



Banque Nationale du Rwanda
National Bank of Rwanda

MONETARY POLICY COMMITTEE

**CURRENT ECONOMIC DEVELOPMENTS AND MONETARY
POLICY ORIENTATION BY END DECEMBER 2011**

7TH OCTOBER, 2011

I. OVERVIEW

The monetary policy implemented during the first 3 quarters of 2011 allowed the National Bank of Rwanda to sustain the country's macroeconomic stability by maintaining moderate levels of inflation despite its upward trend, while continuing stimulating the economic financing. In fact, the Central Bank policy rate – the Key Repo Rate (KRR) - has been maintained at 6% since November 2010.

As a result, Rwandan economy is recording today an appreciable performance in all economic activities, despite a slowing down of the world economic recovery following the debt crisis in Europe and USA and high global high oil and food prices. In Agriculture Sector, the 2011 harvests increased by 11.3% on annual basis, while non agricultural activities also recorded remarkable performance, as evidenced by the NBR Composite Index of economic activities which increased by 11.8% on annual basis by end August 2011. This performance is driven by a strong improvement in consumption as Industry and Services total turnovers during the period January-August increased by 26.6% and 22.6% respectively compared to the same period of 2010.

Improving economic performance is also marked by a dynamic External Sector during the eight first months of 2011 compared to the same period of 2010. Indeed, exports recorded a strong increase of 52.3% to reach USD 241.5 million against an increase of 21.3% for imports which stood at USD 1048.2 by end August 2011. Thus, imports cover significantly improved standing at 23.0% from 18.3% in the corresponding period of the previous year.

However, these positive results in real sector have been associated with an increasing inflation due to high global oil and food prices. On annual basis, headline inflation reached 7.52% in August 2011 from 0.23% in December 2010. In terms of annual average, inflation moderately increased to 3.3% in August 2011 from 2.3% in December 2010. It is worth to highlight that compared to other EAC, Rwanda has managed to limit the impact of global inflationary pressures at moderate levels, thanks to good harvests that sustained the food supply despite some seasonal volatility, relatively stable RWF exchange rate which limited the pass-through of imported inflation to domestic markets, as well as well coordinated monetary and fiscal policies.

In line with dynamism in economic activities, monetary aggregates developments have shown an upward movement especially in broad money M3 with an increase of 18.0% driven mainly by the credit to the private sector (+20.9%). On money demand side, developments in deposits with the banking system (+20.2%) and currency in circulation out of banks (+5.3%) were consistent with the dynamism in economic activities and rapid monetization of the economy.

For the rest of the year, economic activities are expected to continue improving at a sustained level. In fact, based on the current trends in macroeconomic fundamentals, the real GDP growth projections are upward revised to 8.8% from the initial 7.0% and the headline inflation at 8.7% by end 2011 against 7.5% initially projected. Therefore, considering the projections of inflation, the Central Bank considers that there is a need of tightening the monetary policy stance as a preventive measure to avoid any risk of excessive money supply which can rapidly feed higher inflation.

Thus, after having analyzed in details the developments and outlook of key economic and financial fundamentals, on 7th October 2011 the Monetary Policy Committee of the NBR reviewed upward the KRR from 6.0% to 6.5% to be in force for the rest of 2011.

II. CURRENT ECONOMIC SITUATION

II.1 GLOBAL ECONOMIC ENVIRONMENT

a. Economic growth

The world economic recovery observed after the 2008-2009 global financial crisis is slowing down in advanced economies due to renewed stress in the euro area and US caused by European sovereign debts and US fiscal situation. The current European and USA Debt Crisis are expected to significantly impact the rest of the world given their role in the global economy. The growth perspectives across the world are also negatively impacted by the high oil and food international prices. Current economic turmoil is exacerbated by political concerns in Arab countries and consequences of the earthquake in Japan. Considering these downside risks to the recovery in advanced economies and their negative impact on the world economy, IMF has reviewed down the global economic growth projection in 2011, from 4.4% to 4.3%.

In advanced economies, different indices show a decline in markets' confidence by economic agents. Global manufacturing Purchasing Managers' Index for output which stood at 50.9 in July reduced to 50.6 in August 2011. The manufacturing sector indicates some signs of contraction.

In the emerging and developing economies, the economic activity slowly recovered as fixed investment and private consumption grew moderately. These economies grew by 7.3% in 2010 and are expected to grow on average by 6.4% end 2011. In Sub-Saharan Africa, economic growth is expected to reach 5.1% end 2011 from 5.0% in 2010.

b. Inflation and Commodity prices

Inflationary pressures have been upward on increasing energy and non-energy commodity prices. In September, annual inflation rose to 3.8% in USA, 0.4% in Japan, 4.5% in the United Kingdom and 3.0% in Euro area in September 2011, after 3.6%, 0.2%, 2.8%, 4.2% and 2.7% in June 2011 respectively.

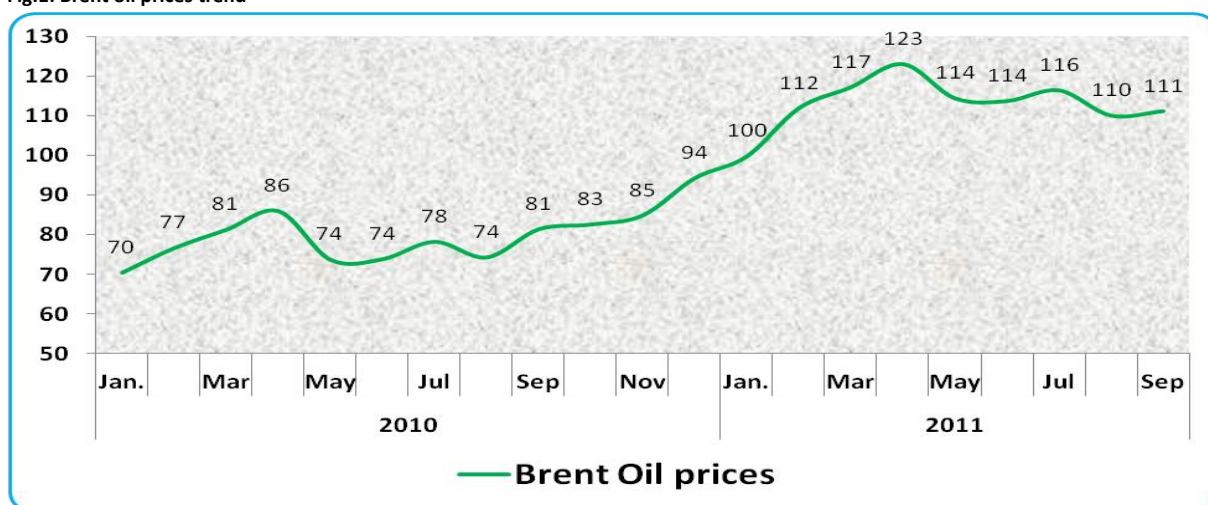
In the EAC region, drawn by increase in oil and food prices, inflation continued to rise during the second half of 2011. In September 2011, on annual basis, it hit 28.7% in Uganda, 17.8% in Kenya, while in August it was 14.0% in Tanzania, 7.5% in Rwanda and 11.0% in Burundi from globally low levels in December 2011 of 3.1%, 4.5%, -3.6%, 0.2% and 3.5% respectively.

