NATIONAL BANK OF RWANDA

Quarterly Economic and Financial Report: Developments and Prospects

THIRD QUARTER 2015

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EXECUTIVE SUMMARY

The third quarter 2015 economic and financial report: Developments and Prospects present the National Bank of Rwanda's assessment of the recent developments and prospects on economic and financial developments influencing the real sector dynamics in particular and macroeconomic stability in general.

In 2015, the world economy continues to grow at a moderate pace, with differences across countries and regions. Growth prospects are improving in developed economies following the decline in energy prices, accommodative monetary policy and a recovery in domestic demand while they are decelerating in emerging and developing economies particularly oil exporting economies. IMF October report revised down the world real GDP growth at 3.1% weaker than 3.5% initially forecasted in April 2015 and slightly lower than 3.4% recorded in 2014. The reason for the revision was the 2015Q1 poor economic performance in the USA and Russia and on-going slowdown in Chinese economy which is weighing particularly on commodity exporting economies.

Inflationary pressures remained subdued and well below the Central Bank's targets in advanced economies owing to weak economic activity and falling commodity prices especially energy prices. By the end of 2015, inflation in developed countries is expected at 0.3% against 1.4% in 2014 and 2013.

Supported by accommodative monetary policy implemented by BNR since 2013 which led to the increase in financing of the private sector by the banking sector, the Rwandan economy grew by 7.0% in 2015Q2 from 7.6% and 6.1% in 2015Q1 and 2014Q2 respectively. This good performance is expected to continue as evidenced by the leading indicators of economic activities which show that economy continued to perform well after 2015Q3 and evolving toward the initial projected annual GDP growth of 6.5%.

In 2015Q3, compared to the same period of 2014, Rwandan trade deficit widened by 3.9% from a deficit of USD 444.37 million to a deficit of USD 461.90 million as a result of decline in formal exports by 6.7% in value compared to an increase in formal imports value by 1.2%. Formal exports covered 24.0% of formal imports against 26.1% in the same period of 2014. Including informal cross border, exports covered 27.7% of imports from 30.6% in 2014Q3. Trade balance is expected to persist in the short to medium term as strong demand for both intermediary and capital goods continue to outstrip the gradually expanding but still narrow export base.

Relative to December 2014, the FRW depreciation against the USD reached 5.2% by end September 2015, trading at FRW 730.54 per dollar from FRW 694.37 by end December 2014. By end September, the FRW has been under some pressures from the persistent wide trade deficit, the *strengthening of USD against most of currencies around the world as well as the speculation resulting from the depreciation of currencies of major trading partners in the EAC. However, through its policies and measures, including effective communication and market discipline, BNR managed to ensure that the stability of the currency was achieved.*

In 2015Q3, inflation in Rwanda remained moderate, with headline inflation averaging at 2.0% in the first nine months of 2015 same as in the same period of 2014. Looking at the third quarter of 2015, headline inflation increased by 3.7% from 2.8% in 2015Q2 mainly driven by the uptick in food and housing prices by 5.6% and 5.7% respectively.

BNR continued to implement an accommodative monetary policy stance in the context of limited inflationary pressures to support the financing of the economy. As a result, new authorized loans to the private sector increased by 5.8%, amounting to FRW 165.6 billion in 2015Q3 compared to FRW 156.5 billion in 2014Q3, while outstanding loans to the private sector rose by 20.9% in 2015Q3 against 13.3% in 2014Q3.

Rwanda's financial system remains healthy and sound in 2015Q3 as evidenced by various financial soundness indicators on banking sector such as capital adequacy, assets quality, liquidity, market sensitivity and profitability indicators. In general, the stability of Rwanda's banking system was sustained in 2015Q3 amidst improving domestic economic environment.

I. INTERNATIONAL ECONOMIC OUTLOOK

I.1 Economic growth

In 2015, the world economy continues to grow at a moderate pace with differences across countries and regions. In its report of October 2015, IMF revised down the world real GDP growth at 3.1% lower than 3.5% initially forecasted in April 2015 and slightly lower than 3.4% recorded in 2014. The reason for the revision was the 2015Q1 poor economic performance in the USA and Russia and on-going slowdown in Chinese economy which is weighing particularly on commodity exporting economies.

In advanced economies, economic activity is expected to increase by 2.0% on average in 2015 from 1.8% recorded in 2014 reflecting slightly positive performances in the Eurozone, USA and United Kingdom.

In USA, the economic growth rebounded from 0.6% in 2015Q1 to 3.9% in 2015Q2 supported by increase in consumer spending on goods and services, durables and non-durable goods, a hike in government spending together with improving business investment. For the 2015Q3, US economy is projected to grow by 2.0% and to average 2.6% by end 2015 against 2.4% recorded in 2014.

In the Euro zone, the economy is gradually improving, thanks to easing monetary policy, weakening euro currency, improving confidence among businesses and consumers as well as on-going decline in oil prices. Real GDP grew by 1.5% in 2015Q2 and expected to improve further to 1.7% in 2015Q3 against 1.2% in 2015Q1. By end 2015, GDP growth may reach at 1.5% from 0.9% recorded in 2014.

In Asia, the economy remained robust with growth expected to stand at 6.5% by the end of 2015 after 6.8% in 2014, driven mainly by India and China.

In Japan, due to a decline in exports and consumer spending, the economic activity contracted by 1.2% in 2015Q2 after an increase of 4.5% in 2015Q1. By end 2015, real GDP has been revised down to 0.6% against 1.0% initially forecasted and against a contraction of 0.1% recorded in 2014.

Table 1: Economic growth developments (in %)

	Quarterly						Annual	2015 IMF Forecasts of:		
	2014		2015				2014	October	July	April
	Q3	Q4	Q1	Q2	Q3	Q4				
USA (QoQ)	4.3	2.1	0.6	3.9	2.0	2.3	2.4	2.6	2.5	3.1
Euro area (YoY)	0.8	0.9	1.2	1.5	1.7	1.6	0.9	1.5	1.5	1.5
Japan (QoQ)	-1.1	1.3	4.5	-1.2	0.6	1.3	-0.1	0.6	0.8	1.0
UK (YoY)	2.9	3.0	2.7	2.4	2.3	2.2	3.0	2.5	2.4	2.7
China (YoY)	7.2	7.2	7.0	7.0	6.9	6.9	7.3	6.8	6.8	6.8
India (YoY)	8.4	6.6	7.5	7.0	7.4	7.5	7.3	7.3	7.5	7.5

Source: IMF WEO October 2015 & BLOOMBERG

Due to weak demand, the appreciation of the Renmibi, increased wage cost and following adjustments in sectors with excess capacity of production, Chinese economic growth decelerated to

7.0% in 2015Q2 and 2015Q1 from 7.2% in 2014Q4 and expected to decelerate further to 6.9% in 2015Q3. By end 2015, Chinese growth is projected to further fall to 6.8%, the worst performance in almost 25 years against 7.3% achieved in 2014. The Chinese Central Bank and central government took stimulus measures including the cut in interest rates, the injection of liquidity in the banking system, the reduction in required reserve ratio and recently on August 11, 2015, the devaluation of the Renmibi.

The slowdown in Chinese economy is continuing to weigh on emerging and developing economies particularly commodity exporting countries. Real GDP in emerging and developing economies is foreseen to decline to 4.0% in 2015 against 4.6% recorded in 2014.

In Sub-Saharan Africa, the economy is expected to slow to 3.8% in 2015 from 5% in 2014 due to falling commodity prices, waning terms of trade, conflicts and epidemic diseases. Growth in oil exporting countries has been revised downward while it was almost unchanged in oil importers where favourable oil effect is offset by lower prices of commodity exports.

In EAC, economies improved in 2014 compared to 2013 and expected to continue improving in 2015. The Burundian economy is however facing downward risk related to domestic insecurity.

Table 2: Economic growth in EAC countries (in %)

	2013	2014	2015		
			2015Q1	2015Q2	Annual average projections
Burundi	4.5	4.7	0.3	-	**-7.2**
Kenya	5.7	5.3	4.9	5.5	**6.5**
Rwanda	4.7	7.0	7.6	7.0	**6.5**
Tanzania	7.3	7.0	6.5	7.9	**6.9**
Uganda	3.9	4.8	7.0	6.7	**5.2**

Source: CBs Websites and IMF WECO, April, 2015

1.2 Inflation and Commodity prices

1.2.1 Inflation

Weaker growth together with the declining commodity prices is continuing to exert deflationary pressures in both advanced and emerging economies. By end 2015, inflation in developed countries is expected at 0.3% against 1.4% recorded in 2014 and 2013.

In the Euro area, inflation fell to -0.1% in September 2015 reflecting lower energy prices after 0.2% registered in June 2015.

In Japan, annual inflation was at 0.0% in September 2015 from 0.4% in June 2015 following the decline in fuel prices, light and water charges (-7.1%) and transportation & communication (-2.9%).

USA overall CPI inflation decelerated in September 2015 compared to June 2015 mainly due to a sharp decline in energy prices (-4.7%) while prices accelerated for food (+0.4%) and all items excluding food and energy (+0.2%). Chinese inflation stood at 1.6% in September 2015 up from 1.4% in June 2015 due to rising food prices (+2.7%) and non-food items (+1.0%) but slightly lower compared to 2.0% recorded in August 2015 due to the slowing economic activity of the second world's largest economy.

Table 3: Inflation in major economies (% p. a)

	2015					2015
	Mar.	Jun.	Jul.	Aug.	Sept.	
USA	-0.1	0.1	0.2	0.2	-0.0	**0.1**
Euro zone	-0.1	0.2	0.2	0.1	-0.1	**0.2**
Japan	2.3	0.4	0.2	0.2	0.0	**0.7**
China	1.4	1.4	1.6	2.0	1.6	**1.5**

Source: National statistics offices & IMF WEO, October, 201

In Sub-Saharan Africa, inflation is expected at 6.9% by end 2015 from 6.4% recorded in 2014. In EAC, inflation has been increasing during the second half of 2015 due to high depreciation of regional currencies against the US dollar and partly due to fluctuations in food prices. In September 2015, driven mostly by food inflation, Ugandan and Kenyan consumer prices rose by 7.2% and 6.0% respectively after respective increase of 4.9% and 7.0% recorded in June 2015.

Table 4: Headline inflation in EAC countries (% p.a)

	2014	2015						2015 (IMF)
	Dec.	Mar.	May	Jun.	Jul.	Aug.	Sept.	
Uganda	1.8	1.9	4.9	4.9	5.4	4.8	7.2	**7.4**
Kenya	6.0	6.3	6.9	7.0	6.6	5.8	6.0	**6.3**
Tanzania	4.8	4.3	5.3	6.1	6.4	6.4	6.1	**5.6**
Burundi	3.8	4.7	7.2	7.7	8.0	4.2	4.1	**7.2**
Rwanda	2.1	0.8	2.2	2.8	2.3	3.0	3.7	**2.1**

Source: Country Bureaus of Statistics IMF, World Economic Outlook, October, 2015

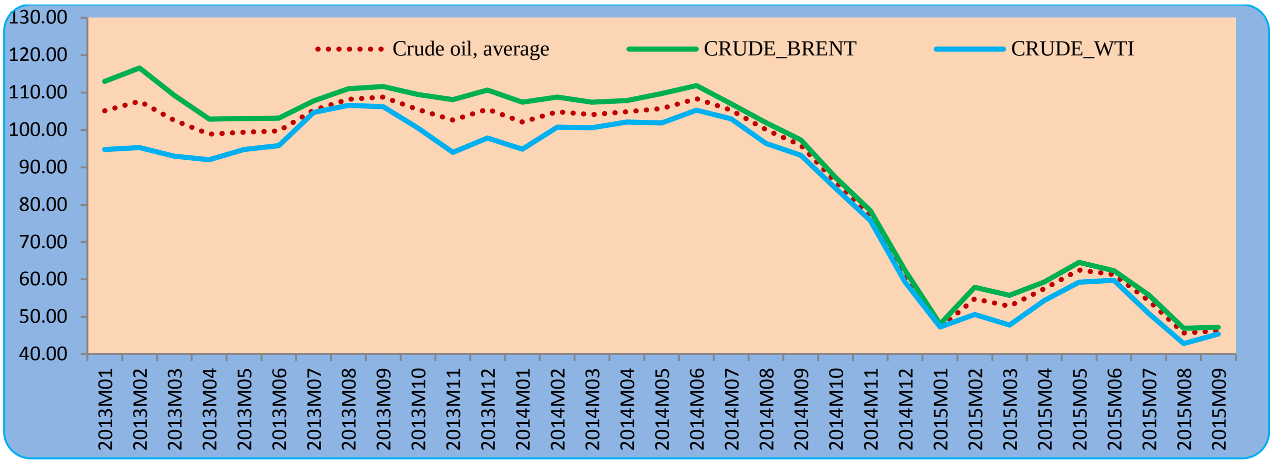
In Tanzania, inflation was 6.1% in September 2015, the same level as in June 2015 due to increase in food prices. Inflation in Rwanda hiked to 3.7% in September 2015 from 2.8% in June 2015, mainly due to rising prices of food and non-alcoholic beverages, housing, water, electricity, gas and other fuels. Inflation in Burundi increased by 4.1% in September after 7.7% in June 2015 mostly driven by food and non-alcoholic beverages (+4.8%), foot and wear (+11.8%).

