National Bank of Rwanda

QUARTERLY INFLATION REPORT

WP01/2013Q4

Kigali, March 2014

Contents

EXECUTIVE SUMMARY 2

1.0. EXTERNAL ENVIRONMENT 3

1.1. Global Economic Activity 3

1.2. Monetary policy and international financial markets 4

1.3. International commodity prices 4

1.4. Global inflation developments 5

2.0. THE DOMESTIC ECONOMY 6

2.1. Domestic demand and output 6

2.2. Financial Sector developments 6

2.3. External accounts 8

2.4. Fiscal spending 9

2.5. Previous monetary policy stance 9

2.6. Domestic inflation developments 10

3.0. THE INFLATION OUTLOOK 12

3.1. Risks to the inflation outlook 12

3.1.1. The external economic environment 12

3.1.2. The domestic output gap 12

3.1.3. The M3 gap and credit to private sector 12

3.1.4. Global inflationary pressures 12

3.1.5. International commodity prices 12

3.1.6. Exchange Rate movements 13

3.1.7. Market expectations 13

3.1.8. Fiscal spending and inflation 13

3.2. Inflation forecasts 14

EXECUTIVE SUMMARY

The quarterly Inflation report presents the National Bank of Rwanda assessment of the current and future macroeconomic developments influencing inflation. The inflation forecasts are one of the inputs to Monetary Policy Committee decision making process.

The Rwandan economy underwent economic slowdown in 2013 largely due to the adverse effects of aid cuts, deceleration of credit to private sector as well as poor weather that caused poor performance of the agriculture sector. Following the recent uptick in credit to the private sector, an accommodative monetary policy and resumption of aid disbursements, the economy is likely to recover and grow by 6% in 2014 from 4.6% of 2013. Despite this recovery, aggregate demand will remain low as reflected by the fact that the output gap is likely to remain negative until 2015.

Inflation remains under check despite the on-going depreciation of the Rwandan Franc. Local pump prices are expected to remain low given that on top of being regulated, the pass through from international oil prices is limited. International commodity prices are generally expected to remain moderate in 2014. Inflation in advanced economies as well as in EAC from where Rwanda imports is still low thus limiting the contagion to domestic inflation. The major vulnerability facing the Rwandan economy is the exchange rate depreciation caused by the widening trade deficit and sometimes short-falls in other capital inflows including budget support. The inflation outlook for 2014 is that headline inflation will most likely stand at around 4.2% in 2014Q1 and 4.6% in 2014Q2 whereas it may hover around 5% by the end of 2014.

ACKNOWLEDGEMENTS

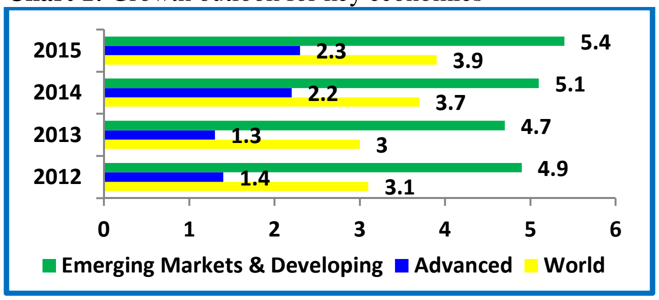
A team from the Research Department, spearheaded by the Macroeconomic framework and forecasting division, prepared this report. Notable contribution came from Mr. Ananias Mukiza GICHONDO (Research Department Director) and Mr. Mathias KARANGWA (Manager, Macroeconomic Framework and Forecasting Division) whereas Dr. Thomas Kigabo RUSUHUZWA (Chief Economist and DG-Monetary Policy & Research Directorate) edited and reviewed the report. Other contributors include Mr. Nuwagira Wilberforce (Manager, Policy Research & Analysis).

1.0. EXTERNAL ENVIRONMENT

1.1. Global Economic Activity

In October 2013, the IMF projected a global economic recovery supported by performance in advanced economies especially USA. This trend was confirmed by the IMF's latest update on the world economic outlook announced in January 2014.

Chart 1: Growth outlook for key economies



Source: World Bank (2014)

Despite showing mixed trends, global growth is projected to be slightly higher in 2014, rising from 3% in 2013 to 3.7% in 2014 and 3.9% in 2015.

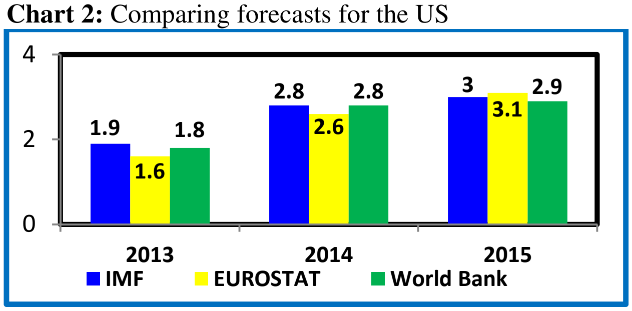
Table 1: Real GDP growth (y-o-y, %)

	Estimated	Projected	
	2013	2014	2015
World	**3.0**	**3.7**	**3.9**
Advanced Economies	1.3	2.2	2.3
United States	1.9	2.8	3.0
Euro Area	-0.4	1	1.4
Japan	1.7	1.7	1.0
UK	1.7	2.4	2.2
Emerging & Developing Economies	4.7	5.1	5.4
China	7.7	7.5	7.3
Sub-Saharan Africa	5.1	6.1	5.8

Source: IMF WEO (January 2014)

Global growth will largely be driven by strong growth in the US, standing at 1.9% in 2013, 2.8% in 2014 and 3% in 2015.

Chart 2: Comparing forecasts for the US

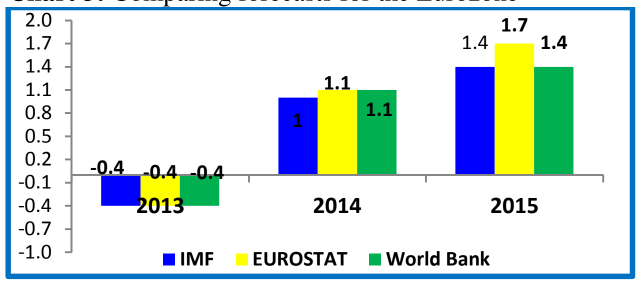


Source: Eurostat, IMF & World Bank

Growth of the Japanese economy is anticipated to stand at 1.7% in 2014 before slowing down to 1% in 2015.

