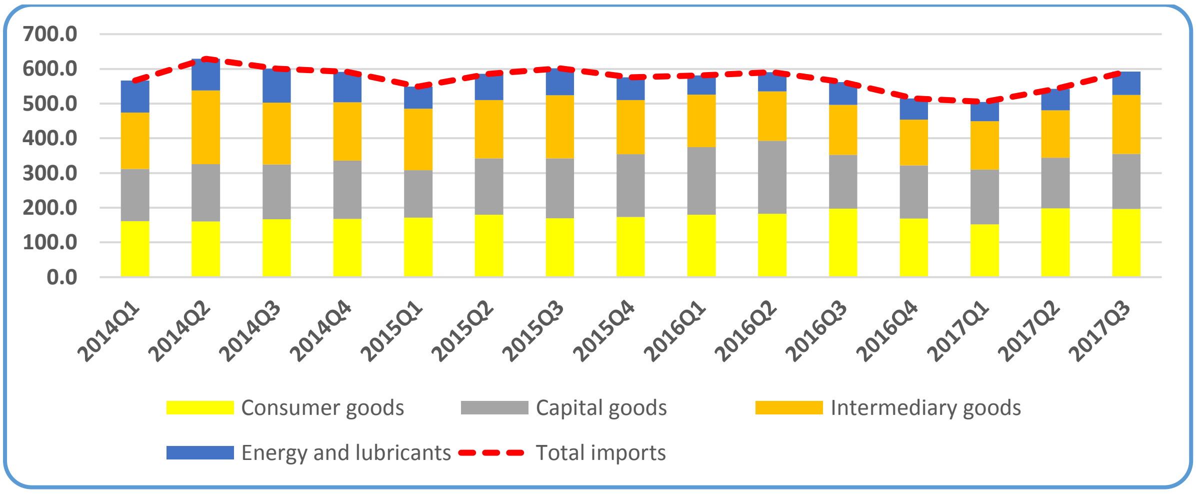
Source: BNR, Statistics Department

Capital goods which account for 2.9% of the total imports volume and 26.9% in value are dominated by machines, devices and tools as well as transport materials, increased in both volume and value by 5.0% and 3.0% respectively, mainly due to the imports of transports materials (+3.7% in volume and +11.3% in value). Imports of machines, devices and tools decreased by 8.3% in volume and 6.5% in value, mostly due to high taxes imposed on machines imported to undertake big construction projects following the ratification of the new investment code that removed the exemptions that were formerly given to importers of such big machines.

Dominated by construction materials, industrial products and fertilizers; imports of intermediary goods increased by 23.4% in volume and 17.7% in value, in 2017Q3, mainly due to the increase in industrial products (+41.9% in volume and +30.5% in value) and fertilizers (+122.1% in volume and +154.7% in value), despite the decrease recorded in construction materials (-4.2% in volume and -3.8% in value). The main component under industrial products is the food industries representing 52.8% of total volume of industrial products, of which 75% is wheat and meslin from Russia and Argentine. The continued decline in imports of construction materials is explained by the reduction in cement imports by 7.1% from 70,293 tons in 2016Q3 to 65, 304 tons in the corresponding period of 2017, following the increase in domestic production of cement by CIMERWA, increasing by 33.4% from 70,683 tons in 2016Q3 to 94,266 tons in 2017Q3.

Imports of energy and lubricants, of which more than 90% is fuel, increased by 3.0% in value and 10.5% in volume respectively. The changes under this category are explained by the increase in imports of petroleum products by 9.1% in value on the account of increased price on international market following a decision by OPEC countries to cut oil production between January 2017 and March 2018, in a bid to rebalance the oil market.

Figure 10: Imports developments (USD million)



Source: BNR, Monetary Policy & *Research* Department

2.3.2 Trade with EAC countries

In 2017Q3, Rwanda's total exports with EAC partner states increased by 25.0% from USD 28.1 million in 2016 to USD 35.1 million in the same period of 2017Q3. The upsurge in exports receipts was mainly contributed by 27.1% increase in exports to Kenya driven by increase in tea and metal scraps exports, as well as 52.8% rise to Uganda following high demand of products of the milling industry especially the corn soya blend which constitute nearly 50% of its the total imports from Rwanda. The exports to Burundi declined by 2.4% compared to 2016Q3 exports, mostly resulted in by receding exports of petroleum products.

Imports increased from USD 122.1 million in 2016Q3 to USD 125.5 million in 2017Q3, representing 2.7% growth, mainly driven by rising imports from Tanzania and Uganda that increased by 11.1% and 2.4%, respectively. The imports from Uganda were mainly brought up by imports of cooking oil, fish products, detergents, as well as metal products, while for Tanzania were mainly driven by imports of rice, ground nuts, cement as well as metal products. Imports from Burundi drastically declined as result of insecurity and imposition of non-tariff barriers that affected the most of imports such as domestic articles, and detergents. The slower increase in imports from Kenya was driven by imports of sugar and maize corns.

Table 9: Trade flow of Rwanda within EAC bloc, (Value FOB in million USD)

Exports (FOB USD)							
	2016Q2	**2016Q3**	**2016Q4**	**2017Q1**	**2017Q2**	**2017Q3**	**% change 2017Q3 (yoy)**
Burundi	12.07	5.64	10.1	4.76	5.63	5.51	-2.38
Kenya	27.76	16.62	24.84	25.7	32.55	21.12	27.07
Tanzania	1.87	0.8	0.57	0.49	0.32	0.8	-0.01
Uganda	2.08	5.01	2.52	4.92	9.85	7.65	52.79
Total exports	**43.78**	**28.07**	**38.04**	**35.87**	**48.35**	**35.07**	**24.97**
Imports (CIF USD)							
Burundi	2.07	1.46	0.49	0.84	0.48	0.54	-62.82
Kenya	40.37	40.5	33.66	33.76	40.15	40.84	0.85
Tanzania	25.07	23.07	25.71	21.42	22.86	25.63	11.11
Uganda	53.08	57.09	55.39	51.31	50.83	58.44	2.37
Total imports	**120.59**	**122.11**	**115.25**	**107.33**	**114.31**	**125.45**	**2.74**

Source: BNR, Statistics Department

2.3.3 Informal cross-border trade

In 2017Q3, the Rwanda's informal cross-border exports with neighboring countries stood at USD 25.2 million from USD 24.2 million in 2017Q2, representing an overall increase of 3.7%. The exports to the neighboring countries against the previous quarter improved following the recovery from prolonged droughts that had negatively affected the agricultural harvest as well as the recent trade pact signed between the two countries for the removal of non-tariff barriers that had been imposed by DR Congo. The increase was mostly supported by exports of Fresh fish tilapia, agricultural products, and Cassava flour beer which started picking up from the previous slowdown. Conversely, the shortfall by 18.2% compared to 2016Q3 to stand at USD 25.2 million mainly resulted from earlier non-tariff barriers on animal and animal products imposed by DRC, which represents around 83.9% in the overall Rwanda's informal exports.

