National Bank of Rwanda

Banki Nkuru y'u Rwanda

QUARTERLY INFLATION REPORT

First Quarter, 2018

EXECUTIVE SUMMARY

The world economy remains healthy in 2017 growing by 3.8% and, is expected, going forward, to pick up to 3.9% in both 2018 and 2019. Supporting factors include rising global business investment, a rebound in world trade and favorable financial conditions. Advanced economies grew on average by 2.3% in 2017 and projected to further increase by 2.5% in 2018 as easy monetary policy and rising sentiment continue to drive up the European economy and expansionary fiscal policy likely to boost US economy. Emerging and developing economies improved by 4.8% in 2017 and projected to increase by 4.9% in 2018 underpinned by faster growing emerging Asia together with continuous recovery in resource exporting countries as commodity prices continue holding up. Global inflation is cropping up in line with the rise in aggregate demand and the continued uptick in international commodity prices, particularly for energy.

Overall, a strong and broadly based global growth momentum is expected to drive upward the demand for Rwandan exports particularly for metals and minerals. However, due to excess supply of coffee and tea, prices are likely to decline but may be compensated by a rise in export volumes. On the other hand, rising global demand and increasing international commodity prices are likely to fuel inflation globally particularly as spare capacity gets used up. The resulting interest rate tightening is foreseen to drive up short-term and long-term interest rates and therefore strengthening currencies in major advanced economies. This will result into high imported inflation and financial market volatilities. Also, there may be capital flights from emerging and developing economies searching for higher returns in advanced market economies. An appreciation of the USD and/or other major currencies against the franc, a continued increase in oil prices and rising foreign inflation are likely to exert moderate pressures on domestic prices in 2018.

The Rwandan economy recorded good performance, growing by 10.5% in 2017Q4 after 8.0% and 2.4% in 2017Q3 and 2016Q4, respectively, owing to favorable weather conditions, which led to good harvests in the 2017 season B as well as increase in international commodity prices. The economy grew by 6.1% in 2017 after 6.0% recorded in the previous year, attributed to the service sector (+8.0%), agriculture sector (+7.0) and industry sector (+4.0%). The economy is projected to grow by 7.2% in 2018 mirrored by increase in leading indicators of economic activities in the first quarter of 2018.

Rwanda's trade deficit widened by 2.6% in 2018Q1, to a deficit of USD 352.3 million from a deficit of USD 343.3 million in 2017Q1, following an increase in formal imports value by 13.0%, despite the growth in formal exports value by 34.3%. Formal exports covered 38.7% of formal imports in 2018Q1 from 32.6% in 2017Q1. In 2017 compared to 2016, Rwanda's trade deficit reduced by 21.7% as exports grew by 57.6% in line with the recovery in international commodity prices, which started in the fourth quarter of 2016, while imports value recorded a modest decrease of 0.4% during the same period.

In the first quarter of 2018, the foreign exchange pressure on Rwandan francs (FRW) remained modest. Relative to December 2017, the FRW depreciated by 0.9% against the USD as at end March 2018, slightly higher than 0.8% observed in the same period of 2017, in line with the above mentioned trend in formal trade.

In 2018Q1, headline inflation continued declining from 2.2% in 2017Q4 to 0.9% in 2018Q1. This decline was mainly reflected in food prices that dropped from 1.9% to -1.8% offsetting the mild upward pressures from energy prices that picked from 6.3% up to 7.3% during the same period.

In 2018Q1, the NBR maintained an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures remained subdued. The NBR reduced its policy rate from 6.25% in December 2016 to 6.0% in June 2017 and 5.5% in December 2017 while keeping it unchanged in March 2018. As a result, outstanding credit to the private sector increased by 7.6% in 2018Q1 compared to 9.3% in the corresponding period of 2017. The broad money increased by 15.4% in 2018Q1 compared to 9.8% in the same period of 2017.

Looking ahead, inflation is expected to rise but generally remain subdued. Upward pressures will come from the reduced supply of charcoal. In addition, heavy rains may have destroyed crops in some parts of the country, which is likely to affect food supply. Furthermore, other pressures may continue to come from the increased public transport fares, partly due to the increase in local pump prices and uptick in insurance premiums. In view of the above, on overage headline inflation is likely to lie between 2% and 3.6% in 2018Q2.

LIST OF ACRONYMS AND ABBREVIATIONS

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

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1.1 Economic Developments

The global economic performance remains strong in 2018 and this growth momentum is expected to continue in 2019. Financial conditions remain supportive, global trade is expanding substantially and international commodity prices have continued to recover, giving a boost to commodity exporting countries. The global manufacturing Purchase Manager Index remains high, pointing to favorable business conditions that are supporting a strong economic outlook. According to IMF April 2018 estimates, the world economic growth is projected at 3.9% in 2018 and 2019 against 3.8% recorded in 2017. Advanced economies are expected to grow by 2.5% in 2018, emeging and developing economies by 4.9% against 2.3% and 4.8% respectively in 2017.

World inflation rose to 3.2% in 2017 and is expected at 3.3% in 2018 in line with rising commodity prices and improvement in global demand. However, despite improving demand and easing unemployment rate, core inflation remained below central banks' targets in most developed countries, pointing to a continuation of accomodative monetary policy.

1.1.1 Developments in United States

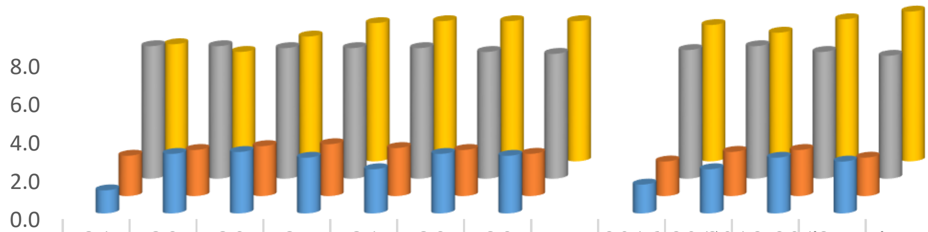
In USA, real GDP grew by 2.3% in 2018Q1 from 2.9% in the last quarter of 2017, buoyed by increased business investment, rising consumer spending as well as increasing exports. With the labour market continuing to improve and given the support from the fiscal stimulus, the US growth outlook is anticipated to remain strong over the next two quarters (3.1% in 2018Q2 and 3.0% in 2018Q3) and projected to average 2.9% in 2018, up from 2.3% in 2017. The cut in the tax bill and the Job Act of 2017 are likely to provide additional support for the year 2018 adding to the still easy monetary conditions.

US inflationary pressures continue to rise, with annual inflation reaching 2.4% in March 2018 from 2.1% in December 2017, driven by both energy inflation (+7.0%) and food inflation (+1.3%). Core inflation was 2.1% in March 2018, higher than the Federal target of 2.0% and against 1.8% registered in December 2017. On quarterly basis, inflation stood at 2.2% in 2018Q1, from 2.1% in 2017Q4 and is expected at 2.7% and 2.6%, respectively in 2018Q2 and 2018Q3. In view of rising inflationary pressures and positive data from the US labour market, the Federal Reserve revised up, in its meeting between 20-21 March 2018, the target range for the Funds rate to 1.50%-1.75% from 1.25-1.50%. As inflationary pressures keep rising and labour market still tight, markets are expecting more hikes over the course of the year 2018.

1.1.2 Developments in Eurozone

The Eurozone economic growth remained strong, on the back of healthy global demand and the improving productivity and competitiveness after member countries implemented structural reforms in products and labour markets. Year-on-year, real GDP rose by 2.5% in 2018Q1, slightly lower than 2.7% in the previous quarter. Growth is expected to stand at 2.4% in 2018Q2 and 2.2% in 2018Q3. Despite some moderation starting this year, growth is expected to remain solid. Improving employment gains support consumption and business investments continue to strengthen due to favorable financial conditions. In addition, the global demand remains healthy and likely to spur Eurozone exports. Overall, Eurozone GDP growth is foreseen to hike to 2.3% in 2018 before decelerating to 1.9% in 2019.

Figure 1: Economic growth developments (in %)



	2017				2018				Annual Average			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		2016	2017	2018 proj.	2019 proj.
USA (QoQ)	1.2	3.1	3.2	2.9	2.3	3.1	3.0		1.5	2.3	2.9	2.7
Euro area (YoY)	2.1	2.4	2.6	2.7	2.5	2.4	2.2		1.8	2.3	2.4	2.0
China (YoY)	6.9	6.9	6.8	6.8	6.8	6.6	6.5		6.7	6.9	6.6	6.4
India (YoY)	6.1	5.7	6.5	7.2	7.3	7.3	7.3		7.1	6.7	7.4	7.8

Source: BLOOMBERG and IMF, World economic Outlook, April 2018

Euro area annual inflation rate was 1.3% in March 2018, up from 1.1% in February 2018, driven by positive contribution from services (+0.7%), food, alcohol and tobacco (+0.4%), energy (+0.2%) and non-energy industrial goods (+0.1%). For the next quarter, Eurozone inflation is projected to stand at 1.5% in 2018Q2 from 1.2% in 2018Q1 and 1.4% in 2017Q4. After standing at 1.0% in March 2018, core inflation is foreseen to remain low over the medium term suggesting continuing accommodative monetary policy. In view of positive growth prospects, the ECB is expecting to consider a tapering in quantitative easing in the last quarter 2018 but may keep the policy rate unchanged until mid-2019 at the earliest.

1.1.3 Developments in China

For the third straight quarter, Chinese GDP grew by 6.8% in 2018Q1, backed by stronger external demand, improving domestic demand together with resilient real estate activity. Real GDP growth is projected to slow to 6.6% and 6.5% respectively in 2018Q2 and 2018Q3, reflecting continuous drag from a tightening monetary policy and the slowing fiscal stimulus as well as the issue of the US raising trade barriers which may affect China's exports growth.

In March 2018, the Chinese consumer price index increased by 2.1% on annual basis, slightly higher than 1.8% realized in December 2017, reflecting an increase in tourism and transport costs during the Spring Festival. Year-on-year quarterly inflation is expected to stabilize at 2.2% in 2018Q2, the same level as 2018Q1 as a slowdown in credit growth is likely to soften the economic activity.

1.1.4 Developments in Sub-Saharan Africa and EAC

In Sub-Saharan Africa, economic growth is projected to rise to 3.4% in 2018 and to 3.7% in 2019, from 2.8% in 2017. Growth is expected to pick up in commodity exporting countries as the recovery in commodity prices continues. Growth is foreseen to improve in oil exporting countries, reflecting extension until end 2018 of the oil supply adjustments by the Organization of the Petroleum Exporting Countries and outages in some oil producing countries like Libya, Venezuela and North Sea together with the stronger global economic growth. Growth in South Africa is expected to strengthen to 1.5% in 2018 and 1.7% in 2019, from 1.3% in 2017.

In the East African Community (EAC), growth remained broadly resilient in 2017 despite challenges related to bad weather conditions, which negatively affected agriculture. A deceleration in growth was noticed in Kenya to 4.4% in 2017Q3 from 5.0% in 2017Q2 and in Tanzania to 6.8% in 2017Q3 from 7.8% in 2017Q2. During the same period, real GDP increased to 8.0% from 4.0% in Rwanda and, to 7.5% from 6.5% in Uganda. For 2017Q4, GDP further increased by 10.5% in Rwanda supported by all sectors and in Uganda by 6.6% spurred by growth in services (+8.9%), industry (+7.3%) and partly in agriculture (+3.5%). In 2017, growth for Rwanda, Kenya and Tanzania remained robust, though below their 2016 levels for the last two countries. Uganda's economic growth improved to 4.4% in 2017 from 2.3% in 2016, driven by rising investment spending. A positive rebound in growth for all EAC economies is expected in 2018 and 2019.

Table 1: Economic growth in EAC countries (in %)

	2016				2017				Annual Average			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**2016**	**2017**	**2018**	**2019**
Burundi	-	-	-	-	-	-	-	-	-1.0	0.0	0.1	0.4
Kenya	5.3	6.2	5.7	6.1	4.7	5.0	4.4	-	5.8	4.8	5.5	6.0
Rwanda	8.9	7.5	5.4	2.4	1.7	4.0	8.0	10.5	6.0	6.1	7.2	7.8
Tanzania	6.8	8.5	6.9	5.6	5.7	7.8	6.8	-	7.0	6.0	6.4	6.6
Uganda	4.0	3.2	2.1	2.8	4.6	6.5	7.5	6.6	2.3	4.5	5.2	5.8

Source: National Bureau of Statistics Websites and IMF WEO, April 2018

In line with the improvement in weather conditions which spurred the improvement in the agriculture sector performance across the EAC region, inflationary pressures eased during the second half of 2017 and early 2018. Similarly, subdued exchange rate pressures in the region also contributed to the ease in inflation.