The Euro area has shown signs of moving from recession to recovery with growth projected at 1% in 2014 and 1.4% in 2015.

Chart 3: Comparing forecasts for the Eurozone

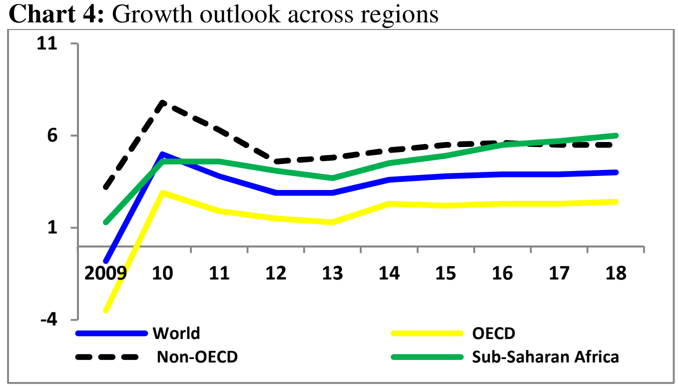


Source: Eurostat, IMF & World Bank

Growth in advanced economies is expected to rise from 1.3% in 2013 to 2.2% in 2014 and 2.3% the following year. In emerging and developing countries, economic growth will remain high, rising from 4.7% in 2013 to 5.1% in 2014 and 5.4% in 2015. Growth in China alone is expected to average around 7.5% in 2014-15.

Forecasts show that growth will be stronger in non-OECD countries and Sub-Saharan Africa according to the Economist Intelligence Unit forecasts released in January 2014.

Chart 4: Growth outlook across regions



Source: Economic Intelligence Unit (Jan. 2014)

The World Bank also projects higher growth in emerging and developing countries and recovery in advanced economies.

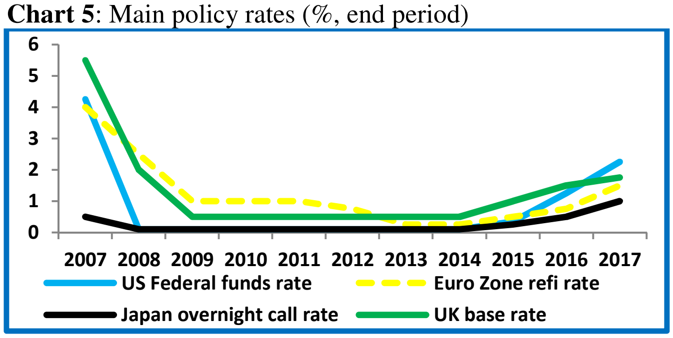
In 2013, economic recovery in advanced economies was supported by both monetary and fiscal stimulus. In USA for example, the monetary stimulus was in form of quantitative easing, and the fiscal stimulus was in form of expansionary budget following the decision of the US congress to temporarily suspend fiscal consolidation that would have led to cuts in government spending. These measures helped to boost domestic demand and put the economy back on track.

1.2. Monetary policy and international financial markets

Most central banks across the world pursued an accommodative monetary policy stance during 2013 to continue spurring economic recovery. In the second half of 2013, the FED maintained the policy rate at 0.25%, the Bank of England at 0.5%, and the Bank of Japan at 0.1%. The ECB was an exception after lowering the policy rate to 0.25% in 2013 from 0.75% in 2012 given the room for monetary policy easing premised on the deceleration of underlying inflation.

Looking forward, monetary policy tightening is expected in advanced economies with policy rates expected to rise in USA, Japan and UK as from 2015.

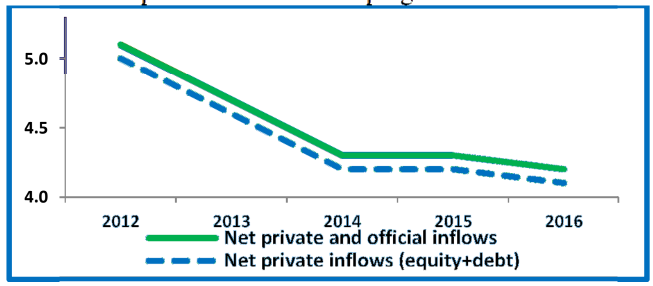
Chart 5: Main policy rates (%, end period)



Source: Economic Intelligence Unit (Jan. 2014)

The winding down of the Fed's Quantitative Easing (QE) will continue to put upward pressure on global bond yields and could lead to further capital flight from emerging markets. Emerging markets' currencies remain vulnerable to US monetary tightening. Over the medium term they should gain support by positive growth and interest rate differentials with OECD economies (Economic Intelligence Unit, 2014).

Chart 6: Capital Flows to developing countries

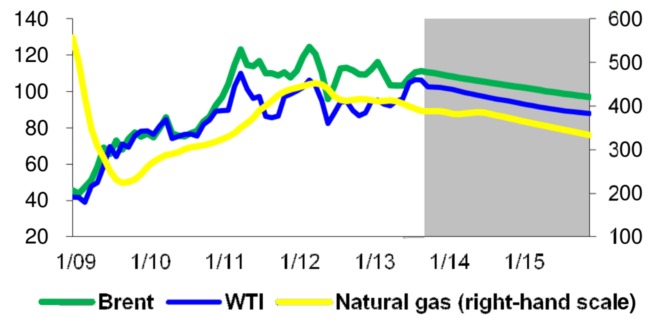


Source: World Bank, Global Economic Prospects (2014)

1.3. International commodity prices

The price of Brent crude oil was rising between late June and mid-September 2013, but has been declining since then and is expected to slightly fall in the near future.

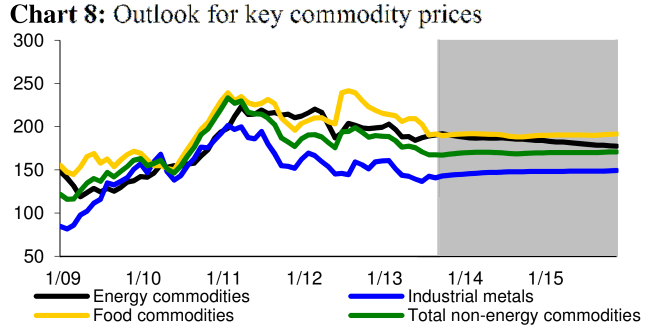
Chart 7: Outlook for oil prices



Source: IMF (May 2014).