Table 10: Rwanda Informal Cross Border trade (USD million)

	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	% Δge (y.o.y)
Exports	35.4	30.8	25.0	22.5	24.3	25.2	**-18.2**
% change (QOQ)	**14.8**	**-12.99**	**-13.0**	**-10.1**	**8.1**	**3.7**	
Imports	8.3	8.2	7.5	4.5	5.9	6.5	**-21.5**
% change(QOQ)	**26.5**	**-0.4**	**-8.5**	**-40.9**	**32.0**	**10.0**	
Trade Balance	**27.1**	**20.5**	**17.5**	**18.0**	**18.4**	**18.7**	**-8.8**

Source: BNR, Statistics Department

Similarly, the imports of informal cross border trade increased by 10.0% to stand at USD 6.5 million during the 2017Q3 from a value of USD 5.9 million imported in the preceding quarter and USD 4.5 million in 2017Q1. This was mainly due to progressing recovery in agricultural produce during the second half of the year that had been adversely affected by poor weather conditions across the neighboring countries. Comparing 2017Q3 to 2016Q3, imports declined by 21.5% as a result of slowdown in imports of modern beer and other agricultural products whose prices were raised up on the account of the poor harvests. Rwanda's informal trade surplus stood at USD 18.71 million in 2017Q3, indicating a 1.6% growth compared to the preceding quarter, but fell by 8.8% compared to the same period of 2016 due earlier effects of poor weather conditions. Even though the changes against the last year's corresponding period were negative, Rwanda remains a net exporter of informal cross border trade. During this period under review, the performance of informal cross border trades respectively represented 9.8% and 1.1% of the formal exports and imports, an indication of trade links across the neighboring countries.

2.3.4 The exchange rate: bilateral and effective

In 2017Q3, pressure on Rwandan Franc continued easing, owing to the improvement in Rwanda's export receipts in line with continued recovery in commodity prices at international market, especially mining and tea. Moreover, the import bill is declining due to increased domestic production of goods such as cement that previously required a lot of forex to import, the Made-in-Rwanda initiative and the phasing out of some major construction projects. By end September 2017, relative to December 2016, the FRW slightly depreciated by 2.2 % against USD compared to a depreciation of 8.4% in the corresponding period of 2016.

Table 11: Appreciation/Depreciation rate of selected currencies against the FRW

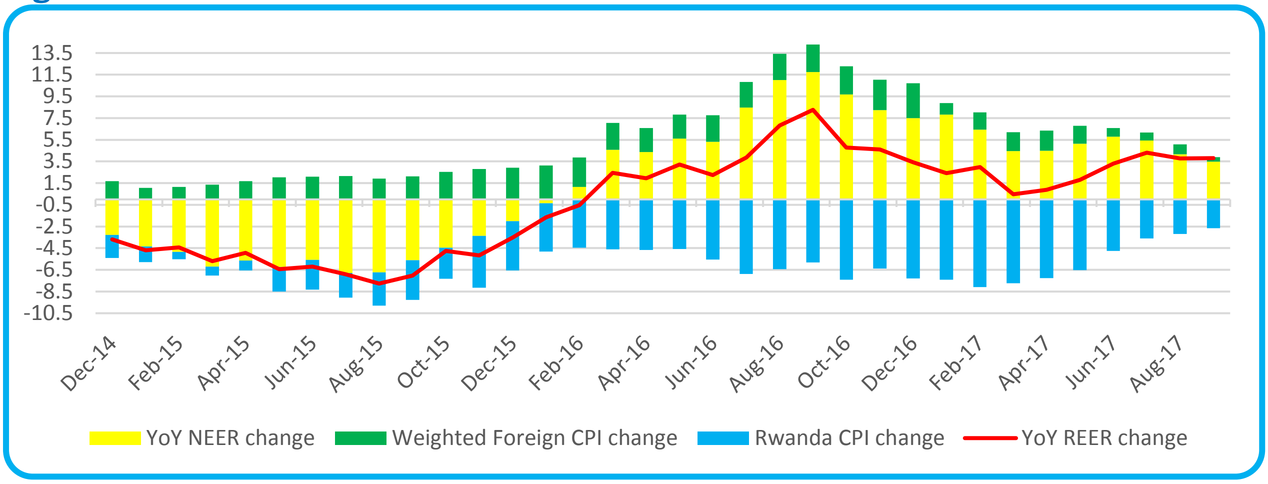
	USD/FRW	GBP/FRW	EUR/FRW	KES/FRW	TZS/FRW	UGS/FRW	BIF/FRW
Dec-13	6.1	8.0	10.2	5.3	6.2	11.7	4.9
Dec-14	3.6	-2.4	-8.5	-2.8	-7.0	-6.7	1.0
Dec-15	7.6	2.8	-3.2	-4.6	-13.5	-11.6	10.0
Mar-16	2.8	-0.2	6.3	10.9	3.9	1.4	2.8
Jun-16	4.8	-5.0	6.6	22.8	6.1	3.3	3.7
Sep-16	8.4	-5.1	11.3	29.3	9.5	7.1	8.0
Dec-16	9.7	-9.2	5.3	9.6	8.6	2.3	-0.2
Mar-17	0.8	2.5	2.5	0.3	-1.6	0.8	-0.3
Jun-17	1.3	7.5	10.4	0.0	-1.4	2.0	-1.0
Sept-17	2.2	11.8	14.7	1.5	-0.9	2.6	-1.4

Source: BNR, Monetary Policy and Research Department

Compared to the British pound and Euro, the FRW depreciated by 11.8 %, 14.7 % respectively, following the frequent trend of weakened USD against major international currencies. Vis-à-vis the regional currencies, the FRW depreciated by 1.5% and 2.6% against the Kenyan and Ugandan shillings respectively, while appreciating by 0.9 % and 1.4 % against the Tanzanian shilling and the Burundian franc respectively.

For the purpose of measuring the value of Rwanda's goods against those of trading partners for assessment of international competitiveness, it is worth mentioning that by end September 2017, relative to December 2016, the FRW real effective exchange rate depreciated by 3.8%, compared to a depreciation of 8.3% of the corresponding quarter of 2016.The relative slowdown in real effective exchange rate is mainly attributed to the easing depreciation of the nominal value of the FRW against currencies of some major trading partners and declining inflation rate in Rwanda. In nominal effective terms, FRW depreciated by 3.5% compared to a depreciation of 11.8% in September 2016.

Figure 11: Drivers of REER movement

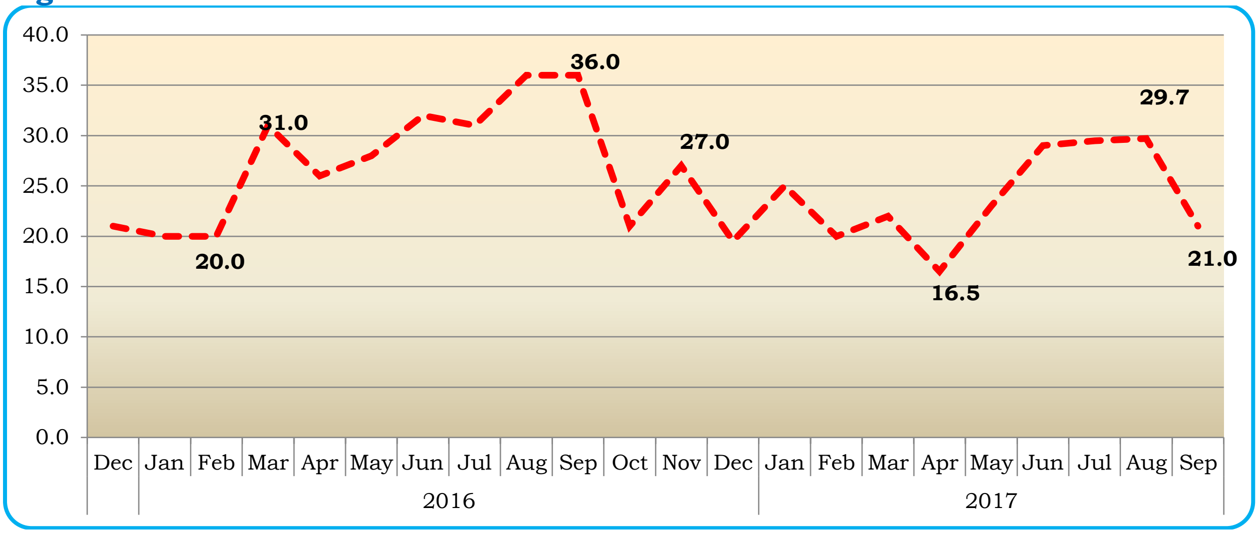


Source: BNR, Monetary Policy and Research Department

2.3.5 Foreign exchange market developments

With BNR intervention in curbing exchange rate volatility, its sales of US dollars to commercial banks continued, and following the reduced pressure on exchange rate in the first nine months of 2017, its sales reduced by 17.0 percent, from USD 260.0 million in the first nine months of 2016 to USD 215.7million in the corresponding months of 2017.

