National Bank of Rwanda
Banki Nkuru y'u Rwanda

P.o. Box 531 Kigali - Rwanda
Tel: (+250) 252 59142200 /
252 59142231 (30 Lines) /
0788172200 / 0788172231 (30 Lines)
Fax: (+250) 252 572551 / 252 577391
E-mail: info@bnr.rw
Website: www.bnr.rw

Monetary Policy & Research Department

MPC:

Recent Economic Developments and Monetary Policy Orientation in Q4 2014

30th September 2014

CONTENTS

I. OVERVIEW OF GLOBAL ECONOMIC ENVIRONMENT

1.1 ECONOMIC GROWTH

Despite persistent downside risks related to rising geopolitical concerns and to tightening financial markets, the world economic activity is expected to further increase in 2014Q3 driven mainly by gradually improving economic activity in developed and in some emerging countries. Global real GDP is estimated to grow year-on-year by 2.8% in 2014Q3 after 2.3% in 2014Q2.

Real GDP growth in advanced economies is projected to reach 1.8% in 2014 and 2.4% in 2015 from 1.3% in 2013, led by expected good performance in USA and in United Kingdom.

Table 1: Economic growth developments (in %)

	Quarterly (BLOOMBERG)					Annual (IMF)	
	2013		2014				
	Q.III	Q.IV	Q.I	Q.II	Q.III	2013	2014
World (Y0Y)	2.6	2.6	1.9	2.3	2.8	3.2	3.4
USA (QoQ)	4.5	3.5	-2.1	4.2	3.0	1.9	1.7
Euro area (YoY)	-0.3	0.5	1.0	0.7	0.9	-0.4	1.1
Japan (QoQ)	1.8	-0.5	6.0	-7.1	2.7	1.5	1.6
UK (YoY)	1.8	2.7	3.0	3.2	3.0	1.7	3.2
China (YoY)	7.8	7.7	7.4	7.5	7.4	7.7	7.4
India (YoY)	5.2	4.6	4.6	5.7	5.2	5.0	5.4

Source: Bloomberg & IMF WEO, July 2014.

In emerging and developing economies, growth is expected to slightly decelerate to 4.6% by end 2014 from 4.7% in 2013 mainly due to rising vulnerabilities and weak global demand that will affect commodity exporting countries. It is however expected to rebound to 5.2% in 2015. In Asia, growth stayed robust driven by China and India despite some moderation in the Chinese economy with an expansion of 7.5% in the 2014Q2. Chinese growth rate is estimated to decrease to 7.4% for 2014Q3 due to weak performance in real estate and heavy industry sector.

In Sub-Saharan Africa, the economy is projected to grow by 5.4% and 5.5% respectively in 2014 and 2015 from 5.4% and 5.1% respectively in 2013 and 2012 supported mainly by strong domestic demand on the back of massive investments in mining and infrastructure (IMF, WEO April 2014).

1.2 INFLATION AND COMMODITY PRICES

Global inflation remains subdued on the account of the softening in international commodity prices, especially fuels and foods. In advanced economies, the low inflation is generally driven by low economic activity which remains below potential output. In 2014Q3, inflation slid to 0.4% in the Euro area from 0.57% in 2014Q2 as result of falling agricultural prices and Euro appreciation. In USA, annual inflation stood at 2%, slightly lower compared to 2.1% recorded 2014Q2. Similarly, annual inflation in Japan slightly reduced to 3.3% in 2014 Q3 from 3.57 % in 2014Q2.

In EAC, headline inflation has remained moderate since 2013 on the back of positive performances in agriculture sector. While inflation continues to decelerate in Uganda and Rwanda, Kenya, Burundi and Tanzania have registered a slight increase in inflation in 2014Q3.

Table 2: Annual headline inflation in EAC countries, in %

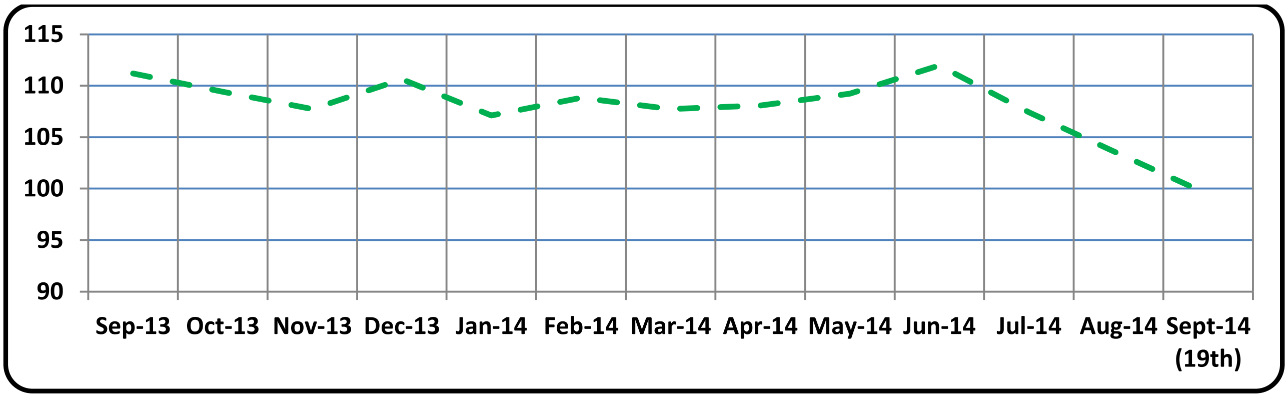
	2014			
	Q1	Q2	July	Aug.
Uganda	7.1	5.0	4.3	2.8
Kenya	6.3	7.4	7.7	8.4
Tanzania	6.1	6.4	6.5	6.7
Burundi	3.8	3.3	3.1	5.9
Rwanda	3.4	1.4	1.9	0.9

Source: Central Banks Websites

On commodity markets, despite a slight increase observed in 2014Q2, commodity prices are projected to decline in 2014Q3 as the global demand remains weak. Energy prices fell due to weak demand and improved supply and as a result, Brent prices declined by 4.1% in July compared to June 2014 averaging USD 107.4/barrel and further fell by 3.7% in early August 2014 compared to July 2014.

Non-fuel commodity prices are expected to continue falling in 2014 (-1.7% from a drop of 1.2% in 2013) whereas metals prices are projected to further drop in 2014 by 6.8% from a decline of 3.5% and 14.3% in 2013 and 2012 respectively. In addition there are signs of better agricultural production except for coffee whose production is expected to reduce particularly in Brazil, the world biggest producer.