Although some geopolitical risks continue to weigh on the supply side, particularly in Syria, and mounting risks in Iraq and Nigeria, no shortfalls in supply are expected following anticipated increase in oil production in North America which will help to offset the negative impact of supply outages in a number of OPEC producers. International non-oil commodity prices especially industrial metals and food commodities are expected to remain flat in 2014.

Chart 8: Outlook for key commodity prices



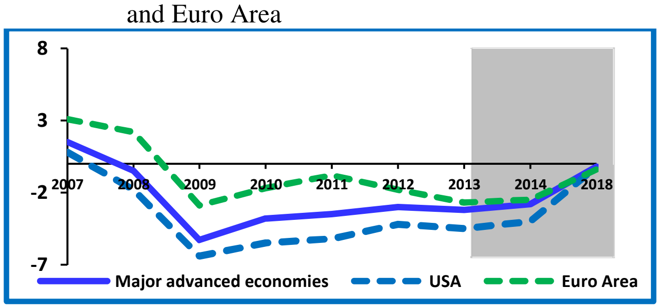
Source: IMF (May 2014).

Demand for commodities was relatively subdued in 2013, constrained by weak OECD growth and slower growth in China. Rising incomes and ongoing urbanization in the developing world will underpin medium-term demand growth in industrial raw materials. The food, feedstuffs and beverages (FFB) index fell by nearly 7.4% in 2013, partly reflecting a bumper maize crop. Prices will continue to slip in 2014 - 2015, before some recovery thereafter. Nominal commodity prices will remain historically high in 2013-18, but prices will ease in real terms (Economist Intelligence Unit, January 2014).

1.4. Global inflation developments

The current trend of economies around the world shows that inflation will remain subdued especially in advanced economies that are largely experiencing negative output gaps and lower interest rates at a time when commodity prices pose no significant risks to the inflation outlook.

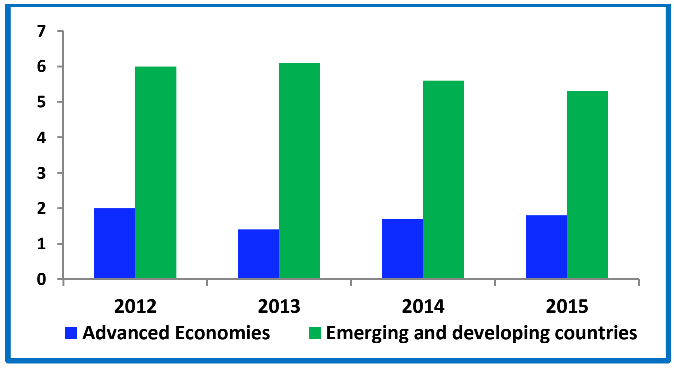
Chart 9: Output gap (%) in major advanced economies, USA and Euro Area



Source: Czech National Bank (2013Q4).

After standing at 1.4% in 2013, inflation for advanced economies is expected to rise to 1.7% in 2014 and to 1.8% in 2015. Inflation for emerging and developing countries is projected to stand at 5.6% in 2014 before dropping to 5.3% in 2015.

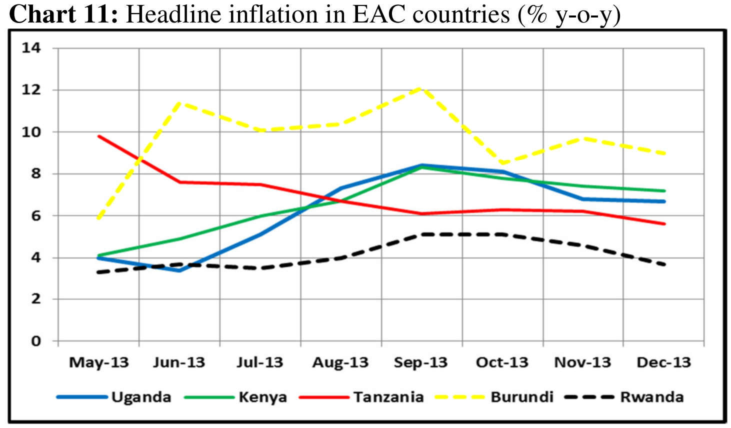
Chart 10: Global inflation outlook



Source: WEO update (Jan. 2014)

Headline inflation generally remained moderate in EAC despite on-and-off supply shocks coming from seasonal shortfalls in food production and occasional interruptions in energy supply. In December, headline inflation was at 3.7% in Rwanda, 5.6% in Tanzania, 6.7% in Uganda, 7.2% in Kenya and 9.0% in Burundi. The lower level of inflation largely reflects improved agricultural harvests within the EAC sub-region.

Chart 11: Headline inflation in EAC countries (% y-o-y)



Source: EAC member countries central banks websites.

2.0.THE DOMESTIC ECONOMY

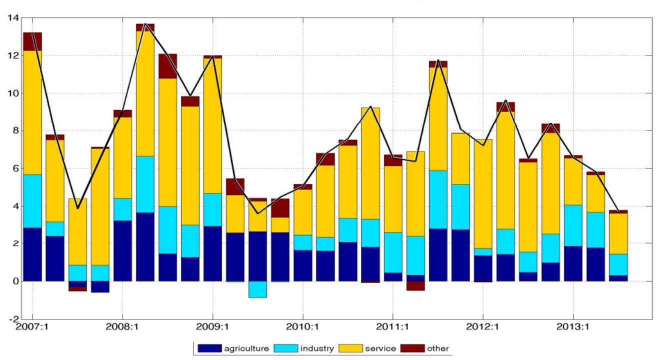
2.1. Domestic demand and output

Real GDP growth slowed down from 7.3% in 2012 to 4.6% in 2013 as a result of the lagged effect of aid delays in the second half of 2012, the slowdown in economic financing as well as the effects of the early onset of the dry season in 2013. The shortfall in budget support led to lower aggregate demand through for example cuts in government spending that adversely affected especially the service sector which normally has the highest contribution to GDP.

Using the latest quarterly statistics, Real GDP grew by 6.4% in the first quarter of 2013 but slowed down to 5.7% and 3.9% in the second and third quarter respectively. In annual percentage change terms, the slowdown is observable in all sectors of the economy, with growth in services dropping from 5% in 2013Q1 to 4% in 2013Q2 before rising back to 5% in 2013Q3.

After stabilizing at 5% in the first and second quarter of 2013, growth in agriculture decelerated quite significantly to 1% in 2013Q3 whereas growth of the industry sector remained relatively high, starting at 14% in 2013Q1 but progressively declined to 13% and 8% in the second and third quarter respectively.