1.2.2 Commodity prices

On commodity markets, prices continued to decline reflecting abundant supply, increased harvest, weak global demand and strong US dollar. In 2015Q3, energy prices fell by 17.0% quarter on quarter and by 48.5% year-on-year mostly led by oil prices which fell by 19.3% and by 51.4% respectively on quarterly and annual basis.

Brent prices fell by 51.0% to USD 50.03/barrel in 2015Q3 from USD 102.08/barrel in 2014Q3 as oil supply outpaced the demand though total oil production is stabilizing. OPEC oil production reached the highest record in three years and US shale oil production is declining after it reached the top in April this year.

Figure 1: Crude oil prices in USD/barrel



Source: World Bank Website

Non-energy prices dropped by 4.9% quarter–on-quarter in 2015Q3 due to abundant supply. Agriculture prices dropped by 2.4% on positive prospects about the supply. For the sixth consecutive quarter, food prices fell by 3.1% in 2015Q3 after a decline of 5.0% in the previous quarter, mainly due to prices of grains (-4.7%), oils and meals (-4.2%) and other food (-0.5%). Fertilizer prices declined by 1.3% thanks to increased production capacity.

Table 5: Commodity prices (% increase)

	2013	2014				2015		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
OIL	**-2.7**	**-0.8**	**2.6**	**-5.6**	**-25.7**	**-30.9**	**17.2**	**-19.3**
Crude oil, Brent	-0.6	-1.4	1.8	-7.0	-25.5	-29.1	15.1	-19.4
WTI crude oil	-7.9	1.3	4.4	-5.4	-25.0	-33.6	19.1	-19.8
BEVERAGES	**1.1**	**13.7**	**10.8**	**0.5**	**-2.8**	**-8.9**	**0.2**	**0.5**
Coffee, Arabica	-7.2	38.2	22.1	-2.4	1.8	-16.1	-8.9	-5.1
Coffee, Robusta	-9.3	15.0	6.4	-1.6	1.6	-6.1	-6.5	-5.7
Tea, Mombasa auctions	-3.9	7.1	-13.4	1.1	-5.4	21.7	20.6	5.6
Sugar, world	3.1	-5.2	8.1	-4.9	-6.3	-10.7	-9.8	-6.9
CEREALS	**-10.0**	**0.6**	**0.7**	**-11.9**	**-0.8**	**-1.5**	**-.5.8**	**-4.7**
Maize	-17.6	5.3	2.0	-18.7	-0.3	0.4	-3.4	0.5
Sorghum	-7.8	10.9	-2.1	-16.0	9.1	18.1	-9.4	-11.7
Wheat, US SRW[1]	7.3	-4.5	-0.1	-18.9	11.9	-6.7	-8.2	-4.3
Wheat, US HRW[2]	0.7	-3.5	8.4	-18.5	-1.8	-7.4	-9.5	-15.2
Rice, Thai 5%	-7.2	0.2	-11.3	10.1	-2.7	-1.1	-7.5	-2.9
Rice, Thai 25%	-6.1	-8.3	-6.3	13.9	0.6	-1.2	-6.3	-2.9
Rice, Thai A.1	-6.5	3.6	-6.8	12.8	-4.7	-2.8	-6.7	-3.0
Rice, Vietnamese 5%	3.7	-1.5	-0.7	12.0	-4.9	-12.3	-3.2	-4.0
METALS &MINERALS	**0.8**	**-3.2**	**-1.0**	**2.6**	**-6.5**	**-10.8**	**-0.4**	**-11.7**
Aluminium	-0.9	-3.3	5.3	10.5	-1.0	-8.5	-1.8.	-10.1
Gold	-4.3	1.7	-0.4	-0.6	-6.4	1.6	-2.1	-5.8
Tin	7.4	-1.1	2.3	-5.3	-9.2	-7.7	-15.1	-2.3

Sources: World Bank

Beverages prices slightly recovered by 0.5% in 2015Q3 mainly driven by prices of cocoa (+6.0%) as a result of lower supply from Ghana and following worries about intensifying El Nino which is likely to affect crops across West Africa. It should be noted that 70% of global cocoa production comes from West Africa, and Ghana account for 28% of the total production. Prices rose also for tea (+2.8%) led by prices of tea in Mombasa auction increasing by 5.6% following the dry weather in Kenya and increased prices of tea Kolkata by 9.6% in 2015Q3 due

[1] SRW: Soft red winter
[2] HRW: Hard Red Winter

to the falling demand from Europe. Prices eased by 5.1% for coffee Arabica as favourable weather in Brazil improved production prospects.

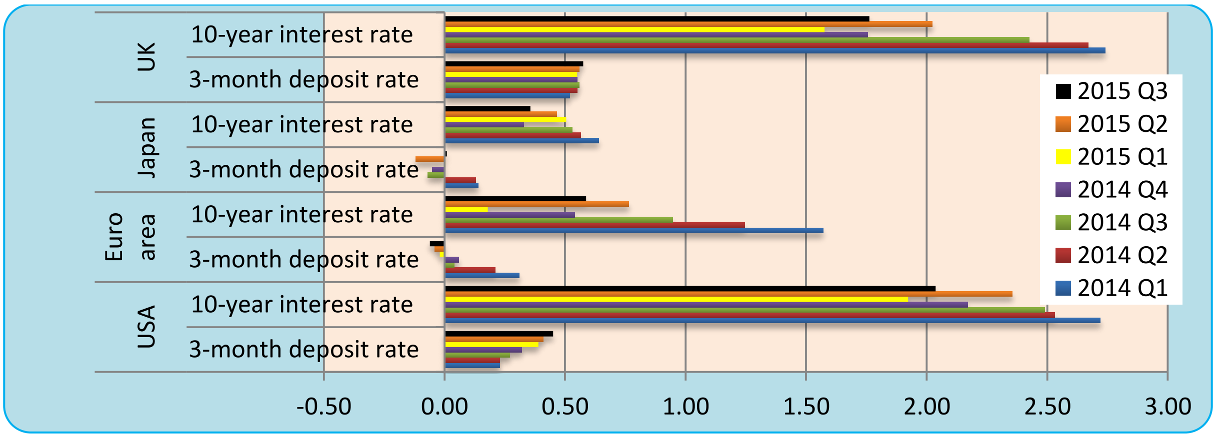
Metals and mineral prices plunged by 11.7% on the back of weakening global demand while the production increased following earlier large investments. For 2015, oil prices are projected to fall by 46.4%, metals by 22.3%, fertilizers by 0.6% and coffee prices by 20.8% (for Arabica) and by 12.2% (for Robusta) while tea average prices is expected to slightly fall by 0.7%.

I. 3 Monetary Policy and Financial Markets

Monetary policy in developed countries remained accommodative to boost economic activities. Central bank rates remained unchanged at 0.05% in Euro Zone, 0.25% in USA, 0.5% in UK and 0.10% in Japan. However, US Federal Reserve is expected to increase interest rates later this year. In its meeting of October 27-28, 2015, the Federal Open Market Committee kept its fund rate unchanged in the range between 0-0.25% in order to ensure continued progress towards a maximum employment and 2% inflation target. Indeed, the Fed noted that risks to the outlook for US economic activity and the labour market as nearly balanced but considered monitoring global economic and financial developments.

The 10-year interest rates have been declining since the beginning of this year in advanced economies due to geopolitical tensions as well as uncertainties about global economic growth. Since April 2015, rates rose as traders around the world have been selling off government bonds bringing down bond prices and, in turn, driving up the 10-year bond yield.

Figure 2: Interest rates developments (in % per annum)



Source: Bloomberg database

In 2015Q3, the 10-year interest rates were volatile owing to weakening global economic growth outlook, falling oil prices, declining inflation and following equity prices volatility consecutive to Chinese move in August. The Renmibi depreciation caused sharp declines in equity prices and therefore high global uncertainty pointing to weaker world economy and increased financial market volatilities.

On the foreign exchange markets, the dollar remained strong supported by the strength of US economy, relatively higher US 10-year government bond yield which made US government securities more attractive for foreign investors and the expected widening interest rate differential between USA and other developed economies.

Table 6: Nominal Exchange rate developments

	2013		2014				2015		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
USD/1EUR	1.3527	1.3743	1.3769	1.3692	1.2631	1.2098	1.0731	1.1147	1.1177
USD /1 GBP	1.6186	1.6557	1.6662	1.7106	1.6213	1.5577	1.4818	1.5712	1.5128
YEN/1USD	98.27	105.31	103.23	101.33	109.65	119.78	120.13	122.50	119.88

Source: Bloomberg Database

Compared to end December 2014, the dollar gained by 7.6% and 2.9% in September 2015 respectively versus the Euro and the GBP against 7.4% and 1.5% respectively in August 2015. For the first time in five months, the dollar depreciated against the Yen losing by 0.1% after an appreciation of 1.2% in August 2015. The greenback is expected to continue to strengthen with the Fed monetary policy planned to tighten before the end of 2015.

II. NATIONAL ECONOMIC PERFORMANCE

2.1 Real Sector Performance

The Rwandan economy continues to perform well in 2015 supported by accommodative monetary policy implemented by BNR since 2013.

2.1.1 Economic growth

The real GDP grew by 7.0% in 2015Q2 compared to 6.1% recorded in 2014Q2 a result of good performance of the industry sector (+10.0%) followed by service sector (+6.0%) and agriculture sector (+5.0%). The good economic performance was also driven by increasing banking financing to the private, where total New loans to the private sector increased by 5.8%, amounting to FRW 165.6 billion in 2015Q3 compared to FRW 156.5 billion in 2014Q3 while outstanding loans to private sector rose by 20.9% in 2015Q3 against 13.3% recorded in 2014Q3. The good performance is expected to continue and the real GDP is projected to grow by at least 6.5% in 2015.

