National Bank of Rwanda
Banki Nkuru y'u Rwanda

QUARTERLY INFLATION REPORT

Fourth Quarter, 2017

EXECUTIVE SUMMARY

The world economy continued with its growth trajectory in 2017, buoyed by strong consumer confidence which supported investment, consumption and global trade. Globally, real GDP growth for 2017 was estimated at 3.7%, higher than 3.2% recorded in 2016. Positive growth prospects are expected to continue in 2018 and global growth projection was revised upwards to 3.9%, 0.2% higher than the October 2017 forecast. According to the January 2018 IMF forecasts, growth in advanced countries stood at 2.3% in 2017, higher than 2.0% forecast in October 2017 and 1.7% recorded in 2016.

Rising international commodity prices and improvement in global demand resulted into inflationary pressures. Improving global demand, the oil supply adjustments together with geopolitical tensions in the Middle East exerted pressures on oil prices, which rose by 23.3 percent in 2017 from a decline of 15.6 percent in 2016. The increase in oil prices fueled inflation, which went up to 3.1 percent globally and to 1.7 percent in advanced economies in 2017 from 2.8 percent and 0.8 percent respectively in 2016. However, despite improving demand and easing unemployment, core inflation remained below central banks' targets in most developed countries, reflecting weak wage growth pointing to a continuation of accomodative monetary policy.

The Rwandan economy continued to record good performance, growing by 10.5% in 2017Q4 after 8.0% in 2017Q3 and 2.4% in 2016Q4 mainly supported by the good performance of agriculture, following the improvement in weather conditions, as well as by increasing international commodity prices. For the whole year, on average, the economy grew by 6.1% in 2017 after 6.0% recorded in the previous year, driven by the service sector (+8.0%), agriculture sector (+7.0) and industry sector (+4.0%).

Following the recovery in international commodity prices, Rwanda's trade deficit reduced by 25.9% in 2017Q4, to a deficit of USD 255.05 million from a deficit of USD 344.11 million in 2016Q4, following an increase in formal exports value by 86.3% and a moderate increase in formal imports value by 10.9%. Formal exports covered 55.1% of formal imports in 2017Q4 from 32.8% in 2016Q4. In 2017 compared to 2016, Rwanda's trade deficit reduced by 21.7% as exports grew by 57.6% from a contraction of 7.1% in 2016. As a result, the FRW depreciated by 3.07% (y-o-y) against the USD in December 2017, compared to a depreciation of 9.7% in December 2016.

In 2017Q4, headline inflation eased to 2.2% from 3.5% of the previous quarter mainly reflecting the drop in food prices and the continued ease in exchange rate pressures. Food inflation fell from 7.4% in 2017Q3 to 1.9% in 2017Q4, offsetting the increase in transport and housing inflation from 1.2% to 3.0% and from 1.7% to 2.3% in the same period, respectively.

Looking ahead, inflationary pressures in Rwanda are likely to be dampened by the lagged effect of the improvement in weather conditions and by the ease in exchange rate pressures. Further, though economic performance has continued to improve, aggregate demand remains muted. In view of the above, average headline inflation is expected to lie between 2% and 3% in 2018Q1.

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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I. GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENTS

1.1 Economic Developments

According to IMF estimates, the global economy maintained a positive momentum in 2017 relative to 2016, buoyed by strong consumer confidence which supported investment, consumption and global trade. Real GDP growth for 2017 was estimated at 3.7%, higher than 3.2% recorded in 2016. Positive growth prospects are expected to continue in 2018 and global growth projection was revised upwards to 3.9%, 0.2% higher than October 2017 forecasts. According to the IMF January 2018 forecasts, growth in advanced countries stood at 2.3% in 2017, higher than 2.0% forecast in October 2017 and 1.7% in 2016.

World inflation rose to 3.1% in 2017 from 2.8% in 2016 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, reflecting weak wage growth and pointing to a continuation of accomodative monetary policy.

1.1.1 Developments in United States

In USA, real GDP increased by 2.5% in 2017Q4 after 3.2% and 1.8% realized in 2017Q3 and 2016Q4 respectively, driven by well functioning labour and financial markets. Real GDP growth is expected to stabilize at 2.5% in 2018Q1 and 2.7% in 2018 on average against 2.3% and 1.5% respectively in 2017 and 2016. The decision to cut the tax bill and the Job Act of 2017 are likely to provide additional support for the year 2018.