Table 1: Annual inflation in EAC countries in %

	2010				2011					
	Mar	Jun	Sept	Dec	Jan	Mar	June	July	Aug	Sept
Uganda	7.5	4.2	0.3	3.1	5.0	11.1	15.8	18.8	21.4	28.3
Kenya	4.0	3.5	3.2	4.5	5.4	9.2	14.5	15.5	16.7	17.3
Tanzania	9.0	7.2	2.7	-3.6	6.4	8.0	10.9	13.0	14.1	na
Burundi	6.6	9.7	3.5	4.9	4.8	5.7	8.6	11.1	11.0	na
Rwanda	2.1	5.0	1.5	0.2	1.1	4.1	5.8	7.1	7.5	na

Concerning commodity markets, the World is also facing high oil and food prices due to an increased demand from emerging markets and an important decline in supply. Between January and September 2011, average crude oil prices increased by 61.4% on an annual basis.

Fig.1: Brent oil prices trend



Source: NBR, Monetary Policy and Economic Analysis Department

Non-energy commodity prices also recorded an increasing trend. Food prices recently rose to the same highest levels as during the food crisis of 2007-08. Indeed, even if there has been a slight decline since the peak in February 2011, international food prices remain very high compared to last year. On average, the World Bank food prices index increased by 33% in July 2011 on annual basis, mainly attributed to Maize (+84%), Sugar (+62%), Wheat (+55%) and Soybean (+47%). Food price increase is explained mainly by adverse weather conditions in the major producing countries, while the demand is rapidly increasing, especially in emerging economies.

c. Financial markets

Central banks in developed countries maintained their policy rates unchanged and low enough to boost economic recovery except the European Central Bank which increased its key rate by 1.25% on 7th, April 2011 after maintaining it unchanged at historically low levels for almost two years. In USA and Japan, monetary policy rates were stable at 0.25% and 0.1% respectively. In August, three month rates were slightly up in USA (0.29% after 0.22% in July), at 0.15% in Japan and 1.49% in the Euro area. Ten year Government bonds declined in USA, Euro Area and Japan in August. Ten year Government bond rate reduced to 2.299% from 2.99% in USA, to 2.25% after 2.79% in Euro Area and 1.03% from 1.12% in Japan respectively in August and July 2011.

With regard to exchange market, the dollar remained stable against the Euro in August, while it appreciated against the GBP (0.6%) and the Japanese Yen (0.3%) in August 2011, after had depreciated in July versus the GDP. Foreign exchange markets experienced high volatility following the Japanese earthquake but also due to renew concerns about debt crisis in Europe.

II.2 NATIONAL ECONOMIC PERFORMANCE

a. Production

For the year 2011, economic growth was initially expected to decline marginally to 7% from 7.5% achieved in 2010, reflecting expected adverse impact of rising fuel and food prices. However, according to current developments in key economic indicators of economic activities (composite index and total turnovers of industry and service sectors), economic performance for the current year would be beyond the initial projections. According to the Ministry of Finance and Economic planning, economic growth is projected at 8.8% from 7.5% achieved in 2010. This performance is to be driven by the agriculture sector (+8.2%) reflecting the ongoing reforms, the industry sector (+15.1%) and the services sector (+8.5%) both boosted by a significant improvement in credit markets.

In agricultural activities, according to the Ministry of Agriculture and Animal Resources (MINAGRI), harvests for 2011 seasons A and B performed better (10.4%) than the harvest recorded in the same seasons of last year (9.5%), due to favorable weather conditions, Government Crop Intensification Program which focuses on increased supply and use of fertilizers and selected seeds and land consolidation program.

The non-agriculture activities also performed well as evidenced by the NBR Composite Indicator of Economic Activities (CIEA) which increase in nominal terms by 11.8% in August compared to 10.8% recorded in the same period of 2010, reflecting a continuity of better performance of the economy in 2011. On average, the CIEA rose by 9.2% in the first eight months of 2011 compared to an increase of 6.8% in the first eight months of 2010.

Table 2: Composite Indicator of Economic Activities (Base 2006: 100)

		Composite Index	% change	
			Monthly	Annual
2010	<i>January</i>	168.4	-6.3	1.6
	<i>February</i>	171.7	1.9	4.0
	<i>Mach</i>	175.6	2.3	3.4
	<i>April</i>	177.0	0.8	8.8
	<i>May</i>	178.0	0.6	8.0
	<i>June</i>	184.6	3.7	8.8
	<i>July</i>	182.3	-1.2	9.1
	<i>August</i>	186.5	2.3	10.8
	<i>September</i>	181.6	-2.6	7.1
	<i>October</i>	184.0	1.3	12.2
	<i>November</i>	182.4	-0.8	6.9
	<i>December</i>	195.7	7.2	8.9
2011	<i>January</i>	185.2	-5.3	10.0
	<i>February</i>	182.0	-1.8	6.0
	<i>Mach</i>	192.8	5.9	9.8
	<i>April</i>	188.7	-2.1	6.6
	<i>May</i>	196.1	3.9	10.1
	<i>June</i>	202.0	3.0	9.4
	<i>July</i>	199.9	-1.1	9.6
	<i>August</i>	208.5	4.3	11.8

Source: BNR, Monetary Policy and Economic Analysis Department

The performance in non agricultural economic activities is also evidenced by the Index of Industrial production which increased by 17.4% in June compared to the corresponding period of the previous year. This performance is attributed to Mining and Quarrying (+68.7%) as a result of increase in volume of Coltan and Wolfram. Manufacturing index rose by 8.1% and electricity, gas and water supply” increased by 0.6%. The rise in manufacturing resulted from good performance from manufacture of food products (+24.3%), and beverages and tobacco (+12.0%), which are among the main components of the manufacturing industries.