Figure 1: Developments in Brent Prices (USD/Barrel)



.

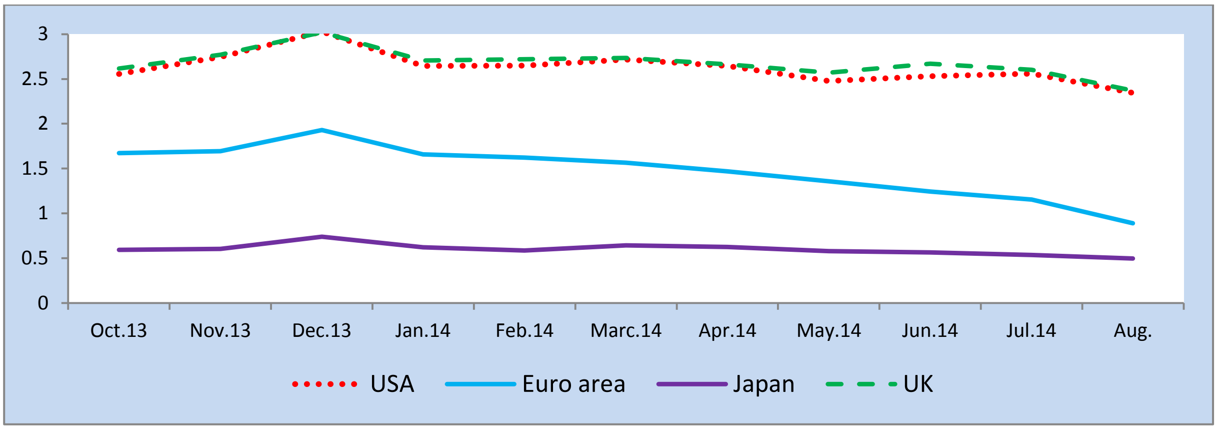
Source: IMF website

1.3 FINANCIAL MARKETS

Monetary policy in many countries remained accommodative to boost economic activities. In the Euro area, on 10th September 2014, the ECB further reduced its policy rate from 0.15% to 0.05% and revised down to -0.2% its deposit facility from -0.1% held in June 2014 to boost the faltering European economic recovery and to shift inflation closer to the objective. Additional policy stimulus includes targeted longer-term refinancing operations and future outright purchases of assets-backed securities among others. Central bank rates remained at 0.25% in USA, 0.50% in UK and 0.10% in Japan.

Ten (10)-year interest rates have been declining since the beginning of this year in all the major economies following geopolitical tensions and due to mixed economic data releases especially in USA and Euro area. However, monetary policy in the US is expected to tighten as high employment and rising inflation are sufficient for the Fed to continue its tapering program that policymakers expect to conclude by October with US 15 billion taper for long-term treasury and this will have repercussions in form of capital flight and currency depreciations in some emerging economies.

Figure 2: 10-year Government Bond interest rates (in %)



Source: Bloomberg

On the foreign exchange market, the dollar weakened versus the Pound (0.6%), the Yen (2.0%) and the Euro (0.2%) in 2014 Q1. In 2014 Q2, the dollar recovered by 0.6% versus the Euro supported by a relative economic growth and a continuous accommodative monetary policy in USA, but continued to depreciate versus the Yen (1.8%) and the GBP (2.7%). The Yen was supported by strong trade surplus and the policy stimulus in Japan while the GBP was supported mainly by strengthening economic outlook and rising interest rate differentials compared to the Euro area. During July and August 2014 the dollar remained strong and appreciated by 1.5% and 1.2% versus the Yen, 2.2% and 1.9% versus the Euro and by 1.3% and 1.7% against the Pound.

II. NATIONAL ECONOMIC PERFOMANCE

2.1 REAL SECTOR PERFORMANCE

After a slowdown in real GDP growth in 2013, Rwanda's economy started to recover in 2014Q1 and is expected to reach 6.0% growth rate projected for the year 2014.

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

	2012				2013				2014	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	**8.9**	**11.1**	**7.3**	**8.1**	**4.7**	**7.4**	**2.9**	**4.1**	**7.5**	**6.1**
Agriculture	**7**	**8**	**3**	**9**	**6**	**7**	**1**	**-1**	**5**	**5**
Food Crops	10	10	5	5	7	7	1	1	6	6
Industry	**3**	**10**	**10**	**10**	**13**	**14**	**9**	**3**	**9**	**5**
Manufacturing	9	7	3	5	5	6	5	3	7	5
Construction	-1	16	24	0.2	21	16	9	0	8	5
Services	**12**	**15**	**10**	**9**	**4**	**6**	**4**	**7**	**9**	**9**
Wholesale & retail trade	17	20	14	7	3	7	2	11	12	10
Financial services	1	20	-4	39	15	19	6	7	4	3
Real estate activities	2	3	-3	-3	-3	-3	4	5	9	3

Source: National Institute of Statistics of Rwanda

In 2014Q2 the economy continued the growth momentum as reflected in the table above. In Q3, the economy is expected to continue to recover as affirmed by the leading indicators of economic activities such as turnovers of industry and service sectors, composite index of economic activities and credit to the private sector.

Total turnovers of industry and services sectors for the period of April to June 2014 and July to August 2014 rose by 20.1% and 13.5% compared to 15.6 and 9.6 registered during the same period of 2013 respectively bolstered by services sector which contributes 72.7%. Services sector sales grew by 22.4% and 16.2% from 14.2% and 4.2% mainly driven by trade services which grew by 20.6% and 26.9% from 12.5% and -3.2% in the same period of 2013 respectively.