Figure 12: BNR Forex Sales to banks in millions of USD



Source: BNR, Monetary Policy and Research Department

2.4 Monetary and Financial Developments

2.4.1 Money Supply and Demand

Broad Money M3 increased by 16.4 percent in 2017Q3 compared to 2016Q3 from an increase of 5.8 percent realized in the same period of 2016. This improvement was a result of the increase in both net foreign assets (NFA) and net domestic assets (NDA) by 21.2 percent and 13.7 percent respectively in 2017Q3 compared to 2016Q3 from a decline of 2.4 percent and 11.2 percent respectively realized in the same period of 2016. However as compared to 2017Q2, broad money M3 declined by 1.4 percent from a decline of 4.6 percent in the corresponding period of 2016.

2.4.1.1 Money Supply

Broad money M3 grew by 16.4 percent in 2017Q3 compared to 2016Q3 from 5.8 percent growth recorded in the corresponding period of 2016. This increase in broad money M3 by end 2017Q3 resulted from an expansion in NFA by 21.2 percent in 2017Q3 from a decline of 2.4 percent realized in the same period of 2016 and an expansion of net domestic assets (NDA) by 13.7 percent in 2017Q3 from an increase of 11.2 percent recorded in the same period of 2016.

The net foreign assets end 2017Q3 increased by 21.2 percent due to both increase in monetary authority NFA and commercial banks NFA by 7.7 percent and 1806.2 percent from 10.4 percent and minus 94.0 percent respectively recorded in the corresponding period of 2016. The monetary authority NFA contributed by 7.7 percent and commercial banks NFA contributed by 13.5 percent in the NFA growth of 2017Q3. This increase in commercial banks NFA is a result of good performance of external sector with formal exports increasing by 47 percent and also the reduction of imports by 5.5 percent in the nine months of 2017 compared to the nine months of 2016.

Table12: Monetary aggregates (FRW billion)

	2015	2016		2017		% change			
	Q3	Q2	Q3	Q2	Q3	Q3-16/ Q3-15	Q3-17/ Q3-16	Q3-16/ Q2-16	Q3-17/ Q2-17
Net foreign assets	**560.1**	**567.5**	**546.7**	**731.9**	**662.5**	**-2.4**	**21.2**	**-3.7**	**-9.5**
Foreign assets	780.8	890.1	872.6	1101.8	1084.4	11.8	24.3	-2.0	-1.6
Foreign liabilities	220.7	322.5	325.9	369.9	421.9	47.6	29.5	1.0	14.1
Net domestic assets	**857.9**	**1004.9**	**954.1**	**1040.3**	**1084.9**	**11.2**	**13.7**	**-5.1**	**4.3**
Domestic credit	1203.3	1451.7	1409.3	1575.9	1611.4	17.1	14.3	-2.9	2.3

Central government (net)	98.7	124.4	47.7	141.7	159.6	-51.6	234.4	-61.6	12.6
Credit	323.0	318.3	299.9	344.4	400.3	-7.1	33.4	-5.8	16.2
Deposits	224.4	193.9	252.2	202.7	240.7	12.4	-4.6	30.1	18.7
Public enterprises	9.3	40.3	40.6	44.3	43.1	336.9	6.2	0.7	-2.7
O/W in foreign currency	4.6	17.6	17.3	22.7	21.7	272.9	25.0	-1.4	-4.5
Private sector	1095.4	1287.0	1320.9	1389.9	1408.7	20.6	6.6	2.6	1.4
O/W in foreign currency	95.6	196.5	215.5	215.9	200.7	125.4	-6.8	9.7	-7.0
Other items net (Assets: +)	-345.4	-446.8	-455.2	-535.6	-526.5	31.8	15.7	1.9	-1.7
Broad money M3	**1417.9**	**1572.4**	**1500.8**	**1772.2**	**1747.4**	**5.8**	**16.4**	**-4.6**	**-1.4**
Currency in circulation	122.0	150.8	133.6	159.7	147.9	9.5	10.7	-11.4	-7.4
Deposits	1295.9	1421.6	1367.2	1612.5	1599.5	5.5	17.0	-3.8	-0.8
O/W: demand deposits	578.9	640.0	548.4	680.2	648.5	-5.3	18.2	-14.3	-4.7
Time and saving deposits	461.1	512.4	523.0	542.3	567.9	13.4	8.6	2.1	4.7
Foreign currency deposits	255.9	269.2	295.8	390.0	383.1	15.6	29.5	9.9	-1.8

Source: BNR, Monetary Policy and Research Department

The increase in net domestic assets (NDA) by 13.7 percent in 2017Q3 from a growth of 11.2 percent recorded in 2016Q3 was mainly due to the growth in net credit to government by 33.4 percent in 2017Q3 from a decline of 7.1 percent in 2016Q3 and a drawdown in government deposits by 4.6 percent in 2017Q3 from an increase of 12.4 percent in 2016Q3.The increase in credit to government resulted from an increase in government borrowing from the banking system by 16.2 percent in 2017Q3 from a decline of 5.8 percent in 2016Q3.

The stock of credit to the private sector grew by 6.6 percent in 2017Q3 compared to 2016Q3 lower to 20.6 percent recorded in the same period of 2016 due to a deceleration in new authorized loans.

Over the nine months of 2017, new authorized loans grew by 5.7 percent lower to 9.6 percent growth realized in the same period of 2016.

However, new authorized loans expanded by 28.5 percent to reach FRW 192.5 billion in 2017Q3 compared to FRW 149.8 billion in 2016Q3 while declining by 5.1 percent in 2017Q3 compared to the previous quarter. The high increase in 2017Q3 compared to 2016Q3 was essentially due to the financing of big projects in Commerce; restaurants and hotels; Public works and building; Manufacturing activities and Transport; warehousing and communication in which new loans expanded by 25.0 percent, 24.2 percent, 113.2 percent and 38.5 percent respectively.

Table 13: New authorized loans by sector (FRW billion, unless otherwise indicated)

BRANCH OF ACTIVITY	2015	2016				2017			% change	
	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3-16/ Q3-15	Q3-17/ Q3-16
Non classified activities	17.6	19	18.8	19.5	20.4	23.4	21.1	22.1	10.8	13.1
Agricultural, fisheries& livestock	4.3	3.4	2.8	3.0	2.2	2.9	2.0	2.2	-29.9	-26.0
Mining activities	0.0	0.7	1	0.1	0	0.4	0.3	0.0	-	-100.0
Manufacturing activities	17.6	13.3	22.5	6.3	21.8	8.0	20.4	13.4	-64.1	113.2
Water & energy activities	0.002	7.8	0.2	0.1	16.6	8.0	0.9	4.9	5647.1	4810.0
Public works and building	50.3	35.9	54.1	49.5	55.6	55.2	50	61.5	-1.5	24.2
Commerce restaurants and hotels	58.8	103.9	112.2	55.9	76.6	84.7	84.6	69.9	-4.9	25.0
Transport & warehousing & communication	11.5	8.7	10.1	9.2	9.9	19.7	18.5	12.7	-20.1	38.5
OFI &Insurances and other non-financial services	0.6	3	0.5	1.2	1.1	5.4	1.1	2.2	114.6	85.8
Services provided to the community	6.1	3.9	5.1	4.9	8	6.1	4.1	3.5	-19.2	-28.8
TOTAL OF NEW LOANS	**166.6**	**199.5**	**227.2**	**149.8**	**212.1**	**213.7**	**202.9**	**192.5**	**-10.1**	**28.5**

Source: BNR, Financial Stability Directorate

Considering the distribution of loans by branch of activity, the sector of commerce, restaurants and hotels continued to dominate other sectors with 36.3 percent of total loans in 2017Q3 followed by Public works and building with 31.9 percent, activities not classified elsewhere (mainly composed by personal loans) own a share of 11.5 percent and Manufacturing activities with 7.0 percent.