Despite a strong economic backdrop, core inflation remains below the Fed's target. CPI rose by 2.1% in December 2017, lower than 2.2% in September 2017, driven by inflation in both food (+1.6%) and energy (+ 6.9%). Core inflation slightly increased, reaching 1.8% in December 2017 from 1.7% recorded in September 2017 but lower than 2.2% recorded in December 2016. Overall, annual average inflation increased to 2.1% in 2017 from 1.3% in 2016. For the 2018Q1, headline inflation is projected to stabilize at 2.1% and core inflation is likely to remain unchanged at 1.7% observed the previous quarter.

Basing on the realized progress on the labor market conditions and inflation, the Federal Reserve revised up the target range for its fund rate to 1.25%-1.50% from 1.00%-1.25% in its December 2017 meeting but the stance still remains accommodative to continue supporting the economy and keep inflation close to the target.

1.1.2 Developments in Eurozone

In the Eurozone, GDP growth was 2.6%, in 2017Q3 and further increased to 2.7% in 2017Q4, the highest level since 2011. Real GDP grew more than expected, averaging 2.4% for the whole year 2017 from 1.8% in 2016, driven by increasing personal consumption expenditure, investment as well as external demand. It is projected at 2.6% in 2018Q1 and at 2.2% on average for the whole year 2018.

Figure 1: Economic growth developments (in %)

	2016				2017				2018			Annual Average		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		2015	2016	2017
USA (QoQ)	0.8	1.4	2.8	1.8	1.2	3.1	3.2	2.5	2.5	3.0		2.9	1.5	2.3
Euro area (YoY)	1.7	1.6	1.7	1.9	2.1	2.4	2.6	2.7	2.6	2.4		2.0	1.8	2.4
China (YoY)	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.6	6.6		6.9	6.7	6.8
India (YoY)	8.6	7.2	7.5	7.0	6.1	5.7	6.5	7.2	7.3	7.3		8.0	7.1	6.7

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

The Eurozone headline inflation is estimated at 1.4% in December 2017, down from 1.5% in September 2017. Upward pressures mostly came from energy, food, alcohol, tobacco and services, while downward pressures came from telecommunication, garments and social protection. Core inflation remained below the European Central Bank (ECB) policy target of 2.0%. Headline inflation rose to 1.4% in 2017Q4 and projected to remain unchanged in 2018Q1, which points to expectations that the ECB will continue to maintain an accommodative monetary policy stance. In the December 2017 ECB meeting, policymakers announced their intention to revisit their communication stance in early 2018.

1.1.3 Developments in China

In China, GDP grew by 6.8% in each of the last two quarters of 2017 after 6.9% in 2017Q2 and 2017Q1. On average, the Chinese economy grew by 6.8% in 2017 from 6.7% in 2016, on the back of strong consumption and a rebound in investment as well as in industrial production. However, Chinese growth is expected to slow to 6.6% in 2018Q1 and, on average in 2018 due to slowing exports and government's regulatory tightening in the financial sector.

In China, inflation stood at 1.8% and 1.6% respectively in 2017Q4 and 2017Q3 and averaged 1.6% in 2017, from 2.0% in 2016. In December 2017, food prices fell by 0.4%, and non-food prices increased by 2.4%. Prices went up for consumer goods by

1.1% and prices of services rose by 3.0%. Inflation is foreseen to stand at 2.4% by end 2018Q1.

1.1.4 Developments in Sub-Saharan Africa and EAC

In Sub-Saharan Africa, economic growth increased to 2.7% in 2017 from 1.4% in 2016, and is projected to reach 3.3% in 2018 following a recovery in commodity prices that has helped oil exporting countries like Angola and Nigeria, and improving weather conditions that have eased pressures on the agriculture sector.

In the East African Community (EAC), growth remained broadly resilient in 2017 despite encountered 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% from 7.8% in 2017Q3 and 2017Q2, respectively. 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 the 2017Q4, Rwanda's real GDP went up by 10.5% supported by all sectors of the economy. Overall in 2017, growth for Kenya, Rwanda and Tanzania remained robust, though below their 2016 levels except for Rwanda which grew by 6.1% against 6.0% in 2016. 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, conditional on the improvement in weather conditions.