Table 7: Rwanda Real GDP growth, in %

	2014					2015		
	Q1	Q2	Q3	Q4	Annual	Q1	Q2	Annual projections
GDP	7.5	6.1	8.0	6.5	7.0	7.6	7.0	6.5
Agriculture	**5.0**	**5.0**	**6.0**	**5.0**	**5.0**	**4.0**	**5.0**	**5.3**
Food crops	6.0	6.0	7.0	7.0	6.0	4.0	4.0	5.0
Industry	**9.0**	**5.0**	**4.0**	**5.0**	**6.0**	**7.0**	**10.0**	**8.7**
Mining and quarrying	20.0	4.0	22.0	1.0	11.0	-12.0	-2.0	16.4
Manufacturing	7.0	5.0	-5.0	-2.0	1.0	8.0	9.0	4.5
Construction	8.0	5.0	7.0	12.0	8.0	11.0	15.0	8.3
Services	**9.0**	**9.0**	**11.0**	**8.0**	**9.0**	**8.0**	**6.0**	**7.3**
Wholesale & retail trade	12.0	10.0	7.0	10.0	9.0	7.0	5.0	7.5
Financial services	4.0	3.0	10.0	4.0	5.0	10.0	7.0	7.6
Real estate activities	9.0	3.0	14.0	8.0	8.0	5.0	11.0	4.5

Source: Rwanda National Institute of Statistics (NISR)

2.1.2. Leading indicators

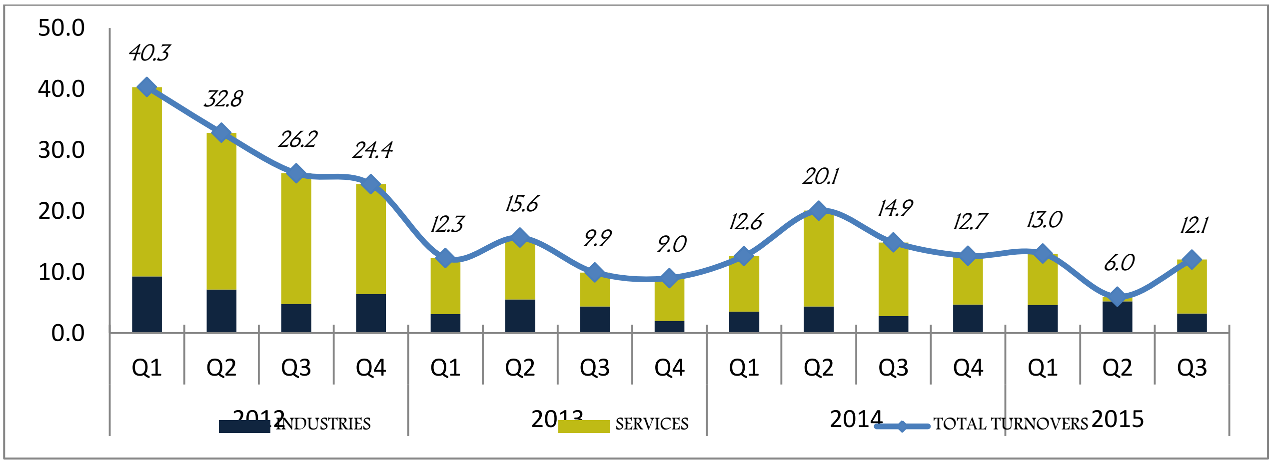
The leading economic indicators of the real sector activities evidenced that the economy continues to perform well in 2015Q3. The composite index of economic activities (real CIEA) grew by 11.9% in 2015Q3 after 11.4% in 2014Q3.

Figure 3: Growth in Real CIEA (Quarterly, YoY %)

Source: BNR, Monetary Policy and Research Department

The total turnovers of industry and services sectors rose by 12.1% in 2015Q3 after 6.0% in 2015Q2 and 14.9% in 2014Q3. Growth was led by high performance in construction sector (+28.3%), banking sector (+26.2%), manufacturing (+23.5%) and trade providing services (+16.9%).

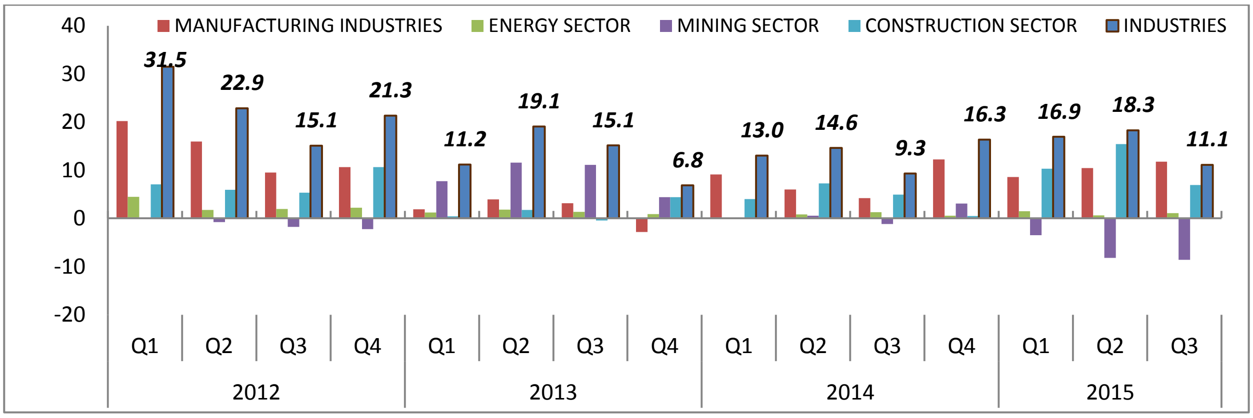
Figure 4: Industry & Services turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

The services sector led the growth, increasing by 12.4% in 2015Q3 from 1.1% in 2015Q2 and 17.3% in 2015Q3 and contributing 8.9 percentage points to the growth of the total turnovers of industry and services sector. This good performance of the service sector was mainly attributed to banks and insurance companies (+26.2%) and trade providing services (+16.9%); despite the decline in petroleum companies (-5.3%) due to the falling international oil prices.

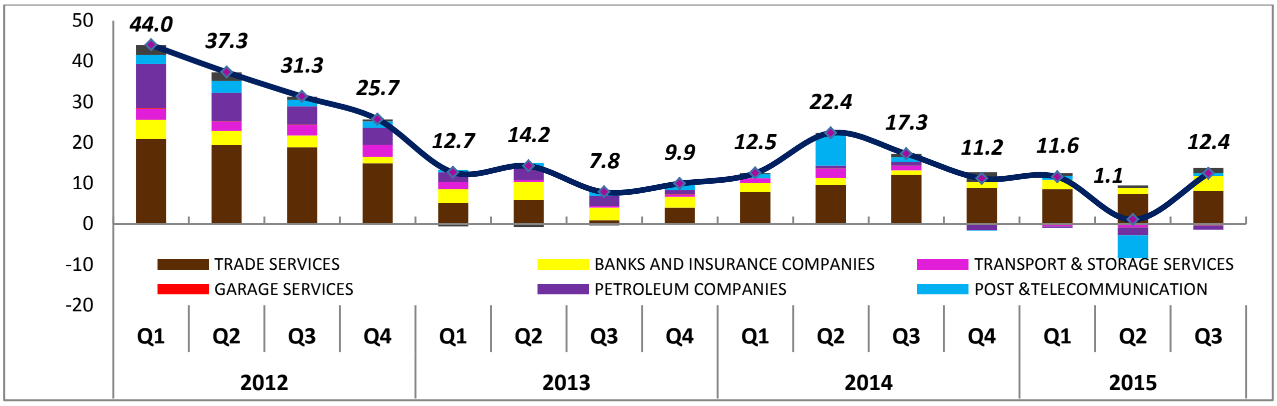
Figure 5: Industry sector turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

The industry sector increased from 9.3% in 2014Q3 to 11.1% in 2015Q3, following developments in the construction sector (+28.3%), manufacturing industries (+23.5%) and energy sector (+12.0%). This good performance was supported by an increase in gross fixed capital formation by 9.0% during 2015Q2, and on-going infrastructure projects evidenced by increases in cement by 17.3% in 2015Q3 from 3.1% in 2014Q3.

Figure 6: services sector turnovers (%change YOY)



Source: BNR, Monetary Policy and Research Department

The accommodative monetary policy continued to facilitate the development of economic activities by expanding credit to private sector where new loans to private sector rose by 5.8% in 2014Q3 and outstanding loans to private sector rose by 20.9% in 2015Q3.

Table 8: New loans to leading sub-sector in industry and services sectors

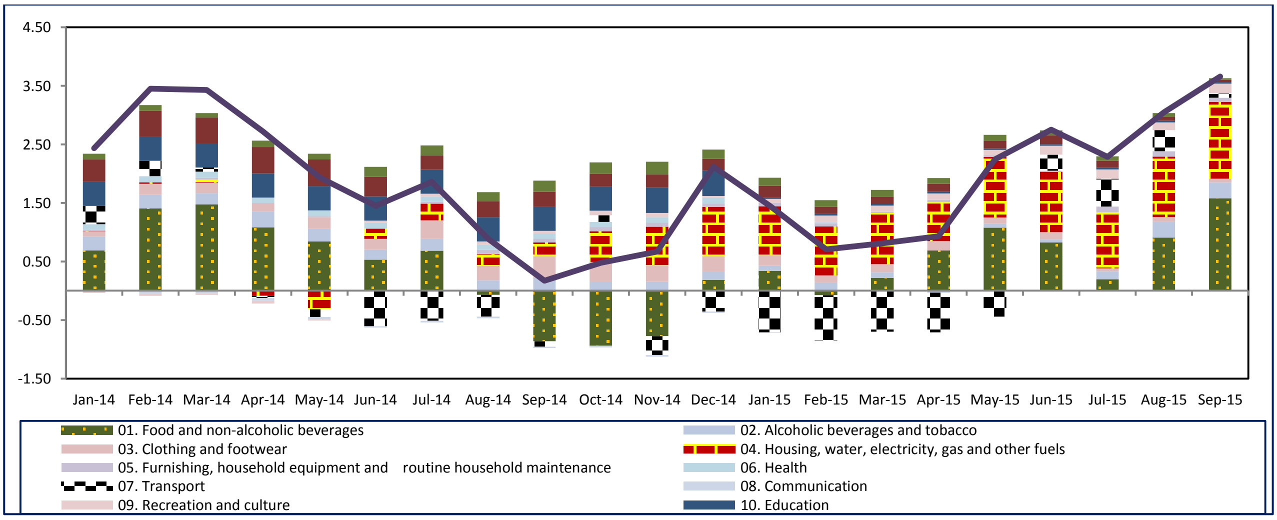
	2013		2014				2015			% change
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3/Q3
Manufacturing	10.9	18.1	35.2	9.4	15.4	11.9	7.9	4.4	16.6	7.5
Mortgage industries	20.1	29.6	26.0	42.7	31.8	37.9	64.5	54.9	50.3	58.1
Commerce, restaurants and hotels	48.5	60.2	61.0	71.0	65.5	75.8	74.7	69.6	58.8	-10.3
Total credit to private sector	104.4	147.7	166.0	159.7	156.5	171.0	178.1	182.8	165.6	5.8
Share	76.1	73.1	73.7	77.1	72.0	73.5	82.5	70.5	75.8	

Source: BNR**,** Monetary Policy and Research Department

2.2 Price Developments

Headline inflation reached 3.7% in 2015Q3 compared to 2.8% recorded in 2015Q2. Inflationary pressures mainly came from the rise in food and housing inflation. Following the rise in vegetables inflation from 4.7% in 2015Q2 to 11.9% in 2015Q3, food inflation rose from 2.9% to 5.6%, during the same period.