Table 14: Distribution of new authorized loans by sector of activities (% share of total new loans)

BRANCH OF ACTIVITY	2015	2016				2017		
	Q3	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Non classified activities	**10.6**	**9.5**	**8.3**	**13.0**	**9.6**	**10.9**	**10.4**	**11.5**
Agricultural, fisheries& livestock	2.6	1.7	1.2	2.0	1.0	1.4	1.0	1.2
Mining activities	0.0	0.4	0.4	0.1	0.0	0.2	0.1	0.0
Manufacturing activities	**10.5**	**6.7**	**9.9**	**4.2**	**10.3**	**3.7**	**10.1**	**7.0**
Water & energy activities	0.0	3.9	0.1	0.1	7.8	3.7	0.4	2.6
Public works and building	**30.2**	**18.0**	**23.8**	**33.0**	**26.2**	**25.8**	**24.6**	**31.9**
Commerce restaurants and hotels	**35.3**	**52.1**	**49.4**	**37.3**	**36.1**	**39.6**	**41.7**	**36.3**
Transport & warehousing & communication	6.9	4.4	4.4	6.1	4.7	9.2	9.1	6.6
OFI &Insurances and other non-financial services	0.3	1.5	0.2	0.8	0.5	2.5	0.5	1.2
Services provided to the community	3.6	2.0	2.2	3.3	3.8	2.9	2.0	1.8
TOTAL OF NEW LOANS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

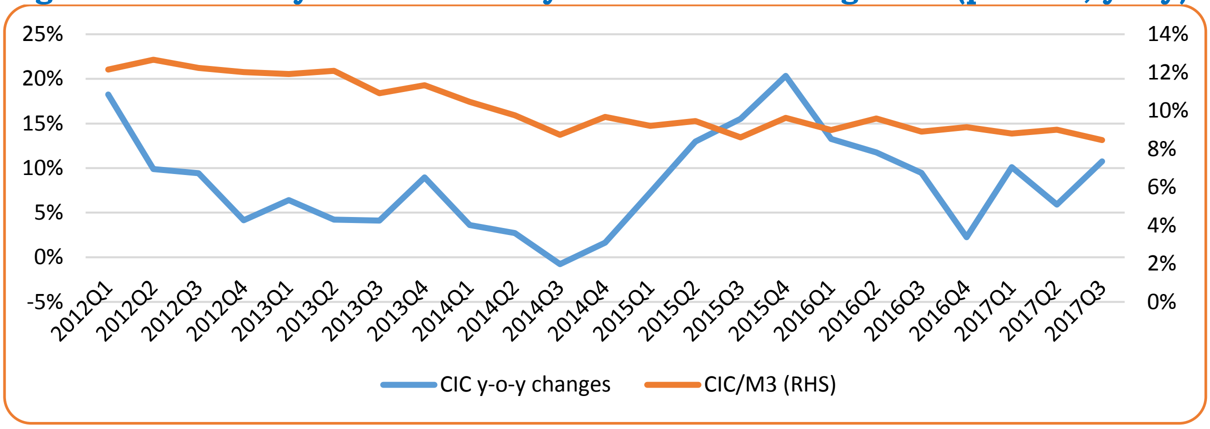
Source: BNR, Financial Stability Directorate

2.4.1.2 Money demand

Currency in circulation (CIC) increased by 10.7 percent end 2017Q3 compared to end 2016Q3 from an increase of 9.5 percent realized in 2016Q3 compared to 2015Q3. This increase in currency in circulation was explained by improvement in economic activities.

The currency to broad money ratio remained low in the recent past, averaging to 9.0 percent in the last two years on account of extension in banking sector network, microfinance institutions and payments system modernization.

Figure 13: Currency to broad money M3 ratio and CIC growth (percent, y-o-y)



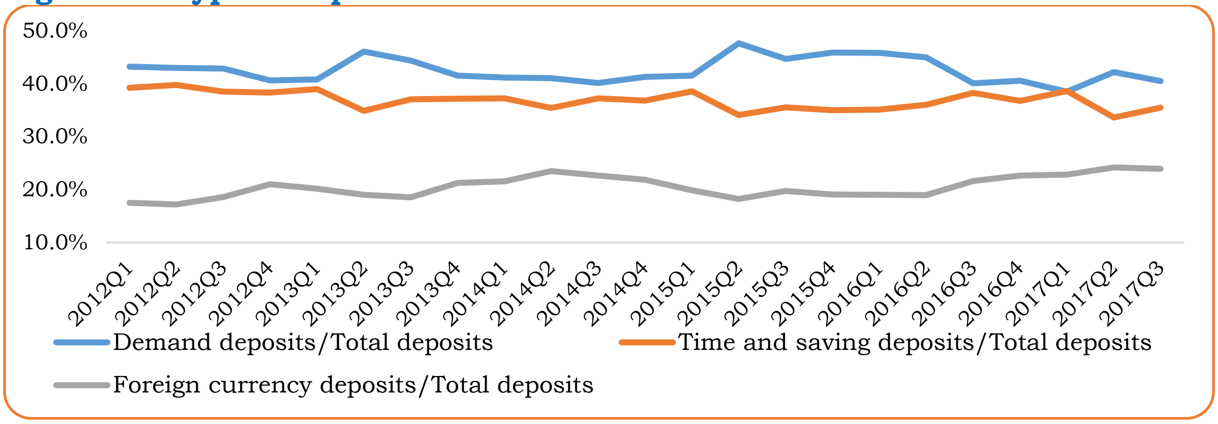
Source: BNR, Statistics Department

Total deposits increased by 17.0 percent end 2017Q3 compared to 2016Q3 from 5.5 percent growth realized in the same period of 2016. However, total deposits decreased by 0.8 percent end 2017Q3 compared to end 2017Q2 from a decline of 3.8 percent recorded in the corresponding period of the previous year. The declining trend in 2017Q3 compared to 2017Q2 is due to the base effect associated with the high increase in deposits by end 2017Q2 linked to high government spending at the end of the fiscal year 2016/2017.

The reduction in total deposits in 2017Q3 compared to 2017Q2 is reflected in demand deposits and foreign deposits. Demand deposits dropped by 4.7 percent while foreign currency deposit contracted by 1.8 percent. However, Time and saving deposits grew by 4.7 percent. The reduction in foreign currency deposits followed the investment of some deposits of RSSB and Agaciro Development Fund abroad in July 2017, while the expansion in time and saving deposits is a result of the continuing awareness on saving culture.