Table 4: Turnovers for the industry and services sectors (in %, y-o-y)

	2013Q1	2013Q2	2013 Jul.-Aug.	2014Q1	2014Q2	2014 Jul.-Aug.
INDUSTRIES	11.2	19.1	24.2	13.0	14.6	7.3
Manufacturing	3.6	7.8	6.8	18.8	13.1	7.6
Energy	12.1	21.5	20.4	-1.0	9.1	9.7
Mining	74.0	106.8	160.3	0.1	3.1	-5.8
Construction	1.5	5.8	9.3	15.8	27.2	18.8
SERVICES	12.7	14.2	4.2	12.5	22.4	16.2
Trade Services	11.5	12.5	-3.2	17.6	20.6	26.9
Banks & Insurance companies	24.1	36.8	22.1	14.2	11.8	9.2
Posts & Telecommunication.	7.8	16.8	17.1	12.4	101.1	4.3
Other Services	-9.0	-12.1	-9.0	5.1	3.6	8.3
TOTAL TURNOVERS	12.3	15.6	9.6	12.6	20.1	13.5

Source: BNR, Statistics Department

The developments in CIEA also indicate an increase in economic activities during the first two months of 2014Q3, rising in real terms by 10.1% from 6.9% in the same period of 2013.

Table 5: CIEA (% change, y-o-y)

	Nominal CIEA	Real CIEA
January - June 2013	7.2	4.6
July- December 2013	4.1	0.3
July- Aug 2013	8.6	6.9
January - June 2014	9.7	6.4
July- Aug 2014	15.4	10.1

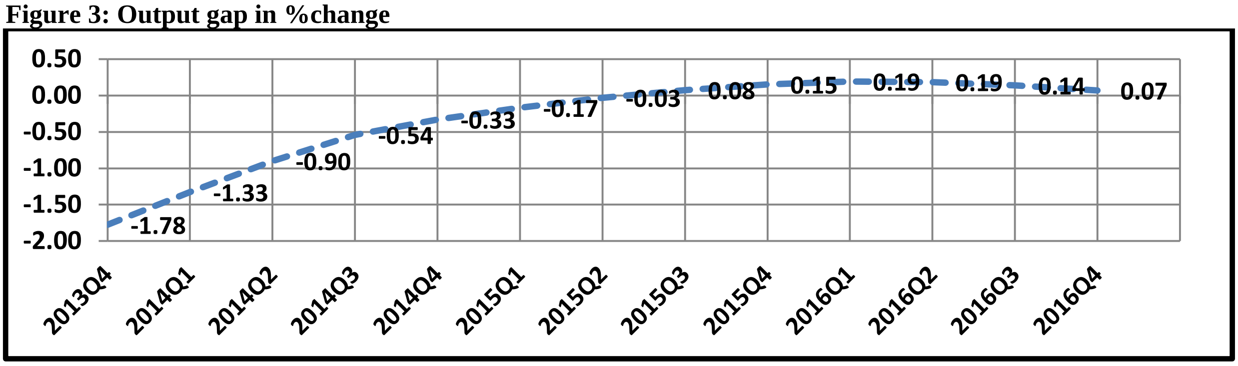
Source: Monetary Policy and Research Department

Developments in real sector activity were supported by accommodative monetary policy as well as expansionary fiscal policy compared to 2013. New loans to private sector increased to FRW 325.7 billion by the end of June 2014 after FRW 220.4 billion by the end of June 2013 (+47.8%) whereby new loans in 2014Q2 solely rose by 29.9% from 1.6% in 2013Q2. Considering the first two months of 2014Q3, total new loans rose by 36.7% from -15.5% in the same period of 2013 while between December 2013 and August 2014, it grew by 45.1% from -13.2% recorded in the same period of 2013. In the same context, the outstanding loans grew by 11.7% by the end of August 2014 against 7.6% registered in the same period of 2013.

In addition, government expenditure, especially capital expenditure and expenses for purchases for goods and services rose by 23.3% and 11.7% in fiscal year 2013/14 respectively after 29.4% and -21.5% in fiscal year 2012/13 respectively.

To this end, with accommodative monetary policy stance stimulating credit to private sector along with expansionary fiscal policy, the economic growth is expected to continue recovering and the aggregate demand to improve from its level of 2013.

Figure 3: Output gap in %change



Source: Monetary Policy and Research Department

This recovery in aggregate demand is affirmed by trends in VAT collections, as a proxy of consumer spending. VAT collections rose from FRW 114.7 billion in first seven months of 2013 to FRW 161.0 billion for the same period in 2014 which represents an increase of 40.4%. However, this may be due to tax enhancing measures such as electronic billing.

However, the positive trend shown by the leading indicators of economic activity is likely to be offset by the anticipated poor agriculture production for the season 2014 B. Preliminary results from MINAGRI indicate that food crop production for season B 2014 declined by 6.3% as cumulative February-May 2014 rainfalls has further decreased by 24.7% from negative 17.1% in the same period of 2013. In addition, the fiscal injection is not yet enough to support the accommodative monetary policy to improve the aggregate demand.

2.2 EXTERNAL TRADE DEVELOPMENTS

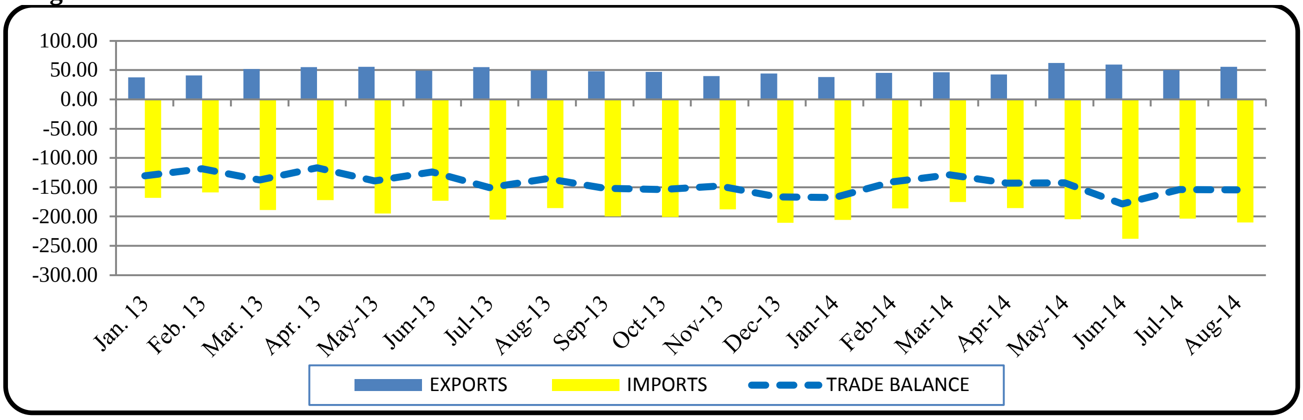
2.2.1 Trade Balance

In the first eight months of 2014, total exports slightly increased by 0.8% in value and 12.4% in volume, while imports increased by 11.1% in value and 1.3% in volume. As a result, trade deficit widened by 14.9% from USD 1,053.83 million in the first eight months of 2013 to USD 1,211.24 million in the same period of 2014. In the period under review, exports covered 24.7% of imports from 27.2% in the first eight months of 2013.