Table 3: Quarterly Index of Industrial Production (base: 2008 = 100, in % Changes)

Activity Group	Weights	Quarterly % Change					Annual Change	
		2010			2011		2011	
		June	Sept	Dec	Mar	June	Mar	June
TOTAL RWANDA	10000	8.3	6.0	-1.8	-2.2	15.4	10.1	17.4
Mining and quarrying	1824	15.2	28.5	-3.3	64.7	-17.5	135.6	68.7
Manufacturing	6781	5.1	8.3	-4.1	-14.8	22.1	-7.0	8.0
<i>Manufacture of food products</i>	3178	10.5	2.3	-1.6	-16.6	48.0	-7.1	24.3
<i>Manufacture of Beverages and tobacco products</i>	1937	-1.4	27.0	-4.5	-10.8	3.6	6.6	12.0
<i>Manufacture of textiles, tanning and dressing of leather</i>	203	-16.0	-27.0	-1.3	-0.9	9.4	-39.9	-21.8
<i>Manufacture of wood, paper and paper products,</i>	50	-0.7	25.5	26.9	-16.3	-9.2	32.3	21.1
<i>Manufacture of chemicals and chemical products</i>	290	-5.9	-2.2	4.6	-19.9	-20.6	-22.8	-34.9
<i>Manufacture of rubber and plastics products</i>	91	0.3	7.9	-1.8	-1.1	-16.1	4.9	-12.2
<i>Manufacture of other non-metallic mineral products</i>	647	17.0	-19.1	-13.9	-8.1	23.4	-25.2	-21.0
<i>Manufacture of fabricated metal products,</i>	366	2.3	17.5	-13.6	-32.9	24.3	-30.3	-15.3
<i>Manufacture of furniture; manufacturing n.e.c.</i>	18	-21.0	16.8	-49.1	4.4	34.6	-51.1	-16.6
Electricity, gas and water supply	1395	26.6	-11.9	9.7	-12.4	18.8	7.1	0.6
<i>Electricity, gas, steam and hot water supply</i>	1210	30.9	-17.2	9.8	-8.1	20.5	9.4	0.7
<i>Collection, purification and distribution of water</i>	185	9.5	17.7	8.7	-34.2	10.5	-7.7	-6.9

Source: NBR, Statistics Department

Regarding the business climate, the total turnovers registered by large companies in the industry and service sectors have been performing better, increasing by 23.9% during the first eight months of 2011 compared to the corresponding period of the previous year.

Turnovers for the industry (+26.6%) and Services (+22.6%) represented about 32% and 68% of the total turnovers respectively.

Table 4: Developments in Industry and Services sector's total turnovers

	Monthly % change 2011								Annual change		
	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Jan.-Aug. 2009	Jan.-Aug. 2010	Jan.-Aug. 2011
INDUSTRIES	-48.1	0.78	29.37	-2.75	2.30	19.05	6.52	-7.84	2.23	36.44	26.6
Manufacturing	-26.2	-6.80	8.89	8.63	7.26	16.21	8.21	10.29	1.07	20.67	21.1
Energy	-10.8	-7.29	10.35	23.89	0.86	2.00	4.47	6.37	32.43	13.00	17.3
Mining	-50.9	24.55	134.27	-37.84	-35.18	164.83	-27.67	11.51	-19.41	104.45	44.5
Construction	-70.5	10.83	29.72	-2.12	11.49	-7.90	28.92	-48.13	-0.84	68.46	31.5
SERVICES	-21.6	-4.04	20.10	-7.94	7.90	8.24	-4.52	14.78	4.82	24.86	22.6
Trade Services	-27.5	-4.58	28.55	-8.86	7.68	5.63	-2.94	11.25	6.52	15.95	21.2
Banks & Insurance Companies	-22.8	-14.49	24.88	-13.19	-0.82	7.77	2.55	1.04	10.50	41.17	17.0
Transport and Storage	-7.1	10.80	-13.55	28.47	2.41	-5.53	28.28	10.85	13.52	55.25	6.4
Garage Services	-4.5	-20.96	18.50	6.28	15.78	5.86	-15.32	-2.44	0.33	-50.00	32.9
Petroleum Companies	-4.4	-1.96	18.36	-3.67	9.03	8.76	-8.19	30.33	-20.44	38.71	53.1
Posts & Telcom.	-26.4	11.78	1.35	-14.25	7.80	28.88	-18.21	28.94	28.59	21.51	-4.9
Other Services	-22.2	-9.60	13.48	-14.16	28.84	10.07	-14.42	4.28	24.57	19.50	21.5
TOTAL SALES	-31.6	-2.66	22.85	-6.32	6.08	11.63	-0.83	6.66	4.05	28.26	23.9

Source: RRA, Department of Large Tax Payers

The improvement of business climate in industry sector was attributed to all sub sectors, of which turnovers increased remarkably: mining industry (+44.5%), construction (+31.5%), manufacturing industries (+21.1%) and energy sector (+17.3%). The industry sector is dominated by manufacturing industries with a share of about 46.4% in the first eight months of 2011. The good performance in energy sector results from ongoing investment in power generation and distribution as well as water projects.

b. External trade

b.1 Exports

Compared to January-August 2010, Rwanda external trade was performing well during the period January- August 2011. Exports as well as imports increased in volume and in value. Exports rose by 42.1% and 52.3% respectively in volume and in value while imports increased by 18.7% and by 21.3% respectively in volume and value. The trade deficit deteriorated by 14.3% standing at USD 806.7 million after USD 706.0 million in January-August 2010. However, imports cover ratio improved to 23% from 18.3% in January-August 2010.