The share of demand deposits as proportion of total deposits remained high but recently followed a downward trend from 2016Q2 to 2017Q3 as well as the share of foreign currency while time and saving deposits were increasing. In 2017Q3, the share of demand deposits as a proportion of total deposits declined to 40.5 percent from 42.2 percent in 2017Q2 and the share of foreign currency deposits decreased to 23.9 percent in 2017Q3 from 24.2 percent realized in 2017Q2. However, time and saving deposits share went up to 35.5 percent in 2017Q3 from 33.6 percent realized in 2017Q2.

Figure 14: Type of deposits in % share



Source: BNR, Statistics Department

With regards to deposits by category of depositors, Households and non- profit Institutions Serving Households (NPISHs) continued to have the biggest share compared to other depositors with 45.1 percent end 2017Q3 followed by other non-financial corporations (24.8 percent), social security funds (19.1 percent), other financial institutions (8.0 percent) and public enterprises (3.0 percent)

Table 15: Deposits by category of depositors in % share

	2015				2016				2017		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
Other financial institutions	6.6	7.3	9.0	9.3	8.3	8.4	7.4	7.0	8.0	8.6	8.0
Social Security Funds	17.2	16.3	15.7	15.8	16.3	14.9	15.7	15.0	16.1	15.3	19.1
Public enterprises	4.0	3.8	4.7	4.2	5.0	4.2	3.6	3.8	3.9	3.7	3.0
Other non-financial corporations	27.2	28.8	27.7	25.9	25.9	26.0	25.0	26.4	25.5	27.8	24.8
Households and NPISH	44.9	43.7	42.9	44.9	44.5	46.6	48.2	47.8	46.5	44.7	45.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BNR, Monetary Statistics Department

2.4.2. Banking system liquidity developments

The banking system liquidity conditions improved during the third quarter of 2017 compared to the same quarter of the preceding year. Commercial banks' most liquid assets consisting cash in hand and short-term investments in money markets soared by 31.6 % standing at FRW 301.6 bn in 2017Q3 from FRW 229.2 bn recorded in Q3 2016. Comparatively to their levels in the previous quarter, they decelerated by 2.4 % on seasonal factor.

The aforementioned improvement was mainly explained by the observed less demand on foreign exchange market in 2017, as the central bank sold USD 215.8 million which is equivalent of FRW 178.9 billion in nine months of 2017 versus USD 260.0 million sold during the same period of last year which is equivalent of FRW 203.3 billion. This was the result of good performance in external sector, as exports increased by 47.0%, while imports fell by 5.4% between January and September 2017. There was also liquidity injection through foreign exchange swap transactions amounting to USD 28.7 million which is equivalent of FRW 23.8 billion during nine months of 2017 from USD 16.5 million equivalent of FRW 12.6 billion during the same period in 2016. Additionally, the subdued growth in loans to the private sector also provided the room of keeping more money in short-term investments.

Table16: Most liquid assets of commercial banks (FRW billion)

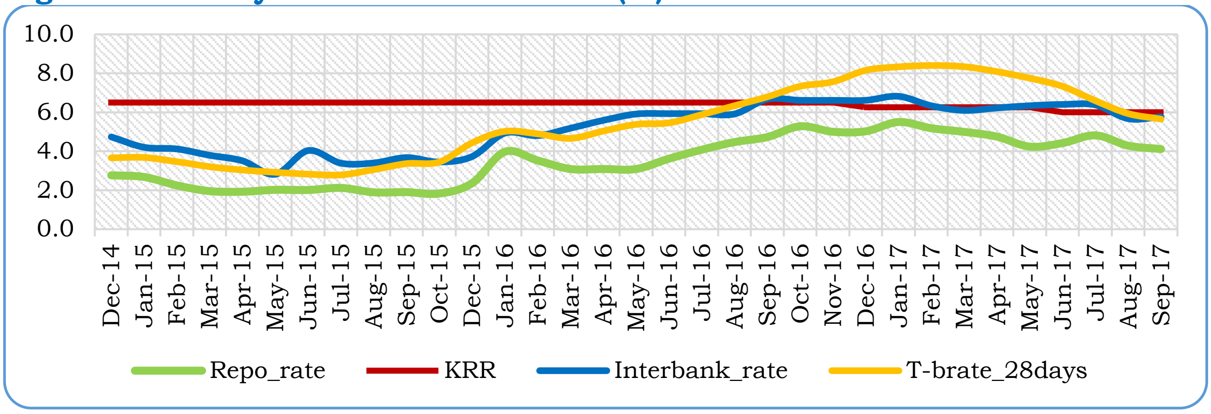
	2015	2016				2017			% change	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3-17/ Q3-16	Q3-17/ Q2-17
T-bills	225.1	232.7	214.0	180.3	177.7	192.3	207.9	245.0	35.9	17.8
Repo	26.5	15.0	34.0	0.0	30.5	21.0	60.4	13.0	-	-78.5
Excess reserves	17.1	20.7	31.7	20.5	24.5	14.8	9.9	15.2	-25.9	54.2
Cash in vault	34.2	30.5	32.0	28.3	30.8	31.4	30.9	28.4	0.3	-8.1
Total	**302.9**	**298.8**	**311.7**	**229.2**	**263.6**	**259.5**	**309.1**	**301.6**	**31.6**	**-2.4**

Source: BNR, Monetary Policy & Research Department

2.4.3 Interest rates developments

In tandem with the liquidity situation and monetary stance, money market interest rates have been decelerating and staying close to key repo rate (KRR) as result of much efforts of proactive management of liquidity by Financial Market Operations Committee (FMOC). Repo, 28-days T-bills and interbank rate respectively decreased to 4.11%, 5.65% and 5.76% in September 2017 from 4.73%, 6.79% and 6.67% in September 2016.

Figure 15: Money market interest rates (%)



Source: BNR, Monetary Policy and Research Department

With regard to commercial banks interest rates, weighted average lending interest rate decreased to 17.41% in 2017Q3 from 17.53% in the same quarter of 2016. During the same period, weighted average deposit interest rate declined on average to 7.73% from 8.0.4% during the same period. However, the spread between the two stayed relatively high on account of persistent structural problems in the banking sector such as high operating costs and high non-performing loans.

Table 17: Market interest rates (% average)

	2012	2013	2014	2015	2016	2017		
						Q1	Q2	Q3
Lending	16.70	17.32	17.26	17.33	17.29	17.03	17.11	17.41
Deposit	8.85	9.93	8.24	8.24	7.91	7.48	8.11	7.73
Spread	7.85	7.39	9.02	9.09	9.38	9.55	9.00	9.68

Source: BNR, Monetary Policy and Research Department

2.4.4 Outlook for Liquidity conditions

In 2017Q4, money supply is projected to increase above the 2017Q3 level as result of more foreign inflows and taxes that will boost the net injection of government. New authorized loans and liquidity in general are projected to continue increasing in 2017Q4 due to the prevailing accommodative monetary policy and the festivities of end year. However, these expected developments in monetary aggregates are not expected to exert pressures on inflation.

2.4.5 Financial stability analysis

In 2017Q3, the banking sub sector continued to dominate the Rwanda's financial sector and remains resilient and stable as evidenced by the performance indicators. In particular, the ended quarter left the banking sector profitable and capitalized as compared to corresponding quarter of 2016. The Herfindahl Hirschman index (HHI) stands at 0.15 well below 0.18 which indicates that the Rwandan financial market concentration and competitiveness are moderate.

Total assets of the banking sector stood at FRW 2,631 billion as at end 2017Q3, indicating an annual increase of 17.1% above 9.7% registered in 2016Q3. To larger extent, the increase is attributable to credit demand due to improving economic activities (from slowdown of 1.7% in 2017Q1) despite increasing credit risk with NPLs standing at 8.3% up from 7.5% in 2016Q3. The growth in stock of government securities held by banks stood at FRW 276.8 billion, showing an increase by 20.8% mainly supported by short term government securities which grew by 44.7%.