Chart 12: Real GDP by Sector (% y-o-y)

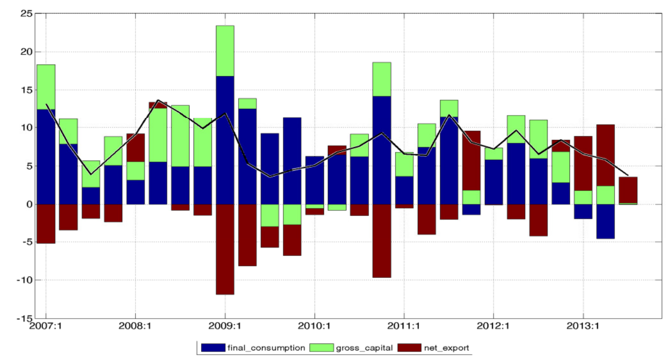


Source: BNR, Research Department (2014)

The relatively good performance of the industry sector was supported by higher growth in construction resulting from the implementation of the Kigali City Master Plan and the improvement in regulations as noted in the World Bank's 2014 doing business report (World Bank, Rwanda Economic update, December 2013).

On the expenditure side, gross capital formation and net exports helped to support growth in 2013 while total final consumption, which declined by -2%, -5% in annual terms during the first and second quarter respectively, was responsible for dragging down aggregate spending.

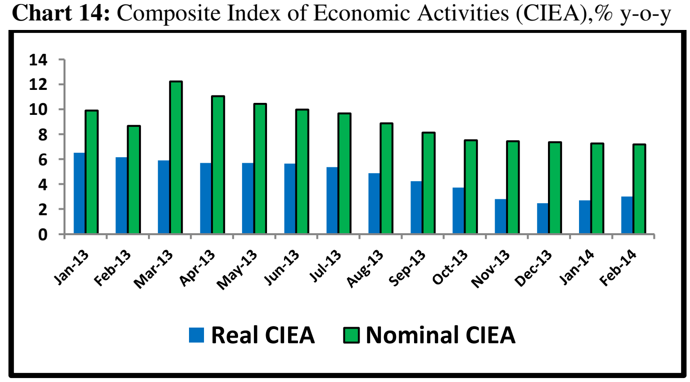
Chart 13: Real GDP by Expenditure (% y-o-y)



Source: BNR, Research Department (2014)

The annual percentage change in the real CIEA also dropped to 2.5% in December 2013 from 2.8% of the previous month but recovered slightly to 2.7% and 3.0% in January and February 2014, respectively.

Chart 14: Composite Index of Economic Activities (CIEA),% y-o-y

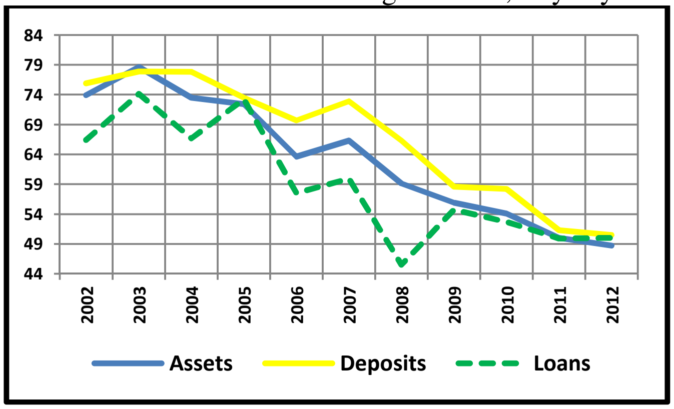


Source: BNR, MPEAD (2014)

2.2.Financial Sector developments

The Rwandan banking sector is still dominated by a few large banks albeit the progressive declining shares in the loans, deposits and assets. On average, the share of the 3 largest banks stands at 59.1%, 66.6%, 63.3% in loans, deposits and assets respectively between 2002 and 2012.

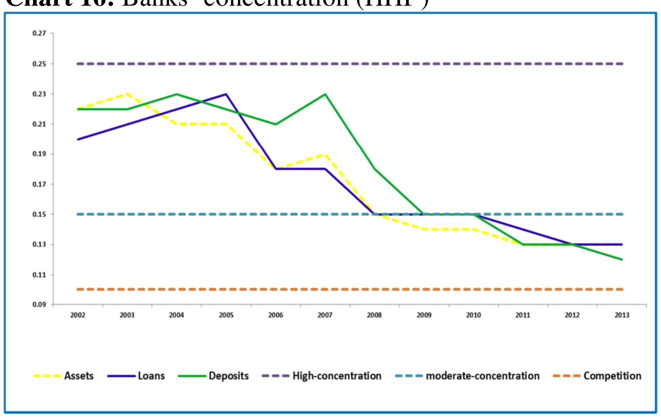
Chart 15: Market share of 3 largest banks, % y-o-y



Source: BNR, Bank supervision Department

The banking sector concentration has been trending downwards since 2011, reflecting increasing competition. Since 2011, Rwanda's banking sector hovered between moderate concentration and high competition.

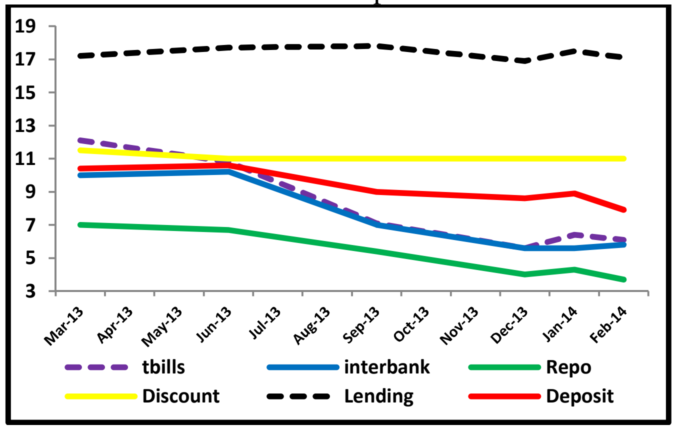
Chart 16: Banks' concentration (HHI[1])



Source: BNR, Bank supervision Department

The expectation is that as the banking sector becomes more competitive, intermediation costs will fall and banks' efficiency will increase. While other interest rates have remained moderate, the lending rate has remained stuck above 16%. Higher lending rates result from the fact that the Rwandan banking system still faces higher operational costs, a relatively high level of non-performing loans and market inefficiencies related with a weak monetary policy transmission mechanism (BNR MPC working document, March 2014).