Figure 7: Headline inflation developments (%, y-o-y)



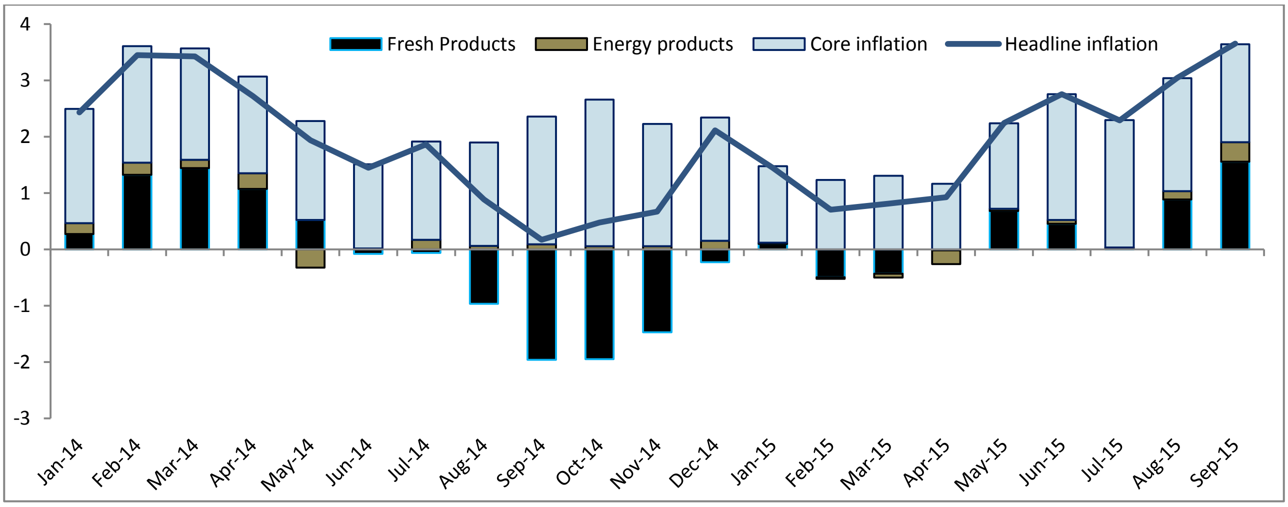
Source: BNR, Monetary Policy & Research Department

Housing inflation rose from 4.5% in 2015Q2 to 5.7% in 2015Q3, as services for the maintenance and repair of dwellings inflation rose from 20% to 22%, electricity inflation climbed from 0.7% to 15.4% and water inflation surged from 0.01% to 9.6% during the same period. However, the latter two had negligible effects on headline inflation in line with their small weights in the CPI basket. Rising domestic fuel prices, from 840 FRW/litre in May-June 2015 to 935-920 FRW/litre in July-September 2015, coupled with higher electricity tariffs pushed up energy inflation from 0.9% in 2015Q2 to 4.4% in 2015Q3 but with muted effects, given that energy CPI accounts for 7.8% of the overall headline CPI.

Transport inflation eased from 1.5% in 2015Q2 to 0.4% in 2015Q3, contributing to the decline in imported inflation from 3.3% to 1.8% during the same period. The decline in imported inflation is also attributable to the relatively low level of international commodity prices and somewhat subdued inflationary pressures in the main regional trading partners. In addition to the above downward pressures on inflation, the efficient coordination between monetary and fiscal policies has and will continue to help mitigate any emerging inflationary pressures.

Domestic inflation stood at 4.3% in September 2015 from 2.6% in June driven by the decline in domestic food inflation. Imported inflation dropped to 1.8% in September from 3.3% in June as the recent fall in international oil prices from USD 61.31 to USD 54.34 and to USD 45.69$ per barrel in June, July and August respectively.

Figure 8: Core and Headline inflation developments (%, y-o-y)



Source: BNR, Monetary Policy & Research Department

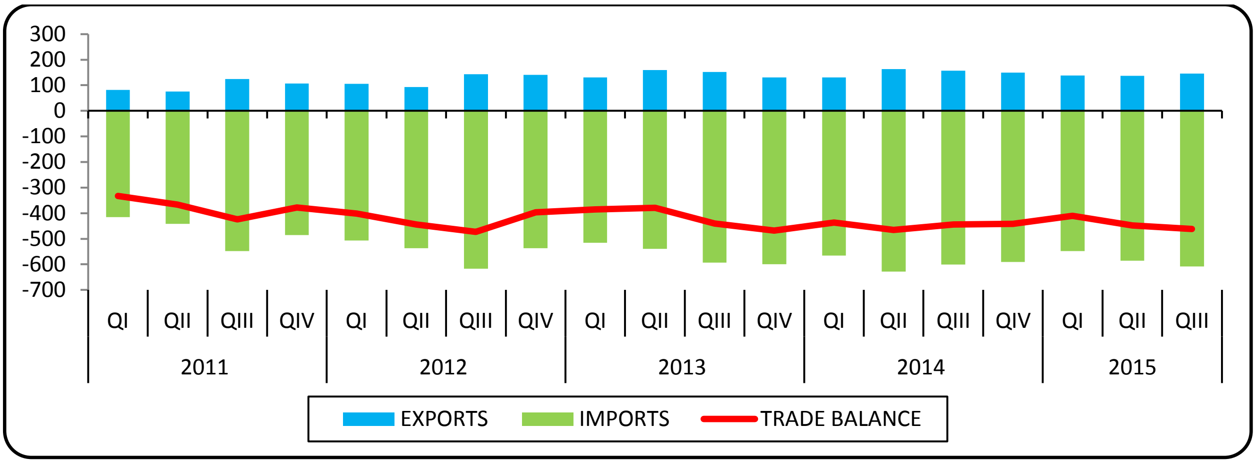
Core inflation, which excludes energy and fresh products, edged further lower to 2.3% in September 2015 from 2.7% and 3.0% in August and June 2015 respectively, indicating a slightly ease in aggregate demand.

2.3 External trade developments

2.3.1 Trade Balance

In 2015Q3, compared to the same period of 2014, trade deficit widened by 3.9% from a deficit of USD 444.37 million to a deficit of USD 461.90 million as a result of decline in formal exports by 6.7% in value compared to an increase in formal imports value by 1.2%. Formal exports covered 24.0% of formal imports against 26.1% in the same period of 2014. Including informal cross border, exports covered 27.7% of imports from 30.6% in 2014Q3. It should however be noted that trade balance is expected to persist in the short to medium term as strong demand for both intermediary and capital goods continue to outstrip the gradually expanding but still narrow export base.

Figure 9: Trade balance in millions of USD



Source: BNR, Statistics Department

2.3.2 Formal exports

During 2015Q3, Rwanda's formal export sector was dominated by traditional exports representing 50.1% of the total formal exports composed by coffee, tea and minerals (tin, coltan and wolfram), pyrethrum as well as hides and skins; followed by re-exports (32.0%) dominated by petroleum products, vehicles, and machines & engines. Other exports mainly dominated by foods and beverages, others minerals, live animals, fruits and vegetables, and cosmetic products account for 17.8% of the total formal exports. Compared to a high increase of 21.6% in 2014Q3, total formal exports decreased in value by 6.7% in 2015Q3, due to the decrease in exports value of coffee (-13.8%), mining sector (-55.5%) and re-exports (-32.5%). However, exports increased by 2.7% in volume, attributed mainly to coffee exports (+6.9%), tea (+8.9%) and other exports (+28.1%).

Table 9: Exports developments (annual % change)

	Volume		Value	
	2014Q3	2015Q3	2014Q3	2015Q3
EXPORTS	**8.5**	**2.7**	**21.6**	**-6.7**
MAIN EXPORTS	3.5	4.8	-4.7	-29.3
REEXPORTS	-7.2	-12.2	81.1	60.8
OTHER EXPORTS	22.8	17.0	-1.6	9.1

Source: BNR, Statistics Department

Traditional exports (main exports) performed poorly decreasing by 29.3% in value, due to the decrease in mining sector which went down by 55.5% in value and 42.1% in volume mainly due to the falling international prices as well as reduction in exported volume. Cassiterite and coltan declined respectively by 61.6% and 53.8% in value as a result of its decline in volume by 42.6% and 44.4% respectively and the fall in their unit prices (-33.2% and -16.9% respectively). Wolfram also decreased by 47.2% in value due to its decline in volume (-38.5%) and unit price (-14.1%). Export value and volume for hides & skins also decreased by 34.5% and 23.2% respectively.

Coffee exports increased by 6.9% in volume but decreased by 13.8% in value due to the fall in unit price by 19.4% from USD 4.15/Kg to USD 3.35/Kg in 2015Q3. However, tea exports increased in both value and volume by 62.5% and 8.9% respectively due to the rise of unit price (+49.2%) from USD 2.25/kg to USD 3.35/Kg.

Non-traditional exports (other exports) which are dominated by products of the milling industries, increased by 9.1% in value compared to a decline of 1.6% in 2014Q3 due the exports of other minerals (+77.9% in value and -21.2% in volume) which account for 30.3% of total non-traditional exports. Re-exports which are dominated by petroleum products, vehicles and machines as well as engines increased highly by 81.1% in volume and 60.8% in value as a result of re-exports of petroleum products which increased by 76.8% in volume and 64.3% in value and account respectively for 45.7% and 49.3% of total volume and value of re-exports.

2.3.3 Formal imports

During 2015Q3, formal imports recorded a slight increase of 1.2% in value (USD 607.96 million from USD 600.91 million), after a registered increase of 1.4% in the same period of 2014, and increased by 3.4% in volume, driven by capital goods (+29.1%) and consumer goods (+10.7%). The increase in total imports CIF value was attributed to the increase in imports of capital goods (+16.0%), consumer goods (+1.7%) as well as intermediary goods (+1.7%).

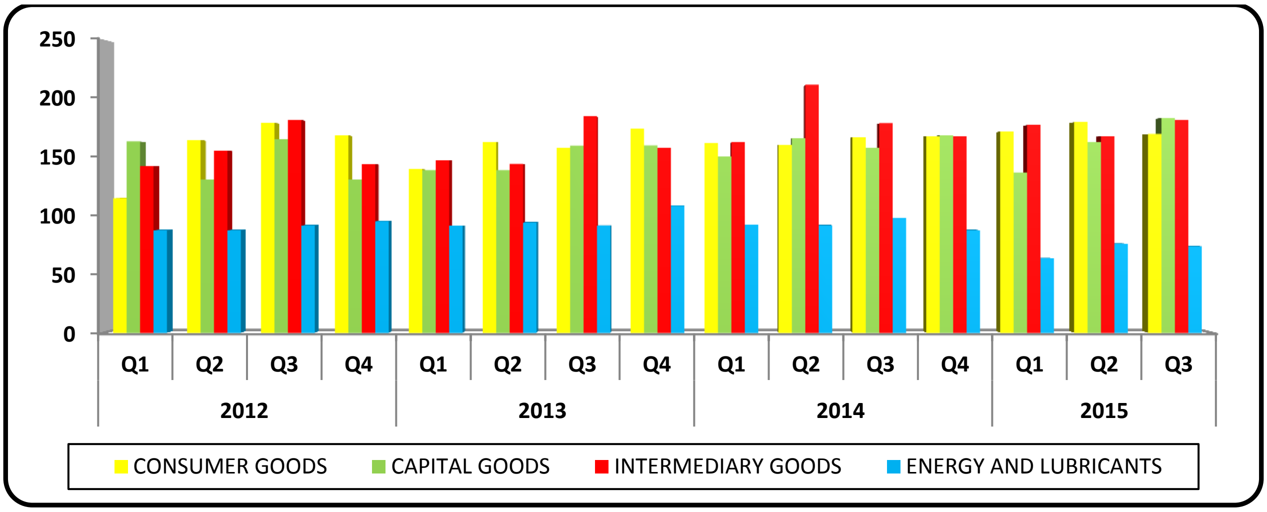
Table 10: Imports developments in % change

	Volume		Value	
	2014Q3	2015Q3	2014Q3	2015Q3
Total imports	**8.4**	**3.4**	**1.4**	**1.2**
Consumer goods	12.5	10.7	5.8	1.7
Capital goods	-8.5	29.1	-1.1	16.0
Intermediary goods	7.9	-2.1	-3.1	1.7
Energy and lubricants	5.4	1.0	7.0	-24.6
Trade deficit			-0.9	-3.9
Imports cover			1.3	-7.8

Source: BNR, Statistics Department

Imports of consumer goods were dominated by food products, representing 34.6% and 27.9% of total volume and value of imports of consumer goods. Imports of food products composed of meat and fish (+14.8%), milk and milk products (+2.0%), fats and oil of animals (+15.3%), vegetables, fruits and spices (+11.6%), cereals, flours and seeds (+33.0%), various food preparations (+10.9%), salt (+4.1%), and sugar with 8.3% of total food products, increased by 5.2% in volume while decreasing by 13.5% in value. Food imports volume rose mainly due to the increased imports of meat and fish (+20.0%), vegetables, fruits and spices (+58.2%) and cereals, flour and seeds (+8.9%), while their value decreased due to the imports of sugar and sweets (-63.9%), salt (-13.8%) and various foods preparations (-15.3%).