Table 18: Banking sector performance (in billions FRW)

	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	y-o-y change 2017Q3
Total assets(net)	2,278	2,247	2,378	2,4312	2,572	2,631	17.1
Total deposits	1,507	1,437	1,530	1,580	1,674	1,679.3	16.9
Loans (on balance sheet)	1,323	1,392	1,403	1,468	1,513	1,538	10.5
Profit after tax	19.4	31.9	38.3	11.1	21.5	37.4	17.2
Government Securities	246.7	229.2	206.5	209.1	227.7	276.8	20.8

Source: BNR, Financial Stability Directorate

Regarding the banks' main asset funding sources, deposits amounted to FRW 1680 billion out of which the short term deposits accounted for around 85%, while the long term deposits covered the remaining 15%. On annual basis, deposits grew by 16.9% higher than 3.7% growth recorded in 2016Q3. The higher growth in bank deposits is attributable to 19.8% increase in demand deposits from 0.6% that had been recorded in 2016Q3 together with growth of 12.8% in term deposits though decelerated from 13.1% registered in 2016Q3. In fact due to investment substitution, both individuals and non-bank institutions which are considerably the banks' large depositors used their term deposits to invest mainly in long term government securities. In turn, this is evidenced by slowdown in growth of banks term deposits to 12.8% (declined to 40.3 % share of the total deposits) from 13.1 % increase or 41.8 % of the total deposits.

Concerning the soundness of the sector, banking sector remains adequately capitalized, with the capital adequacy ratios above their minimum requirements. Capital adequacy ratio (CAR) in particular stood at 22.2%, well above the BNR's minimum regulatory requirement of 15%. This is evidenced by the level of excess capital of FRW 132 billion held by banks which implies the sufficiency of banks' capital buffers to withstand unexpected adverse shocks.

Similarly, the period under review left the banking industry more liquid. On consolidated basis, the banking liquidity ratio stood at 38.9%, almost doubling the minimum prudential liquidity ratio of 20%. This buffer provides the assurance of the depositors' protection as well as the stability of the banking system. Nonetheless, the available liquidity indicators show that gross loans to total deposits ratio in 2017Q3 stood at 101.5 %. This high level of loans ratio has no impact on stability of banking liquidity but rather implies that banks do have other loan financing sources.

The banking sector's net income after tax stood at FRW 37.4 billion in 2017Q3 up from FRW 31.9 billion in 2016Q3, reflecting an annual increase of 17.0% from a decline of 3.3% that had been recorded in 2016Q3. The income of banks were mainly supported by 25.1% increase in revenues from fees and commissions largely from good performance in revenues from government on-line services as well as from interest income on advances that grew by 5.7%. The growth rate of expenses of banks lowered to 5.0% from 13.0% in 2016Q3 following the moderate growth of both interest expenses and in other expenses while, the overhead expenses to income ratio reduced to 47.2% from 48.9% in 2016Q3.

Consequently, in 2017Q3, the banks' profitability showed an upward trend compared to 2017Q2 and 2016Q3, with Return on Equity (ROE) and Return on Assets (ROA) respectively increasing by 10.9% and 1.9%, higher than 9.6% and 1.7% recorded in 2017Q2. On year on year basis, ROE was above 10.0% registered in 2016Q3 by 0.9 basis points, while the increase in ROA maintained the same pace as of the corresponding period of 2016. In general, the positive growth of the banks' profitability facilitated the buildup of the capital buffer that eventually supported the banks credit supply as presented in the following table:

Table 19: Key Financial soundness indicators, (in %)

Indicator	2016				2017		
	Q1.	Q2.	Q3.	Q4.	Q1	Q2	Q3
Solvency ratio (total capital)	24.9	23.3	22.2	21.9	21.2	20.7	22.2
NPLs / Gross Loans	6.2	7.0	7.5	7.6	8.1	8.2	8.3
NPLS net of interests/Gross loans	5.2	5.9	6.0	5.6	6.3	6.4	6.9
Provisions / NPLs	46.0	42.7	43.4	42.7	44.4	44.9	43.9
Large Exposures / Gross Loans	22.6	25.6	29.9	31.7	33.1	34.6	35.0
Return on Average Assets	1.9	1.7	1.9	1.7	1.8	1.7	1.9
Return on Average Equity	9.8	9.2	10.0	8.8	10.1	9.6	10.9
Overhead to Income	49.1	49.9	48.9	49.9	49.0	48.2	47.9
Liquid assets/total deposits	43.9	42.8	42.3	41.7	42.6	39.0	38.9
Gross Loans / Total Deposits	103.4	106.2	112.3	109.1	110.8	108.4	101.5
Forex exposure/core capital (min/max 20 %)	-5.7	-6.7	-1.8	-6.3	-3.5	-4.4	-4.3

Source: BNR, Financial Stability Directorate

Nonetheless, the quality of banks loan book deteriorated compared to the corresponding quarter of 2016. Non-performing loans ratio (NPLs) increased by 8.3% from 7.5% in 2016Q3 and 8.2% recorded in the preceding quarter. The increase in NPLs mainly resulted from poor project assessment, inadequate credit monitoring, subdued economic performance as well as the awkward disbursement of loans by banks.

The foreign exchange exposure as a measure of market sensitivity remained within the prudential limits in 2017Q3 whereby -4.3% of net open position recorded remains within the regulatory limits of +/- 20%. In other words, in 2017Q3, the ratio to foreign currency loans to foreign currency deposits remains at 47.2% in 2017Q3.

2.4.6 Financial stability and outlook

The quarter under review left the banking industry profitable and capitalized compared to the same period of 2016. To ensure the future quality of bank assets, BNR is committed to continue engaging with banks in matters relating to strengthening of the credit underwriting and monitoring processes. In addition, the long term sources of funds for banks is likely to improve, enhanced by several mechanisms being undertaken to boost saving culture.

III. INFLATION DEVELOPMENTS

3.1 Current Inflation Developments

In line with the expectations, headline inflation eased from 6.2% in 2017Q2 to 3.5% in 2017Q3 on average. The decrease was mostly driven by food prices and transport costs whose inflation declined from 13.3% to 7.4% and from 5.4% to 1.3% in the same period respectively. The decline in inflation was also reflected in both imported inflation and domestic inflation, which fell from 6.9% to 3.9% and from 6.0% to 3.4% during the same period respectively. Inflation of other main components, such as housing inflation remained moderate, standing at 1.7% in 2017Q3 from 1.8% in 2017Q2.