In 2014Q2, Rwanda's trade balance recorded a deficit of USD 464.35 million from USD 379.83 million in the corresponding period of 2013. Exports covered 26.1% of imports from 29.6% in 2013Q2. Including informal cross border, exports covered 30.2% of imports from 34.4% of imports in 2013Q2.

Considering the first two months of 2014Q3, total exports increased by 1.0% in value and 22.6% in volume, while imports increased by 6.0% in value and 2.4% in volume compared to the same period of 2013. The trade deficit widened by 7.8% from USD 286.14 million to USD 308.35 million and exports covered 25.5% of imports from 26.8% in the first two months of 2013Q3.

Figure 4: Trade deficit in millions of USD



Source: Monetary Policy & Research Department

2.2.1.1. Formal exports

During the first two months of 2014Q3, Rwanda's formal export sector was dominated by traditional exports (64.8%) followed by re-exports (19.7%) and other exports (15.6%). In this period, exports slightly increased by 1.04% compared to -2.88% recorded in the same period of 2013.

Table 6: Exports developments in % change

	Volume						Value					
	Jan. - Aug. 13/12	Jan. - Aug. 14/13	Apr. - Jun. 13/12	Apr. - Jun. 14/2013	July - Aug. 13/2012	July - Aug. 14/13	Jan. - Aug. 13/12	Jan. - Aug. 14/13	Apr. - Jun. 13/12	Apr. - Jun. 14/13	July - Aug. 13/12	July - Aug. 14/13
EXPORTS	**11.40**	**12.36**	**39.17**	**-3.48**	**-18.07**	**22.58**	**28.92**	**0.83**	**72.71**	**2.44**	**-2.88**	**1.04**
Coffee	40.35	-18.34	53.73	-20.56	-13.93	5.43	7.71	-1.41	23.49	-10.33	-41.37	73.23
Tea	-2.40	4.01	14.08	8.13	-6.05	0.77	-10.42	-9.74	-2.50	-4.35	-22.09	-8.38
Minerals	**23.88**	**14.38**	**51.14**	**5.15**	**34.80**	**14.76**	**77.62**	**-16.19**	**123.79**	**-26.72**	**98.03**	**-10.08**
Tin	0.75	33.58	28.77	35.61	8.53	38.08	8.51	29.63	34.85	42.37	7.53	51.78
Coltan	122.79	-11.71	170.16	-30.28	159.93	-4.88	183.76	-35.52	266.58	-47.78	205.46	-24.42
Wolfram	21.82	2.31	26.49	-15.31	12.50	-11.46	6.57	-9.34	18.73	-37.21	1.31	-26.57
Hides and Skins	-8.46	2.71	32.56	-11.59	-43.00	-27.25	1.13	-2.80	56.80	-15.87	-38.39	-45.64
Pyrethrum	-38.30	-45.61	-17.83	-6.61	-99.33	-3.17	-41.78	-61.91	-22.62	-26.80	-99.41	-15.56
MAIN EXPORTS	**9.24**	**-0.71**	**30.59**	**-2.30**	**-14.36**	**-0.38**	**35.92**	**-13.48**	**69.83**	**-21.40**	**15.43**	**0.26**
Re-exports	62.61	37.23	172.28	-4.87	58.98	-5.04	29.51	33.30	117.48	66.36	-5.14	-4.17
Other export	-12.16	2.42	6.81	-2.97	-39.89	52.74	-8.76	11.27	40.77	1.12	-43.02	12.41

Source: Statistics Department

In mining sector, cassiterite exports performed well due to the increase in unit price (9.9%) from USD 10.97/Kg in the first two months of 2013Q3 to USD 12.06/kg in the two months of 2014Q3 while considering the first eight months of 2014, the unit price declined by 3% from USD 12.74/Kg recorded in 2013 to USD 12.36/Kg in 2014. Coffee exports recovering over the first two months of 2014 as a result of the increase prices by 64.3% from USD 2.55/Kg in 2013 to USD 4.19/Kg in 2014.

2.2.1.2. Formal imports

During the first eight months of 2014 and 2014Q2 Rwandan imports recorded an increase in value (11.1% and 16.48% respectively) and volume (1.28 % and 4.3% respectively) compared to the same period of 2013. In the period July-August 2014, imports increased also both in value and volume by 6.0 % and 2.4% respectively. The increase in volume of imports is due to an increase in consumer goods (12.0%) mainly due to the increased demand for sugar and sweets as a result of low domestic production, which decreased by 9.2% in 2014Q2, as KABUYE SUGAR WORKS closes during the second quarter for maintenance of machinery.

Table 7: Imports developments in % change

	Volume						Value					
	Jan. - Aug. 13/12	Jan. - Aug. 14/13	Apr. - Jun. 13/12	Apr. - Jun. 14/13	July - Aug. 13/12	July - Aug. 14/13	Jan. - Aug. 13/12	Jan. - Aug. 14/13	Apr. - Jun. 13/12	Apr. - Jun. 14/13	July - Aug. 13/12	July - Aug. 14/13
Total imports	5.24	1.28	3.6	4.31	-2.64	2.38	-0.56	11.09	0.33	16.48	-5.1	5.96
Consumer goods	2.56	3.72	0.72	2.19	-11.73	12.01	2.62	10.07	-0.94	0.22	-11.01	14.5
Capital goods	-21.35	10.95	-14.97	14.33	-23.26	-4.82	-6.18	11.46	6.09	19.67	-9.49	6.1
Intermediary goods	9.33	-1.93	5.82	5.3	2.91	-3.56	-0.82	18.41	-7.16	45.11	2.49	-2.12
Energy and lubricants	5.32	4.71	4.77	6.94	5.74	5.13	4.32	0.04	2.25	0.89	66.88	7.06

Source: Statistics Department

2.2.3. Trade with EAC countries

Considering 2014Q2 and the first two months of 2014Q3, the formal trade within EAC countries improved, narrowing the trade deficit to USD 88.95 million in the first two months of 2014Q3 from USD 92.73 million recorded in the corresponding period of 2013. With regard to imports from these countries, a decrease of 3.0% from USD 107.85 million to USD 104.56 million in the first two months of 2014Q3 was recorded.