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

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

Source: National Bureau of Statistics Websites and IMF WEO, October 2017
(*) National authorities' projections

In most of EAC countries, there was a buildup of inflationary pressures especially during the first half of 2017 mainly in line with the poor agriculture performance resulting from the negative impact of the dry season. With the improvement in weather conditions, the agriculture sector performance increased and helped to bring down inflation in the second half of 2017. Similarly, subdued exchange rate pressures in the region also contributed to the ease in inflation.

Table 2: Headline inflation in EAC countries, in %

	2016				2017				Annual average		
	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec	2016	2017	2018Proj
Uganda	6.2	5.9	4.2	5.7	6.4	6.4	5.3	3.3	5.5	5.7	5.6
Kenya	6.5	5.8	6.3	6.4	10.3	9.2	7.1	4.5	6.3	8.0	5.2
Tanzania	5.4	5.5	4.5	5.0	6.4	5.4	5.3	4.0	5.2	5.3	5.0
Burundi	4.3	3.9	7.0	9.6	21.1	15.1	15.2	10.0	5.5	16.2	20.2
Rwanda	4.6	5.5	5.8	7.3	7.7	4.8	3.8	0.7	5.7	4.9	5.0*

* National authorities' forecasts.

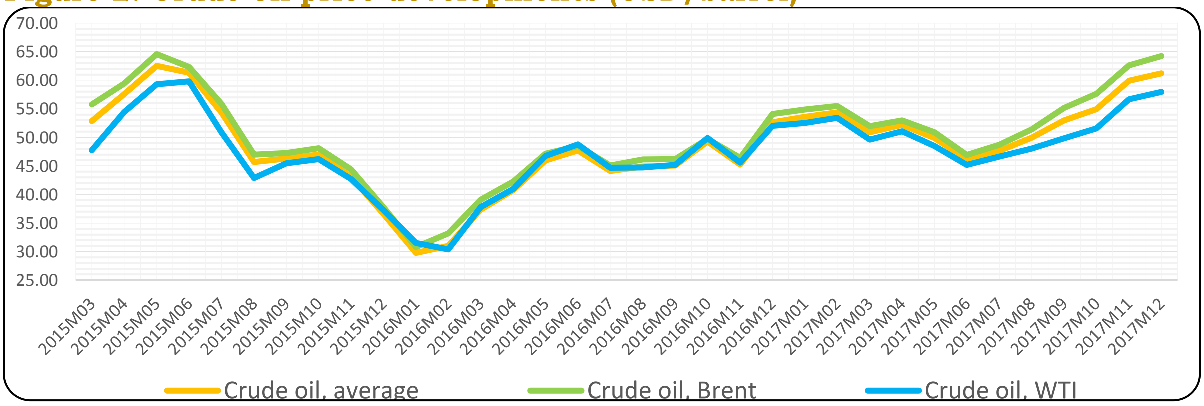
Source: Country Bureaus of Statistics, IMF, World Economic Outlook, Oct 2017

1.2 Recent developments in commodity prices

Though core inflation remained subdued, headline inflation was globally rising underpinned by increasing commodity prices? In 2017Q4, commodity prices both energy and non-energy prices increased reflecting partly improving global economic activity that have spurred the demand for commodities. Quarter-on-quarter, prices rose by 14.8% in 2017Q4 for energy and by 1.5% for non-energy from 2.0% and 2.2% in 2017Q3, respectively.

From a slight increase of 1.6% in 2017Q3, oil prices rose by 16.9% in 2017Q4 on the back of efforts by OPEC and non-OPEC producers to balance the oil supply together with consecutive weeks of US crude oil inventory draws amid healthy economic growth and improving oil demand. In nominal terms, crude oil prices averaged USD 58.68/barrel in 2017Q4 from USD 50.18/barrel in 2017Q3.

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



Source: World Bank

Metals and minerals' prices rose by 4.7% in 2017Q4 after 9.9% in 2017Q3 driven by base metals whose prices hiked by 6.4% and 9.5% in 2017Q4 and 2017Q3, respectively. Continuing strength in global manufacturing activity, the dollar weakening as well as the reduction in Chinese metal output during the winter months continued supporting prices. By contrast, prices for precious metals declined by 0.4% in 2017Q4 against an increase of 1.0% in 2017Q3.