Table 2: Headline inflation in EAC countries, in %

	2017				2018			Annual average		
	Mar.	Jun.	Sept.	Dec	Jan.	Feb.	Marc.	2016	2017	2018Proj
Uganda	6.4	6.4	5.3	3.3	3.0	2.1	2.0	5.5	5.6	3.6
Kenya	10.3	9.2	7.1	4.5	4.8	4.5	4.2	6.3	8.0	4.8
Tanzania	6.4	5.4	5.3	4.0	4.0	4.1	3.9	5.2	5.3	4.8
Burundi	21.1	15.1	15.2	10.0	6.1	-1.3	-2.6	5.5	16.6	12.7
Rwanda	7.7	4.8	3.8	0.7	1.3	0.7	0.9	5.7	4.8	2.8

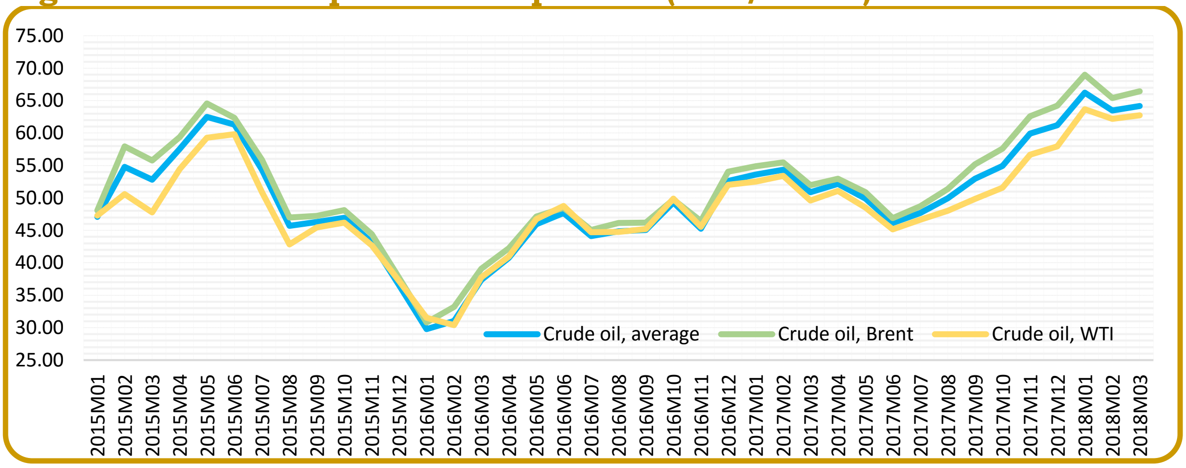
Source: Country Bureaus of Statistics, IMF, World Economic Outlook, April 2018

1.2 Recent developments in commodity prices

The pickup in global inflation is partly attributed to a surge in commodity prices since the third quarter of 2017, particularly energy prices. Commodity prices went up in the first quarter of 2018 supported by both demand and supply factors. Globally improving economic activity has spurred the demand for commodities while a number of commodities faced supply constraints. In 2018Q1, commodity prices rose by around 7.0%, quarter-on-quarter, owing to increase in prices of both energy (+9.8% after 14.8% in 2017Q4) and non-energy (+3.9% compared to 1.0% in 2017Q4).

The increase in energy prices was driven primarily by rising oil prices (+10.1% in 2018Q1 after +16.9% in 2017Q4) and natural gas prices (+15.0% after 16.6% for gas in Europe). Oil prices rose to USD 64.62 in 2018Q1, from USD 58.68 per barrel in 2017Q4, following geopolitical tensions in the US Gulf Coast and in Libya, the North Sea, and Venezuela, the extension to the end of 2018 of the Organization of the Petroleum Exporting Countries agreement to adjust oil supply as well as a stronger global oil demand.

Figure 2: Crude oil price developments (USD/barrel)



Source: World Bank

Prices for metals and minerals continue to rise, growing by 4.3% in 2018Q1 from 4.7% in the last quarter of 2017, in response to increasing economic activity in all advanced economies. Base metals prices increased by 3.6% after a decline of 0.4% in 2017Q4, supported by rising global demand due to limited supply partly reflecting cuts in China's production capacity for environmental reasons. Iron ore prices rose by 13.1% quarter-on-quarter in 2018Q1 due to high steel prices and rising prices of coal. On quarterly basis, tin prices hiked by 7.0% over 2018Q1 after a slowdown by 3.5% in 2017Q4. For precious metals, concerns about mounting geopolitical risk and fears about rising inflation supported prices.

Agricultural commodity prices went up by 4.0% in 2018Q1 from a decline of 0.9% in 2017Q4 as unfavorable weather conditions reduced harvests of many grains and oilseeds. Among agriculture commodities, prices increased for food (+4.3% in 2018Q1 against -0.5% previously) and for agricultural raw materials (+5.8% after -0.7% in 2017Q4). Grains' prices drove this increase as they augmented by 8.8% in the first quarter this year, after a slowdown by 1.1% in 2017Q4, largely due to lower wheat and maize plantings in the United States. Beverages' prices fell by 0.9% in 2018Q1 after -3.0% in 2017Q4, as the increase in cocoa prices (+7.1% in 2018Q1 after 2.8% in 2017Q4) was overcompensated by declines in prices of tea (-7.4% in 2018Q1 from -0.7% in 2017Q4), Robusta coffee (-4.0% in 2018Q1 after -10.2% in 2017Q4) and Arabica coffee (-2.1% in 2018Q1 against -6.1%). Markets remained well supplied for both coffee and tea.

Prices for fertilizers declined by 1.4% in 2018Q1 after an increase of 6.5% in 2017Q4, reflecting weak global demand for fertilizers amid plenty supply resulting from old investments made when fertilizer prices were still high. Low crop prices, since 2011, reduced agriculture profitability and affected the demand for fertilizers.

1.3 Financial markets and Foreign Exchange market

Despite the positive economic momentum observed in most advanced countries, core inflation remains below central bank targets and continues to impact the monetary policy. Monetary policy remains supportive for economic activity and for inflation to move close to targets. The European Central Bank left the policy rate unchanged at 0.00% while it considers a tapering in the monetary stimulus in the final quarter of 2018. So far, the bond buying program of euros 30 billion is expected to run until September 2018, or even beyond if necessary. The Bank of Japan kept constant the monetary policy rate at -0.10% on the lower inflation expectations.

In the US, both headline and core inflation moved close to 2% target, unemployment remained low and economic activity performed above potential, prompting the Federal Reserve to continue normalizing interest rates and winding down the balance sheet. In its meeting between 20-21 March 2018, the Federal Reserve raised, for the fourth time since March 2017, the target range for the fund rate to 1.50%-1.75% from 1.25%-1.50%. The monetary policy remains however still accommodative. In the United Kingdom, the central bank rate was unchanged at 0.500% and the bond purchase at £10 billion for corporate bonds and at £435 billion for the government bonds. The BOE considers tightening monetary policy as the growth prospects remain strong, CPI inflation above the target (2.7% in 2018Q1 against 3.0% in 2017Q4) and the pay bill still going up.

Three-month deposit rates remained negative in Eurozone and Japan, standing at-0.395% and -0.110% respectively in 2018Q1 from -0.375% and -0.120% in 2017Q4.

These negative short-term rates in the Eurozone and Japan were meant to deter banks' deposits in the Central bank and encourage economic financing. Three-month deposit rates increased to 2.380% and 0.702% respectively in USA and UK from 1.705% and 0.511% in 2017Q4.

Ten-year government bond yields increased broadly in advanced economies in 2018Q1; reflecting strong economic data, rising inflation and concerns about the Federal Reserve further tightening. Monetary policy in the US, Europe and Japan monetary policy are however still far from being tight.

Table 3: Interest rates developments (in % per annum)

		2016				2017				2018
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
USA	3-month deposit rate	0.825	1.018	0.885	1.535	1.430	1.300	1.350	1.705	2.380
	10-year interest rate	1.770	1.470	1.596	2.444	2.387	2.304	2.334	2.405	2.739
Euro area	3-month deposit rate	-0.240	-0.270	-0.280	0.350	-0.320	-0.388	-0.373	-0.375	-0.395
	10-year interest rate	0.150	-0.130	-0.119	0.208	0.328	0.466	0.464	0.427	0.497
Japan	3-month deposit rate	-0.080	-0.120	-0.310	-0.440	-0.090	-0.095	-0.145	-0.120	-0.110
	10-year interest rate	-0.030	-0.217	-0.089	0.046	0.070	0.086	0.068	0.048	0.040
UK	3-month deposit rate	0.670	0.670	0.560	0.610	0.430	0.400	0.380	0.511	0.702
	10-year interest rate	1.420	0.867	0.746	1.239	1.139	1.257	1.365	1.190	1.350

Source: Bloomberg

On the foreign exchange market, the US dollar curbed the previous losses against the Euro and the pound reflecting widening interest rates differentials while it weakened further against the Japanese Yen, which benefited from a return to fundamentals. The Pound suffered from the recent deterioration in Bank of England rate expectations. In 2018Q1, the greenback depreciated by 3.6% against the Pound, by 2.6% against the Euro and by 5.7% versus the Yen against respective decline by 8.6%, 12.4% and 3.7% in the fourth quarter 2017.

1.4 Outlook for the global economy

The global economy was strong in 2017 and expected to further pick up over the next two years. Real GDP growth is expected at 3.9% on average in 2018 and 2019 from 3.8% in 2017. Most advanced economies are performing above potential, indicating a continued stronger aggregate demand in the near future. Support factors include favorable market sentiment, easy financial conditions and expansionary fiscal policy in United States.

Despite the current move in Federal Reserve monetary policy which is creating volatility in asset markets, US positive growth dynamics continue and output is set to grow by 2.9% in 2018 after 2.3% in 2017, helped by expected sizable fiscal expansion, continuous strength in labor market and a recovery in the energy sector. Core and headline inflation are moving closer to 2.0%, pointing to further interest rate hikes. The Eurozone economy looks stronger, underpinned by positive performance in labor market and rising consumer and business confidence and easing monetary policy. Real GDP growth is expected to expand by 2.4% in 2018 from 2.3% in 2017. Rising demand together with improving private consumption are expected to push inflation close to the target.

In emerging and developing economies, the growth will remain close to 2017 levels as a gradual slowdown in Chinese growth prospects is offset by the recovery in commodity exporting countries. Growth is projected at 4.9% in emerging and developing economies and to 3.4% in Sub-Saharan Africa, from 4.8% and 2.8% respectively in 2017. China's GDP growth is foreseen to decelerate to 6.6% in 2018 and furthermore to 6.4% in 2019 from 6.9% recorded in 2017. Though subdued in Burundi, growth for all EAC economies is expected to remain strong in 2018 and going forward in 2019.

Overall, risks to global economic activity are broadly balanced for the near future but directed to the downside over the medium term due to expected tightening in global financial conditions, after a long period of loose monetary policy, notably the risk of a more aggressive US Federal Reserve.

On the international commodity market, prices are expected to increase, reflecting accelerating global growth and rising demand.

Table 4: World Bank commodity prices forecasts (in % change)

	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1	2017	2018	2019
Energy	**3.2**	**11.1**	**6.3**	**-5.8**	**2.0**	**14.8**	**9.8**	**23.6**	**19.9**	**-0.4**
Spot Crude	-0.2	9.8	7.9	-6.7	1.6	16.9	10.1	23.4	23.1	0.0
Metals & minerals	**4.3**	**10.0**	**9.9**	**-5.2**	**9.9**	**4.7**	**4.3**	**24.1**	**8.6**	**-2.1**
Iron Ore	4.8	20.6	21.3	-26.2	13.3	-8.0	13.1	22.9	-10.9	-6.3
Tin	10.0	12.0	-3.9	-0.4	3.0	-3.5	7.0	11.9	3.2	0.9
Beverages	**3.6**	**-3.1**	**-6.5**	**-4.1**	**0.5**	**-3.0**	**-0.9**	**-9.0**	**-0.2**	**1.2**
Tea	13.2	6.7	0.2	8.2	1.1	-0.7	-7.4	17.4	-1.6	0.3
Arabica	9.5	1.8	-5.7	-9.4	-0.6	-6.1	-2.1	-8.0	-2.1	0.3
Robusta	8.9	10.6	4.0	-5.5	1.6	-10.2	-4.0	14.4	-10.3	1.0
Cereals	**-9.0**	**-4.4**	**3.6**	**6.6**	**-2.1**	**-1.1**	**8.8**	**-0.2**	**7.6**	**1.5**
Wheat	-19.4	-1.6	4.1	15.9	3.0	-2.3	6.9	4.2	9.2	2.1
Maize	-10.3	-0.8	5.5	-1.8	-4.2	-1.5	10.1	-2.5	6.5	1.8
Rice	4.1	-10.8	0.6	13.0	-3.7	-0.8	7.9	0.8	5.3	0.5
Barley	-4.6	-4.6	0.7	1.8	1.6	13.1	17.5	-5.8	27.6	4.0

Source: http://pubdocs.worldbank.org/en/458391524495555669/CMO-April-2018 .

Prices for energy commodities are projected to go up by 19.9% in 2018 with crude oil prices expected to increase by 23.1%. Crude oil price is projected to increase to USD 65/barrel in 2018 and 2019 from USD 53/barrel in 2017 owing to strong demand amid continued supply cut by oil producers. Metals prices are expected to increase by 8.6% in 2018 on the back of supply constraints and a pickup in demand. Precious metals are expected to climb 3% this year, in anticipation of U.S. interest rate hikes and higher inflation expectations. Due to diminished planting prospects, agricultural commodity prices are expected to rise by 2% in 2018 driven by 7.6% increase in prices of cereals, while prices will decline by 0.2% for beverages with coffee and tea prices expected to decline.

Overall, a strong and broadly based global growth momentum is likely to keep supporting Rwanda's economic outlook. Strong consumer and business sentiment are suggesting continuous increase in global aggregate demand. The latter is expected to drive upward the demand for Rwandan exports particularly for metals and minerals. However, due to excess supply of coffee and tea, prices are likely to decline but may be compensated by a rise in export volumes.

On the other hand, rising global demand and increasing international commodity prices are likely to fuel inflation globally, particularly as spare capacity gets used up. The resulting interest rate tightening is foreseen to drive up short-term and long term interest rates and therefore strengthening currencies in major advanced economies. This may result into high imported inflation and financial market volatilities. Also, there may be capital flights from emerging and developing economies searching for higher returns in advanced market economies.