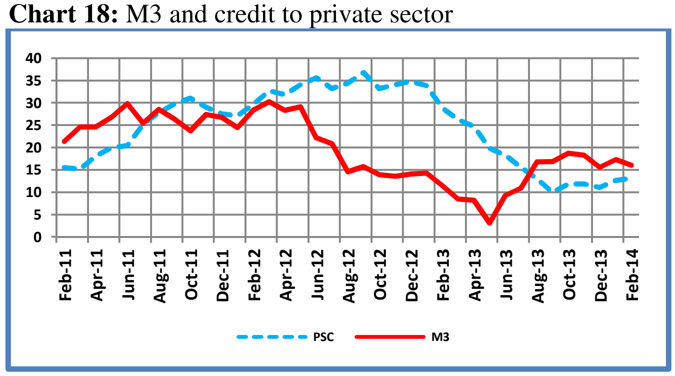
Chart 17: Interest rates developments



Source: BNR, Financial Markets Department

During 2013, money supply (M3) followed a sustained upward trend, rising from 3.1% in May to settle at 15.5% in December and increasing to 17.3% in January 2014 before slightly falling to 16% in February. The year-on-year growth in credit to private sector fell consistently from 19.8% in May to reach 11.1% in December 2013 but picked up to 12.6% and 13.1% in January and February 2014, respectively. The slowdown in private sector credit was a result of enhanced risk management by banks following higher levels of non-performing loans and increased domestic borrowing by the government.

Chart 18: M3 and credit to private sector



Source: BNR, Statistics Department

Both money supply and credit to private sector showed signs of recovery in the first two months of 2014 as a result of improved budget support, increased government injections and accommodative monetary policy.

[1] HHI is the Herfindahl-Hirschman index used to measure competition, with a higher index denoting higher concentration

On the exchange rate market, the Rwandan franc recorded a nominal depreciation of 6.12% against the USD between January and December 2013, and 1.1% between December 2013 and 27th March 2014. This depreciation was caused by higher demand for forex to finance imports, re-enforced by reduced capital inflows as a result of the aid suspensions and the widening trade deficit.

Table 2: Exchange rate developments (RWF against USD)

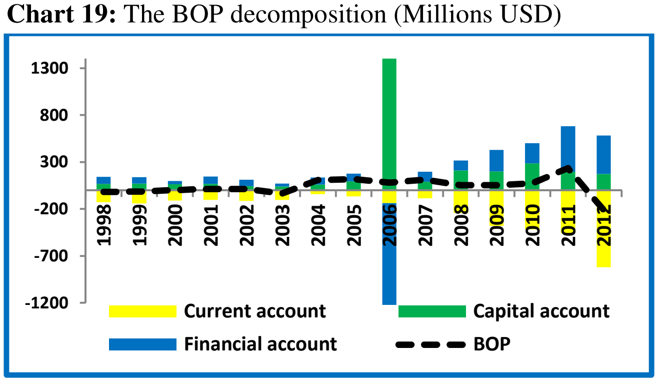
PERIOD	BNR	BANKS	BUREAUS
Jun. 2013-Dec. 2013	4.54%	4.45%	4.91%
Jan.2013 – Dec. 2013	6.12%	3.46%	3.07%

Source: BNR, Financial Markets Department

2.3. External accounts

Rwanda's external accounts are characterized by a declining current account mainly induced by the widening of the trade deficit. The overall BOP increased from 72.1 Million USD in 2010 to 234.5 Million USD in 2011 but dramatically declined to -212.4 Million USD in 2012.

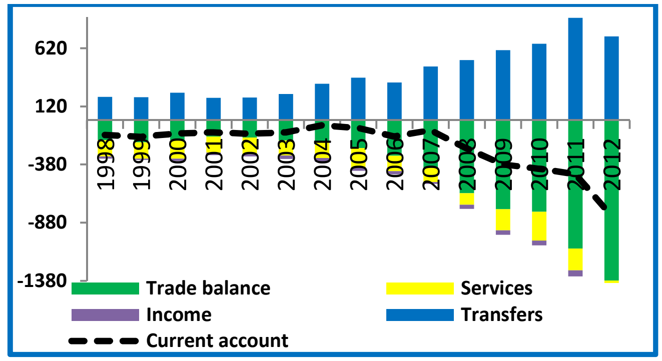
Chart 19: The BOP decomposition (Millions USD)



Source: BNR, statistics department (2014)

The worsening current account has been affected by the poor position in trade, both in merchandise and services as indicated by the widening trade deficit. However, transfers have been growing over time but continued to be overweighed by the decline in the trade balance thus dragging down the current account.

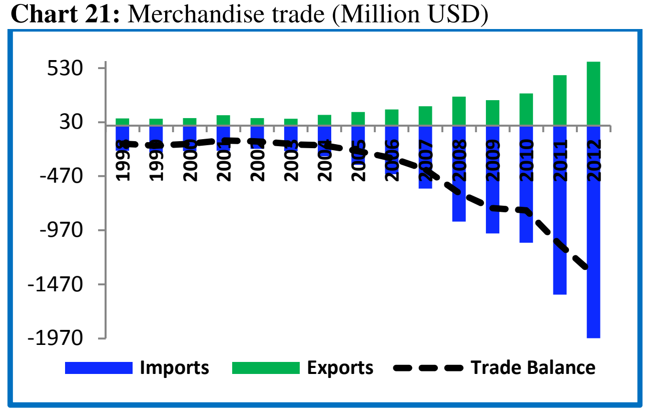
Chart 20: The current account (Million USD)



Source: BNR, statistics department (2014)

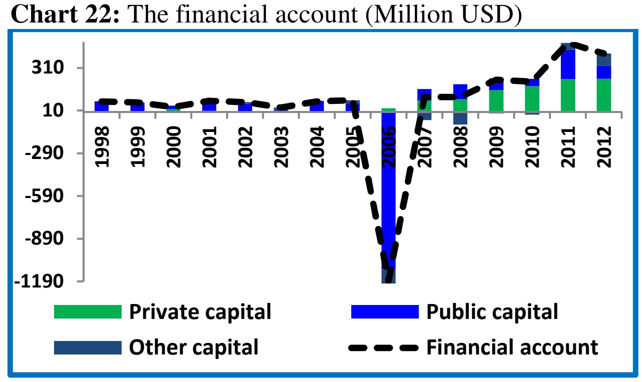
Though exports have been growing since 2009, imports have been growing faster, leading to the widening of the trade deficit.