The price of agriculture commodities slightly dropped, as markets remained well supplied but trends are mixed across products. In 2017Q4, prices for beverages dropped by 3.0% after a quasi-stability in 2017Q3 (+0.5%) undermined by declines in tea prices (-0.7%) and prices for both Arabica (-6.1%) and Robusta (-10.1%) coffee. Overall, after a 2-quarter decline, food prices recovered by 0.3% in 2017Q4, boosted by oils and meals (+1.5%) while prices went down (-1.4%) for grains. Prices for fertilizers increased by 6.5% and 2.3% in 2017Q4 and 2017Q3, respectively, supported by strong demand in line with increased farming activities linked to favorable weather conditions.

1.3 Financial markets and Foreign Exchange market

Despite the positive economic momentum observed in most advanced countries, weak wage growth kept core inflation below central bank targets. Persistent low inflation rate forced many central banks in advanced countries to maintain an accommodative monetary policy stance in 2017. Though monetary policy remains accommodative in the US, the Federal Reserve continued normalizing interest rates and winding down the balance sheet. For the third time in 2017, the Fed funds rate ceiling was increased to 1.50% on December 13th from 1.25% on the expectation that the decreasing unemployment rate beyond the natural rate would push up wages and inflation. Three-month deposit rates increased to 1.705% in 2017Q4 from 1.350% in 2017Q3.

In the Eurozone, the ECB kept the policy rate unchanged at 0.00% and the asset purchase program at euro 30 billion a month until September 2018. Three-month deposit rates remained negative, standing at -0.375% in 2017Q4 from -0.373% in 2017Q3. In the UK, inflation remained high, fueled by a weak British pound, calling for the Bank of England to increase rates for the first time in more than 10 years, by 25 basis points, to 0.50% in its November 2017 meeting. Three-month deposit rates rose to 0.511% in 2017Q4 from 0.380% in 2017Q3.

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

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

Source: Bloomberg

The Bank of Japan on the other hand maintained its expansionary monetary policy, and kept interest rates at negative 0.100%. Three-month deposit rates remained negative, standing at -0.120% in 2017Q4 from -0.145% in 2017Q3. The negative short-term rates on banks' deposits in the central banks observed in the Eurozone and Japan were meant to discourage deposits and encourage economic financing.

In 2017Q4, 10-year government bond yields increased in the Euro area and USA, reflecting market expectations about the future path of monetary policy in the context of improving economic activities. Additionally, a rise in the 10-year government bond yield was partly driven by the prospects of reforms to the federal tax code.

On the foreign exchange market, the US dollar weakened against major currencies, notably the Euro and the British pound. Despite some risks induced by the Brexit developments, the US dollar depreciated by 8.6% in 2017Q4 against the pound, in line with the hike in interest rates and more than initially expected growth in UK. It depreciated by 12.4% against the Euro, following sustained economic growth in the euro area.

1.4 Outlook for the global economy

The global economy kept a positive growth momentum in 2017 and is projected to further improve in 2018. The world growth forecast is revised upward to 3.9% in 2018, of which 2.3% in advanced economies and 4.9% in emerging and developing economies from 3.7%, 2.3% and 4.7% respectively in 2016. Sub-Saharan economy is foreseen to further increase to 3.3% in 2018 from 2.7% in 2017, on continued recovery in commodity exporting economies and improving weather conditions in the Eastern region. 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.

While the current move in Federal Reserve monetary policy is creating some volatility in asset markets, American growth dynamics continue with support from the latest tax reform, continuous strength in labor market and a recovery in energy sector. Additionally, business and consumer sentiment remain supportive. Core inflation remains low but is expected to gradually move towards the Fed's inflation target of around 2.0% as the monetary policy stance remains supportive for the economic activity.

Helped by positive performance in labor market and rising consumer and business confidence, the Eurozone's economy continues improving and real GDP growth is expected to expand further to 2.2% in 2018. The positive labor market developments, lower ECB interest rates and favorable financial conditions are likely to translate into rising consumer confidence and business sentiment levels which together with improving private consumption will continue to support the economic growth and likely to push inflation close to the target.

China's GDP growth projections were revised up to 6.6% for 2018, higher than the previous forecast but slightly lower compared to 6.8% recorded in 2017. China's CPI inflation rose to 1.8% in 2017Q4 and expected at 2.2% and 2.3% respectively in 2018Q1 and 2018Q2.