Table 8: Trade flow of Rwanda within EAC bloc (USD million)

	Jan-Mar 2013	Jan-Mar 2014	Apr-Jun. 2013	Apr-Jun. 2014	Jan.-Aug. 2013	Jan.-Aug. 2014	July-Aug. 2013	July-Aug. 2014	% change
Exports to EAC	32.38	30.39	38.18	55.12	85.67	101.12	15.11	15.61	3.3
Imports from EAC	113.80	118.86	125.24	129.49	346.89	352.91	107.85	104.56	-3.0
Trade balance	-81.42	-88.47	-87.07	-74.37	-261.22	-251.79	-92.73	-88.95	4.1

Source: BNR, Statistics Department

2.2.4. Informal cross-border trade

With regard to the informal cross-border trade, total exports decreased by 6.2% and amounted to USD 72.24 million in the first eight months of 2014 (representing about 18.2% of formal exports) from USD 77.00 million in the first eight months of 2013. Imports also decreased by 2.2% to USD 11.99 million from USD 12.25 million in the first eight months of 2013. Informal trade balance with neighbouring countries remains positive despite registering a deceleration of 6.9% (from USD 64.72 million in first eight months of 2013 to USD 60.25 million in the same period of 2014).

Table 9: Rwanda informal cross border trade (in USD million)

		Jan -Aug. 13	Jan -Aug. 14	July – Aug. 13	July – Aug. 14
Exports	Value in USD millions	76.97	72.24	20.85	19.79
	% change	14.97	-6.15	31.07	-5.05
	Share of total formal exports	19.5	18.16	19.9	18.72
Imports	Value in USD millions	12.25	11.99	2.95	3.09
	% change	-19.56	-2.17	-37.82	4.58
	Share of total formal imports	0.8	0.75	0.8	0.75
Trade balance		**64.72**	**60.25**	**17.89**	**16.7**

Source: Statistics Department

III. MONETARY SECTOR DEVELOPMENTS

During the first eight months of 2014, the National Bank of Rwanda continued to implement an accommodative monetary policy decided since June 2013 to support the country's economic financing. This has led to the increase in total liquidity measured by the broad monetary aggregates (M3). In line with this policy orientation, the outstanding credit to the private sector grew by 11.7% between December 2013 and August 2014 compared to 7.6% recorded in the same period of 2013.

3.1 INFLATION DEVELOPMENTS

Consistent with previous expectations, headline inflation has been maintained below the 5% target during the first eight months of 2014. On average, headline inflation decelerated from 4.0% in the first eight months of 2013 to 2.3% during the same period of 2014. In 2014, inflationary pressures from many components reduced and the main driver of the developments in inflation was food, housing, transport, education as well as restaurants and hotels as indicated in the graph below.

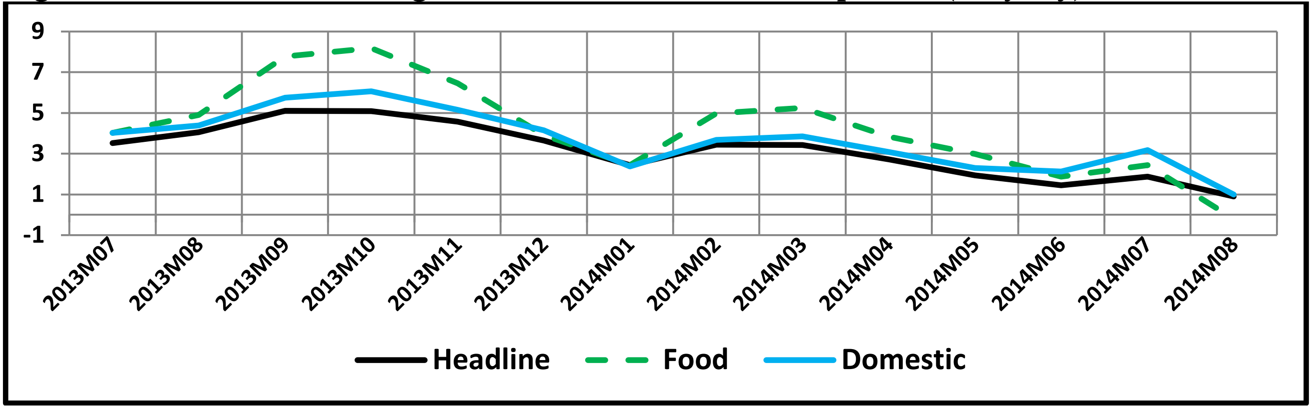
Figure 5: Contribution to Headline inflation

Source: BNR, Monetary Policy & Research Department

The main trends of inflation developments in 2014 can be divided into two parts. The first part covers the first three months (January-March) characterized by the rising trend of headline inflation mainly driven by the prices for food and hotels and restaurants. Other key contributors include education, clothing as well as alcoholic beverages and tobacco. The second part covers the period from April to August during which headline inflation is generally decelerating with a slight pickup up in July. This deceleration was mostly driven by easing food inflation and inflation from hotels and restaurants. The slight pickup in July is due to the small uptick in food prices from 1.9% to 2.4% and in prices for Housing, water, electricity, gas and other fuels from 0.8% to 1.2% as well as in prices of clothing and footwear from 4.5% to 7.5%. The decrease in inflation to 0.9% in August from 1.9% of the previous month was mainly due to the decline in food prices following good harvests of fresh foods, mainly vegetables during season C 2014.

Core inflation also declined on average to 2.4% in January-August 2014 from 4.3% realized during the same period in 2013. Imported inflation remained low following the decline in global and regional inflation due to the downward trend in international commodity prices. Core inflation also remained subdued generally due to weak aggregate demand despite the current accommodative monetary policy stance. Consequently, most of the inflation in 2014 came from domestic sources, particularly food prices.

Figure 6: Headline, Domestic goods and food inflation developments (%, y-o-y)



Source: BNR, Monetary Policy & Research Department

Looking ahead, the main risks to inflation are likely to come from food prices given the less than expected agricultural harvests of season B 2014. After the 2013 economic slowdown, both aggregate demand and economic activities are expected to progressively recover. However, the level of government injection is still low to stimulate aggregate demand recovery, thus making it non-inflationary until mid-2015. Imported inflation is expected to remain contained due to the moderation of inflation in the EAC region and the decline in international commodity prices.