An appreciation of the USD and/or other major currencies against the franc, a continued increase in oil prices and rising foreign inflation are likely to exert moderate pressures on domestic prices in 2018.

II. DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS

2.1 Domestic Demand and Output

The Rwandan economy recorded good performance, growing by 10.5% in 2017Q4 after 8.0% and 2.4% in 2017Q3 and 2016Q4, respectively, owing to favorable weather conditions, which led to good harvests in the 2017 season B as well as increase in international commodity prices. The economy grew by 6.1% in 2017 after 6.0% recorded in the previous year, attributed to the service sector (+8.0%), agriculture sector (+7.0%) and industry sector (+4.0%). The economy is projected to grow by 7.2% in 2018 mirrored by increase in leading indicators of economic activities in the first quarter of 2018.

2.1.1 Domestic demand

The upward trend of real GDP observed in the second half of 2017 was mainly driven by external demand and non-construction investments. Despite a decline in construction since 2016Q4, total investments (gross capital formation) recovered in 2017Q4, rising by 27.0%, against a decrease of 9.0% in 2016Q4. Other fixed investments significantly increased by 94.0% in 2017Q4 against a decline of -21.0% in 2016Q4, while inventories increased for the first time since 2016Q1, by 33.0% in 2017Q4.

Table 5: Domestic demand (% change)

	2015	2016				2017			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	**10.0**	**8.9**	**7.5**	**5.4**	**2.4**	**1.7**	**4.0**	**8.0**	**10.5**
Total final consumption Expenditure	16.0	0.0	5.0	0.0	-2.0	5.0	1.0	6.0	1.0
Government	13.0	10.0	0.0	13.0	15.0	6.0	18.0	9.0	10.0
Households and NGOs	17.0	-2.0	6.0	-2.0	-5.0	5.0	-2.0	5.0	-1.0
Gross capital formation	**29.0**	**32.0**	**16.0**	**7.0**	**-9.0**	**-12.0**	**-2.0**	**16.0**	**27.0**
Gross fixed capital formation	30.0	32.0	18.0	7.0	-9.0	-12.0	-1.0	15.0	27.0
Construction	24.0	15.0	7.0	2.0	-3.0	-7.0	-4.0	-1.0	-1.0
Other	44.0	77.0	42.0	21.0	-21.0	-20.0	3.0	48.0	94.0
Change in inventories	-5.0	41.0	-34.0	-16.0	-7.0	-33.0	-11.0	30.0	33.0
Exports of goods & serv.	3.0	8.0	8.0	17.0	19.0	15.0	29.0	31.0	58.0
Imports of goods & serv.	40.0	1.0	8.0	-2.0	-10.0	4.0	0.0	17.0	20.0

Source: National Institute of Statistics of Rwanda

Despite noticeable improvement, private consumption remains weak as Households and NGOs total consumption dropped by -1.0% in 2017Q4 from 5.0% in 2017Q3.

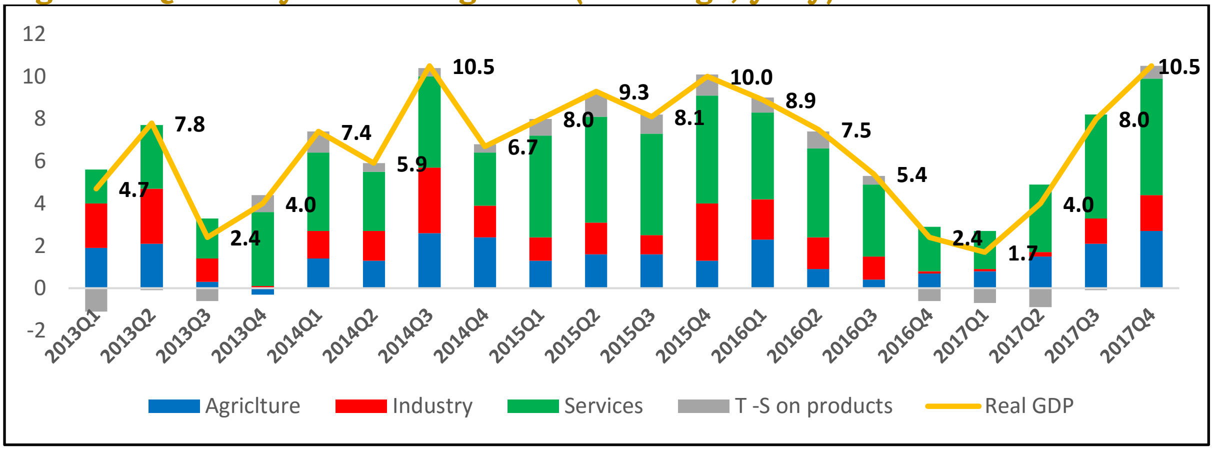
Conversely, growth in government consumption increased by 10.0% in 2017Q4 from 15.0% in 2016Q4. As a result, total final consumption slightly increased by 1.0% in 2017Q4 after declining by 2.0% in 2016Q4.

The external demand reinforced the good performance of the Rwandan economy in 2017Q4 through a rapid increase in exports driven by the rise in international commodity prices. Exports of goods and services significantly increased by 58.0% in 2017Q4 higher than 19.0% recorded in 2016Q4, while imports of goods and services increased by 20.0% in 2017Q4 against a decrease of 10.0% recorded in 2016Q4, leading to a continuous improvement in net exports of goods and services.

2.1.2 Economic performance by sector

The services sector's good performance was attributed mostly to transport services (+16.0%), financial services (+14.0%), information and communication (+13.0%) as well as by a recovery in wholesale and retail trade (+19.0%). The Transport services sub-sector was mainly driven by RWANDAIR, whose total sales increased by 34.0% in 2017Q4 against 33.9% recorded in 2016Q4, representing 64.6% of the total sales of the transport sub-sector.

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



Source: NBR, Monetary Policy & Research Department

Robust performance of the agriculture sector recorded in 2017Q4 was mainly driven by an increase in food crop production by 11.0% in 2017Q4 against 1.0% recorded in 2016Q4, thanks to the 2017 season B good harvest.

The performance of the industry sector was attributed mainly to the good performance of mining and quarrying sub-sector (+51.0%) as well as manufacturing industries (+7.0%). The significant growth in mining and quarrying sub-sector was led by the increase in international commodity prices of Coltan (+38.6% in 2017Q4 vs -11.8% in 2016Q4) and wolfram (+31.5% in 2017Q4 vs 12.1% in 2016Q4).
The good performance of the Rwandan economy observed in 2017Q4 continued in 2018Q1 as evidenced by the leading indicators of economic activities. In 2018Q1, the composite index of economic activities (CIEA) increased, in real terms, by 17.5% from

6.2% in 2017Q1. In nominal terms, the CIEA increased by 16.4% in 2018Q1 from 10.0% in 2017Q1.

Table 6: CIEA (% change, y-o-y)

CIEA	Real	Nominal
2016Q1	18.4	22.0
2016Q2	14.3	20.4
2016Q3	11.0	17.3
2016Q4	6.5	11.8
Annual	**12.3**	**17.6**
2017Q1	6.2	10.0
2017Q2	9.1	13.7
2017Q3	12.4	14.0
2017Q4	16.4	17.0
Annual	**11.1**	**13.8**
2018Q1	**17.5**	**16.4**

Source: BNR, Monetary Policy and Research Department

The continued strong economic performance is further evidenced by the growth in total turnovers of industry and services sectors, which grew by 19.4% in 2018Q1 higher than 14.8% registered in the same period of 2017, thanks to the good performance in mining and quarrying, wholesale & retail trade, construction, manufacturing, transport & storage as well as hotels & restaurants.

Table 7: Turnovers of industry & services (% change, y-o-y)

	2016			2017			2018
	Q1	Q4	Annual	Q1	Q4	Annual	Q1
Total turnovers	**12.0**	**6.9**	**10.1**	**14.8**	**19.3**	**15.8**	**19.4**
Industries	**13.4**	**-3.0**	**7.7**	**10.1**	**21.0**	**12.0**	**17.2**
Mining & Quarrying	-48.2	-19.3	-26.7	9.1	58.4	26.0	44.0
Manufacturing	24.9	5.6	10.7	9.6	18.2	16.4	16.7
Energy Sector	57.5	27.8	52.6	19.1	20.1	14.2	4.3
Construction	6.5	-18.1	0.9	7.7	18.9	1.6	19.0
Services	**11.5**	**10.9**	**11.0**	**16.5**	**18.7**	**17.3**	**20.1**
Wholesale & Retail trade	9.5	9.6	6.9	16.7	30.4	26.1	30.8
Petroleum distributors	1.9	5.7	14.3	44.1	17.7	15.4	0.8
Transport & Storage	12.8	28.3	22.7	18.8	15.7	16.7	23.9
Hotels & Restaurants	16.9	15.0	16.2	2.7	-2.7	-1.3	19.0
Hotels	12.0	14.3	12.4	5.5	4.8	5.6	26.7
Restaurants	37.0	17.7	31.1	-6.7	-30.9	-24.5	-10.0
Information & Comm.	11.4	7.9	11.7	0.9	3.1	-0.3	9.5
Financial & insurance	31.6	9.1	21.6	8.1	15.6	11.1	14.9
Banks	11.6	11.0	14.4	10.7	12.7	9.8	14.6
Real Estate Activities	-13.0	39.9	9.2	13.5	-29.4	-22.1	7.8

Source: NBR, Statistics Department

The good performance in total turnovers was mainly driven by the service sector, with a share of 74.6%, increasing by 20.1% in 2018Q1 from 16.5% registered in the corresponding period of the previous year. The sector's performance was mainly attributed to the wholesale and retail trade (+30.8%), transport and storage (+23.9%), hotels & restaurants (+19.0%) as well as financial and insurance activities (+14.9%). Sales of the transport sub-sector continued to be driven by business expansion of RwandAir, whose total sales rose by 35.0% in 2018Q1 after 49.6% in 2017Q1, representing 49.3% of the total sales of the transport sub-sector. The development in wholesale and retail trade is linked to the rising imports volume (+11.6% in 2018Q1 from -1.9% in 2017Q1), of which imports of consumer goods, representing 37.4% of total imports in 2018Q1, rose by 17.7% from -10.8%.

Total sales of hotels rose by 26.7% in 2018Q1 mainly attributed to RADISSON BLU HOTEL & KIGALI CONVENTION CENTRE Ltd (+207.4), MARRIOT Hotel (+117.5%), and SERENA Hotel (+11.4%), thanks to the recent MICE events of which Africa Tech Summit, FANAF – 42nd General Assembly of the Federation of African National Insurance companies, Dot Finance Africa, Extraordinary African Union Summit and Next Einstein Forum.

The industry sector, which accounts for 25.4% of the total sales, grew by 17.2% in 2018Q1 from 10.1% in the corresponding period of the previous year, mainly attributed to mining and quarrying (+44.0%), construction (+19.0%), and manufacturing (+16.7%).

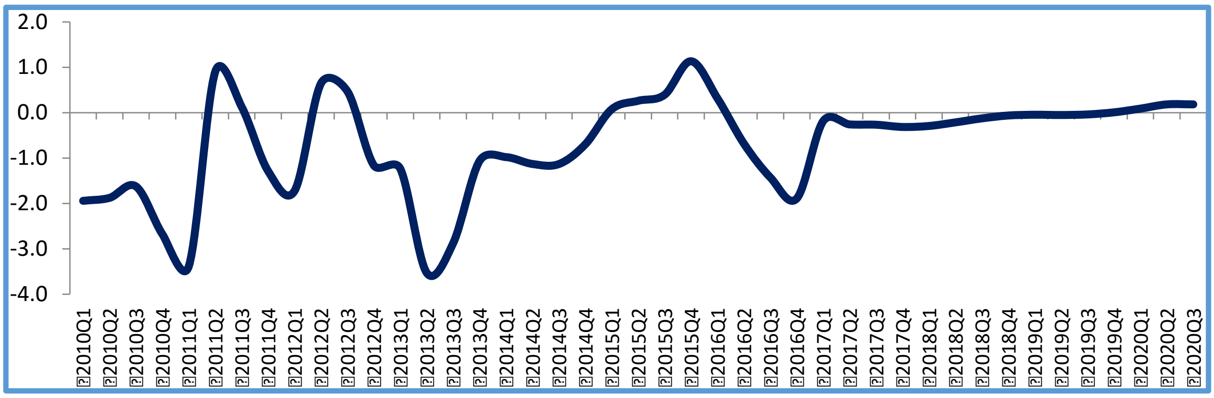
The manufacturing sub-sector's good performance followed the increase in turnovers of some companies, such as AFRICA IMPROVED FOODS RWANDA LTD (+436.1%), STEEL-RWA INDUSTRIES LTD (+67.8%), IMANA STEEL RWANDA LTD (+66.8%), MOUNT MERU SOYCO LTD (+46.9%), KABUYE SUGAR WORKS (+46.5%), TEA AND COFFEE COMPANIES (+28.4%), BAKHRESSA GRAIN MILLING (RWANDA) LTD (+26.2%), SKOL BREWERY LTD (+16.1%), INYANGE INDUSTRIES LTD (+18.6%), SAFINTRA RWANDA LTD (+15.0%) and BRALIRWA LTD (+7.2%).