Chart 21: Merchandise trade (Million USD)



Source: BNR, statistics department (2014)

Chart 22: The financial account (Million USD)

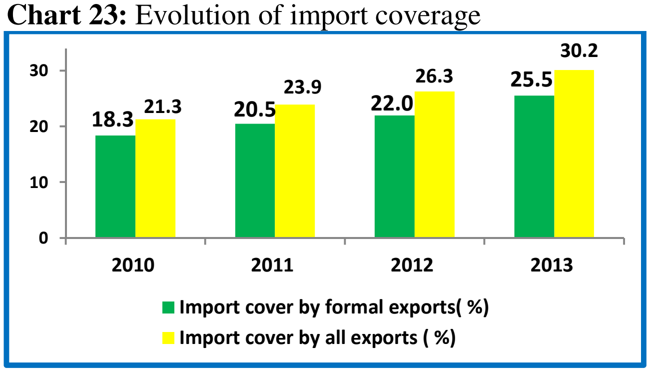


Source: BNR, statistics department (2014)

Indeed, while the import coverage by exports has been increasing from 18.3%, 20.5%, 22% and 25.5% in 2010, 2011, 2012 and 2013 respectively, the trade balance has continued to worsen. Including informal exports, import coverage stood at 21.3%, 23.9%, 26.3% and 30.2% during the same period. In 2013, gross international reserves amounted to USD 1070.38 million, representing 4.5 months of imports, up from USD 843.45 million, equivalent to 3.8 months of imports realized during 2012. The increase in official reserves resulted from the resumption of aid disbursements, the issuance of the Eurobond and higher export revenues. The objective is to keep the minimum level of 4 months of reserve so as to continue safeguarding the viability of the country's external sector position.

These figures point to the fact that the performance of the export sector, though still low, has helped to minimize exchange rate pressures thus helping to lessen imported inflation.

Chart 23: Evolution of import coverage



Source: BNR, MPEAD (2014)

2.4. Fiscal spending

Comparing the original and revised 2013/14 budget, the government will generally increase its expenditure by 24.2 Billion RWF. Recurrent expenditure will be scaled up by 66.8 Billion RWF. Though development budget was lowered by 42.6 Billion RWF, the expenditure for domestic capital was increased by 60.3 Billion RWF. Despite the planned increment in both recurrent and domestic capital expenditure, no significant inflationary pressures are anticipated as the output gap is to remain negative until at least next year.

Table 3: Government budget, 2013/14 (RWF Billions)

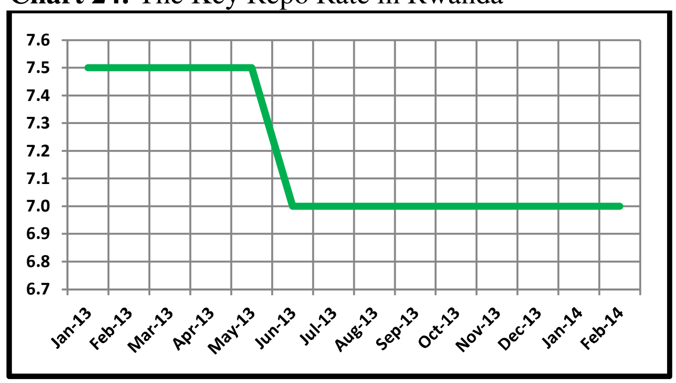
	Original	Revised	Change
Recurrent budget	850.7	917.5	66.8
Development budget	802.7	760.1	-42.6
Domestically Financed	314.8	375.2	60.3
Externally financed	487.9	384.9	-102.9
Total Expenditures	1653.4	1677.7	24.2

Source: MINECOFIN (2014)

2.5.Previous monetary policy stance

In 2013, the MPC met four times: on 20th March, 18th June, 27th September and 17th December. Since June 2013, the Key Repo rate has been kept unchanged at 7%, reflecting an accommodative monetary policy stance.

Chart 24: The Key Repo Rate in Rwanda



In 2013Q1, the MPC decided to keep the KRR unchanged at 7.5% after noting that the macroeconomic environment remained stable following a high economic growth of 8% recorded in 2012, low inflation of 4.8% in February 2013 and stability of the Rwandan Franc.

In 2013Q2, the MPC reviewed the KRR downwards to 7% in order to stimulate the financing of the economy so as to prevent economic slowdown and deceleration in domestic private sector credit. The MPC also noted that domestic inflation remained moderate and the RWF remained stable whereas inflation in Rwanda's major trading partners was also falling thus limiting pressures of imported inflation.

In 2013Q3, the MPC opted for an accommodative monetary policy stance by keeping the KRR at 7% given that there was positive economic performance since the last Central Bank policy rate review as evidenced by real GDP growth of 5.7% in the second quarter of 2013 whereas inflation not only remained moderate but was expected to remain so. However, the RWF had a slight depreciation of 3.9% between December 2012 and September 2013 but was expected to stabilize towards the end of 2013.

In the 2013Q4, the MPC noted that there was still room for an accommodative monetary policy on the back of subdued inflation, weak demand pressures (as indicated by the negative but recovering output gap) and declining regional inflationary pressures. Consequently, the KRR was maintained at 7%.

2.6. Domestic inflation developments

Headline inflation remained subdued in 2013, standing at 4.24% on average. Generally, periods of rising food inflation (January, September and October) coincided with rising headline inflation as shown in table 4 below.

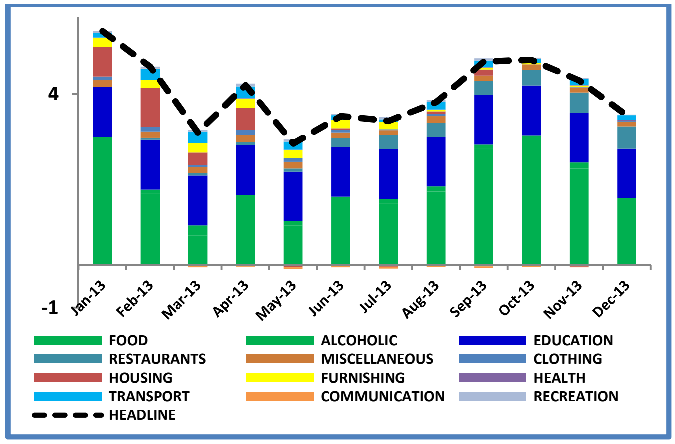
Table 4: Inflation developments

Type	Mar.	Jun.	Sept.	Oct.	Nov.	Dec.
Core	4.8	3.39	3.32	3.24	3.44	3.76
Domestic	3.2	4.12	5.74	6.05	5.14	4.15
Imported	3.4	1.89	2.45	1.23	2.28	1.64
Food	1.9	4.41	7.77	8.18	6.45	3.91
Fresh products	-3.8	6.3	13.59	15.35	11.71	4.88
Energy	4.6	0.94	2.82	0.27	0.24	0.04
Transport	2.26	0.87	1.36	0.77	1.53	0.88
Education	35.2	35.2	35.2	35.2	35.2	35.2
Headline	**3.3**	**3.68**	**5.10**	**5.10**	4.58	**3.65**

Source: BNR, Statistics department (2014)

As shown in figure 25, upward pressures on inflation mainly came from food and education while downward pressures came from communication. On average, food and education jointly contributed 70% to headline inflation, with 42% coming from food inflation and 28% coming from education costs.