Figure 10: Imports developments in USD millions



Source: BNR, Statistics Department

Capital goods dominated by machines, devices and tools, and transport materials increased in both value and volume by 16.0% and 29.1% respectively, mainly due to the high imports of machines and devices (+12.2% in value and +36.8% in volume).

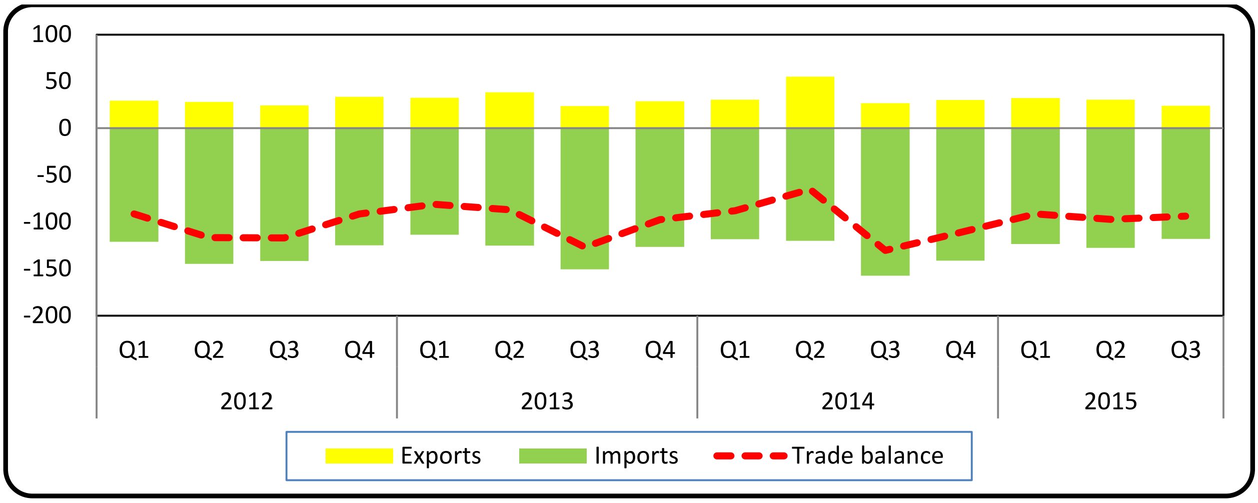
With regard to intermediary goods which are composed of construction materials, industrial products, fertilizers and other intermediary goods, increased by 1.7% in value, but decreased in volume by 2.1%, due mainly to imports of industrial products especially woods industries (+22.4% in value and -3.0% in volume), and foods industries (+35.9% in value and -39.8% in volume). Cement and other similar products which represent 72% of imports of construction materials decreased in both value and volume by 15.6% and 1.6% respectively.

Imports of energy and lubricants decreased in value by 24.6% but slightly increased by 1.0% in volume due mainly to the fall in price of imports of petroleum products like motor sprit/essence which decreased by 24.0% in value and increased by 4.5% in volume.

2.3.4 Trade with EAC countries

Rwanda's exports to other EAC member countries amounted to USD 24.08 million in 2015Q3 from USD 26.88 million in the corresponding period of 2014, decreasing by 10.4%, after an increase of 13.8% in the same period of 2014. The decrease was mainly due to the decline of products mostly exported to Burundi and the fall in international commodities' prices. Imports from EAC region decreased by 25.0% from an increase of 4.4% in 2014Q3, and amounted to USD 118.07 million from USD 157.46 million in 2014Q3. As a result trade deficit with EAC improved by 28.0% to USD 93.99 million in 2015Q3 from USD 130.58 million of the same period in 2014.

Figure 11: Trade flow of Rwanda within EAC bloc (USD million)



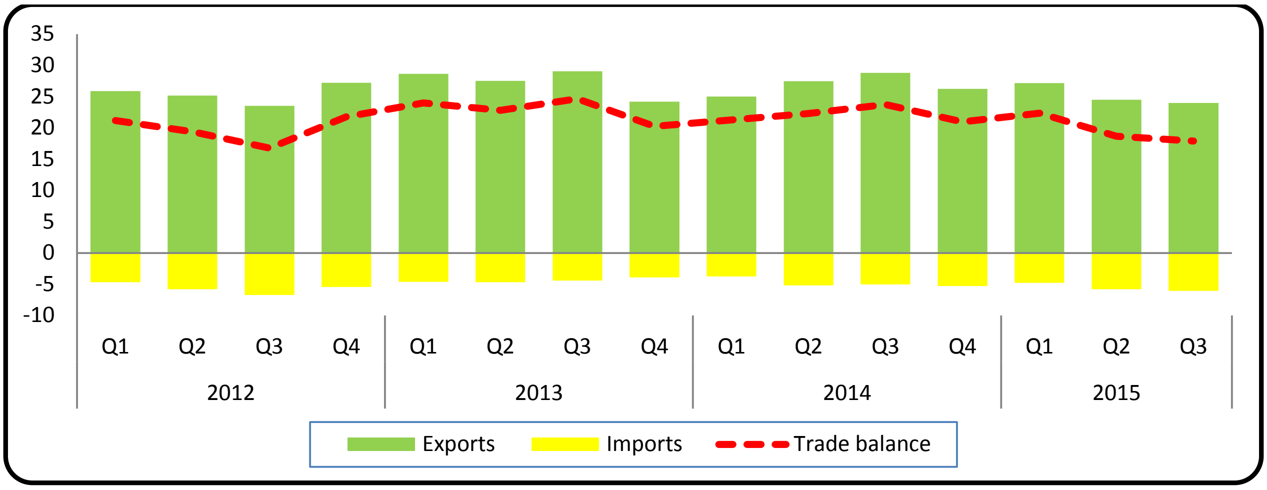
Source: BNR, Statistics Department

Rwanda's main exports to other EAC member countries remain tea sold at Mombasa commodity exchange, coffee, raw hides and skins of bovine, leguminous vegetables and beer. With regard to imports, the main products are cement, refined and non-refined palm oil and other cooking oils, sugar cane, vegetable fats, animals and clothing.

2.3.5 Informal cross-border trade

With regard to the informal cross-border trade, total informal exports representing 16.4% of the formal exports in 2015Q3, performed poorly decreasing by 16.8% after a slight decrease of 0.8% in the same period of 2014, and amounted to USD 23.97 million from USD 28.80 million in 2014Q3. The major commodities traded in informal cross border exports are agriculture products and livestock. In terms of destination, exports to Burundi, DRC and Tanzania decreased by 21.2%, 16.5% and 64.1% respectively, while exports to Uganda increased by 45.2%.

Figure 12: Informal cross border trade (in USD millions)



Source: BNR, Statistics Department

Informal imports increased by 19.8% from USD 5.06 million to USD 6.06 million in 2015Q3, after an increase of 15.1% recorded in the same period of last year, leading to a decrease of 11.3% in Rwanda's positive informal trade balance from USD 33.86 million to USD 30.03 million with neighbouring countries. The main imported products from neighbouring countries are coffee, Irish potatoes, husked rice, sorghum, bananas for cooking, live poultry, and other manufactured and recycled products, where the main trading partners are Uganda, Burundi and Democratic Republic of Congo (DRC) which represent a share of 49.2%, 35.4% and 14.5% respectively.

III. DOMESTIC DEBT DEVELOPMENTS

The stock of the Government domestic debt by end September 2015 amounted FRW 383.9 billion, indicating an increase of 34.0% compared to the previous same period in 2014. This was contributed by 28.1 % and 6.1% increases in holdings of both banking and non-banking sectors respectively.

Table 11: Sectoral Composition of the Public Domestic Debt (% share of the total debt)

Sector	2013	2014				2015			% change
	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	
BNR (excluding monetary instruments)	**14.8**	**14.4**	**14.1**	**13.2**	**12.8**	**11.8**	**10.2**	**10.1**	**0**
Consolidated debt	14.8	14.4	14	13.0	12.8	11.8	10.2	10.1	0
Overdraft	0.0	0	0	0.2	0.0	0.0	0.0	0	0
Banking Sector	**61.7**	**61.9**	**63.6**	**61.9**	**60.0**	**61.1**	**65.9**	**66.1**	**44.3**
Development bonds	2.8	3.9	10	10.7	13.3	14.5	12.7	14.5	73.9
Bonds issued at MINECOFIN	0.6	0.6	1	0.4	0.3	0.3	0.2	0.2	-35.4
Treasury bills (issued at BNR for treasury issues)	58.3	57.4	53	50.8	46.3	46.4	52.9	51.4	39.4
Non-Banking Sector	**23.5**	**23.7**	**22.3**	**24.9**	**27.2**	**27.0**	**23.9**	**23.9**	**49.4**
Development bonds	0.4	2.6	4	7.1	9.5	11.1	10.8	12.4	282.4
Consolidated debt to RSSB	16.0	14.9	12	11.4	11.3	10.4	8.9	8.9	0
Bonds issued at MINECOFIN	0.3	0.3	0	0.3	0.3	0.3	0.2	0.2	-12.2
Treasury bills (issued at BNR for treasury issues)	4.3	3.5	3	4.0	4.0	3.3	2.3	0.7	0
Other bonds for old arrears	2.5	2.4	2	2.1	2.1	2.0	1.7	1.7	0
TOTAL DOMESTIC DEBT STOCK	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**39.2**

Source: BNR, Statistics Department

Banking sector continues to dominate the Government T-bills market and remains the main holder of the outstanding debt instruments with a share of 66.1% to the total outstanding debt. The increase in government domestic financing by both sectors against the same period in 2014 is mostly accountable to expansion in purchase of new development bonds for both banking and non-banking sectors as well as purchase of T-bills in the banking sector.

IV. EXCHANGE RATE AND FOREIGN MARKET DEVELOPMENTS

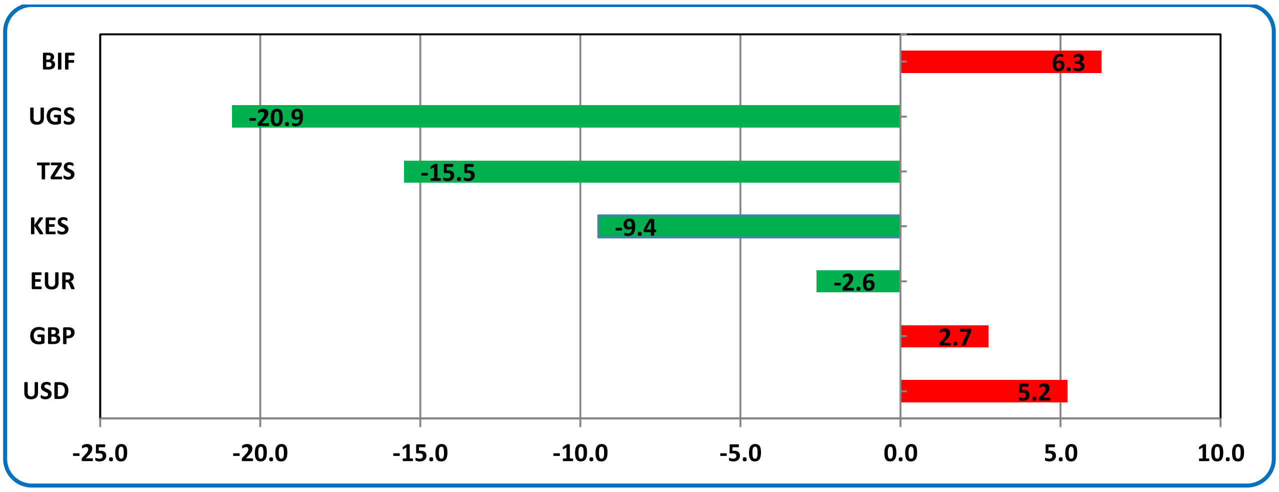
The Rwandan Franc has been under relative pressure in 2015Q3 resulting from the strong value of the US dollar against most currencies around the world, as well as contagious effects of the depreciation of currencies of major trading partners in the EAC. BNR managed to keep stability of the Rwandan franc through interventions on foreign exchange market as well as its policies and measures, including effective communication and market discipline.