On the international commodity market, prices are expected to continue recovering for most commodities in 2018. Prices for crude oil increased by 23.3% in 2017 from a decline of 15.6% in 2016, mainly driven by the decision of OPEC to cut supply until the end of 2018. Going forward, oil prices are expected to rise by 5.7% in 2018.

Table 4: IMF commodity prices forecasts (in % change)

	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018
Spot Crude	-13.5	-22.4	36.7	-0.2	9.8	7.9	-6.7	1.6	16.9	23.3	5.7
Metals and minerals											
Iron Ore	-15.8	2.0	16.0	4.8	20.6	21.3	-26.2	13.3	-8.0	22.8	-18.6
Tin	-1.0	2.4	9.5	10.0	12.0	-3.9	-0.4	3.0	-3.5	11.9	1.0
Beverages											
Tea	-6.2	-20.0	-13.4	13.2	6.7	0.2	8.2	1.1	-0.7	17.5	-0.3
Arabica	-1.6	0.0	5.1	9.5	1.8	-5.7	-9.4	-0.6	-6.1	-8.0	0.0
Robusta	-3.3	-6.6	10.1	8.9	10.6	4.0	-5.5	1.6	-10.1	14.0	-0.9
Cereals											
Wheat	-9.2	0.2	-2.1	-19.4	-1.6	4.1	15.9	3.0	-2.3	4.5	2.3
Maize	-1.4	-4.3	7.0	-10.3	-0.8	5.5	-1.8	-4.2	-1.5	-2.9	2.6
Rice	-4.4	2.8	9.3	4.1	-10.8	0.6	13.0	-3.7	-0.8	0.7	0.8
Barley	-3.7	-2.8	14.8	-4.6	-4.6	0.7	0.3	4.1	-	-11.2	2.9

Source: http://www.imf.org/external/np/res/commod/index.aspx

A strong and synchronized global economy should continue to support Rwanda's economic outlook. Strong consumer and business sentiment are suggesting continuous increase in global consumer spending which as a result should continue to drive the demand for Rwandan exports. Acceleration in global manufacturing will provide a stable demand for Rwandan minerals such as Tin, Wolfram and Coltan while sustained global consumption will support the sales of Rwandan Tea and Coffee on international markets, helping to increase export receipts and reduce Rwanda's trade deficit.

However, as monetary policy started tightening in some advanced countries, there may be capital flights from emerging and developing economies searching for higher returns. An appreciation of the USD and other major currencies against the franc, a continued increase in oil prices and rising aggregate demand are likely to put inflationary pressures to domestic prices in 2018. This is however subject to weather conditions as most of the inflationary pressures in Rwanda come from food supply shocks.

II. DOMESTIC ECONOMY AND FINANCIAL DEVELOPMENTS

2.1 Domestic Demand and Output

The Rwandan economy continued to record good performance, growing by 10.5% in 2017Q4 after 8.0% in 2017Q3 and 2.4% in 2016Q4, owing to the improving weather conditions, which led to good harvests in the 2017 season B as well as increase in international commodity prices. For the whole year, the economy grew by 6.1% in 2017 after 6.0% recorded in the previous year, driven by the service sector (+8.0%), agriculture sector (+7.0) and industry sector (+4.0%).

2.1.1 Domestic demand

The observed increase in GDP during 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 2017Q3 and 2017Q4, rising by 16.0% and 27.0%, respectively, against a decrease of 2.0% and 12.0% in 2017Q2 and 2017Q1, respectively. Other fixed investments significantly increased by 48.0% in 2017Q3 and 94.0% in 2017Q4 against 21.0% in 2017Q3 and a decline of -21.0% in 2016Q4, while inventories increased for the first time since 2016Q1, rising by 30.0% in 2017Q3 and 33.0% in 2017Q4. Despite noticeable improvement, private consumption remains weak as the contraction in Households and NGOs total consumption dropped by -1.0% in 2017Q4 from 5.0% in 2017Q3. Conversely, growth in government consumption increased to 10.0% in 2017Q4 from 9.0% in 2017Q3 and 15.0% in 2016Q4. As a result, total final consumption increased by 1.0% in 2017Q4 after declining by 2.0% in 2016Q4.