3.2 MONEY SUPPLY AND DEMAND

Between December 2013 and August 2014, the broad money supply (M3) rose by 17.9% compared to 10.5% recorded in the same period of 2013. The monetary program for 2014 targets reserve and broad money growth at about 14.5% by year-end. Growth in credit to the private sector is projected to pick up to 16% at end-year.

The growth of M3 has been supported by high increase of Net Domestic Assets (NDA) of the banking system offsetting the decline of Net Foreign Assets (NFA). The NFA for the banking system slightly declined by 8.1% in the first 8 months, a trend attributable to a decline in BNR NFA (-16.1%) despite a high increase of 38.2% in commercial banks NFA mainly explained by the purchase of "MTN telecommunication towers" for a total amount of USD 100 million. The Net Domestic Assets grew by 85.9% due to high increase in net credit to government (98.8%) and the increase in the outstanding credit to the private sector which increased by 11.6% against 7.6% recorded in the first half of 2013.

Table 9: Monetary aggregates developments (FRW billion, unless otherwise indicated)

	2012	2013		2014					% Change	
	Dec	Jun	Aug	Dec	Mar	Jun	Jul	Aug	Aug-13/ Dec-12	Aug-14/ Dec-13
Net foreign assets	**555.8**	**642.8**	**669.2**	**744.0**	**669.6**	**733.0**	**709.7**	**683.8**	**20.4**	**-8.1**
Foreign assets	685.4	799.1	834.0	923.1	858.0	943.7	916.2	880.0	21.7	**-4.7**
Foreign liabilities	129.6	156.3	164.8	179.1	188.3	210.7	206.5	196.1	27.1	**9.5**
Net domestic assets	**334.3**	**319.1**	**314.2**	**284.7**	**377.0**	**490.9**	**509.3**	**529.4**	**-6.0**	**85.9**
Domestic credit	544.4	551.0	557.5	567.1	679.2	797.4	832.0	840.0	2.4	**48.1**
Central government (net)	-136.9	-164.0	-173.1	-187.3	-105.1	-13.3	11.3	-2.2	26.4	**98.8**
Credit	106.5	150.3	167.3	193.7	195.5	204.7	204.2	211.1	57.1	**9.0**
Deposits	243.4	314.3	340.4	381.0	300.6	218.1	192.9	213.3	39.8	**-44.0**
O/w Gvt long term deposit facility	22.4	22.4	21.7	21.7	21.7	22.7	21.7	22.7	-3.1	**4.4**
Autonomous Agencies	-2.3	-3.0	-4.7	-4.8	-5.7	-4.7	-5.7	-5.7	108.7	**19.7**
Public enterprises	1.0	1.0	0.8	1.3	1.8	2.0	2.0	2.1	-24.0	**63.1**
Private sector	682.5	717.0	734.5	758.0	788.3	813.5	824.4	845.9	7.6	**11.6**
O/W in foreign currency	4.7	10.5	15.1	17.3	19.8	35.4	37.3	42.8	220.8	**147.3**
Other items net (Assets: +)	-210.1	-231.9	-243.2	-282.5	-302.2	-306.5	-322.7	-310.6	-15.8	**-10.0**
Broad money M3	**890.2**	**961.9**	**983.5**	**1028.7**	**1046.6**	**1224.0**	**1219.0**	**1213.2**	**10.5**	**17.9**
Currency in circulation	107.0	116.3	111.3	116.6	109.4	119.4	117.8	110.4	4.0	**-5.3**
Deposits	783.1	845.6	872.2	912.1	937.2	1104.5	1101.2	1102.8	11.4	**20.9**
of which: Demand deposits	318.4	389.8	390.0	378.7	386.0	445.0	417.1	439.8	22.5	**16.1**
Time deposits	300.1	295.2	319.2	339.2	348.9	392.0	419.0	406.5	6.4	**19.8**
Foreign currency deposits	164.6	160.6	163.0	194.2	202.2	267.6	265.1	256.5	-1.0	**32.1**

Source: BNR, Statistics department

With regard to new authorized loans, they amounted to FRW 420.15 billion in the first eight of 2014, from FRW 289.6 billion recorded in the corresponding period of last year. Out of the total authorized loans, 44% were short term, 27% medium term while 29% are long term loans.

Concerning the distribution of loans by sectors of economic activity, 41.2% of the total loans went to commerce, restaurant and hotels followed by public works and buildings (21.2%) and manufacturing sector (12.0%) mainly due to fixed assets loans authorized to some big companies.

The share of authorized loans to the energy and water sector significantly increased, reaching 3.8% in the first eight months of 2014 compared to 0.1% recorded in the same period of 2013 due to loans granted to finance electricity generation. For the whole year 2012 and 2011 this share stood at 0.8% and 0.5% respectively.

Table 10: New cash loans authorized (FRW billion, unless otherwise indicated)

ACTIVITY BRANCH	2012	2013				2014			% share	
	Total	Q1	Q2	Jan-Aug	Total	Q1	Q2	Jan-Aug	Jan-Aug 2013	Jan-Aug 2014
Activities not classified elsewhere	83.0	12.7	13.6	36.9	56.5	15.3	18.5	43.1	12.7	10.3
Agriculture, animal husbandry & fishing	10.6	1.68	2.36	5.6	8.8	2.05	1.3	5.24	1.9	1.2
Mining industries	0	0	0	0.2	0.2	0	0	0	0.1	0
Manufacturing industries	37	2.7	12.2	23.4	44.5	35.2	9.4	50.5	8.1	12
Energy and water	3.9	0	0.4	0.4	5.6	16	0.1	16.1	0.1	3.8
Public works and building industry	111.9	17.5	26	58	93.5	26	42.7	89.2	20	21.2
Commerce, restaurant & hotels	203.1	49.8	57.8	136.9	217.6	61	70.1	173	47.3	41.2
Transport, warehousing & communications	30.4	7.5	7.4	17.7	29.5	5.6	9.9	28.6	6.1	6.8
O.f. Insurances and other non-financial services	4.6	3.9	0.74	5	6	0.4	0.8	2.1	1.7	0.5
Services provided to the community	14.4	1.7	2.48	5.6	10.4	4.48	5.95	12.3	1.9	2.9
Total of new loans	**498.9**	**97.6**	**122.9**	**289.6**	**472.5**	**166.0**	**159.7**	**420.2**	**100**	**100**

Source: BNR, Financial Stability Directorate

On the money demand side, total deposits increased by 20.9% between end December 2013 and August 2014 compared with 11.4% in the same period of 2013. Demand deposits went up by 16.1%, term deposits by 19.8% and foreign currency deposits by 32.1% following significant foreign exchange inflows (including the USD 100 million for purchase of MTN telecommunication towers).