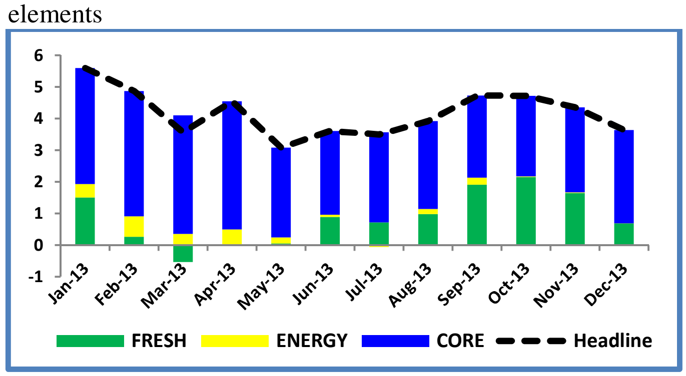
Chart 25: Weighted contribution to headline inflation



Source: BNR, Research Department (2014)

Core inflation also remained at lower levels, standing at 3.97 % on average during the same period. The periodic peaks in headline inflation largely depended on prices for fresh products, starting at a higher level at the beginning of the year due to the effects of a poor harvest in the second half of 2012 and also ending at an elevated level at the end of 2013 owing to the early onset of the dry season.

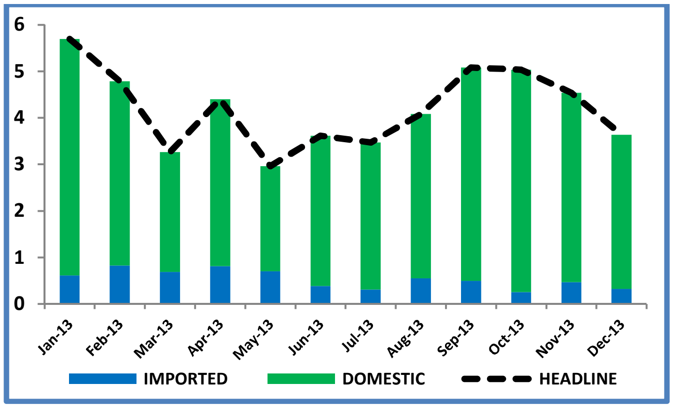
Chart 26: Decomposition of inflation into core and non-core elements



Source: BNR, Research department (2014)

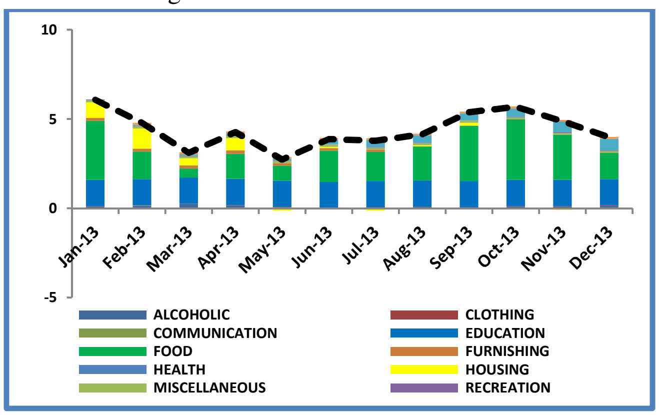
Domestic/local prices continued to prevail over imported inflation with the latter remaining at lower levels following the deceleration of inflation in the EAC region. Domestic inflation picked up in January (6.4%), September (5.8%) and October (6.0%) 2013. The significant contribution of domestic inflation to overall inflation re-affirms that inflation is largely supply-driven as shown by inflation peaks at the start and end of 2013 caused by poor agricultural harvests.

Chart 27: Decomposition of inflation into domestic and foreign source



Source: BNR, Research department (2014)

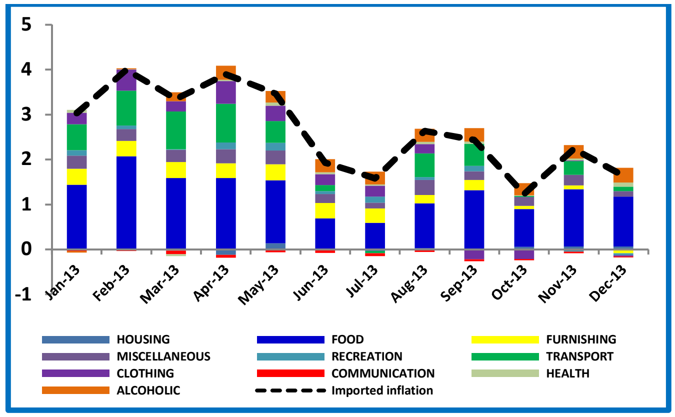
Chart 28: Weighted contribution to domestic inflation



Source: BNR, Research department (2014)

Unlike domestic inflation, imported inflation declined between the third and fourth quarter of 2013, falling from 2.5% (September) to 1.6% in December. Prices of imported food as well as transport costs were the key drivers of imported inflation.

Chart 29: Weighted contribution to imported inflation



Source: BNR, Research department (2014)

3.0. THE INFLATION OUTLOOK

3.1. Risks to the inflation outlook

3.1.1. The external economic environment

The ongoing global economic recovery may lead to increased external demand for Rwanda's exports thus helping to narrow down the trade balance. This however will depend on the trend of international commodity prices, domestic productive capacity and trend in imports. The widening trade balance generally caused by higher import demand will continue to exert pressures on the foreign exchange rate market. The expected slight decline in oil prices, coupled with the fact that local pump prices are regulated, is likely to have a downside effect on inflation. The increase in budget support and other private capital inflows as well as export revenues may help to ease pressures on the foreign exchange rate market.