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

The external demand supported the good performance of Rwandan economy in 2017Q4 through rapid increase in exports driven by the rise in international commodity prices. Exports of goods and services increased by 58.0% in 2017Q4 higher than 31.0% recorded in 2017Q3 and 19.0% in 2016Q4, while imports of goods and services increased by 20.0% in 2017Q4 against 17.0% in 2017Q3 and 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 aforementioned increase in 2017Q4 real GDP growth was driven by the service sector (+11.0%), agriculture sector (+10.0%) and industry sector (+10.0%). 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 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.

Table 6: Quarterly Real GDP growth (% change, y-o-y)

	2015	2016				2017			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	**10.0**	**8.9**	**7.5**	**5.4**	**2.4**	**1.7**	**4.0**	**8.0**	**10.5**
Agriculture	**5.0**	**8.0**	**3.0**	**1.0**	**3.0**	**3.0**	**6.0**	**8.0**	**10.0**
Food crops	4.0	5.0	5.0	1.0	1.0	4.0	4.0	11.0	11.0
Export crops	7.0	73.0	-21.0	-13.0	3.0	-24.0	22.0	-5.0	19.0
Industry	**16.0**	**11.0**	**9.0**	**6.0**	**1.0**	**-1.0**	**1.0**	**6.0**	**10.0**
Mining & quarrying	15.0	10.0	15.0	19.0	-1.0	-1.0	3.0	25.0	51.0
Manufacturing	8.0	7.0	9.0	6.0	4.0	7.0	6.0	6.0	7.0
Electricity	7.0	16.0	13.0	14.0	12.0	5.0	6.0	12.0	9.0
Water & waste management	1.0	3.0	5.0	7.0	6.0	2.0	2.0	2.0	1.0
Construction	24.0	15.0	7.0	2.0	-3.0	-7.0	-4.0	-1.0	-1.0
Services	**11.0**	**9.0**	**9.0**	**7.0**	**4.0**	**4.0**	**7.0**	**10.0**	**11.0**
Wholesale & retail trade	11.0	10.0	14.0	9.0	-8.0	-13.0	-6.0	2.0	19.0
Transport services	12.0	9.0	15.0	5.0	4.0	2.0	6.0	21.0	16.0
Hotels & restaurants	12.0	12.0	10.0	13.0	11.0	17.0	9.0	5.0	9.0
Information & communication	24.0	11.0	16.0	1.0	7.0	2.0	6.0	28.0	13.0
Financial services	10.0	9.0	5.0	2.0	-2.0	1.0	6.0	7.0	14.0
Real estate activities	5.0	4.0	7.0	5.0	10.0	8.0	7.0	2.0	2.0
Taxes less subsidies on products	**14.0**	**10.0**	**10.0**	**6.0**	**-8.0**	**-10.0**	**-12.0**	**-2.0**	**9.0**

Source: National Institute of Statistics of Rwanda

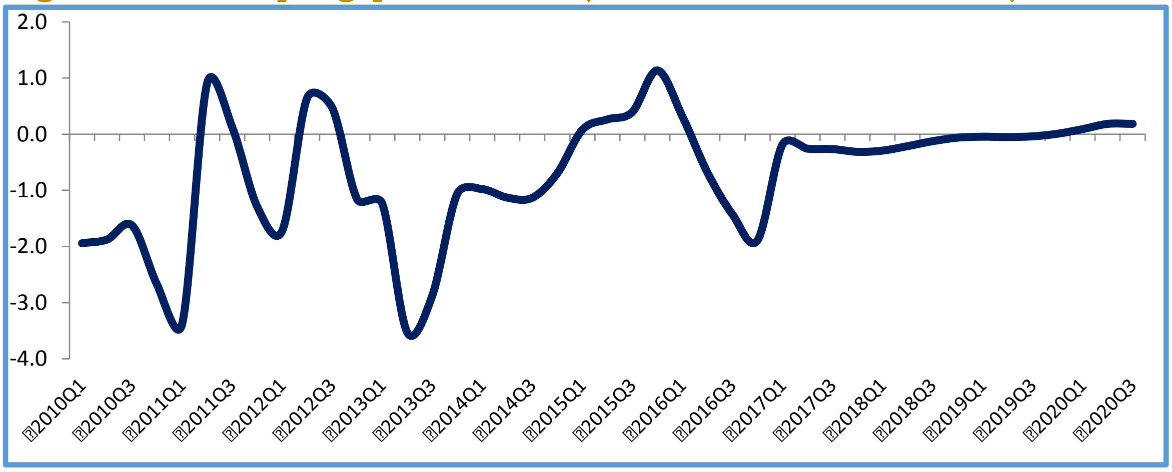
In 2017Q4, the agriculture sector recorded a good performance (+10.0%) compared to 8.0% and 3.0% recorded in 2017Q3 and 2016Q4 respectively; mainly driven by food crop production, increasing by 11.0% in 2017Q4 against 1.0% recorded in 2016Q4, thanks to the 2017 season B good harvest.