Currency in circulation declined by 5.3% during the first eight months of 2014 compared to 4% recorded in the same period of last year. This situation is partly explained by observable improvement in cashless transactions as modern payment systems are gaining momentum, by increasing the use of currency substitutes for payment such as credit/debit cards, internet banking and the use of financial services offered by banks and microfinance institutions particularly to the population in rural area. Available data indicate that MFIs & SACCOs deposited in commercial banks FRW 48.2 billion as of July 2014 against FRW 50.0 billion in June 2014 while a year ago, MFIs and SACCOs deposited FRW 42.9 billion.

3.3 MONETARY POLICY IMPLEMENTATION

Since 2013, BNR adopted a supportive monetary policy by revising down its KRR to influence economic activities thereby sustaining economic recovery. The change in the KRR translated into changes in money market rates and the banking system liquidity conditions and credit aggregates improved.

The banks most liquid assets increased by 27.4% standing at FRW 291.7 billion end August 2014 from FRW 229.0 billion end December 2013 due to banks' cash in vault (+20.9%), excess reserves (36.6%), outstanding repos (+140.7%) and outstanding T-bills (+5.8%).

Table 11: Most liquid assets of commercial banks (FRW billion)

	2013			2014							
	Jun	**Sept**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
T-bills	103.0	118.7	156.2	155.6	154.9	158.5	158.8	158.8	160.2	162.5	165.3
Repo	90.2	53.5	29.5	13.5	19.5	28.0	12.0	44.0	86.0	70.5	71.0
Excess reserves	17.4	20.3	19.0	30.8	25.8	25.3	27.6	23.0	22.0	24.3	26.0
Cash in vault	21.4	25.0	24.3	21.4	23.5	23.9	22.6	21.7	25.6	29.5	29.4
Total	**232.0**	**217.6**	**229.0**	**221.3**	**224.3**	**235.7**	**221.0**	**247.5**	**293.8**	**286.8**	**291.7**

Source: BNR, Monetary Policy & Research Department

Short term interest rates have been trending downward apart from repo rate which has been increasing from 3.7% to 4.4% in August due to the effects of significant government spending in June 2014. T-bills and interbank rates declined respectively from 5.6 % and 5.7% end June 2014 to 5.2% and 5.5% end August 2014.

Table 12: Interest rates developments (in %)

	2013				2014							
	Jun	**Aug**	**Sep**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**
BNR Policy Rates												
Key Repo Rate	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	6.5	6.5	6.5
Discount Rate	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	10.5	10.5	10.5
Money Market Rates												
Repo rate	6.7	5.6	5.4	4.0	4.3	3.7	3.3	3.1	3.6	3.7	3.9	4.4
T-Bills Rate	10.8	8.6	7.1	5.6	6.4	6.1	6.0	6.0	5.9	5.6	5.5	5.2
Commercial Banks Rates												
Interbank Rate	9.6	7.6	7.0	5.6	5.6	5.8	5.8	5.6	5.7	5.7	5.5	5.5
Deposit Rate	10.6	10.5	9.0	8.6	8.9	8.0	8.3	8.0	9.3	8.6	8.4	8.8
Lending Rate	17.7	17.5	17.8	16.9	17.5	17.1	16.8	17.4	17.2	17.5	17.2	17.4

Source: BNR, Statistics Department

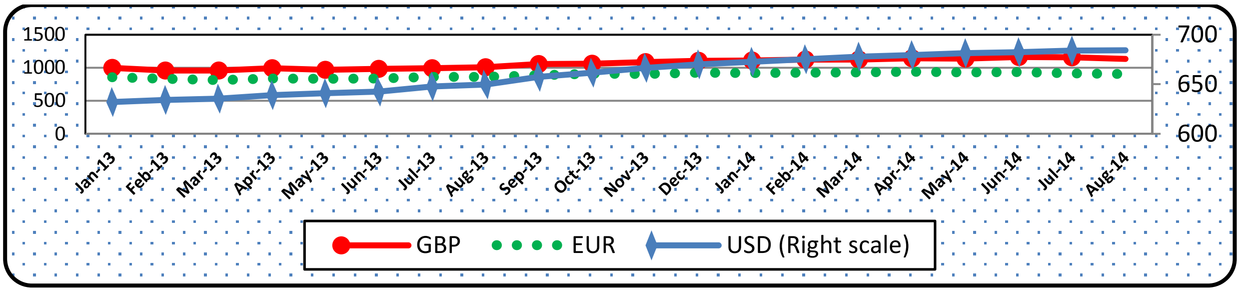
Commercial banks deposit interest rates stabilized around 8.5% in the first eight months of 2014 from 10.5% recorded in the same period of 2013 while the lending interest rate remained stable around 17.27% from 17.32% in the period under review.

However, the structural short term banking liquidity as well as operating costs and information asymmetry between banks and borrowers limited the responsiveness of market rates, especially the lending rate to the change in KRR.

3.4 EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

Despite the aforementioned positive developments in economic financing, economic growth and aggregate demand, there were some exchange rate pressures mainly resulting from higher demand of forex for import financing. The Rwandan franc depreciated against the USD by 2.1%, trading between FRW 684.42 per dollar by the end august against FRW 670.08 per dollar traded by the end December 2013. In the same period, the FRW depreciated by 2.9% against the GBP.

Figure 8: Evolution of nominal exchange, leading currencies against US dollar



Source: Monetary Policy and Research Department

However, the FRW appreciated by 2.2% versus the EURO, 0.9% against the Kenya shilling, 2.5% versus the Ugandan shilling, and 5.3% against the Tanzanian shilling thus helping to dampen imported inflationary pressures.