4.1 Exchange Rate Developments

Relative to December 2014, the FRW depreciation against the USD reached 5.2% by end September 2015, trading at FRW 730.54 per dollar from FRW 694.37 by end December 2014.

In addition to the persistent wide trade deficit, the recent pressure of the USD against the FRW has mostly been shaped by the strengthening of the US dollar against most currencies around the world. Moreover, the contagious effects of the depreciation of currencies of major trading partners in the EAC and associated exchange rate speculation effects have amplified pressures against FRW. However, in comparison to other currencies, the FRW has been more stable.

Figure 13: Evolution of nominal exchange, leading currencies against US dollar (end September 2015)

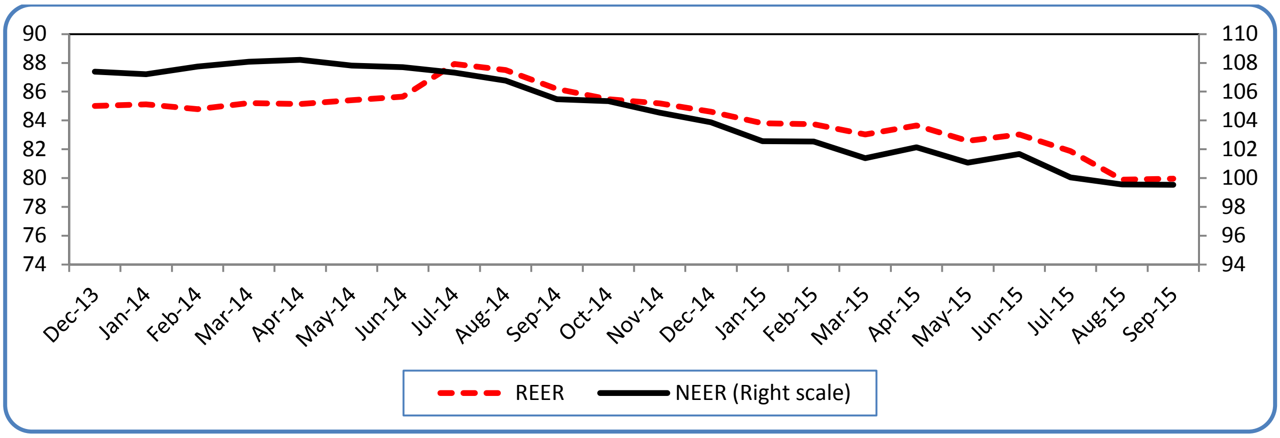


Source: BNR, Monetary Policy and Research Department

In the same period, the FRW appreciated by 2.6% against the EURO but depreciated by 2.7% versus GBP. It appreciated by 9.4%, 15.5% and 20.9% against the Kenyan, Tanzanian and Ugandan shillings respectively, but depreciated by 6.3% versus the Burundian franc. The appreciation of FRW against the shillings was mainly due to the weakening of regional currencies against the USD and relatively higher inflation rates in these regional economies.

Compared to December 2014, by end September 2015 the real effective exchange rates (REER) have appreciated by 5.5% while in nominal effective terms, it appreciated by 4.2%.

Figure 14: Evolution of real effective exchange rate

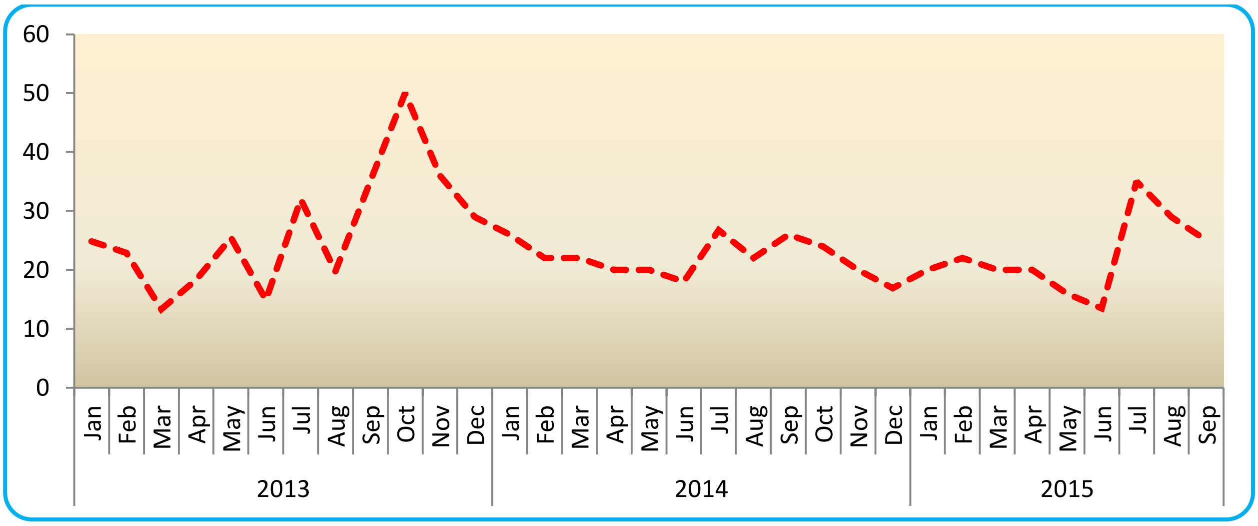


Source: BNR, Monetary Policy and Research Department

4.2 Domestic Foreign Exchange Markets

In 2015Q3, the banking system recorded a decrease of 27.9% in forex resources and 37.1% in expenditures compared to the same period of 2014, leading to a cash deficit of USD 62.1 million in commercial banks. The decrease in resources was mainly attributed to transfer transactions which decreased by 10.2% from USD 464.61 million to USD 416.67 million in 2014Q3. Despite the cash deficit of USD 62.1 million recorded at the level of commercial banks, BNR sales to commercial banks increased by 19.1%, that is, from USD 74.75 million sold to the market in 2014Q3 to USD 89.0 million sold in 2015Q3.

Figure 15: BNR Sales to banks in millions of USD



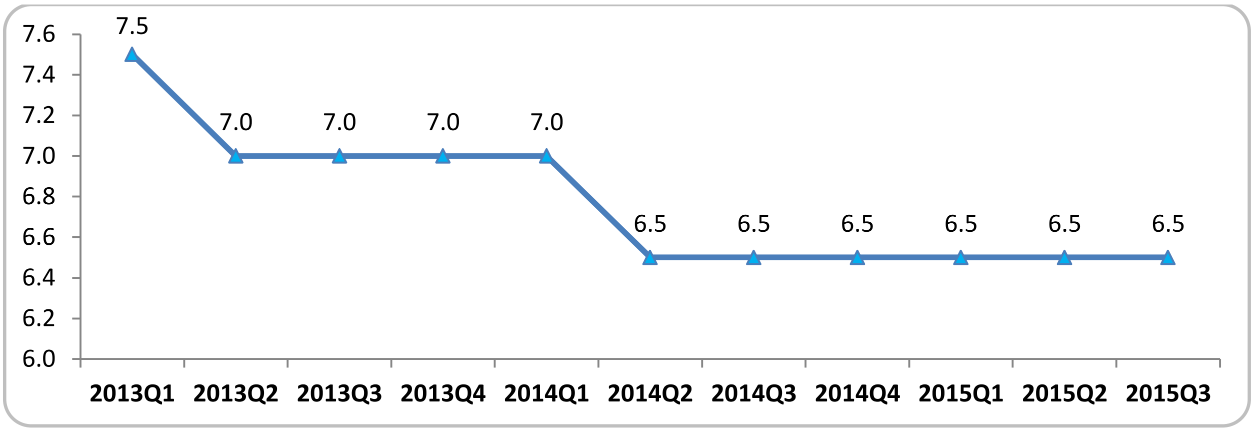
Source: BNR, Financial Market Department

V. MONETARY SECTOR DEVELOPMENTS

5.1 Monetary Policy Stance

In 2015Q3, BNR's monetary policy stance remained accommodative with unchanged policy rate at 6.5% since June 2014. This accommodative stance aims at boosting the financing of the economy and domestic demand amid lower inflationary pressures both domestically and globally. BNR has pursued an accommodative monetary policy since 2013 with a cut in the policy rate in June 2013 and June 2014.

Figure 16: Evolution Key Repo Rate



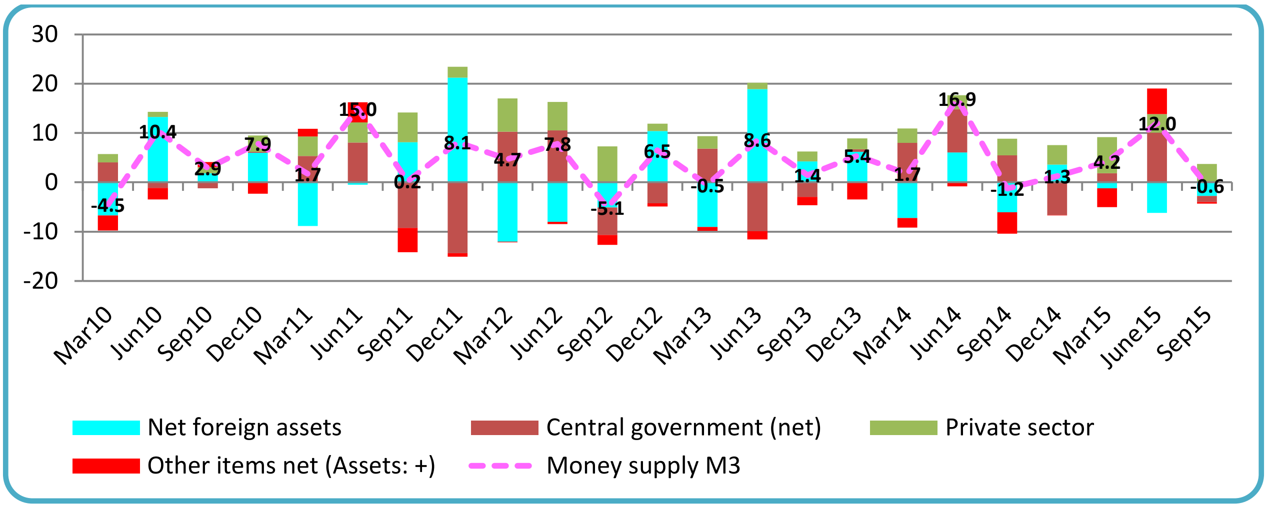
Source: BNR, Monetary Policy and Research Department

5.2 Monetary aggregates developments

Globally, as at end September 2015, key monetary aggregates are in line with their projections in monetary program. Broad money grew by 15.9% cumulatively from December 2014 boosted by the increase in net credit to government and credit to the private sector while net foreign assets reduced.
The money supply M3 slowed down by 0.6% between June and September of 2015 lower than -1.2% registered in the same period of 2014. Between December 2014 and September 2015 the broad money M3 expanded by 15.9% from FRW 1223.9 billion to FRW 1418.9 billion against an expansion of 17.5% recorded in the corresponding period of 2014 and 15.8% projected in the monetary program by end December 2015. The contraction in Net Foreign Assets (NFA) has been the key driver of the slowdown in extended broad money M3 in 2015.