Table 5: Trade balance developments (In USD millions, except otherwise indicated)

	Jan-Aug.2010	Jan-Aug.2011	% change in value
Total Exports value	158.54	241.49	52.31
Total imports value	864.5	1,048.2	21.3
Trade balance	-706.0	-806.7	-14.3
Imports cover	18.3%	23.0%	

Rwanda exports are still characterized by a low level of diversification in terms of products and destinations. Exports remain dominated by traditional products namely coffee, tea and minerals which accounted for 74.6% of total exports during the first 8 months of 2011. The value of mineral exports was USD 96.0 million representing 39.7% of total export earnings against 23.5% in 2010, while coffee and tea amounted to USD 84.2 millions that is 34.9% of total export earnings against 44.1% in 2010.

Table 6: Export developments (Value in million of USD, Volume in tons)

Product/Period	Jan-Aug 10		Jan - Aug 11		Variation in %	
	Volume	Value	Volume	Value	Volume	Value
TOTAL EXPORTS	72,748.40	158.54	103,383.52	241.49	42.11	52.31
Coffee	9,958.64	29.05	7,995.90	38.24	-19.71	31.62
Tea	16,035.35	40.91	16,782.18	45.94	4.66	12.30
Tin	2,323.74	21.95	4,253.05	64.94	83.03	195.86
Coltan	530.71	11.73	609.62	24.22	14.87	106.51
Wolfram	536.12	3.65	467.53	6.81	-12.79	86.46
Hides and Skins	2,177.03	2.13	3,717.03	4.68	70.74	119.70
Pyrethrum	5.93	1.32	16.10	3.82	171.73	190.67
Re-exports	5,383.71	27.43	11,849.40	23.90	120.10	-12.85
Other export products	35,797.18	20.38	57,692.71	28.93	61.17	41.93

Source: NBR, Statistics Department

During the period under review, coffee exports increased by 31.6% in value driven by the increase in unit price which increased by 63.9% standing at USD 4.8 /Kg on average during the period Jan- August 2011 from USD 2.9/Kg during the same period of 2010 while the volume reduced by 19.7%. Coffee exports volume declined due to the sharp decline in coffee production during the first three months of 2011. Compared to Jan-June 2010, the total coffee production reduced by 19.9% during the same period of 2011. This decline is attributed to the usual coffee production cycle, when a good harvest is followed by a bad one.

b.2 Imports

Regarding the imports, in the first eight months of 2011 compared to the same period of 2010, the total imports increased both in value and volume by 21.3% and 18.7% respectively. The volume and in value increased for the all categories except for consumer goods of which the volume reduced by 3.41% on sharp decline in food imports (-9.2%) as domestic food crop production has increased significantly (15.64% in the season B 2011) and EAC countries were important volume of food stuffs is imported is experiencing a drought.

Table 7: Imports Developments (Value CIF in million of USD, Volume in thousands of tons)

	Jan - Aug 10		Jan - Aug 11		Variation in %		Share of total
	Volume	Value	Volume	Value	Volume	Value	Jan- Aug. 2011
TOTAL IMPORTS	732.3	864.5	869.5	1,048.2	18.74	21.3	100%
CONSUMER GOODS	307.4	263.4	296.9	311.5	-3.41	18.2	30.0%
Food products	250.2	101.2	227.2	115.3	-9.21	13.9	11.0%
Health and care	17.8	48.8	19.2	74.8	7.96	53.1	7.1%
CAPITAL GOODS	25.8	226.1	33.1	252.3	27.99	11.6	24.1%
Transport Materials	4.3	41.4	6.5	51.2	51.94	23.6	4.9%
Machines, devices and tools	12.4	142.9	12.6	128.5	1.60	-10.1	12.3%
INTERMEDIARY GOODS	271.4	238.9	395.0	304.8	45.56	27.6	29.1%
Construction materials	155.9	103.2	226.9	121.5	45.59	17.7	11.6%
Industrial products	95.7	97.9	129.9	139.2	35.74	42.3	13.3%
Fertilizers	9.6	6.3	26.1	18.5	172.21	194.6	1.8%
ENERGY AND LUBRICANTS	127.7	136.1	144.5	179.6	13.17	32.0	14.1%
Fuel	122.5	127.9	138.8	171.3	13.32	33.9	16.4%

Source: NBR, Statistics Department

Consumer goods imports value increased from USD 263.4 million for the first eight months of 2010 to USD 311.5 million during the same period of 2011 that is 18.2% increase and represented 30.0% of total value imports, and this category of goods remained dominated by food products and health and care (pharmaceutical and perfumes).

With regard to capital goods, their imports rose by 28.0% in volume and by 11.6% in value with a sharp increase in transport materials which recorded respective increase in volume and value of 51.9% and 23.6% while machines, devices and tools remained stable in volume (1.6%) and reduced in value (-10.1%).

Concerning intermediary goods, their imports came on the second position in terms of share of total imports (29.1%) after consumer goods. Their value increased by 27.6% while their volume rose by 45.6%. This performance is explained by construction materials which rose by 17.7% in value and by 45.6% in volume. In construction materials, the increase is attributed mainly to the cement and other

similar products and metallic construction material which respectively increased by 50.4% and 30.5% in value. For the industrial products, their value rose by 42.3% while their volume increased by 35.7%, and this increase in value was explained by food industries, chemical industries, various industries and paper industries whose importation increased respectively by 62.1%, 48.1%, 44.4% and 31.4% in value. However, fertilizers recorded a sharp increase both in value and volume with respective growth rates of 194.6% and 172.2%. The good performance was a result of Rwandan government policy to promote the use of fertilizers in agriculture sector to increase domestic production.

Imports of energy and lubricants of which more than 90% is fuel, rose by 32.0% in value due mainly to the high cost of petroleum products, as the volume increased by 13.2%. This no less significant increase in imported volume of fuel was driven by a higher domestic demand, boosted by dynamic economic activities.