After recovering by 6.0% in 2017Q3 from 1.0% in 2017Q2, the industry sector grew by 10.0% in 2017Q4, 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).

2.1.3 The Output gap

The output gap trended upwards in 2017, evidencing the improvement in economic activities especially during the second half of 2017. However, the output gap remains in negative territory; hence, the observed improvement in aggregate demand remains non-inflationary.

Figure 3: 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 quarter of 2018 but without generating inflationary pressures. This good performance is backed by increasing commodity prices, good 2017 season B food crops harvest, and increasing bank financing to the private sector.

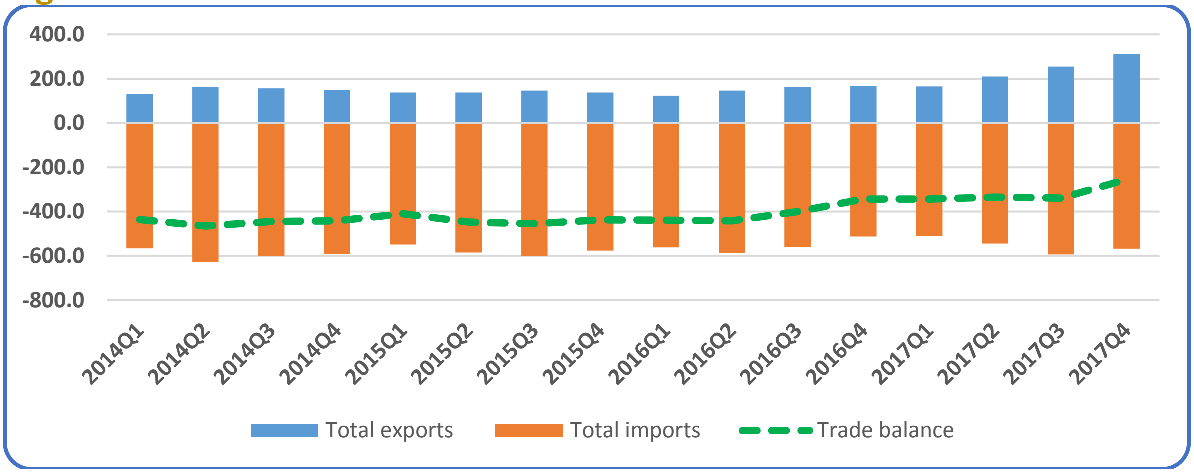
The good performance of the Rwandan economy observed in 2017 is anticipated to continue in 2018, evolving towards attaining or even surpassing the projected annual growth of 6.5% by end 2018 as new big investment projects are expected to continue coming on board.

2.2 External Sector Developments

2.2.1 Formal trade balance

Rwanda's trade deficit reduced by 25.9% in 2017Q4, to a deficit of USD 255.05 million from a deficit of USD 344.1 million in 2016Q4, following an increase in formal exports value by 86.3% and a moderate increase in formal imports value by 10.9%. Formal exports covered 55.1% of formal imports in 2017Q4 from 32.8% in 2016Q4. 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 4: Trade balance in millions of USD