On the demand side, total deposits marginally increased by 0.3% between June and September 2014 versus -0.1% recorded in the similar period of 2014. Total deposits also expanded by 17.3% in September 2015 cumulatively from December 2014 versus 20.9% realized in the similar period of 2014 following an improvement in financial sector network and economic activities.
Demand deposits remain dominant in total deposits followed time and saving deposits then foreign currency deposits.

Figure 17: Source of changes in broad money, M3 (%)

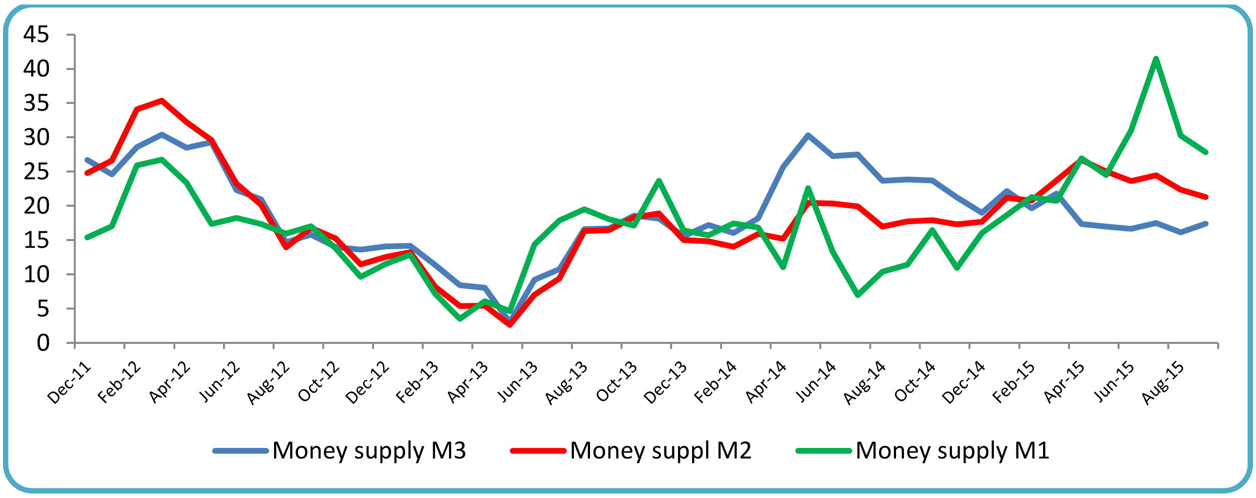


Source: BNR, Monetary Policy Research Department

With regards to the development of the components of money supply M3 on the liabilities side, no big change has been recorded in terms of share of the components of M3 in the four years: the demand deposits kept dominating in the money supply with a share averaging 40.1% in the first nine months of 2015 from 36.2%, 38.2% and 37.2% respectively registered in 2014, 2013 and 2012, followed by time and saving deposits whose share stood at 32.8% from 32.9%, 33.1% and 34.6% then foreign currency deposits whose share stood at 17.8% from 21.0%, 17.0 and 15.8%.

The currency in circulation's share in broad money followed a downward trend decreasing to 9.3% on average in the first nine months of 2015 from 9.9%, 11.7% and 12.4% respectively recorded in the corresponding period in 2014, 2013 and 2012. This downturn trend in currency in circulation ratio is a result of an improvement in banking sector network, payment system modernization, increasing number ATMs and their usage and an expansion in financial services awareness.

Figure 18: Annual percentage change in money supply



Source: BNR, Monetary Policy and Research Department

5.3 Developments in Banks Credit

Generally, credit to the private sector has been expanding in 2015 owing to the continuing easing monetary policy adopted since June 2013 and an improvement in economic activities which lowers the risk of credit. Outstanding CPS kept expanding month on month from January up to September 2015 with a growth of 2.1% on average. Considering year on year, the stock of CPS increased by 27.6% in September 2015 against +16.6% recorded in September 2014.

Between December 2014 and September 2015, CPS went up by 20.9% against 13.3% realized in the same period in the previous year while the monetary program projected the increase of 19.7% by end December 2015.

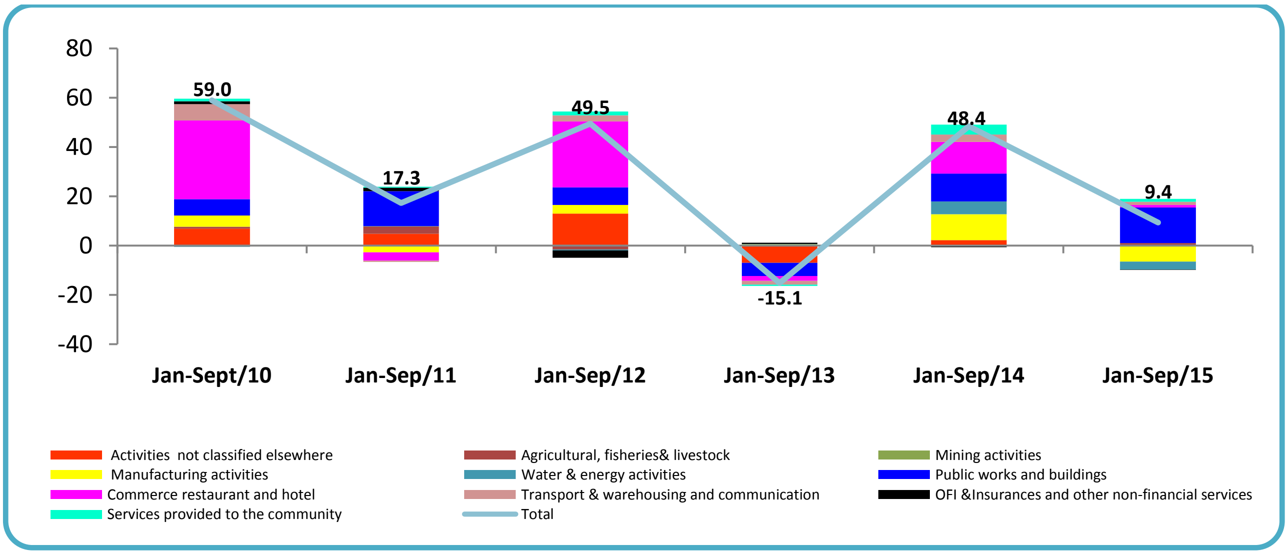
The new authorized loans also expanded by 9.4% to FRW 527.5 billion in the nine months to September 2015, from FRW 482.1 billion in the corresponding period of 2014 well below +48.4% recorded in the latter period. The level of disbursement stood at 77.8% in the first nine months of 2015 compared to 64.6% recorded in the similar period in 2014.

Actually, the above deceleration in the growth of new authorized loans this year is related to the base effect as after a deep decline in new authorized loans in the first nine months of 2013 (-15.1%) they expanded in the same period in 2014 thanks to the easing monetary policy, a low risk of credit and a good economic environment.

Commerce restaurants and hotels is the main sector that has contributed to the deceleration in the growth of new authorized loans in the first nine months of 2015, followed by Manufacturing and Water and energy activities.

On the contrary, Public works and building has remarkably contributed to the growth of new loans in the nine months to September 2015 on the back of loans granted to some big construction companies: Catchup Investment; Intare Investment; Prime Economic Zones; Gorilla Investment Company, among others.

Figure 19: Contribution of different sectors in the growth of new authorized loans (%)

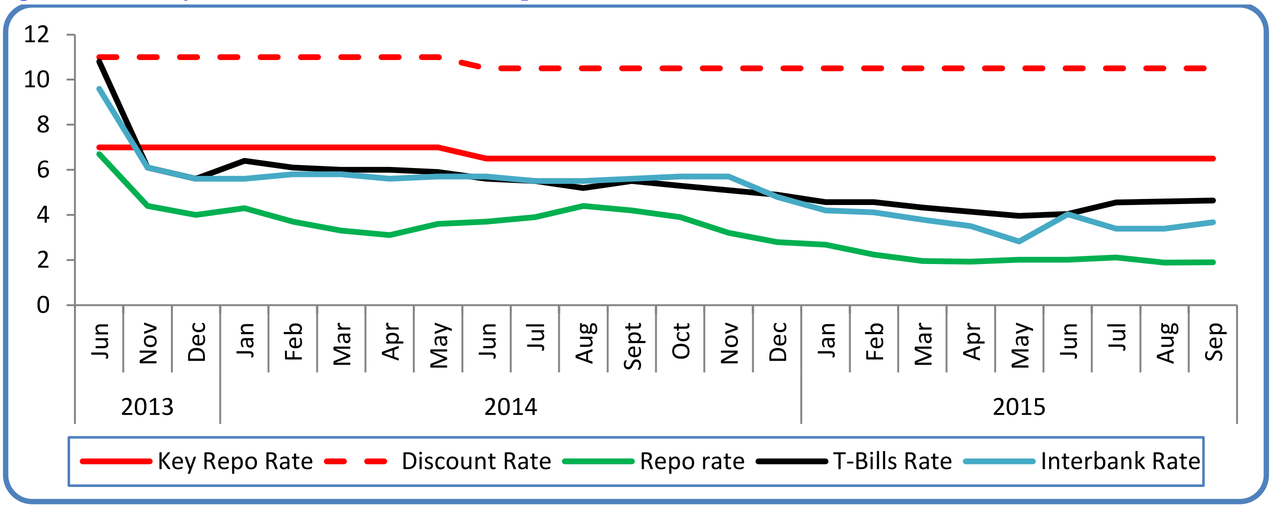


Source: BNR, Financial Stability Directorate

5.4 Interest rates developments

In line with the current monetary policy stance, money market interest rates remained low in line with the liquidity conditions in the banking system. In 2015Q3, repo rate decreased on average to 1.9% from 4.2% in 2014Q3 and treasury bills rate declined to 4.6% from 5.4% while interbank rate dropped to 3.5% from 5.5% in the same period of the previous year.

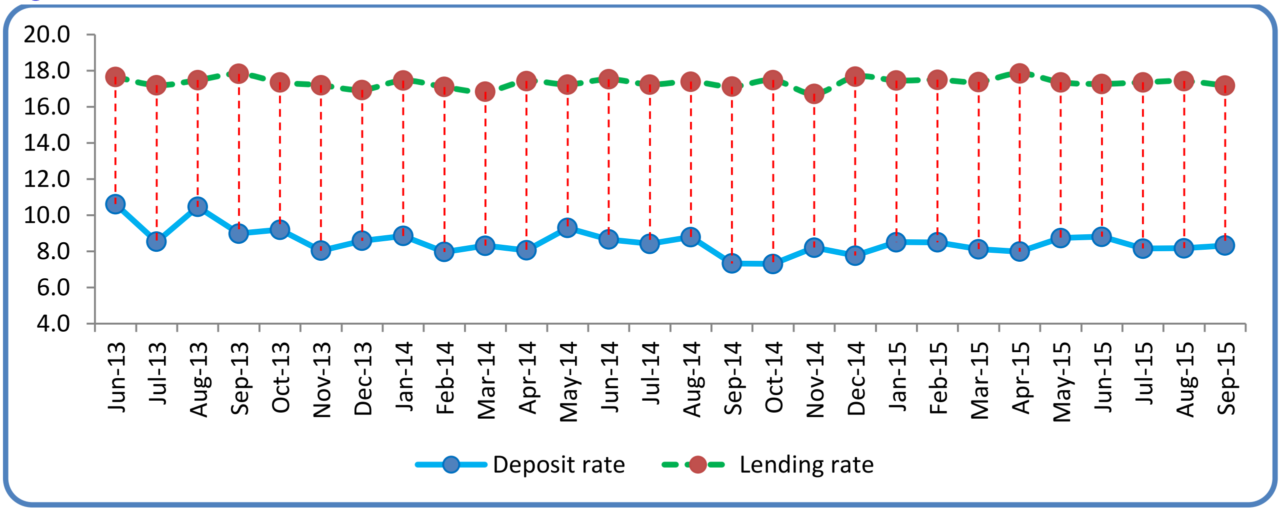
Figure 20: Money market interest rates developments



Source: BNR, Monetary Policy and Research Department

Regarding market rates, lending rate remained almost stable standing at 17.3% on average in 2015Q3 from 17.2% in 2014Q3 while deposit rate also remained stable at 8.2% on average in 2015Q3 same as in 2014Q3.