The construction sub-sector's performance (+19.0%) is evidenced by the domestic demand of cement which increased by 10.8% in 2018Q1 from 5.1% in the same period of 2017. Domestic cement production by CIMERWA slightly increased by 2.5% in 2018Q1 after 30.9% in 2017Q1, and this is linked to the maintenance of machinery which occurred during the period under review.

2.1.3 The Output gap

The output gap continued to be negative but with an upward trend. This shows an improving aggregate demand, which is still non-inflationary. The improvement in aggregate demand is reflected by the increase in composite index of economic activities and total turnovers of industry and service sectors.

Figure 4: The Output gap for Rwanda (% deviation from the trend)



Source: NBR, Monetary Policy and Research Department

2.1.4 Outlook of the domestic demand and output

The trend of the output gap shows improvement in aggregate demand in the last quarter of 2017 and in the first and second quarter of 2018 but without generating inflationary pressures.

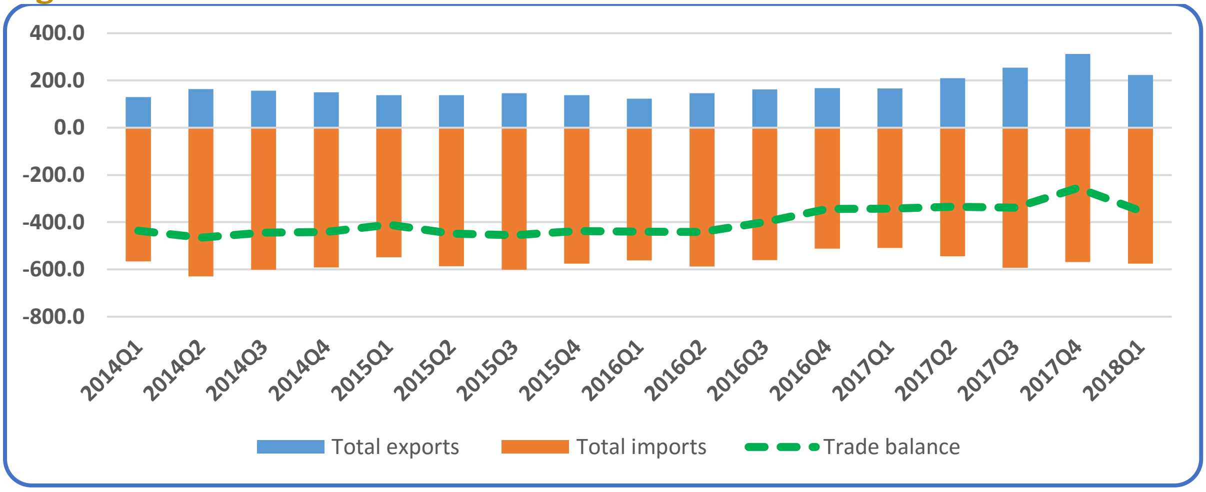
The good performance of the Rwandan economy observed in 2017 is likely to continue in 2018, evolving towards attaining the projected annual growth of 7.2%. The economy is expected to record a good performance in the first and second quarter of 2018 on the back of improving aggregate demand and good performance of agriculture. The agriculture performance will be supported by good harvest of season A 2018 food crop production, as evidenced by lower food inflation in 2018Q1 (-1.8%) from 1.9% in 2017Q4 as well as positive sentiment of farmers expressed during 2018Q1 price expectation survey. Furthermore, 2018Q1 growth will stem from base effect because of low growth recorded in 2017Q1.

2.2 External Sector Developments

2.2.1 Formal trade balance

Despite the growth in formal exports value by 34.3%, Rwanda's trade deficit widened by 2.6% in 2018Q1, to a deficit of USD 352.3 million from a deficit of USD 343.3 million in 2017Q1, following an increase in formal imports value by 13.0%. Formal exports covered 38.7% of formal imports in 2018Q1 from 32.6% in 2017Q1. In 2017 compared to 2016, Rwanda's trade deficit reduced by 21.7% as exports grew by 57.6% in line with the recovery in international commodity prices, which started in the fourth quarter of 2016, while imports value recorded a modest decrease of 0.4% during the same period.

Figure 5: Trade balance in millions of USD

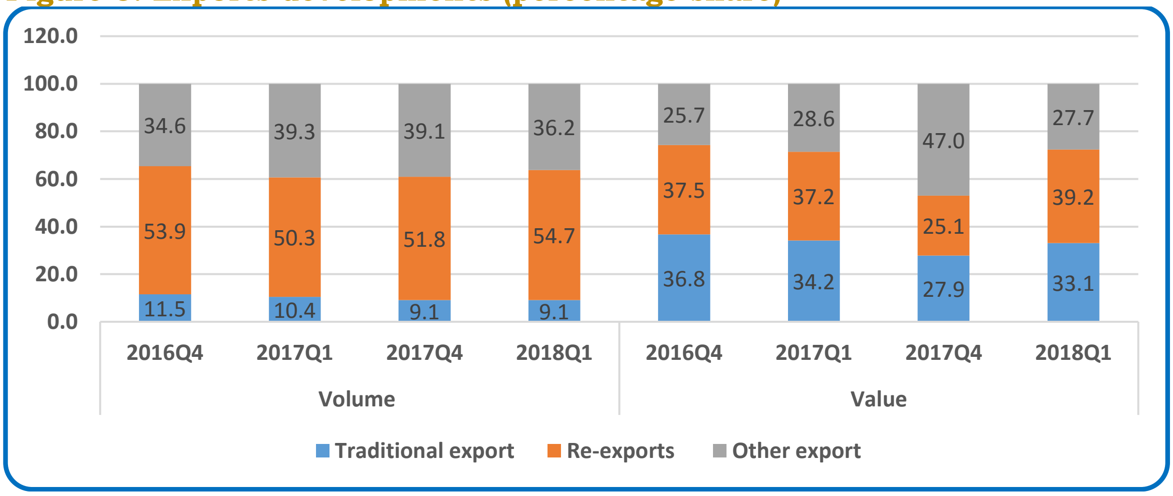


Source: NBR, Monetary Policy & Research Department

2.2.1.1 Formal exports of goods

Rwanda's formal exports are composed of traditional exports, re-exports and non-traditional exports. In 2018Q1, formal exports were dominated by re-exports with a share of 39.2% of the total export earnings, followed by traditional exports[1] with 33.1%, and non- traditional exports representing 27.7%, respectively from 37.2%, 34.2% and 28.6% in 2017Q1. The export base has continued to be progressively diversified as the share of traditional exports keeps declining.

Figure 6: Exports developments (percentage share)



Source: NBR, Monetary Policy & Research Department

In 2018Q1, total formal export receipts increased by 34.3% (USD 222.70 million from USD 165.77 million in 2017Q1), after an increase of 35.3% in 2017Q1, as a result of high growth recorded by minerals (+40.7%), coffee (+54.3%), tea (+13.6%), re-exports (+41.6%) and other exports (+30.1%). Formal exports volume also increased by 25.4%

[1] *composed of tea, coffee, pyrethrum, minerals as well as hides and skins*

in 2018Q1, due to robust growth in coffee (+50.3%), minerals (+12.3%), tea (+6.9%), re-exports (+36.5%) and non-traditional exports (+15.5%).

Table 8: Exports developments (annual % change)

	Volume				Value			
	2016Q4	2017Q1	2017Q4	2018Q1	2016Q4	2017Q1	2017Q4	2018Q1
Total exports	**28.9**	**43.3**	**30.8**	**25.4**	**22.0**	**35.3**	**86.3**	**34.3**
Traditional exports	0.0	8.2	3.5	9.1	-5.0	16.7	41.2	30.0
Coffee	6.7	-13.3	-4.8	50.3	6.4	-12.1	6.7	54.3
Tea	3.4	13.2	17.7	6.9	-8.4	25.9	35.3	13.6
Minerals	-5.3	22.2	34.6	12.3	-11.5	26.4	82.5	40.7
Cassiterite	9.7	42.7	25.3	1.0	63.1	63.9	16.8	-2.1
Coltan	-37.0	17.1	94.5	20.5	-44.4	4.8	169.6	83.8
Wolfram	0.8	-16.0	10.9	43.5	12.9	-13.0	45.8	109.7
Hides and Skins	-24.7	19.5	-41.6	-50.5	-12.6	24.7	-24.1	-25.4
Pyrethrum	5.0	-91.3	57.3	2427.7	3.5	-92.2	23.2	923.6
Re-exports	49.8	50.7	25.7	36.5	36.2	38.3	24.8	41.6
Non-Traditional exports	14.9	46.7	47.8	15.5	63.3	61.7	240.7	30.1

Source: NBR, Statistics Department

Traditional exports, composed of coffee, tea, minerals, pyrethrum as well as hides and skins rose by 30.0%, amounting to USD 73.74 million in 2018Q1 from USD 56.71 million in 2017Q1 due to increased value of mineral exports, coffee, tea as well as pyrethrum.

Compared to 2017Q1, coffee exports receipts increased by 54.3% in 2018Q1, to USD 11.34 million from USD 7.35 million, as a result of increased exported volume by 50.3% as well as rising unit price by 2.73%, from 2.56 USD/Kg in 2017Q1 to 2.63 USD/Kg in 2018Q1. The growth of coffee's prices was due to the increased exports volume of fully washed coffee, which fetches a higher price than other coffee types. The increase in coffee volume exports is attributable to increased production by 92.8% following favorable weather conditions.

Tea exports receipts increased from USD 23.83 million in 2017Q1 to USD 27.08 million in 2018Q1 due to the increase in both prices and volume. Tea prices increased by 6.5% from 3.06 USD/Kg in 2017Q1 to 3.26 USD/Kg in 2018Q1 while its volume increased from 7,775.6 tons in 2017Q1 to 8,314.0 tons in 2018Q1 on the account of increased tea production which rose by 22.0% as a result of good season for export crops.

The mining sector continued to perform well in 2018Q1, owing to rising metal prices at the international market on the account of strong global demand. Exports value of traditional minerals (Coltan, Cassiterite and Wolfram) significantly increased by 40.7% from USD 23.30 million recorded in 2017Q1 to USD 32.79 million in 2018Q1. This good performance was due to the increase in export earnings from coltan (+83.8%) as well as wolfram (+109.7%) despite a slight decline in cassiterite by 2.1% following the decline in its unit prices (-3.1%).

Receipts from exported hides and skins decreased by 25.2%, from USD 2.14 million to USD 1.60 million, mainly due to the decrease in exported volume by 50.5%. However, the unit price increased by 50.9% from 1.18 USD/Kg in 2017Q1 to 1.78 USD/Kg in 2018Q1. The rising unit price is due value addition on hides and skins that are no longer exported in raw form but transformed into intermediate form known as wet blue which fetches relatively higher price than the raw hides and skins. Pyrethrum exports performed well in 2018Q1 in both value and volume. Exports receipts from pyrethrum amounted to USD 0.94 million in 2018Q1 from USD 0.09 million in 2017Q1.

Re-exports, mainly composed of petroleum products, machines and engines, vehicles and other re-exports, increased in both value and volume by 41.6% and 36.5% respectively, mainly driven by the increase in re-exports of petroleum products by 18.8% in value and 8.2% in volume and other re-exports by 52.9% and 62.78% in value and volume respectively. The development in other re-exports component was due to the increased demand of foodstuffs like cooking oil, rice and other manufactured products exported to DRC.

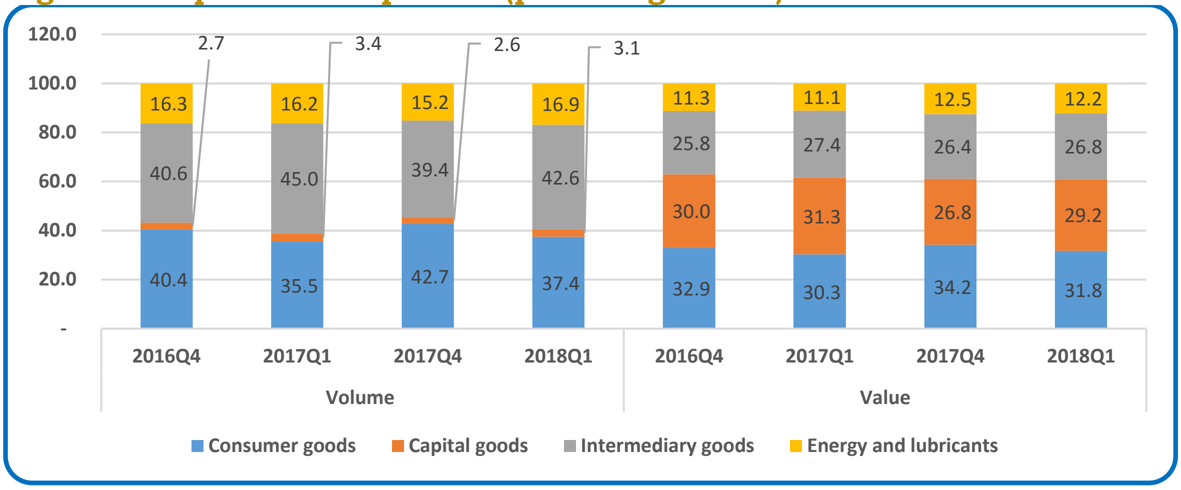
Non-traditional exports, which are dominated by other minerals, products of milling industry and other manufactured products significantly increased by 30.1%, amounting to USD 61.62 million in 2018Q1 from USD 47.36 million in 2017Q1. This increase was mainly driven by the good performance in products of the milling industry (+201.1%), flowers (+168.0%) and other minerals (+1.4%).