III. INFLATION DEVELOPMENTS

III.1 CURRENT TREND

Inflation in Rwanda has been increasing during the first eight months of 2011 but maintained at relatively low level compared to other EAC countries. On annual basis, headline inflation reached 7.52% in August from 7.14% in July 2011, after 0.23% in December 2010. In terms of annual average, inflation has remained almost stable at 3.3% in August against 2.8% in July, 2.2% in March 2011 and 2.3% in December 2010.

Table 8: Annual and monthly inflation trend (% change in CPI, base 2009:100)

	Weights	Annual Headline Inflation					Monthly Inflation			
		2010	2011				2011			
		Dec.	Mar.	Jun.	Jul.	Aug.	Mar.	Jun.	Jul.	Aug.
Headline Inflation	10 000	0.23	4.11	5.82	7.14	7.52	1.91	1.54	0.40	0.43
1. Food and non-alcoholic beverages	3 538	-2.69	4.22	7.16	10.55	10.25	4.36	2.41	1.14	-0.09
- Bread and cereals	733	-10.64	-3.66	16.55	19.60	23.65	5.15	6.12	-1.47	-0.38
- Meat	274	5.00	7.56	7.44	7.59	9.99	-0.03	0.34	0.45	2.67
- Fish	83	9.39	15.38	16.04	9.35	15.21	0.31	2.05	-2.75	1.90
- Vegetables	1 200	-5.20	4.49	-2.81	-1.96	-3.66	9.85	1.79	1.87	-0.78
- Non-alcoholic beverages	160	-0.26	0.78	2.89	6.18	4.45	-0.18	1.86	2.55	0.38
2. Alcoholic beverages and tobacco	240	4.06	-0.64	1.48	2.91	4.71	-1.32	0.53	0.60	3.20
3. Clothing and footwear	377	1.59	4.30	6.70	6.80	8.80	-0.21	0.09	0.73	1.87
4. Housing, water, electricity, gas and other fuels	2 204	1.63	3.55	2.09	2.19	2.83	0.32	0.95	-0.53	0.74
5. Furnishing, household equipment and routine	457	-2.37	0.14	0.45	1.92	3.90	0.56	-0.06	0.45	1.60
6. Health	163	-1.14	-0.68	-0.23	1.86	2.49	0.56	0.89	0.80	0.09
7. Transport	1 189	4.07	5.07	11.35	11.85	12.93	1.18	3.08	0.52	0.82
8. Communication	288	-0.44	2.01	0.88	0.69	-0.58	0.63	-0.44	-0.06	-1.40
9. Recreation and culture	256	1.38	4.68	4.61	3.97	5.53	2.24	-0.33	-1.21	1.41
10. Education	331	6.51	19.91	20.85	20.85	20.76	0.52	0.78	0.00	0.00
11. Restaurants and hotels	558	-0.44	-0.91	-0.22	-0.57	-0.50	0.18	-0.01	-0.02	-0.30
12. Miscellaneous goods and services	400	2.38	6.98	7.46	6.02	5.68	1.92	1.89	-0.11	0.06

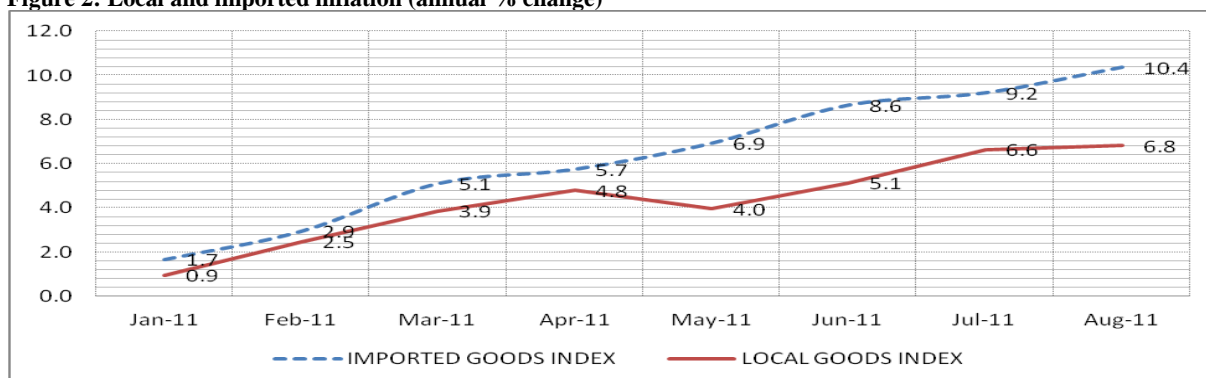
Source: NBR, Statistics Department

The rise in the annual headline inflation was attributed primarily to education (+20.76%) due to the increase in private school fees that were recorded at the beginning of the year, transport (+12.93%), as well as food and non alcoholic beverages (+10.25%). Food prices which started rising in June 2011, was attributed mainly to prices of bread and cereals (23.65%) and fish (15.21%). During the first eight

months of the year, energy prices have been rising due the increasing international oil prices, where since January, fuel prices have increased by 15.6%, from a pump price of Rwf 887 to Rwf 1 025 per litre in August 2011.

The major contributors of annual headline inflation were foods and non alcoholic beverages (+3.63), transport (+1.54%) and education (+0.69%) which account for about 80% of August 2011 annual headline inflation.

Figure 2: Local and imported inflation (annual % change)



By origin of products, the price index for locally produced goods increased only by 6.82% in August from 6.62% in July 2011, after a decline of 0.07% in December 2010, while prices for imported goods rose from 9.20% in July to 10.36% in August 2011.

The underlying inflation which excludes fresh foods and energy from the overall CPI, on annual average reached 3.0% in August, 2.4% in July up from 1.7% in March 2011. The underlying inflation on annual change rose to 8.15% from 7.04% in July 2011.

III.2 INFLATION FORECASTS

Given the international and regional economic environment characterized by high oil prices, food shortages and increasing demand especially for food, Rwanda faced higher inflation during June, July and August 2011. NBR's forecasts show that even though inflation will be maintained at single digit, it is not expected to slow down until December 2011 unless the existing food shortage and food inflation in the region and the current oil shock subside.

The possible impact of oil prices has been measured by the VAR model results that postulate 0.06 elasticity. This simply means that a 10% increase in international oil price would provoke a 0.6% increase in domestic prices. Oil prices don't pose only direct impacts to domestic prices but has a pass-through to other items, especially transport which is one of the major contributors of overall inflation.