Figure 21: Market interest rates



Source: BNR, Monetary Policy and Research Department

VI. FINANCIAL STABILITY ANALYSIS

Rwanda's financial system remains healthy and sound as evidenced by various financial soundness indicators on the banking sector such as capital adequacy, assets quality, liquidity, market sensitivity and profitability indicators. In general, the stability of Rwanda's banking system was sustained in 2015Q3 amidst improving domestic economic environment.

6.1 Financial sector performance indicators

This section concentrates on performance indicators of the banking sector following its importance in the entire financial system as well as its role in the effectiveness of monetary policy transmission.

Even though the available indicators portray a sound banking system, they have shown some diverging changes in terms of the banking sector performance for the period under review compared to the previous quarter. Generally, the little movements observed are mixed. The profitability indicators slightly declined in 2015Q3 compared to 2015Q2. For instance, as return on average assets (ROA) slightly declined to 2.3% from 2.4%. This slowdown in ROA of the banking sector is necessarily bad as it was negatively affected by investment costs incurred by banks during the period. The return on average equity (ROE) fell to 12.7% from 13.1% in 2015Q2, reduced by more injections into the system that raised the average shareholders' equity.

Table 12: Key soundness indicators, (in %)

Indicator	2013		2014				2015		
	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.
Solvency ratio (total capital)	22.9	23.1	22.6	23.6	24.0	24.0	25.9	24.3	24.2
NPLs / Gross Loans	7.2	6.9	6.7	6.6	6.3	6.0	6.3	5.9	6.3
NPLS net of interests/Gross loans	6.5	6.0	5.7	5.5	5.5	5.1	4.8	4.9	5.1
Provisions / NPLs	50.3	53.3	56.4	50.0	55.3	56.9	52.3	51.5	48.3
Earning Assets / Total Assets	79.1	78.6	82.1	80.6	83.0	93.1	79.3	81.8	94.5
Large Exposures / Gross Loans	9.9	11.6	15.1	15.8	14.8	17.7	19.3	22.5	20.9
Return on Average Assets	1.7	1.5	2.3	2.1	1.9	1.9	2.7	2.4	2.3
Return on Average Equity	8.3	7.4	11.9	12.1	10.9	10.7	14.0	13.1	12.7
Cost of deposits	3.8	3.8	4.1	3.4	3.2	3.3	3.1	3.1	3.1
Liquid assets/total deposits	48.8	49.4	46.3	54.2	54.0	49.2	46.0	49.5	46.8
Forex exposure/core capital	-3.0	-2.2	-12.6	-1.5	-4.8	-2.2	-5.5	-7.1	-7.9
Forex loans/forex deposits	8.0	8.3	11.0	12.7	16.2	29.5	27.1	32.6	34.8

Source: BNR, Bank Supervision Department

The capital adequacy ratio is above the BNR prudential benchmark of 15% with a record of 24.2% in 2015Q3 slightly reduced from 24.3% in 2015Q2. This indicates that the financial system has resiliently grown to a greater level in which unexpected losses to their balance sheets are absorbed before becoming insolvent.

Regarding banks' assets quality in 2015Q3, the ratio of earning assets to total assets increased reaching 94.5% from 81.8% in 2015Q2. This positive trend has lasted for previous three consecutive quarters showing an improving operational efficiency in the banking sector. The ratio of non-performing loans to total loans is still above the benchmark of 5% while increased to 6.3% from

5.9% in 2015Q2. The concentration of credit risks decreased as the large exposures to gross loans ratio reduced to 20.9% from 22.5% in 2015Q2. This is not threatening as may be curbed by prevailing provisions for NPLs together with lowering levels of NPLs ratio in some banks. The on-going decrease in ratio of provisions to non-performing loans reduced to 48.5% from 51.5% in 2015Q2, explains the strong growth as well as improving quality in the banking sector assets that facilitates banks to reduce this cost of holding more provisions.

The evolution of forex exposure to core capital, forex loans to forex deposits and forex assets to forex liabilities shows that the sensitivity of the banking sector to exchange rate volatility deteriorated in 2015Q3 compared to 2015Q2. Particularly, forex loans to forex deposits increased to 34.8% from 32.6% in the preceding quarter. Higher demand for Forex loans would impose foreign exchange pressures on the forex market resulting to FRW depreciation.

Regarding the balance sheet of the banking system, quarter on quarter growth of total assets of the banking sector sharply decelerated to 2.4% in 2015Q3 from 7.3% in 2015Q1, reaching FRW 2.05 trillion from FRW 2.0 trillion. This marginal increase was mainly driven by increasing outstanding credit to private sector and investment in government securities and other securities as portrayed by higher earning assets to total assets ratio in this quarter.

Regarding sectoral distributions of new cash loans authorised, the commerce, restaurant and hotel sector (35.3%) and the public works and building industries (30.2%) continued to attract a bigger share of total new loans in 2015Q3. These two sectors are among the biggest contributors to real economic growth, and therefore, this apparent lack of credit diversification on one hand does not necessarily pose a big concern. However, on the other part it would be more realistic if authorized loans are widely spread among different sectors otherwise would make banks vulnerable to adverse developments in those sectors.

6.2 Financial stability and Monetary Policy

A health and sound financial system notably the banking system is crucial for effectiveness of monetary policy transmission as well as enabling monetary policy stance to have implications on financial system stability. Prior indicators discussed portray a sound banking system during the period under review, which would favour a smoother transmission mechanism of monetary policy.

Similar to previous quarters, accommodative monetary policy stance was not reflected in retail banks rates especially in lending rates, which continued to hover above 17% despite a cut in policy rate since June 2014. Money market rates (T-bills rate, repos rates and interbank rate) responded to the policy stance, as they maintained lower rates compared to the pre-accommodative stance of monetary policy. Despite changes in returns of alternative assets, the lending rates were somehow irresponsive compared to deposits rates leading to changes in spread of interest rates.

Indeed, banks overhead cost raised whereby their ratio to income increased to 46.2% in 2015Q3 from 46.0% in 2015Q2, contrary to provisions, which slightly declined to 48.3% from 51.5 % in 2015Q2, hindered the improvement in monetary policy transmission. It is also worthy to note that although the current level of overhead cost in banks has slightly increased in 2015Q3, it is still lower if compared to the previous years' quarters, which signals a good development.

The interest rate spread stood at around 9.1% on average during 2015Q3. The level of spread has been particularly bigger in 2015Q3 compared to the previous quarter. While this may lead to more profitability in the banking sector, it can also reflect high-perceived risks, weakened transmission of monetary policy and lack of competitiveness in the banking sector. Though, some proxy measures such as the Herfindahl Hirschman index for loans and deposits markets is at around 0.13 indicating that deposits and loans markets in Rwanda's banking system are not concentrated.

6.3 Economic prospects and financial stability

Following a stronger real economic growth of 7.0% realised in 2015Q2 and if this positive dynamics continues the soundness of households and corporate sector would likely improve and definitely brings more stability in the banking system. Monetary policy remained accommodative for the first three quarters of 2015 as long as Inflation is expected to remain moderate and output gap is still negative. In such a context, liquidity in the banking system will continue to be adequate to keep short-term interest rate low and less volatile to avoid disruptions on financial markets.

However, given the positive outlook in the Rwandan economy, the outlook in the global economy is projected to lower in 2015 by 0.3 percentage points than the previous estimates particularly reflecting weaker prospects for some large emerging market economies and oil-exporting countries. This would pose some downside risks both through direct and indirect channels to the financial system. The downside risks on banking sector soundness would also arise from the negative effect of higher lending rates on households and corporate sector soundness especially if robust rate of real economic growth is not sustained in the near future.

VII. ECONOMIC OUTLOOK AND RISKS

7.1 Global Economic Outlook

The world economy continues to increase at a moderate pace but with differences across countries and regions. Economic prospects are slightly improving in advanced economies supported by the decline in energy prices, accommodative monetary policy and a recovery in domestic demand. For the whole year, the October 2015 IMF report, revised down, for the second time, its projections for the world economic growth to 3.1% in 2015 against 3.3% and 3.5% respectively projected in July and April 2015.

7.2 Domestic Economic Outlook

The Rwandan economy grew by 7.0% during 2015Q2 after 7.6% in 2015Q1 and 6.1% in 2014Q2. This good performance came from industry sector (+10.0%), followed by services sector (+6.0%) and agriculture sector (+5.0%). The accommodative monetary policy implemented by BNR since 2013, through financing of the economy by the banking sector, continued to support economic activities. New authorized loans to the private sector increased by 9.2% end September 2015, amounting to FRW 526.4 billion from FRW 482.1 billion end September 2014.

Good economic performance is expected to continue in 2015Q4 given the upward trend of real sector activity indicators such as total turnovers, the Composite Index of Economic Activities (CIEA) and increasing private sector credit, and evolving toward the initial projected annual GDP growth of 6.5%. The fall in oil prices is also expected to continue having positive impact on Rwandan import bill, therefore on the balance of payment.

Headline inflation has remained subdued, reaching 3.7% in September 2015. Looking ahead, inflation is projected to range between 3.3% and 4.6% by end December 2015 while the main risks to the inflation outlook remain food supply shocks and developments in international oil prices.

With regard to exchange rate development, the exchange rate will remain market driven; BNR intervening on Forex market to smoothen exchange rate volatility depending on available resources. The exchange rate depreciation is expected to remain around 7% by end December 2015 and foreign reserves are expected to cover at least 4 months of imports to ensure the resilience of the economy to external shocks.

Going forward, the financial sector is expected to remain sound and well capitalized as indicated by key macro-prudential indicators along with positive prospects in global economy and on-going recovery in domestic growth.

7.3 Monetary Policy outlook

Following an accommodative monetary policy stance adopted in the first nine months of 2015 money market interest rates followed a downturn trend due to a sound liquidity in banking system. The extended broad money seems to grow faster with an increase of 15.9% by end September 2015 cumulatively from December 2014 which is the projected growth in the monetary program by end December 2015. This high expansion in money supply has mainly been driven by an uptick in NCG due to an increase in government domestic borrowing and Credit to Private Sector due to the current easing monetary policy.

The reduction in oil price on international market caused by an increase in oil production is expected to continue to have a positive impact on the balance of payments as the import of oil represents 16% of total import bill on average, reducing further inflation. This coupled with a non-inflationary credit expansion to the key sectors of the economy and the coordination between monetary and fiscal policies will help to achieve the projected inflation range between 3.3% and 4.6% by end December 2015.

The main challenge continued to be the persistent volatility in commodity price on international market. This may exert more pressures on FRW exchange rate, leading to FRW depreciation and increase the exchange rate pass through to domestic prices. Another challenge could be the seasonal food crops harvests that mostly depend on the weather conditions.

Nevertheless, NBR will continue to follow up the changes in macroeconomic environment and adapt the stance to the changing circumstances with the objective of keeping inflation within its target.