Products of the milling industry (maize flour, wheat flour & Cassava flour) increased sharply, amounting to USD 16.89 million in 2018Q1 from USD 5.61 million in 2017Q1 thanks to increased production prompted by increased demand from DRC and Uganda. In addition, flower exports grew by 168.0% in value and 327.5% in volume following the increased demand from Netherlands that accounts for 89% of the total earnings from this component.

2.2.1.2 Formal imports of goods

Rwanda's formal imports are composed of consumer goods, capital goods, intermediary goods as well as energy and lubricants. In 2018Q1, imports volume was dominated by intermediary goods with a share of 42.6% of the total formal imports volume, followed by consumer goods (37.4%), energy & lubricants (16.9%) and capital goods (3.1%). In value terms, consumer goods dominated with a share of 31.8%, followed by capital goods (29.2%), intermediary goods (26.8%) and energy & lubricants (12.2%).

Figure 7: Imports developments (percentage share)



Source: NBR, Monetary Policy & Research Department

In 2018Q1, formal imports value increased by 13.0%, to USD 574.98 million from USD 509.05 million in 2017Q1 while its volume increased by 11.6% after a decrease of 1.9% in 2017Q1, following an increase in the value and volume of all formal import components.

Table 9: Imports developments (annual % change)

	Volume				Value			
	2016Q4	**2017Q1**	**2017Q4**	**2018Q1**	**2016Q4**	**2017Q1**	**2017Q4**	**2018Q1**
Total imports	**-4.3**	**-1.9**	**12.6**	**11.6**	**-11.1**	**-9.4**	**10.9**	**13.0**
Consumer goods	**13.9**	**-10.8**	**19.0**	**17.7**	**-2.8**	**-11.8**	**15.3**	**18.6**
Food products	25.8	-9.1	21.8	19.3	33.0	28.4	12.6	-4.6
Beverages and tobacco	18.7	48.7	-2.5	-12.5	-6.3	10.9	-4.1	2.8
Article of Clothing	-62.5	-63.3	0.1	37.4	-32.2	-50.6	5.5	69.7
Health and care	-12.4	-2.1	16.7	7.9	-28.4	-4.2	56.1	30.3
Domestic articles	-17.8	-4.9	1.6	15.7	-27.2	-40.0	-2.1	18.2
Non-utility transport	21.6	12.8	3.8	22.6	7.4	9.9	-2.5	59.6
Papers and cartons	-19.0	-22.8	1.0	15.1	-11.9	-24.3	9.8	21.1
Other goods	-18.3	-12.4	3.0	23.8	-12.7	-58.0	-9.4	82.7
Capital goods	**-25.9**	**-20.6**	**8.2**	**1.4**	**-14.8**	**-15.9**	**-0.8**	**5.6**
Transport Materials	-42.1	-11.4	29.4	-24.6	-22.7	20.4	19.8	-32.3
Machines, devices and tools	-22.4	-34.5	-9.0	33.3	-19.3	-28.1	-6.4	15.3
Intermediary goods	**-16.8**	**8.2**	**9.3**	**5.7**	**-15.5**	**-5.7**	**13.7**	**10.5**
Construction materials	-30.8	-11.8	2.0	16.7	-25.8	-28.2	-6.9	7.1
Industrial products	-4.7	31.9	20.9	-1.7	-16.7	5.7	29.2	12.5
Fertilizers	62.0	0.7	-17.1	3.2	36.7	11.8	-12.8	-6.4
Energy and lubricants	**-1.6**	**-0.9**	**5.5**	**16.5**	**-12.0**	**12.1**	**23.1**	**24.4**
Petroleum products	-3.9	4.3	14.0	14.0	-13.4	14.0	22.1	24.8
Trade balance					**-344.1**	**-343.3**	**-255.1**	**-352.3**
Cover rate of imports/ exports, %					**32.8**	**32.6**	**55.1**	**38.7**

Source: NBR, Statistics Department

Imports of consumer goods mainly composed of food stuffs increased by 18.6% in value, to USD 182.70 million in 2018Q1 from USD 154.10 million in 2017Q1 and

17.7% in volume to 196.2 thousand tons in 2018Q1 from 166.8 thousand tons in 2017Q1. The increase in consumer goods is mainly driven by imports of articles of clothing (mainly clothes and shoes) by 69.7%, as well as other consumer goods (82.7%). In contrast, imports of food products dropped by 4.6% in value while the volume increased by 19.3%. The fall in value of food products is attributable to decline in imports of sugars and sweet (-41.8% in value and -38.6% in volume).

During the same period, imports of capital goods, dominated by machines, devices and tools as well as transport materials, increased by 5.6% in value (to USD 168.05 million, from USD 159.11 million) and 1.4% in volume. The increase is largely due to soared imports bill on machinery, electrical and electronic equipment as their volume increased substantially by 33.3%, offsetting the decline in transports materials which dropped by 24.6%.

In 2018Q1, imports of intermediary goods, dominated by construction materials, industrial products and fertilizers, increased by 10.5% in value and 5.7% in volume, respectively, mainly due to increased demand of industrial products by 12.5% imported primarily by various local industries for production purposes. In addition, imports of cement and similar products increased by 12.1% in value and 13.5% in volume, due to strong demand of cement which increased by 10.8% on the back of lower domestic production (+2.5% in 2018Q1 compared to +30.9% in 2017Q1), following CIMERWA's maintenance of machinery which occurred during the period under review.

Imports of energy and lubricants, of which 92.7% is petroleum products, increased by 24.4% in value and by 16.5% in volume. This increase is explained by the rise in imports of petroleum products by 24.8% in value and 14.0% in volume, on the account of increased oil prices following the decision by OPEC countries, together with a number of non-OPEC producers led by Russia to cut oil production between January 2017 and March 2018 and the deal was later extended to run through 2018. The rise in volume of petroleum products was mainly attributed to the two main petroleum companies notably SP Ltd and ENGEN Rwanda Ltd whose imports rose by 48.5% and 62.4%, respectively. The oil market has also been influenced by concerns about geopolitical tensions and supply disruptions in crude-producing nations.

2.2.2 Formal Trade with EAC Countries

In 2018Q1, Rwanda's exports to EAC member countries increased by 29.2% in value, to USD 47.05 million from USD 36.43 million in 2017Q1. Both exports to Kenya and Uganda contributed to this good performance with an increase of 15.2% and 141.7%, respectively. Exports to Kenya was mainly on account of increased export of tea by 13.6%, amounting to USD 27.1 million from USD 23.8 million during the corresponding period of 2017. Exports to Uganda increased by 141.7% in value, from USD 5.42 million in 2017Q1 to USD 13.1 million due to rising demand of products of the milling industry dominated by corn soya blend. In terms of composition, the

Rwanda's exports to EAC partner states remain dominated by tea sold at the Mombasa auction, petroleum products procured by airlines at Kigali International Airport as well as re-exports to Burundi, raw hides and skins of bovine, and sorghum commonly exported to Uganda.

Imports from EAC countries increased by 10.3% to amount to USD 118.2 million in 2018Q1 from USD 107.3 million in the same period of 2017. The increase was mainly triggered by imports from Uganda, Kenya and Tanzania, which respectively increased by 12.1%, 9.4% and 7.0% against USD 51.31 million, USD 33.73 million and USD 21.42 million imported in 2017Q1, respectively. Imports from Uganda were mainly increased by high demand of imported cement following its local supply constrained by the maintenance of CIMERWA plant that is expected to be completed in late April 2018. Imports from Kenya increased due to high demand of consumer goods like salt and pharmaceutical products, while imports from Tanzania upped on account of increased imports of ceramic tiles and consumer goods like groundnuts.

Table 10: Trade flow of Rwanda within EAC bloc, (Value FOB in million USD)

Exports (FOB USD)							
	2016Q4	**2017Q1**	**2017Q2**	**2017Q3**	**2017Q4**	**2018Q1**	**Yoy % change**
Burundi	10.1	4.76	5.63	5.51	5.27	3.92	-17.65
Kenya	24.84	25.60	32.45	21.09	31.48	29.49	15.20
South Sudan	0.2	0.20	0.14	0.1	0.24	0.16	-20.00
Tanzania	0.57	0.45	0.32	0.8	0.54	0.38	-15.56
Uganda	2.52	5.42	9.91	7.64	9.27	13.10	141.70
Total exports	**38.23**	**36.43**	**48.45**	**35.14**	**46.8**	**47.05**	**29.15**
Imports (CIF USD)							
Burundi	0.49	0.84	0.48	0.54	1.60	1.10	30.5
Kenya	33.66	33.73	40.15	40.84	33.40	36.90	9.4
South Sudan	-	-	-	-	-	-	-
Tanzania	25.71	21.42	22.9	25.63	27.15	22.91	7.0
Uganda	55.39	51.31	50.83	58.44	57.15	57.49	12.1
Total imports	**115.25**	**107.30**	**114.36**	**125.45**	**119.30**	**118.41**	**10.3**
Trade balance	**-77.02**	**-70.87**	**-65.91**	**-90.31**	**-72.5**	**-71.1**	**0.32**
% cover rate of exports to imports - value	**33.2**	**34.0**	**42.4**	**28.0**	**39.2**	**39.8**	**17.29**

Source: BNR, Statistics Department

Subsequently, the trade deficit increased by 0.3% to register USD 71.1 million from USD 70.87 million in 2017Q1, driven by the high import bills that still surpasses the expanding export base. Indeed, the imports coverage by exports stood at 39.7% in 2018Q1 compared 34.0% recorded in 2017Q1. With inclusion of informal cross border trade, the exports cover of imports rose to 63.6% in 2018Q1 from 52.4% in 2017Q1. This improvement in export coverage contributed to the easing of exchange rate pressures.

2.2.3 Informal cross-border trade

Rwanda's informal cross-border exports with neighboring countries in 2018Q1 constituted 14.1% of total formal exports receipts and increased by 39.7%, from USD 22.46 million in 2017Q1 to USD 31.38 million. The increase is explained by good performance in agricultural harvest experienced during the quarter since agricultural products are predominant items merchandised in this kind of trade. In addition, the increase is boosted by exports to DRC on the account of strong demand coupled with removal of non-tariff barriers by DRC in the second half of 2017. The main informal export partners include DR Congo, representing 84.9% of the total informal cross-border trade exports, followed by Uganda (+12.2%), Burundi (+2.9%) and Tanzania (+0.01%).

Table 11: Rwanda Informal Cross Border trade (USD million)

	2016		2017				2018
	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Exports	30.73	24.99	22.46	24.28	25.17	26.50	31.38
% change (yoy)	**28.3**	**-24.0**	**-27.1**	**-31.4**	**-18.1**	**6.1**	**39.7**
Imports	8.22	7.52	4.45	5.87	6.46	5.82	4.91
% change(yoy)	**43.3**	**65.8**	**-31.8**	**-28.9**	**-21.4**	**-22.7**	**10.4**
Trade Balance	22.51	17.47	18.01	18.41	18.71	20.68	26.47
% change (yoy)	**24.6**	**-36.4**	**-48.7**	**-32.1**	**-16.9**	**18.4**	**47.0**

Source: BNR, Statistics Department

Informal cross border imports increased by 10.4%, from USD 4.45 million in 2017Q1, largely supported by trade flows from Uganda that grew by 10.5%, followed by Burundi (+4.4%) and Tanzania (+164.1%). The growth of imports from Uganda, which represents 63% of the total informal imports, is due to strong demand of Irish potatoes seeds reflecting the prospects of the current year's good planting season. The informal imports trading partners include Uganda, Burundi, DR Congo and Tanzania with shares of 63.0%, 21.2%, 8.4% and 7.3% respectively.

Developments in the informal cross border trade indicate an increase in surplus of Rwanda's informal trade balance with neighboring countries by 47.0% to stand at USD 26.47 million from USD 18.01 million in 2017Q1.

2.2.4 The exchange rate: bilateral and effective

In the first quarter of 2018, the foreign exchange pressure on Rwandan francs (FRW) remained modest. Relative to December 2017, the FRW depreciated by 0.9% against the USD as at end March 2018, slightly higher than 0.8% observed in the same period of 2017, but far below 2.8% recorded in 2016Q1. The pressure on exchange rate in 2018Q1 is mainly resulting from rising imports, but the simultaneous increase in exports following the export diversification strategy, and the current USD depreciation against the major currencies have eased the pressure on Rwandan francs to the steady level.

In the same period, the FRW depreciated by 5.6% and 4.6% against the British pound and Euro respectively following the improved economic performance in the Euro area. The FRW depreciated by 3.3%, 0.8% against the Kenyan shilling and Burundian francs respectively, while appreciating by 0.6% against the Ugandan shilling. The exchange rate remained stable between the FRW and the Tanzanian shilling.