Currently, oil prices have increased modestly since May 2011 and likely to stabilize as the political turmoil in oil producing is likely to end. This coupled with government policy of subsidizing oil prices will continue to lessen domestic inflationary pressures.

If prices for regionally sourced imports continue to escalate, imported inflation will continue to exert inflationary pressures to Rwanda. However, the severity of imported inflation will be reduced by current performance in domestic production as well as the stability or appreciation of the RWF vis-a-vis regional currencies since the country remains a net importer. However, aggregate demand for goods and service is likely to continue increasing as revealed by the increase in economic activities. Based on the above positive and negative shocks, inflation is projected to be 8.2% instead of the initial (March) projection of 7.5%.

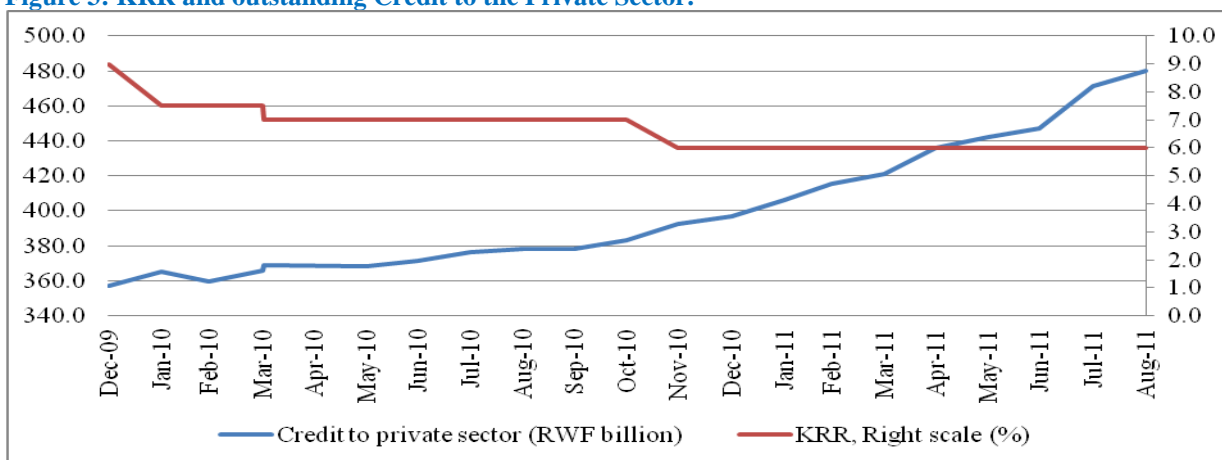
IV. MONETARY SECTOR DEVELOPMENTS

IV.1 CURRENT MONETARY POLICY STANCE

Despite recent pressures from oil and non-oil commodity prices on international and regional markets, the overall inflation in Rwanda remained moderate. This allowed the NBR to continue conducting an accommodative monetary policy as the level of inflation does not pose a threat to the macroeconomic stability. The NBR also continued to ensure that real interest rates remain positive to further supporting domestic savings mobilization and the financial deepening.

To this effect, the NBR decided to maintain the key policy rate low with the objective of releasing more liquidity to the banking system and limiting incentives for banks to invest on money market. Thus, the Key Repo Rate (KRR) has been kept unchanged to 6% for the third quarter 2011 from successively 7.5% in March 2010, 7% in June 2010 and 9% in December 2009. As result, the banking system has been experiencing significant improvement in liquidity situation allowing banks to increase the credit to the economy. Considering the real sector developments, consecutive decisions on policy rate have produced positive results. Further, the effectiveness of the implemented monetary policy was improved by a strengthened communication strategy which created an interactive platform of exchanging information with all stakeholders, with a particular focus on financial institutions and the business community.

Figure 3: KRR and outstanding Credit to the Private Sector.



Source: Monetary Policy and Economic Analysis Department

III.2 MONEY SUPPLY AND DEMAND

a. Money Supply

Between December 2010 and August 2011, Broad Money supply (M3) has increased by 18.0% from 8.7% in the same period of the previous year. The Net Foreign Asset (NFA) of the banking system declined slightly by 2.8% in August 2011, contributing negatively to change in M3, while the Net Domestic Assets increasing significantly standing at Rwf 223.0 billion at end August 2011 against 97.0 billion at the end of December of the previous year. The downward trend in NFA, during the period under review, is mainly explained by sales to banks, Government spending, and budget support disbursements realized during the period under review.

The observed growth in Net Domestic Assets was driven by both domestic credit and other items net which grew by 47.7% and 1.1% respectively. The latter was influenced by growth in credit to private sector (+ 20.9 %) which continues to grow steadily along the year. The increase in domestic credit between August 2011 and December 2010 was driven by the effect that banks drew down their reserves in foreign currency to increase credit to private sector.

b. Money demand

On the demand side, both components of broad money, namely currency in circulation and deposits increased. The currency in circulation increased by 5.3% between December 2010 and August 2011 against 5.5% in the same period of 2010. The current trend of currency in circulation is mainly driven by economic activities boosted by a number of Government projects injecting money in rural area coupled with some structural factors such as insufficient development of non cash payment instruments; cash utilization in the cross border trade and seasonally effects, mainly from the coffee season financing. Deposits in the banking system have increased significantly by 20.2% by end August 2011 compared to December 2010 from 9.7% recorded between December 2009 and August 2010. This increase is mainly attributed to the demand deposits in RWF which increased by 33.6% in 2011.