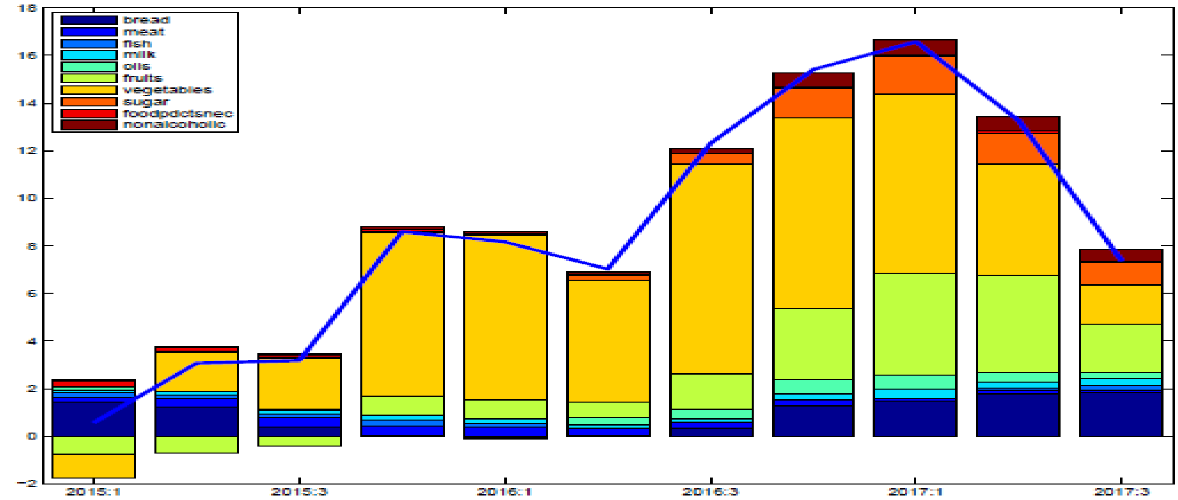
Table 20: Inflation developments for key items (annual % change)

	2016						2017								
	Jul	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Headline	**6.9**	**6.4**	**5.8**	**7.4**	**6.4**	**7.3**	**7.4**	**8.1**	**7.7**	**7.3**	**6.5**	**4.8**	**3.5**	**3.2**	**3.8**
Domestic	7.5	6.8	5.9	7.8	6.0	7.1	7.1	7.9	7.3	7.2	6.4	4.3	3.3	3.1	3.8
Food:	13.8	12.0	11.2	16.3	13.5	16.4	16.2	17.6	16.1	15.8	14.3	9.8	6.9	6.9	8.5
- Vegetables	30.8	24.6	18.8	26.7	18.2	22.2	21.7	23.1	18.4	18.3	16.2	5.3	1.2	2.9	9.5
Alcoholic	5.1	0.1	0.2	-0.4	0.5	2.0	2.8	6.6	7.5	8.4	8.6	8.6	9.4	9.0	8.9
Education	1.7	1.7	2.3	2.3	2.3	2.3	0.9	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-1.4
Housing	2.8	3.0	0.9	1.3	1.0	1.4	1.4	2.1	2.5	2.2	1.8	1.5	1.8	0.9	2.4
Transport	8.7	8.6	8.7	7.9	7.5	7.7	8.3	8.3	8.9	6.1	5.4	4.6	1.0	1.2	1.5
Imported	5.2	5.5	5.6	6.3	7.7	7.9	8.4	8.8	9.1	7.4	6.8	6.4	4.2	3.7	3.7
Core	**4.2**	**4.5**	**4.8**	**5.3**	**5.0**	**5.3**	**5.5**	**5.6**	**5.4**	**4.8**	**4.9**	**4.0**	**3.6**	**3.2**	**2.6**
Energy	6.0	6.0	-0.3	0.7	1.7	2.6	1.2	4.6	6.9	6.1	4.0	5.6	3.0	0.8	6.9

Source: BNR, Monetary Policy & Research Department

Except bread and cereals inflation that slightly picked up from 9.6% to 9.9%, inflation of other major food items declined, with vegetables inflation dropping from 13.2% in 2017Q2 to 4.5% in 2017Q3, fruits and sugar inflation decreasing from 34.2% to 17.3% and from 31.2% to 22.6% in the same period respectively. Food prices reduced following the increase in food supply corresponding with the season C 2017 in Rwanda and in neighboring countries.

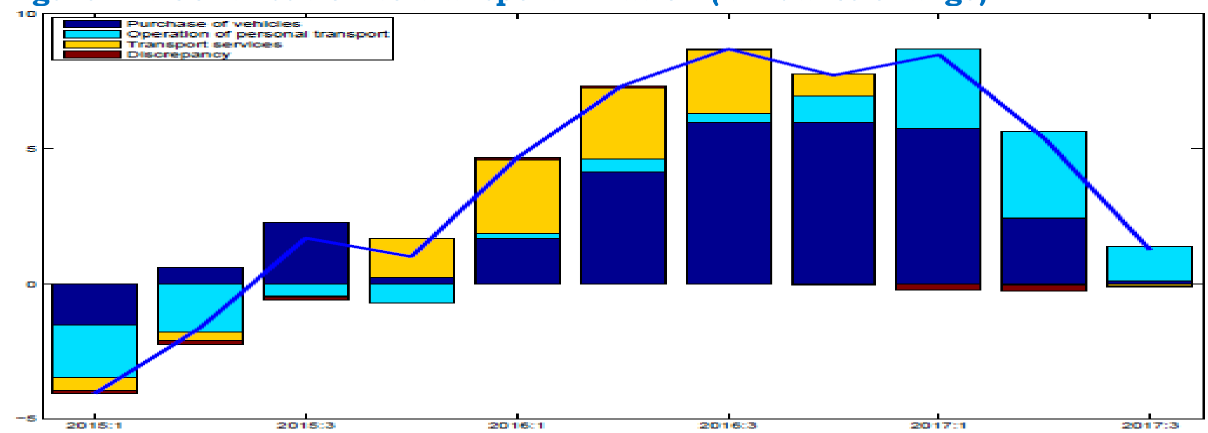
Figure 16: Contribution to food inflation (annual % change)



Source: BNR, Monetary Policy & Research Department

The ease in transport inflation was reflected in cars and operations of personal transport inflation. Cars inflation dropped from 6.2% in 2017Q2 to 0.2% in 2017Q3 in line with the ease in exchange rate pressures. Personal transport inflation fell from 11.9% in 2017Q2 to 4.7% in 2017Q3 as a result of the reduction in local pump prices in July and August though the prices bounced up again in September 2017.

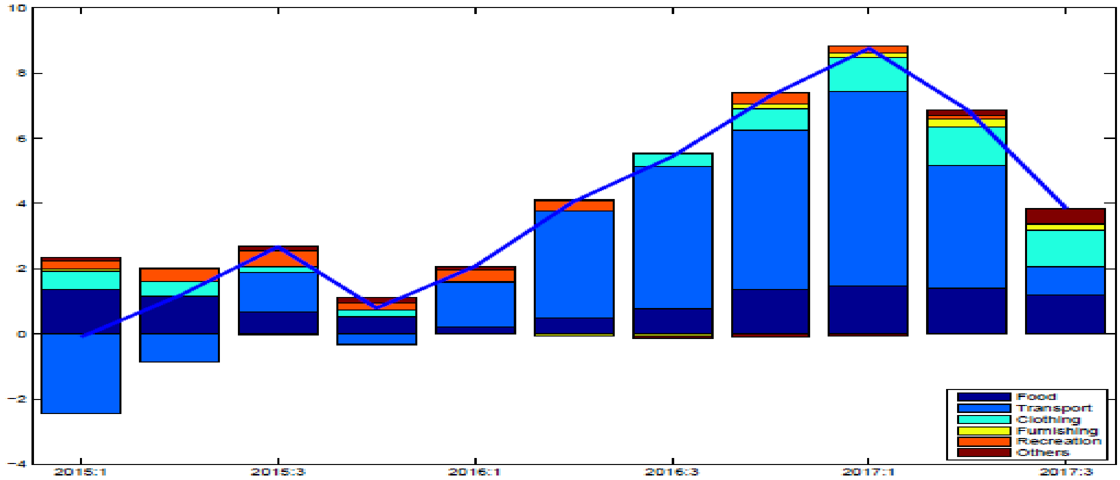
Figure 17: Contribution to transport inflation (annual % change)



Source: BNR, Monetary Policy & Research Department

Imported inflation eased further in 2017Q3, standing at 3.9% from 6.9% in 2017Q2. This was reflected in imported transport inflation especially due to reduced exchange rate pressures. At the same time domestic inflation dropped from 6.0% to 3.4%, following the trend in domestic food prices as mentioned before.