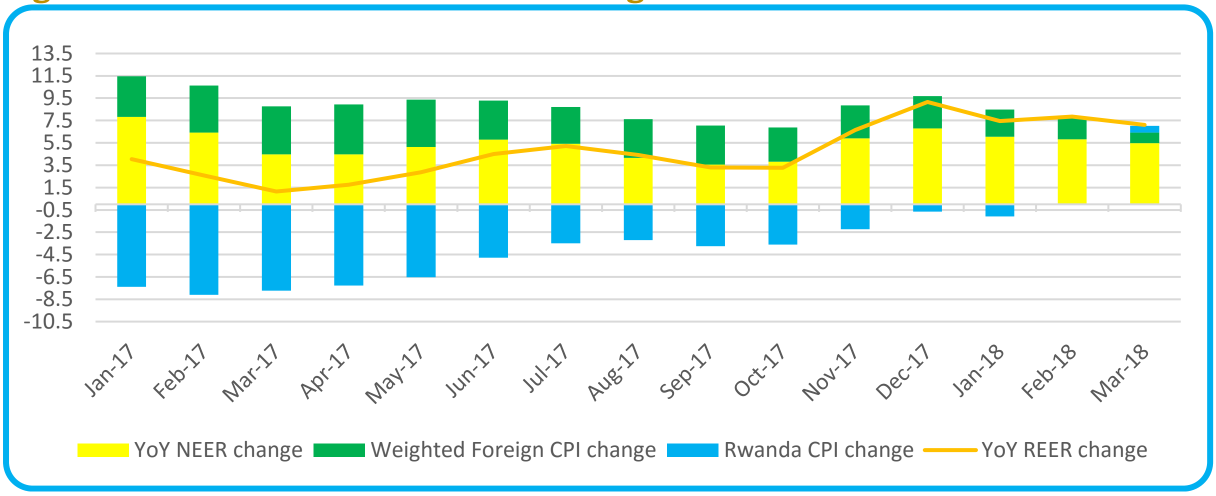
Table 12: Appreciation/Depreciation rate of selected currencies against the FRW

	USD/FRW	GBP/FRW	EUR/FRW	KES/FRW	TZS/FRW	UGS/FRW	BIF/FRW
2016Q1	2.8	-0.2	6.3	3.9	1.4	2.8	1.5
2016Q2	4.8	-5.0	6.6	6.1	3.3	3.7	-3.7
2016Q3	8.4	-5.1	11.3	9.5	7.1	8.0	-0.5
2016Q4	9.7	-9.2	5.3	9.6	8.6	2.3	-0.2
2017Q1	**0.8**	**2.5**	**2.5**	**0.3**	**-1.6**	**0.8**	**-0.3**
2017Q2	1.3	7.5	10.4	0.0	-1.4	2.0	-1.0
2017Q3	2.2	11.8	14.7	1.5	-0.9	2.6	-1.4
2017Q4	3.1	13.2	16.9	2.3	0.4	2.7	-1.0
2018Q1	**0.9**	**5.6**	**4.6**	**3.3**	**0.0**	**-0.6**	**0.8**

Source: NBR, Monetary Policy and Research Department

The FRW real effective exchange rate depreciation increased to 9.4% (y-o-y) in March 2018 from 1.1% in the same period of 2017, mainly attributed to the depreciation of the nominal exchange rate of FRW against currencies of some of the major trading partners and the increase in the inflation differential.

Figure 8: Drivers of real effective exchange rate



Source: NBR, Monetary Policy and Research Department

2.3 Monetary Developments

2.3.1 Monetary Policy Stance

In 2018Q1, the NBR maintained an accommodative monetary policy stance to continue supporting the financing of the economy by the banking sector, given that both inflationary and exchange pressures remained subdued. The NBR reduced its policy rate from 6.25% in December 2016 to 6.0% in June 2017 and 5.5% in December 2017 while keeping it unchanged in March 2018.

The NBR ensured that the banking sector continued to finance the economic activities while limiting inflationary pressures from the monetary sector. As a result, outstanding credit to the private sector increased by 7.6% in 2018Q1 compared to 9.3% in the corresponding period of 2017. The broad money increased by 15.4% in 2018Q1 compared to 9.8% in the same period of 2017.

2.3.2 Money Supply and Demand

Broad Money (M3) grew by 15.4% in 2018Q1 (y-o-y) standing at FRW 1875.0 billion from a growth of 9.8% realized in 2017Q1.

2.3.2.1 Money Supply

The above-mentioned expansion in broad money mainly resulted from a growth in net domestic assets by 14.5% in 2018Q1 from an increase of 1.6% in 2017Q1. However, the growth in net foreign assets (NFA) slowed down to 16.7% in 2018Q1 from 23.3% in 2017Q1.

Growth in net domestic assets was mainly attributed to an increase of 135.5% in net credit to government from -25.9% in 2017Q1, on the account of increasing government domestic borrowing to finance budget deficit. During the same period, the stock of credit to the private sector (CPS) grew by 7.6% from 9.3% recorded in 2017Q1. The slow growth in CPS was a result of a contraction in new authorized loans and write-offs of some non-performing loans during the same period.

The deceleration in NFA growth was caused by a reduction in commercial banks' NFA by 22.0% in 2018Q1 from a growth of 5.6% recorded in 2017Q1. This decline in bank NFA resulted from external loan repayment by some banks and transfers to some large local companies.

Table13: Monetary aggregates (FRW billion)

	2016	2017	2018	% change	
	Q1	Q1	Q1	17Q1/ 16Q1	18Q1/ 17Q1
Net foreign assets	**556.5**	**686.0**	**800.5**	**23.3**	**16.7**
Foreign assets	766.9	1049.0	1245.7	36.8	18.8
Foreign liabilities	210.5	363.0	445.2	72.5	22.6
Net domestic assets	**923.4**	**938.5**	**1074.5**	**1.6**	**14.5**
Domestic credit	1343.4	1449.3	1660.6	7.9	14.6
Central government (net)	73.2	54.3	127.8	-25.9	135.5
Credit	315.7	319.7	424.6	1.3	32.8
Deposits	242.5	265.4	296.8	9.4	11.8
Public enterprises	34.9	45.0	79.7	28.9	77.1
O/W in foreign currency	12.8	23.3	31.3	82.9	34.3
Private sector	1235.3	1350.0	1453.2	9.3	7.6
O/W in foreign currency	158.2	161.7	198.2	2.2	22.5
Other items net (Assets: +, Liab:-	-419.9	-510.8	-586.2	-21.6	-14.8
Broad money M3	**1479.9**	**1624.5**	**1875.0**	**9.8**	**15.4**
Broad money M2	1223.6	1285.9	1433.7	5.1	11.5
Money M1	750.7	713.6	805.4	-4.9	12.9
Currency in circulation	133.0	143.0	164.9	7.6	15.3
Deposits	1347.0	1481.5	1710.1	10.0	15.4
O/W Demand deposits	617.8	570.6	640.6	-7.6	12.3
Time and saving deposits	472.8	572.2	628.2	21.0	9.8
Foreign currency deposits	256.4	338.7	441.3	32.1	30.3

Source: BNR, Monetary Policy and Research Department

New authorized loans by the banking sector declined by 7.4% in 2018Q1 amounting to FRW 197.9 billion from a growth of 7.1% recorded in 2017Q1. That decline was explained by an increase in rejection rate in value and volume as banks needed to be more cautious in lending activities due to high level of non-performing loans which stood at 7.4% by end 2018Q1 compared to 8.1% in 2017Q1. The reduction in new authorized loans in 2018Q1 was reflected in the decrease of new loans in Commerce, restaurants and hotels (-23.2%), Water and energy activities (-97.8) and Public works and building (-7.6%).

Table 14: New authorized loans by sector (FRW billion, unless otherwise indicated)

Branch of activity	2016	2017				2018	% change	
	Q1	Q1	Q2	Q3	Q4	Q1	17Q1/ 16Q1	18Q1/ 17Q1
Non-classified activities	19.0	23.4	21.1	22.1	24.0	25.2	23.2	7.8
Agricultural, fisheries& livestock	3.4	2.9	2.0	2.2	1.7	2.6	-15.6	-10.3
Mining activities	0.7	0.4	0.3	0.0	0.2	0.0	-41.9	-95.0
Manufacturing activities	13.3	8.0	20.4	13.4	18.4	10.3	-39.8	29.0
Water & energy activities	7.8	8.0	0.9	4.9	6.5	0.2	2.9	-97.8
Public works and buildings	35.9	55.2	50.0	61.5	64.1	51.0	53.8	-7.6
Commerce restaurants and hotels	103.9	84.7	84.6	69.9	71.7	65.1	-18.5	-23.2
Transport & warehousing & communication	8.7	19.7	18.5	12.7	22.7	33.0	127.4	67.4
OFI &Insurances and other non-financial services	3.0	5.4	1.1	2.2	0.8	0.4	79.6	-93.1
Services provided to the community	3.8	6.1	4.1	3.5	5.8	10.1	58.6	66.2
Total	**199.5**	**213.7**	**202.9**	**192.5**	**215.7**	**197.9**	**7.1**	**-7.4**

Source: BNR, Financial Stability Directorate

With regard to the distribution of new authorized loans by sector of activities, commerce, restaurants and hotels remained the most financed economic sector representing 32.9% of the total new authorized loans, followed by public works and buildings (25.8%).

Table 15: Distribution of new authorized loans by sector of activities (% share of total new loans)

Branch of activity	2016	2017				2018
	Q1	Q1	Q2	Q3	Q4	Q1
Non-classified activities	9.5	10.9	10.4	11.5	11.1	12.7
Agricultural, fisheries& livestock	1.7	1.4	1.0	1.1	0.8	1.3
Mining activities	0.3	0.2	0.1	0.0	0.1	0.0
Manufacturing activities	6.7	3.7	10.1	7.0	8.5	5.2
Water & energy activities	3.9	3.7	0.4	2.5	3.0	0.1
Public works and buildings	**18.0**	**25.8**	**24.6**	**31.9**	**29.7**	**25.8**
Commerce restaurants and hotels	**52.1**	**39.6**	**41.7**	**36.3**	**33.2**	**32.9**
Transport & warehousing & communication	4.3	9.2	9.1	6.6	10.5	16.7
OFI &Insurances and other non-financial services	1.5	2.5	0.5	1.1	0.4	0.2
Services provided to the community	1.9	2.9	2.0	1.8	2.7	5.1
Total	**100**	**100**	**100**	**100**	**100**	**100**

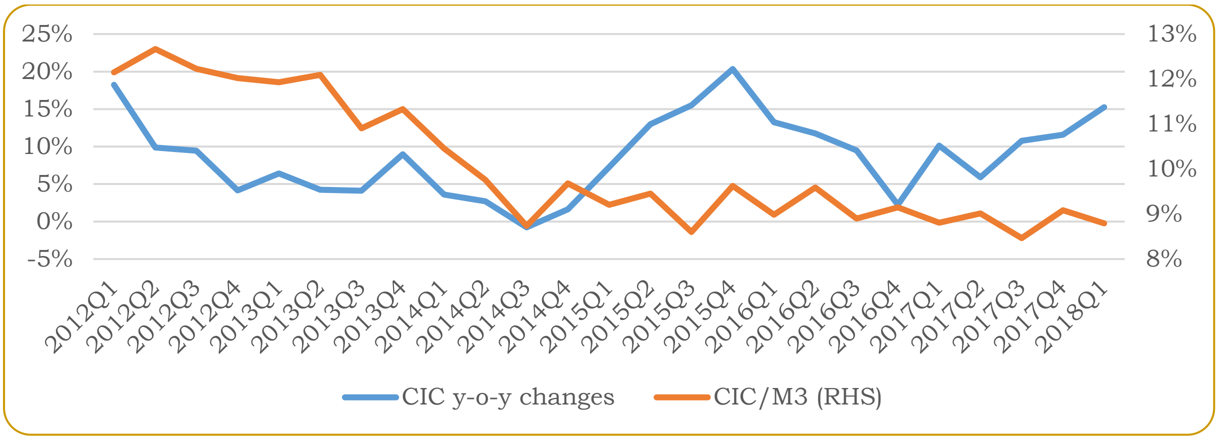
Source: BNR, Financial Stability Directorate

2.3.2.2 Money demand

Currency in circulation expanded by 15.3% in 2018Q1 from 7.6% in 2017Q1 in line with increased economic activities. The currency in circulation to broad money (M3) ratio stood at 9.0% in 2018Q1, the same level in 2017 on average, compared to 12.0%

in 2012. This downward trend is mainly explained by the increased financial inclusion following the extension of the financial sector network.

Figure 9: Currency to broad money ratio and CIC growth (%, y-o-y)

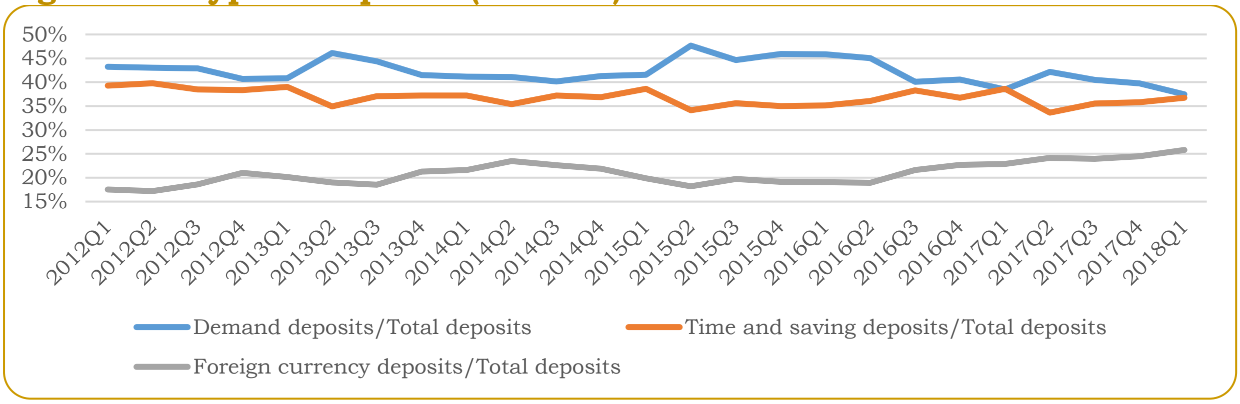


Source: BNR, Statistics Department

In 2018Q1, total deposits grew by 15.4% (y-o-y) from 10% recorded in 2017Q1 as a result of improvement in economic activities. This growth was mainly driven by demand deposits which expanded by 12.3% from -7.6% in 2017Q1. Time and saving deposits increased by 9.8% from 21.0% and foreign currency deposits picked up by 30.3% from 32.1%.