Table 9: Monetary developments (RWF billion)

	2010	2011								Change (%)	
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Aug-10/ Dec-09	Aug-11/ Dec-10
Net foreign assets	518.9	498.0	493.2	464.4	528.3	499.8	485.3	459.1	504.2	-3.4	-2.8
Net domestic assets	97.0	112.2	126.3	162.0	119.5	170.3	227.3	245.2	223.0	76.9	130.0
Domestic credit	268.2	286.2	294.6	323.4	289.5	352.4	400.9	409.2	396.1	38.2	47.7
Central Government (net)	-131.3	-122.5	-123.0	-98.6	-146.9	-90.5	-48.2	-65.3	-86.6	45.3	34.1
Autonomous Agencies	-0.8	-0.6	-0.6	-0.6	-0.5	-0.6	-0.6	-0.8	-0.8	126.3	6.7
Public enterprises	3.2	3.4	2.5	1.1	1.0	1.5	2.6	4.1	3.5	0.0	10.1
<i>Private sector</i>	<i>397.1</i>	<i>405.9</i>	<i>415.7</i>	<i>421.4</i>	<i>435.9</i>	<i>442.0</i>	<i>447.0</i>	<i>471.2</i>	<i>479.9</i>	<i>6.0</i>	<i>20.9</i>
Other items net (Assets: +)	-171.2	-174.0	-168.3	-161.4	-169.9	-182.1	-173.5	-164.0	-173.1	14.9	1.1
Broad money M3	615.9	610.3	619.6	626.5	647.9	670.1	712.7	704.1	727.1	8.7	18.0
Broad money M2	516.7	501.8	500.7	510.7	537.1	558.6	600.4	595.4	610.5	8.6	18.2
Money M1	330.6	317.9	311.7	323.1	345.0	354.3	374.2	361.6	361.7	7.9	9.4
Currency in circulation	90.5	83.7	82.7	83.9	89.6	89.7	101.5	100.9	95.3	5.5	5.3
Deposits	525.5	526.6	536.9	542.5	558.3	580.4	611.1	603.3	631.8	9.7	20.2
of which: demand deposit	240.1	234.2	229.0	239.1	255.4	264.6	272.7	260.7	266.5	8.9	11.0
time deposit	186.1	183.9	189.0	187.6	192.1	204.3	226.2	233.8	248.8	9.6	33.6
In foreign currency	99.2	108.4	118.8	115.8	110.8	111.5	112.3	108.8	116.6	9.2	17.5

Source: Statistics Department

Between December 2010 and August 2011, credit to private sector increased by 20.9% higher than the expected level of 19.2% in PSI program and against 6.0% in the corresponding period of 2010.

Table 10: Outstanding loans by sector of economic activities (% changes compared to December 2010)

	2011							
	Jan	Feb	Mar	Apr	May	Jun	July	Aug
Agricultural, fisheries& livestock	-0.4	5.5	4.2	10.7	20.5	22.6	46.6	47.9
Mining activities	-1.0	-2.0	-3.0	-29.8	-25.4	147.6	132.2	132.2
Manufacturing activities	-3.2	6.3	-4.6	0.3	-2.4	9.1	8.7	7.0
Water & energy activities	-1.8	1.1	0.9	3.5	50.6	57.2	56.8	22.1
Mortgage industries	1.7	0.7	-2.5	1.5	3.3	4.3	6.3	13.9
Commerce & hotel	8.8	-3.1	4.6	2.0	5.9	10.9	15.7	19.6
Transport & warehousing	8.8	23.9	25.9	18.2	22.8	25.1	27.6	45.4
OFI & Insurance	-3.5	22.2	38.2	38.9	10.5	27.3	144.8	16.8
Service sector	5.3	-4.4	-1.7	3.8	12.6	28.1	27.2	53.4
Non-classified activities	2.9	2.5	4.1	10.9	14.6	22.4	26.3	32.5

Source: BNR, Credit Reference Bureau.

In terms of shares, the sectors with the largest share of private sector credit during this period under review, were Commerce and Hotels (33.70%) followed by Mortgage industries (27.38%), Transport and warehousing (10.31%), Non-classified activities (9.64%) and Manufacturing (9.28%).

Analyzed in terms changes by sector of activity, it is important to highlight that Agricultural, fisheries& livestock sector, has recorded an increase of 47.87% in August 2011 in comparison with December 2010. Yet, many efforts have been observed in mining sector since June up to August where the sector increased by 132.2%, this is linked to huge investments within the sector. There are also other sectors which saw themselves increasing in August more than ever in previous months, such as Mortgage industry by 13.9%, Commercial & hotel by 19.6%, Transport & warehousing by 45.4% and service sector 53.4%.

III.4 MONEY MARKET INTEREST RATES DEVELOPMENTS

In regards of short-term interest rates, repo rate has been fixed at its maximum level (6.0%) since the starting of this year, following the signal given by BNR of a need of liquidity to achieve current monetary targets. However, other short-term interest rates have been kept low and stable to discourage banks to invest on money market, thus in the line of policy rate kept at 6.00% since November 2011. T-bills decreased by 4 basis points from June 2011, while interbank rate decreased by 3 basis points the same period.

Table 11: Short-term interest rates, in %

	2010								2011								
	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Key Repo Rate	7.5	7.0	7.0	7.0	7.0	7.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Discount Rate	11.5	11.0	11.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Repo rate	4.4	5.2	5.4	5.4	7.5	5.2	5.1	5.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
T-Bills Rate	8.4	7.3	7.2	7.1	7.6	7.5	7.3	7.3	7.2	7.0	7.2	7.1	7.1	6.8	6.8	6.7	6.7
Interbank rate	6.8	6.6	7.0	6.8	7.4	7.3	7.2	6.8	6.7	6.7	6.7	6.9	6.9	7.0	6.9	6.9	6.9

Source: Financial Department

Regarding to commercial banks, lending rate continued to oscillate at high levels for long time, in August it stood at 16.98% from 16.58 in the previous month, where it decreased from 16.97% in June 2011. For deposit rate with one month lag in comparison with lending rate availability, it decreased by 120 basis point standing at 6.83 percent in July 2011 from 8.03 percent in June 2011.

Table 12: Structure of commercial banks' rates interest rates

	2010								2011							
	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Key Repo Rate	7.5	7.0	7.0	7.0	7.0	7.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Discount Rate	11.5	11.0	11.0	11.0	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Deposit Rate	7.2	6.3	6.1	6.2	6.2	6.5	7.1	7.1	7.5	7.5	7.5	8.7	7.9	8.0	6.8	6.6
Lending Rate	16.9	17.4	16.9	17.2	16.8	17.3	17.5	16.9	15.6	16.9	16.6	16.2	16.9	17.0	16.6	17.0

Source: Statistics Department

In July 2011 deposit interest rate recorded the lowest level December 2010, as it stood at 6.83% from 8.03% for the previous month. However, term deposits increased to RWF 13.7 billion from RWF 85.5 billion, but the rate is not attractive at all. This may result in discouraging the saving culture, and it could be a signal of lack of banks initiatives to sensitize population for saving which could hold up their sources of liquidity. Furthermore, ECOBANK was the best remunerative bank with 10.00% followed by ACCESS BANK with 8.50 percent and BK with 7.58 percent. The lowest deposit rate was paid by UOB with 3.45 percent.