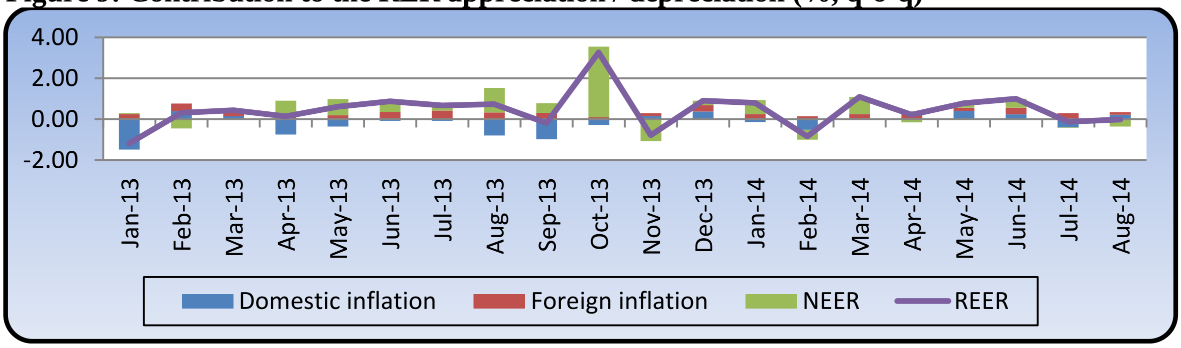
Table 13: Level of depreciation of EAC's shillings against USD (in %)

	USD/UGS	USD/KES	USD/TZS
Jan-14	-2.09	-0.09	2.57
Feb-14	2.54	0.10	0.31
Mar-14	0.45	0.13	0.69
Apr-14	-1.11	0.50	0.15
May-14	1.44	1.07	0.69
Jun-14	1.64	-0.19	0.32
Jul-14	0.88	0.20	0.31
Aug-14	0.02	0.67	0.35

Source: Central Banks website

The real effective exchange rate (RER) depicts a depreciating trend since 2013Q1 though the depreciation started easing in 2014Q1. The REER has slightly appreciated by 0.5% in August 2014 mainly driven by an appreciation of the nominal value of RWF against some currencies of major trading partners, despite an increase of relative prices due to their higher level relative to domestic inflation.

Figure 9: Contribution to the RER appreciation / depreciation (%, q-o-q)



Source: Monetary Policy and Research Department

In the first eight months of 2014, the banking system recorded an increase of 14.92% and 7.81% respectively in forex resources and expenditures compared to the same period of 2013, leading to a cash excess of USD 23 million in commercial banks. This created a room for BNR to reduce by 30 million its forex sales to banks USD 177 million against USD 207 million initially planned for August 2014.

IV. ECONOMIC OUTLOOK AND MONETARY POLICY ORIENTATION IN QUARTER IV 2014

The current macroeconomic conditions characterised by limited global and regional inflationary pressures, weak domestic aggregate demand and lower domestic inflation create room for accommodative monetary policy stance to continue supporting the financing of the economy.

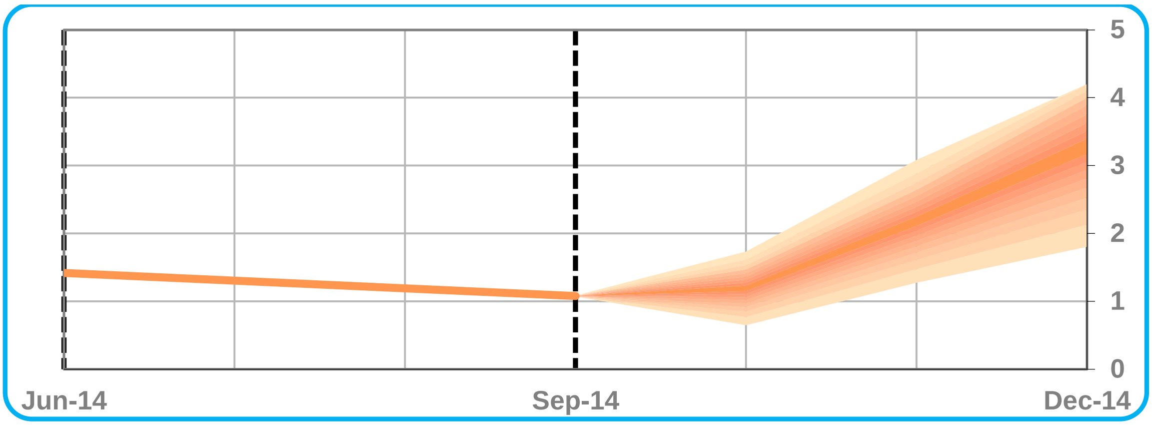
However, Rwanda's Agriculture and external sectors remain vulnerable due to persistent current account deficit and erratic weather conditions respectively. In addition, the aggregate demand remains weak and more fiscal injection will be needed to support the accommodative BNR monetary policy to boost economic activities in 2014Q4.

4.1 INFLATION FORECASTS

Looking ahead, the main upward risks to the inflation outlook are the lagged effect of season B food production deficit, end-of-year festivities and the likely increment in imported inflation due to exchange rate depreciation and increase in regional inflation especially in Kenya, Burundi and Tanzania. The main downside risks remain weak aggregate demand and low international commodity prices.

Given the above assessment of both upside and downside risks, inflation is expected to slightly go up but remain on the downside. Headline inflation is projected to stand at around 3.2% in December 2014.

Figure 10: Inflation forecasts (fan chart)



Source: BNR, Monetary Policy & Research Department (2014)

4.2 MONETARY POLICY ORIENTATION

The accommodative monetary policy pursued by BNR has paid off as evidenced by the on-going economic recovery in aggregate demand, economic growth and economic financing. These positive developments were attained without jeopardizing the objective of price stability. Looking ahead, there is still room for an accommodative monetary policy to build on the aforementioned positive developments.

While inflationary pressures have been contained, there are risks associated with exchange rate depreciation, less than expected season B agricultural harvests and uncertainties in the international commodity prices due to geo-political tensions especially in some oil producing countries. These risks however are not expected to drive inflation on the extreme upside.

In view of this, the current monetary policy stance should be kept unchanged so as to continue supporting the on-going economic recovery.

However, to timely mitigate possible challenges, BNR will continue to closely monitor developments in underlying factors of inflation and exchange rate developments so as to take appropriate measures. Coordination between macroeconomic policies will remain a key priority in dealing with supply and demand shocks to continue mitigating any inflationary pressures as well as other economic challenges that may arise in future.