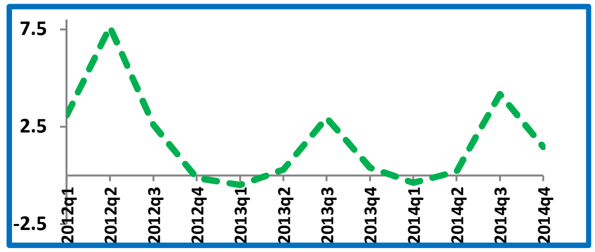
3.1.2. The domestic output gap

The domestic output gap remained negative and became more so towards the end of 2013 reflecting the weakening of both private and public demand. The outlook shows that though still negative, the output gap is expected not to close in 2014 and may turn positive by 2015. Thus, pressures from the demand side of the economy are expected to be limited. Domestic economic growth remains uncertain given that it still depends on domestic capacity utilization which is highly constrained by uncontrollable factors especially weather conditions.

3.1.3. The M3 gap and credit to private sector

The trend of the money gap [2](Chart 30) and credit to private sector (Chart 18) shows that the financing of the economy was not sufficient to stimulate economic activity thus explaining the negative output gap observed since January 2013. However, there are signs of recovery in both money supply and credit to private sector though the latter remains constrained mainly by the high level of lending rates.

Chart 30: The M3 gap



Source: BNR, Research Department.

3.1.4. Global inflationary pressures

Inflation is at the moment at low levels around the world, in USA, Eurozone and EAC. Of particular interest, recent developments show that inflationary pressures are easing in the EAC region. The easing regional inflationary pressures give confidence regarding the moderation of imported inflation.

3.1.5. International commodity prices

International commodity prices are expected to remain subdued in 2014 with crude oil prices likely to remain stable or even decline slightly depending on demand and supply conditions. The fact that local pump prices in Rwanda are administered, coupled with their recent downward revision to 1010 RWF per liter, shows that pressures from fuel prices will continue to be very minimal. Recent trends in global food prices also point to moderation in the near future albeit overall prices remaining significantly high compared to historical levels. Projections show that generally, commodity prices will remain flat in the upcoming 1 or 2 years (Economist Intelligence unit, Jan. 2014). This, as already mentioned, will help to stabilize export revenues.

[2] The money gap is calculated as the difference between actual M3 and its long run equilibrium value. The long run equilibrium value is filtered using the HP filter.

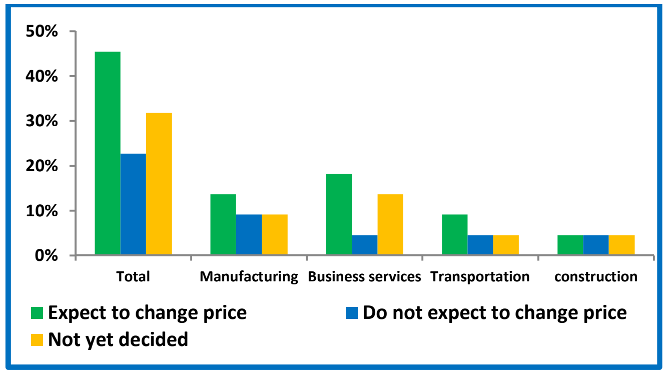
3.1.6. Exchange Rate movements

The RWF has been depreciating against the USD in 2013 with depreciation standing at 6.12% between January and December 2013 and 1.1% between December 2013 and 27th March 2014. Though the exchange rate pass through is hitherto very low, this may be reversed if depreciation goes on.

3.1.7. Market expectations

Results from the expectations survey indicated some inflationary pressures since 45.4% of the sampled firms expected to raise their prices in the 2014Q1. Conversely, results from the mini-market survey revealed that inflationary pressures were likely to ease in 2014Q1 on the back of anticipated improvements in agricultural production. In line with the above survey results, headline inflation declined from 5.10% (2013Q3) to 3.65% (2013Q4). The recent price expectations survey results show that 33.3% of the sampled firms expect to raise their prices in 2014Q2. The results of the mini-market survey show that the prices for food items are likely to go up following the poor harvests in season A 2013/14.

Chart 31: Expected upward revision of prices for 2014Q1



Source: BNR, Research Department.

3.1.8. Fiscal spending and inflation

With the unfreezing of aid since 2013, government expenditure will be the main driver of aggregate demand though it is likely to remain non-inflationary as indicated by the negative output gap.

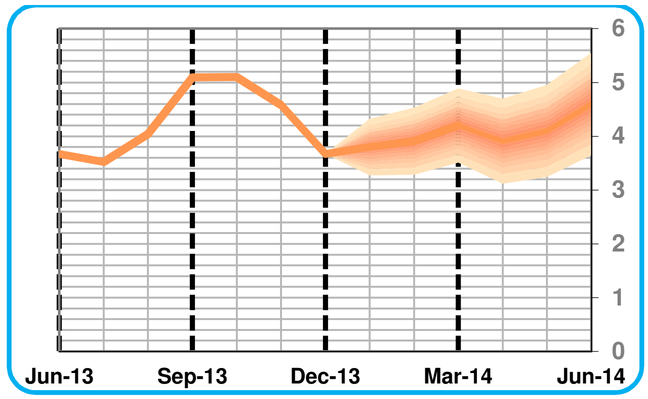
3.2. Inflation forecasts

The above risks to the inflation outlook are presented in a fan chart below. The fan chart shows that the central projection for headline inflation will remain moderate for 2014, standing at around 4.2% in 2014Q1 and 4.6% in the next quarter. Headline inflation is therefore expected to remain moderate in 2014, standing at around 5% by the end of 2014.

The main upside factors to inflation are exchange rate depreciation and seasonal food shortages. Though the output and money gaps as well as credit to private sector are recovering, aggregate demand is still low and unlikely to cause overheating.

Monetary policy is likely to remain accommodative given the current low level of domestic inflation, the negative output gap and recent recovery in credit to private sector. Accommodative monetary policy will help to strike a balance between growth and moderation of inflation.

Chart 32: Inflation forecasts (fan chart)



Source: BNR, Research Department.

****
****
****
****
******
***
*

KN 6 AVENUE 4, P.O. Box 531 Kigali
Tel. :(250)252 574282, Fax: (250) 252 577391
Email: info@bnr.rw
Web: www.bnr.rw
Swift code: BNRWRWRW