The share of demand deposits was at 38% during the quarter under review, while the share of time and saving deposits and foreign currency deposits stood at 37% and 25% respectively. However, in the two last years, the share of demand deposits in total deposits averaged to 42% of total deposits, followed by time and saving deposits with a share of 36% and foreign currency deposits with 22% though in foreign currency, can be either demand or time deposits.

Figure 10: Type of deposits (% share)



Source: BNR, Statistics Department

Regarding the deposits by category of depositors, Households and non- profit Institutions Serving Households (NPISHs) continued to have the biggest share, with 44.1% end 2018Q1 followed by other non-financial corporations (25.8%), social security funds (17.9%), other financial institutions (9.0%) and public enterprises (3.2%).

Table 16: Deposits by category of depositors (% share)

	2015	2016				2017				2018
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Other financial institutions	9.3	8.3	8.4	7.4	7.0	8.0	8.6	7.8	7.6	9.0
Social Security Funds	15.8	16.3	14.9	15.7	15.0	16.1	15.3	19.1	17.3	17.9
Public enterprises	4.2	5.0	4.2	3.6	3.8	3.9	3.7	3.0	2.9	3.2
Other non-financial corporations	25.9	25.9	26.0	25.0	26.4	25.5	27.8	25.0	26.6	25.8
Households and NPISH	44.9	44.5	46.6	48.2	47.8	46.5	44.7	45.0	45.6	44.1
Total	100	100	100	100	100	100	100	100	100	100

Source: BNR, Monetary Statistics Department

2.3.3 Banking system liquidity developments

The banking system liquidity conditions were robust during the first quarter of 2018 compared to the same quarter of the preceding year. Commercial banks' most liquid assets expanded by 52.0% standing at FRW 394.5 billion in 2018Q1 from FRW 259.5 billion recorded in 2017Q1. Compared to their levels in the previous quarter, most liquidity assets increased by 18.4%.

Table17: Most liquid assets of commercial banks (FRW billion)

	2016				2017				2018	% change	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q1-18/ Q1-17	Q1-18/ Q4-17
T-bills	219.2	214.0	176.3	173.7	187.3	207.9	245.0	243.6	253.5	35.3	4.1
Central bank bills	13.5	-	4.0	4.0	5.0	-	9.0	6.0	37.0	640.0	516.7
Repo	15.0	34.0	0.0	30.5	21.0	60.4	13.0	30.0	54.7	160.5	82.3
Excess reserves	20.7	31.7	20.5	24.5	14.8	9.9	15.2	20.6	17.2	16.2	-16.50
Cash in vault	30.5	32.0	28.3	30.8	31.4	30.9	28.4	33.1	32.1	2.2	-3.0
Total	**298.8**	**311.7**	**229.2**	**263.6**	**259.5**	**309.1**	**310.6**	**333.3**	**394.5**	**52.0**	**18.4**

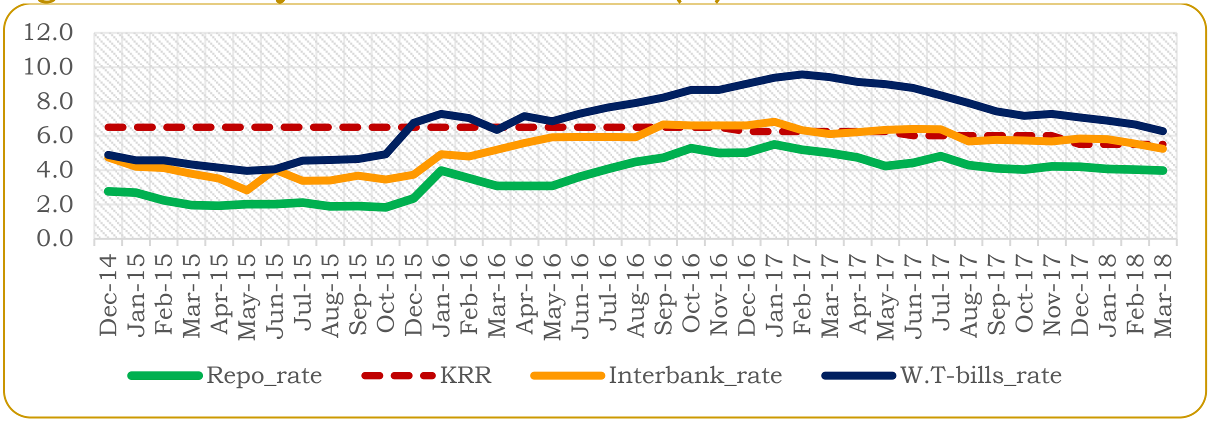
Source: BNR, Monetary Policy & Research Department

That strong improvement in the banking system liquidity came from significant government domestic spending as net fiscal injection reached FRW 80.1 billion in 2018Q1 against FRW 5.9 billion in the corresponding quarter of 2017. Additionally, it was also backed by the deceleration in new loans to the private sector since they recorded a decline of 7.4% due to more loan rejection during the same period, together with continued reduction in sales to banks as the later amounted to USD 55.2 million in 2018Q1 versus USD 67.0 million in 2017Q1.

2.3.4 Interest rates developments

In line with the prevailing liquidity conditions and the key repo rate, money market interest rates have been decelerating over the period under review. Repo, T-bills and interbank rate respectively decreased on average to 4.03%, 6.61% and 5.53% in 2018Q1 from 5.22%, 9.46% and 6.41% in 2017Q1.

Figure 11: Money market interest rates (%)



Source: BNR, Monetary Policy and Research Department

With regard to commercial banks interest rates, lending rates were stable, averaging 17.03% in 2018Q1, while deposit interest rates declined slightly by 4 basis points to stand at 7.44% in 2018Q1 from 7.48% in 2017Q1. Both rates did not reflect downward trends observed in money market rates, pointing to some level of rigidity.

Table 18: Market interest rates (% average)

	2013	2014	2015	2016	2017	2017				2018
						Q1	Q2	Q3	Q4	Q1
Lending	17.32	17.26	17.33	17.29	17.17	17.03	17.11	17.41	17.21	17.03
Deposit	9.93	8.24	8.24	7.91	7.63	7.48	8.11	7.73	7.19	7.44
Spread	7.39	9.02	9.09	9.38	9.54	9.55	9.00	9.68	10.02	9.59

Source: BNR, Monetary Policy and Research Department

Outlook

In 2018Q2, the broad money M3 is expected to slightly increase due to less government spending, as result of less external resources and expected increase in sales to banks in line with high import bill. Therefore, Money market interest rates are likely to increase in line with expected prevailing liquidity conditions.

III.INFLATION DEVELOPMENTS

In 2018Q1, headline inflation continued declining from 2.2% in 2017Q4 to 0.9% in 2018Q1. The decline was mainly reflected in food prices that dropped from 1.9% to -1.8%, offsetting the mild upward pressures from energy prices that picked from 6.3% to 7.3% during the same period.

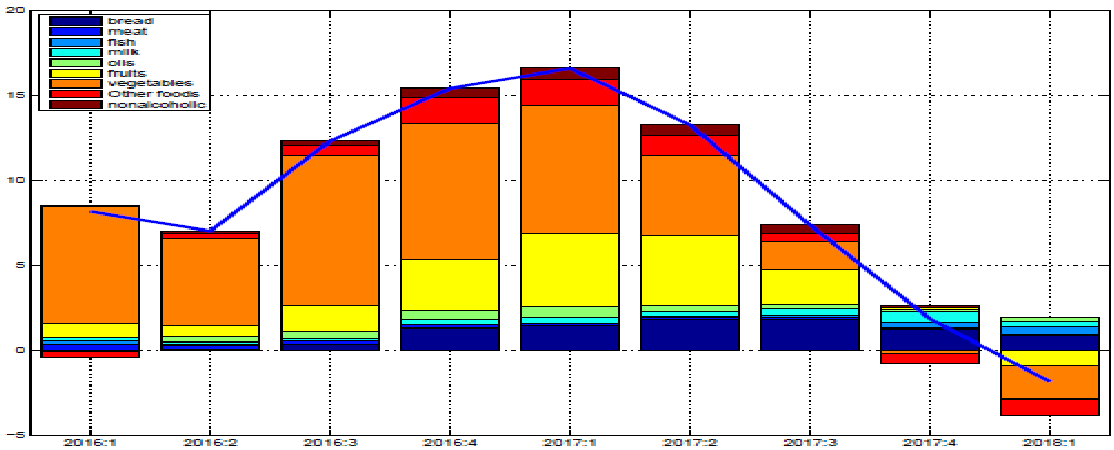
Table 19: Inflation developments for key items (%, Y-o-Y)

	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2018Q1
Headline	4.5	4.9	6.4	7.0	7.7	6.2	3.5	2.2	0.9
Core	3.0	3.8	4.5	5.2	5.5	4.6	3.1	2.5	1.7
Imported	2.6	4.1	5.4	7.3	8.8	6.9	3.9	4.7	4.4
Domestic	5.2	5.2	6.7	6.9	7.4	6.0	3.4	1.4	-0.1
Food	7.5	7.0	12.3	15.4	16.6	13.3	7.4	1.9	-1.8
-Vegetables	17.2	14.3	24.7	22.4	21.1	13.1	4.6	-0.5	-5.4
Housing	3.2	3.2	2.2	1.2	2.0	1.8	1.7	2.3	2.4
Transport	5.4	7.3	8.7	7.7	8.5	5.4	1.3	3.0	3.0
Alcoholic	9.5	9.3	1.8	0.7	5.6	8.5	9.1	8.2	3.5
Clothing	0.4	0.2	2.3	3.8	6.9	7.0	5.5	4.4	3.7
Education	1.3	1.7	1.9	2.3	-0.2	-0.8	-1.0	-0.9	2.0
Energy	5.0	6.2	3.9	1.7	4.3	5.2	3.5	6.3	7.3

Source: NBR, Monetary Policy & Research Department (2018)

The prices of many food items eased in 2018Q1 compared to the same period in 2017 mainly due to the significant drop in vegetables from -0.5% in 2017Q4 to -5.4% in 2018Q1. In the same period, sugar inflation fell from 1.0% to -9.0%, and fruits inflation dropped from 0.9% to -7.5%. Food prices declined because of increased food production and supply, following favorable rains during the agricultural season A 2017/2018 in the country and in the region.

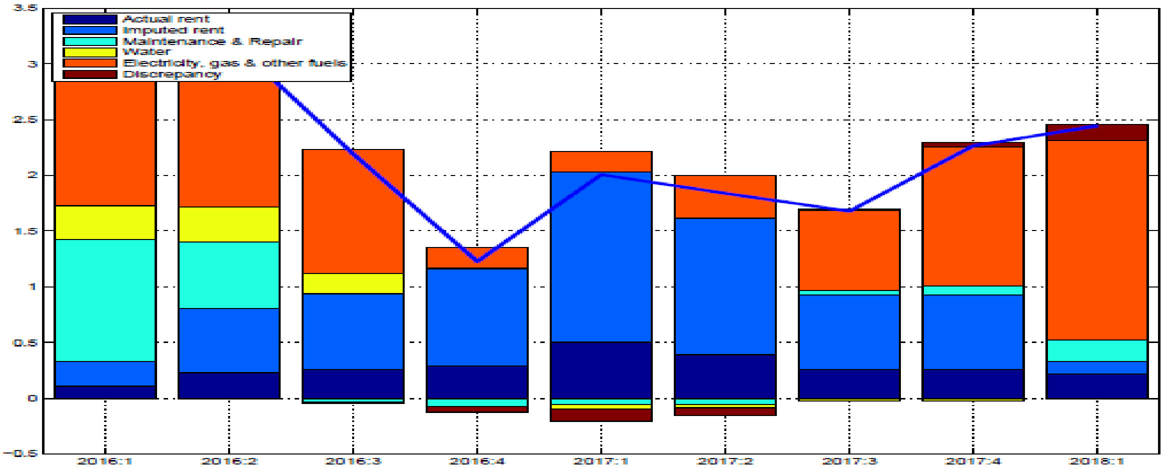
Figure 12: Contribution to Food Inflation (%, Y-o-Y)



Source: NBR, Monetary Policy & Research Department (2018)

Some mild upward pressures came from energy whose inflation picked up from 6.3% to 7.3% during the same period. The increase in prices of energy mostly came from the increase in inflation for firewood and charcoal from 6.5% to 10.3% following the reduced production because of more rain this season compared to same period last year. The increase in energy prices slightly pushed up housing inflation from 2.3% to 2.4% in the same period.