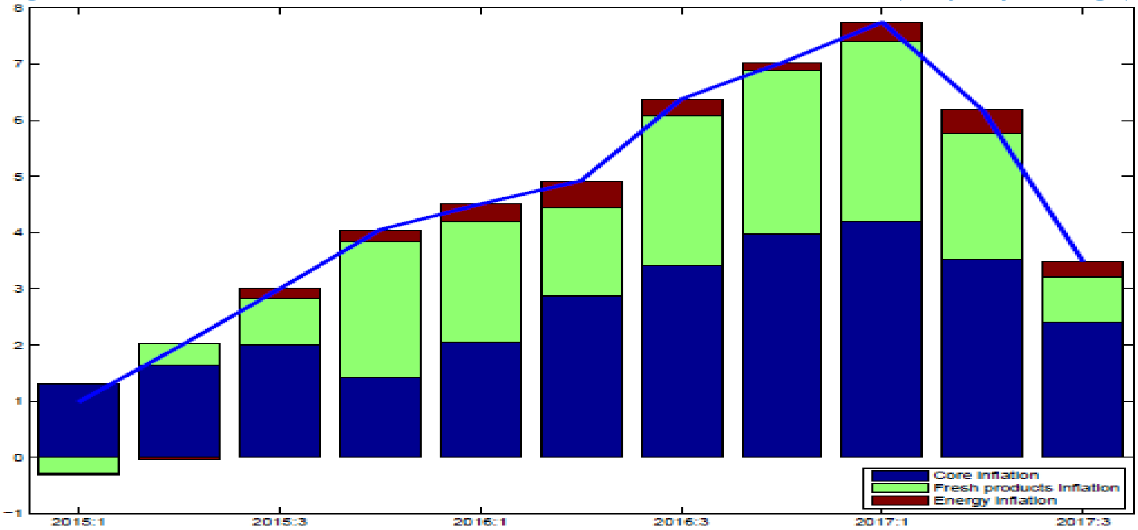
Figure 18: Contribution to imported inflation (annual % change)



Source: BNR, Monetary Policy & Research Department (2017)

Core inflation decreased from 4.6% in 2017Q2 to 3.1% in 2017Q3, consistent with the prevailing level of aggregate demand, the small decrease in prices of some products classified as core, the effect of tariffs, the second round effect of energy and food prices as well as the ease in exchange rate pressures.

Figure 19: Contribution of core & non-core to headline inflation (%, y-o-y change)



Source: BNR, Monetary Policy & Research Department

IV. INFLATION OUTLOOK AND RISKS

4.1 Demand-side pressures

The Rwandan economic growth picked to 4.0% in 2017Q2 from 1.7% in 2017Q1. The trend of turnovers and CIEA indicate that the economy continued to perform well in 2017Q3. However, growth is likely to be weighed down by the fact that public construction projects are estimated not to be as high as they were in 2016/17. External demand is also expected to pick up as the global economy continues to improve, thus leading to an increase in commodity prices and positively affecting Rwanda's export receipts and import bill. In view of the above, the output gap is expected to remain negative until 2019, indicating subdued demand-side inflationary pressures.

4.2 Supply shocks

As expected, the improvement in weather conditions has led to the ease in food inflation and this is expected to continue until the end of 2017. The effect of the July 2016/17 fiscal year increase in tariffs is also fading as no further increases were observed in the 2017/18 financial year, thus helping to reduce supply-side inflationary pressures. Though showing an upward trend, international oil prices have remained below 50 USD/barrel and thus exerting muted pressures on domestic pump prices. If supply conditions remain favorable, inflation is expected to remain subdued until the end of 2017 given that these supply-side pressures have always been the main drivers of inflation in Rwanda.

4.3 Exchange rate developments

Pressure on the Rwandan Franc continued easing, owing to the improvement in Rwanda's export receipts in line with the continued recovery in international commodity prices, especially mining and tea.

Moreover, the import bill is declining due to increased domestic production of goods such as cement that previously required a lot of forex to import, the Made-in-Rwanda initiative and the phasing out of some major construction projects. By end September 2017, relative to December 2016, the FRW slightly depreciated by 2.2% against the USD compared to a depreciation of 8.4% in the corresponding period of 2016. However, the depreciation was higher in nominal effective terms, standing at 3.5% end September 2017 compared to a depreciation of 11.8% end September 2016 and thus being the main factor behind the FRW real effective exchange rate depreciation of 3.8%, compared to 8.3% of the corresponding period in 2016.

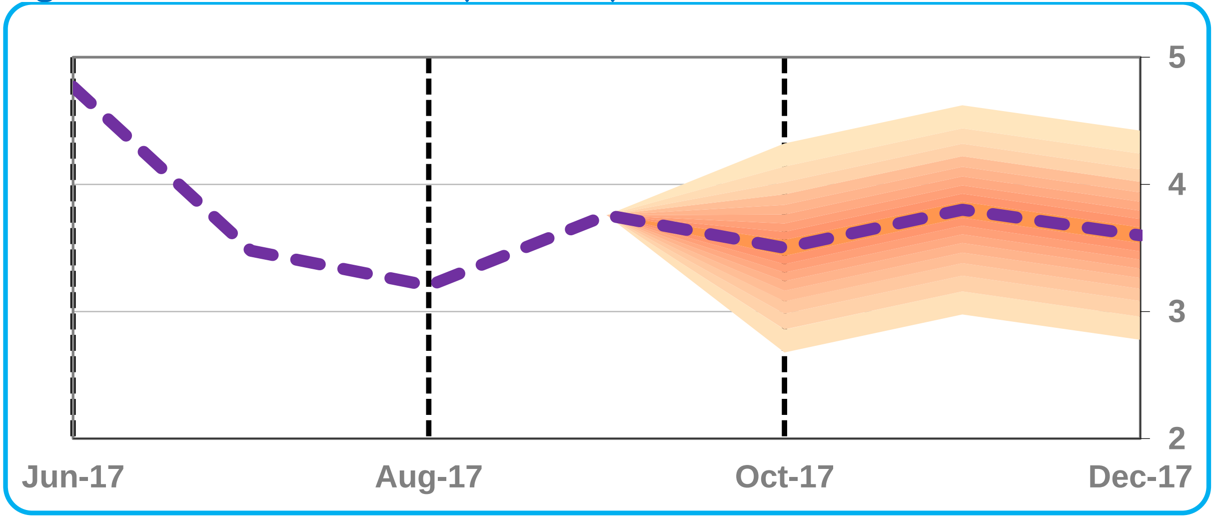
4.4 Global and regional inflationary pressures

Despite the continued improvement in global demand and the observed uptick in international commodity prices, global inflation generally remains subdued. The outlook in major economies indicates that inflation is broadly expected to remain below but close to the target of 2%. Such subdued inflationary pressures point to a continuation of the accommodative monetary policy stance, at least in the near-term.

4.5 Inflation forecasts

At the moment, Rwanda's inflation outlook is dominated by downside factors. Both supply-side and demand-side inflationary pressures are expected to remain muted for the remaining months of 2017. Firstly, the ease in exchange rate pressures is expected to have a downside impact on imported inflation. Secondly, the improvement in weather conditions has led to the progressive improvement in food supply, thus exerting downside pressures on inflation. Thirdly, aggregate demand remains subdued and likely to remain so in line with the anticipated level of construction projects. Fourthly, no pressures are expected from the external environment as global inflation and international commodity prices remain low. In view of the above, the end-December headline inflation is expected to be around 4.0%.

Figure 20: Inflation forecasts (fan chart)



Source: BNR, Monetary Policy & Research Department