On the other side, the lending interest rate has been fluctuating and stood at 16.98% in August 2011. The high level of lending rate has been explained for long time by a risk incurred by banks, the level of nonperforming loans among other factors. In the meanwhile, the highest rate was charged by FINABANK with 19.27 percent followed by BPR with 17.66 percent and KCB with 17.15 percent. BRD recorded the lowest rate of 13.70 percent followed by BCR with 15.43 percent.

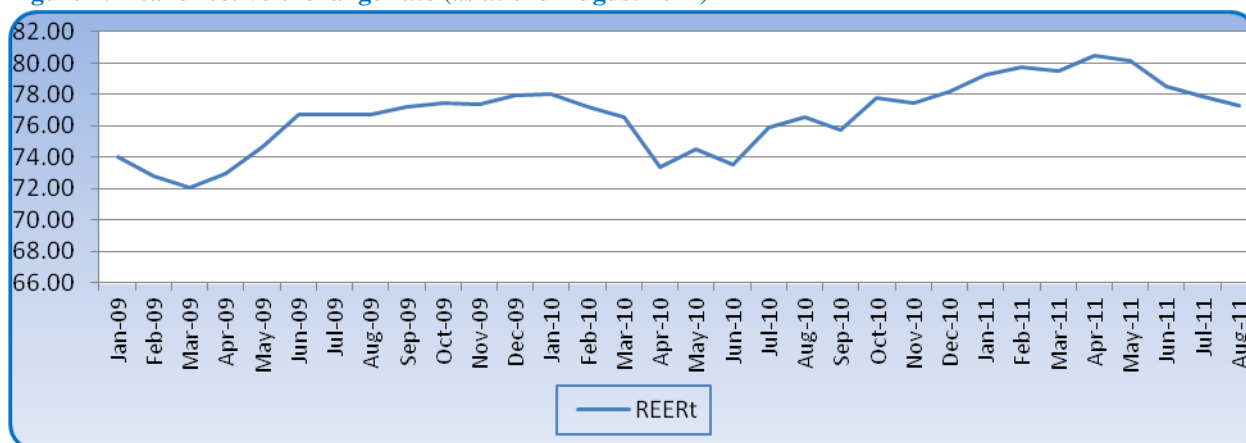
III.5 EXCHANGE RATE DEVELOPMENTS

So far, the Central bank has succeeded to keep Rwandan franc has been stable versus USD, as it appreciated by 1.0% stood at RWF 600.10/1USD by end September, 2011 from 594.45/1USD by end December 2010. However, RWF depreciated against both EUR and GBP by 4.1% and 2.1% respectively under the same period. EUR and GBP have been under pressures following the debt crisis.

Furthermore, against regional currencies, RWF appreciated considerably by 14.0%, 15.1% and 9.5% versus Kenyan, Uganda and Tanzania shillings respectively, while depreciating by 2.4% vis-à-vis Burundi franc between September and December 2010. This reflected the sharp decline of Kenyan, Tanzanian and Ugandan shillings against USD and regional currencies over this year ahead of European problems.

In this regards, the Real Effective Exchange Rate has appreciated slightly for the third quarter of 2011, which was consistent with the trend of Rwandan Franc against regional currencies.

Figure 4: Real effective exchange rate (as at end August 2011)



Source: Research and Policy Analysis Department

V. MONETARY POLICY ORIENTATION AND WAY FORWARD

V.1 MONETARY AND EXCHANGE RATE POLICY ORIENTATION

The monetary policy implemented during the first 3 quarters of 2011 allowed the National Bank of Rwanda to achieve its core mission of maintaining inflation at moderate levels while continuing to stimulate the economic financing. However, considering the outlook of persistent higher global inflationary pressures associated to a strong economic growth, there is a need of reviewing the monetary policy stance to tackle the risks of an overheating economy.

In fact, based on the current trends in macroeconomic fundamentals, marked by a real GDP growth and a headline inflation projected to reach respectively 8.8% and 8.19% in 2011, the rapid increase in money supply needs to be slowed down to avoid exacerbating inflationary pressures. Indeed, by end August 2011, the Broad Money has increased by 18% and is expected to reach 22.8% by end December, against 16% initially projected. This strong growth in money supply is attributed to the credit to the private sector, estimated to grow by around 26% by end 2011 against 19% initially projected. Although developments in economic financing has so far led to a rapid increase in output, current speed in credit growth can rapidly become unsafe and feed inflation.

With a comfortable level of official forex reserves, in a near term NBR will keep unchanged its policy to intervene on foreign exchange market aiming at smoothening the exchange rate volatility, while safeguarding the external competitiveness of the economy.

V.2 WAY FORWARD

As response to this accelerated money supply in the context on high inflationary pressures, the Central Bank reviewed its monetary policy stance in order to slowing the credit to the private sector during the coming months and keep it at a sustainable pace. In this regard, the Key Repo Rate is reviewed upward from 6% in force since November 2010 to 6.5% for the fourth quarter 2011.

Increasing its KRR by 0.5%, the NBR intention aims at limiting at minimum the monetary inflation and thus avoiding exacerbate the pass-through of global high inflationary pressures already affecting seriously regional trade partners. In addition, while in average the deposit interest rates are kept positive in real terms, the reviewed KRR is expected to further stimulating savings mobilization.

To maintain the national currency exchange rate stability as another key tool to limit the pass-through of imported inflation on domestic markets, the RWF exchange rate will continue to be market driven.

To achieving expected result, the NBR will continue to closely monitor developments in underlying factors of inflation so as to take timely appropriate mitigating measures, using the policy rate and other tools. Also, the existing good coordination of different Government stakeholders and Central Bank in dealing with external supply shocks will continue, especially with regard to fiscal and monetary policies.

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