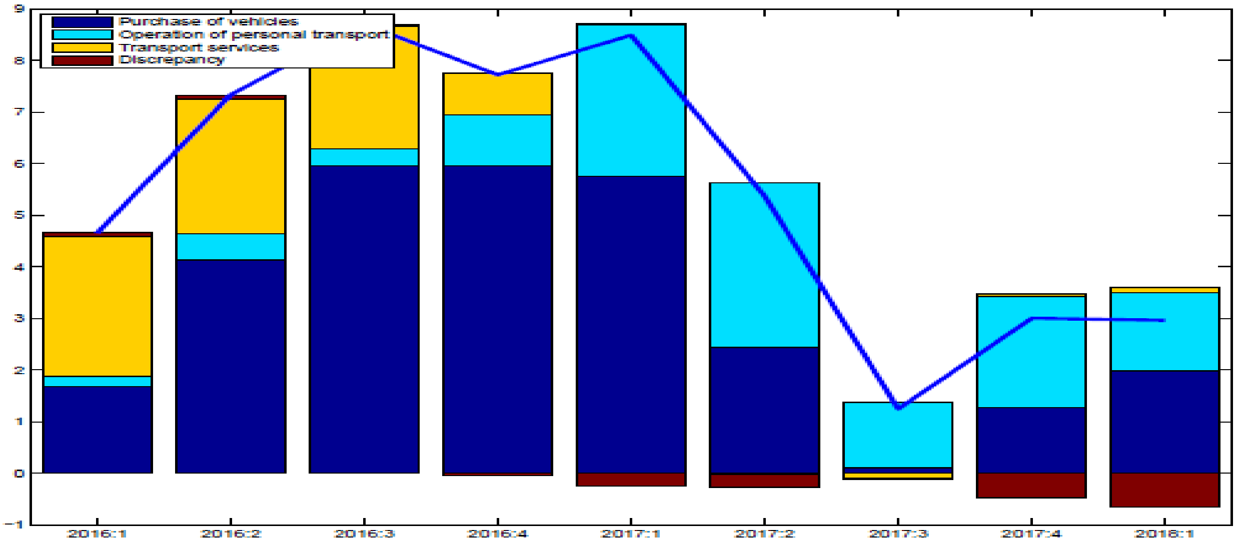
Figure 13: Contribution to Housing Inflation (%, Y-o-Y)



Source: NBR, Monetary Policy & Research Department (2018)

Transport inflation remained at 3.0% in 2018Q1 due to offsetting upward pressures from imported cars and downward pressures from fuels and lubricants. Fuels inflation reduced from 9.5% to 6.4% following developments in fuels prices. Although local pump prices were higher in 2018Q1, prices increased by 11Frw/liter compared to an increase of 22Frw/liter of the same period in 2017. Besides, prices increased by 62Frw/liter from 2017Q3 to 2017Q4 while they increased by 24Frw/liter from 2017Q4 to 2018Q1. The rise in imported cars inflation from 3.1% to 5.0% was due to increasing prices of some types of cars sold by Akagera motors.

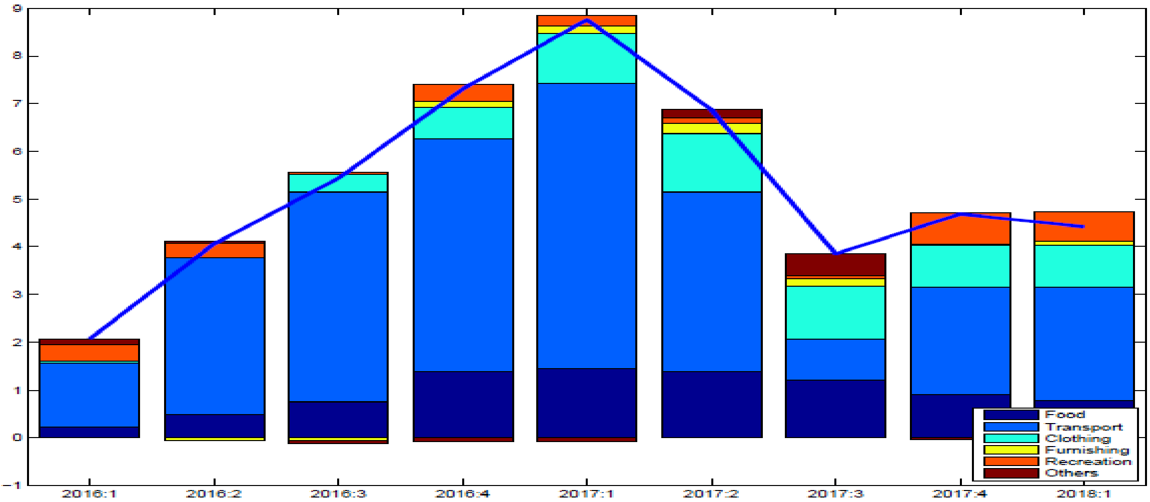
Figure 14: Contribution to Transport Inflation (%, Y-o-Y)



Source: NBR, Monetary Policy & Research Department (2018)

Imported inflation slightly decreased from 4.7% to 4.4% during the same period, in line with the decline in prices of fruits imported from the EAC region.

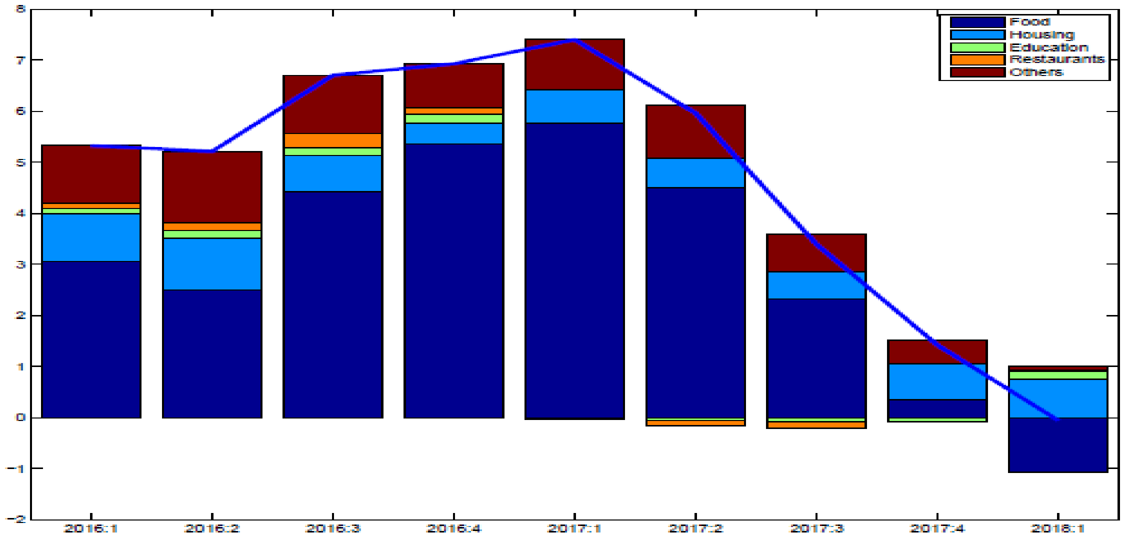
Figure 15: Contribution to Imported Inflation (%, Y-o-Y)



Source: NBR, Monetary Policy & Research Department (2018)

Domestic inflation decreased from 1.4% in 2017Q4 to -0.1% in 2018Q1, following the aforementioned decline in domestic food prices due to ample supply.

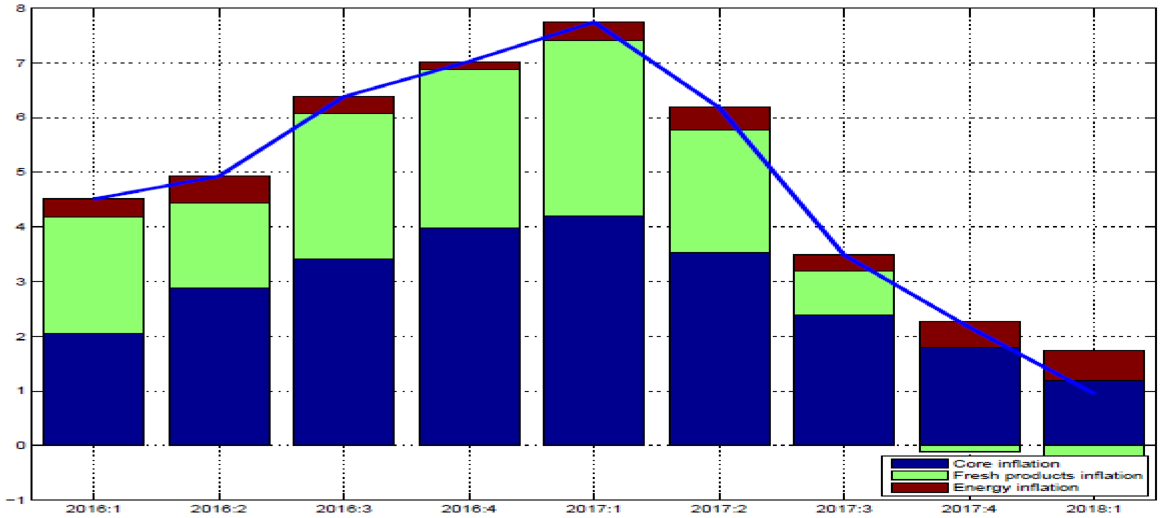
Figure 16: Contribution to Domestic Inflation (annual %, Y-o-Y)



Source: NBR, Monetary Policy & Research Department (2018)

Core inflation, which excludes energy and fresh products, went down from 2.5% to 1.7% reflecting subdued exchange rate pressures, the non-inflationary aggregate demand and the ease in prices of some core food items such as flours as well as the reducing second round effects from other food prices.

Figure 17: Core, Energy and Fresh Products Inflation (annual %, Y-o-Y)



Source: NBR, Monetary Policy & Research Department (2018)

IV. INFLATION OUTLOOK AND RISKS

4.1 Demand-side pressures

The good performance of the Rwandan economy observed in 2017 is expected to continue in 2018, evolving towards the projected annual growth of 7.2%, backed by the improvement in aggregate demand and agricultural production in the first and second quarter of 2018. Despite this improvement, aggregate demand is projected to remain below potential and thus non-inflationary.

4.2 Supply shocks

The heavy rainfalls experienced in 2018Q1 that expected to continue until the end of 2018Q2 will affect agriculture production and the increase in international oil prices forced a rise in the local pump prices from 1031 FRW/liter to 1048 FRW/liter on 10th January 2018 and from 1048 to 1,065 FRW/liter on 4th April 2018. Nonetheless, the impact of oil prices is likely to remain modest in the whole of 2018Q2.

4.3 Exchange rate developments

In the first quarter of 2018, the foreign exchange pressure on the Rwandan francs (FRW) remained modest. Relative to December 2017, the FRW depreciated by 0.9% against the USD as at end March 2018, slightly higher than 0.8% observed in the same period of 2017, but far below 2.8% recorded in 2016Q1. The pressure on exchange rate in 2018Q1 is mainly resulting from rising imports, but the simultaneous increase in exports following the export diversification strategy, and the current USD depreciation against the major currencies have helped to lessen these exchange pressures and this trend is expected to continue in 2018, helping to mitigate imported inflationary pressures.

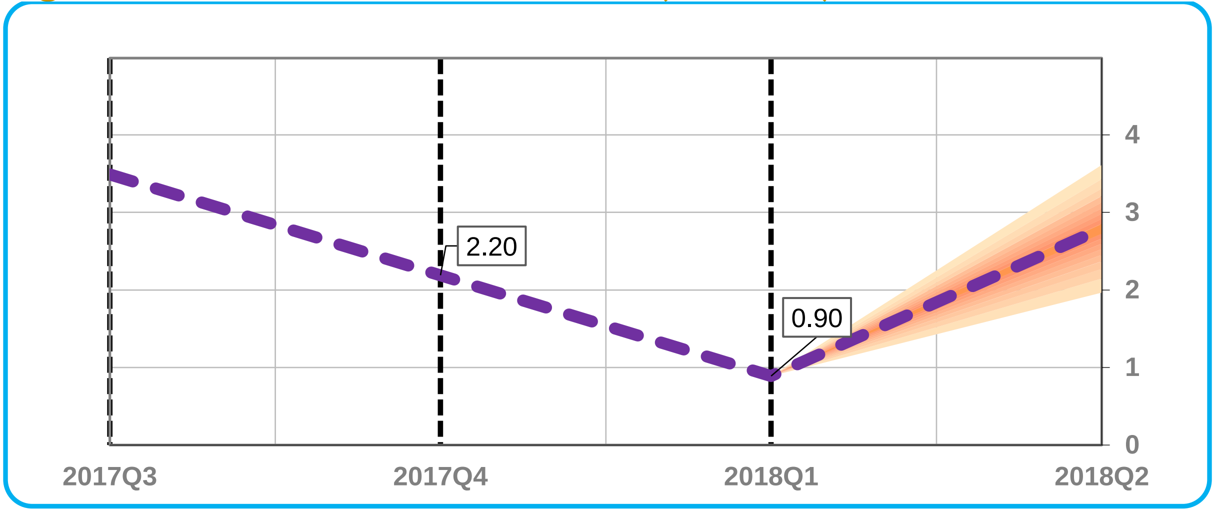
4.4 Global and regional inflationary pressures

The global economy remains resilient in 2017 and expected to further pick up over the next two years. Real GDP growth is expected at 3.9% on average in 2018 and 2019 from 3.8% in 2017. Most advanced economies are performing above the potential indicating a continued stronger aggregate demand in the near future. Supporting factors include favorable market sentiment, easy financial conditions and expansionary fiscal policy in the United States. The resilience of the global economy is expected to continue to stimulate not only Rwanda's export receipts but to also ease exchange rate and inflationary pressures.

4.5 Inflation forecasts

Despite ongoing increase in oil prices and heavy rain that cause massive damage of crops, infrastructure and properties, all other factors broadly indicate either moderate or downward pressures to the inflation outlook. As highlighted above, only the mild up pressures on inflation are coming from the increase in local pump prices that may rise the transport inflation and unfavorable weather conditions that will continue to affect agriculture production in 2018Q2. In view of the above, headline inflation is likely to lie between 2% and 3.6% in 2018Q2.

Figure 18: Headline inflation forecasts (fan chart)



Source: BNR, Monetary Policy & Research Department