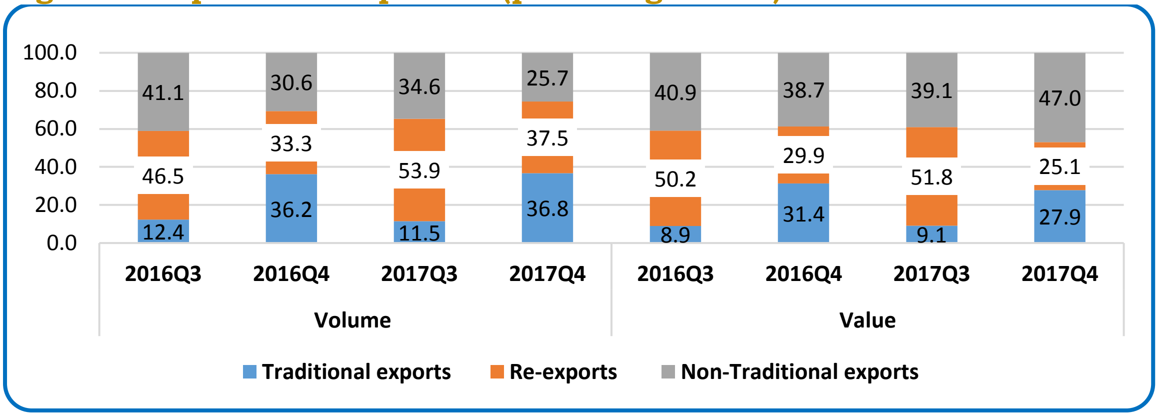
Source: NBR, Monetary Policy & Research Department

2.2.1.1 Formal exports of goods

Rwanda's formal exports are composed of traditional exports, re-exports and non-traditional exports. In 2017Q4, formal exports were dominated by re-exports with a share of 47.0% of the total export earnings compared to 25.7% in 2016Q4, followed by traditional exports[1] with 27.9% compared to 36.8% in the same period of 2016, and non- traditional exports representing 25.1% compared to 37.5% in 2016Q4. The export base has continued to be progressively diversified as the share of traditional exports keeps declining.

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

Figure 5: Exports developments (percentage share)



Source: NBR, Monetary Policy & Research Department

In 2017Q4, total formal export receipts significantly increased by 86.3% (USD 312.98 million from USD 167.98 million in 2016Q4), after an increase of 22.0% in 2016Q4, as a result of high growth recorded by minerals (+82.5%), tea (+35.3%), re-exports (+24.8%) and other exports (+240.7%). Formal exports volume also increased by 30.8% in 2017Q4, due to robust growth in minerals (+34.6%), tea (+17.7%), re-exports (+25.7%) and non-traditional exports (+47.8%).

Table 7: Exports developments (annual % change)

	Volume				Value			
	2016Q3	2016Q4	2017Q3	2017Q4	2016Q3	2016Q4	2017Q3	2017Q4
Total exports	**15.0**	**28.9**	**45.9**	**30.8**	**10.9**	**22.0**	**57.4**	**86.3**
Traditional exports	-11.4	0.0	5.1	3.5	-19.9	-5.0	36.7	41.2
Coffee	-18.4	6.7	8.2	-4.8	-14.6	6.4	19.9	6.7
Tea	-8.5	3.4	5.1	17.7	-29.8	-8.4	35.6	35.3
Minerals	0.5	-5.3	25.8	34.6	-17.9	-11.5	51.8	82.5
Cassiterite	-3.3	9.7	44.7	25.3	12.5	63.1	60.4	16.8
Coltan	-7.5	-37.0	26.9	94.5	-31.8	-44.4	59.2	169.6
Wolfram	17.8	0.8	-12.2	10.9	-18.4	12.9	4.1	45.8
Hides and Skins	-2.6	-24.7	-27.3	-41.6	13.9	-12.6	-8.4	-24.1
Pyrethrum	-91.1	5.0	3739.8	57.3	-91.5	3.5	1956.5	23.2
Re-exports	24.6	49.8	57.4	25.7	15.0	36.2	41.3	24.8
Non-Traditional exports	15.3	14.9	45.2	47.8	89.8	63.3	99.3	240.7

Source: NBR, Statistics Department

Traditional exports, composed of coffee, tea, minerals, pyrethrum as well as hides and skins rose by 41.2%, amounting to USD 87.25 million in 2017Q4 from USD 61.77 million in 2016Q4 due to increased value of mineral exports, tea, pyrethrum as well as a moderate increase in coffee exports.

Compared to 2016Q4, coffee exports receipts increased by 6.7% in 2017Q4, to USD 23.39 million in 2017Q4 from USD 21.92 million in 2016Q4 while its volume decreased by 4.8% from 6,635.5 tons in 2016Q4 to 6,316.1 tons in 2017Q4. The increase in value is attributable to the rise in coffee's unit price by 12.1%, from 3.30 USD/Kg in 2016Q4 to 3.70 USD/Kg in 2017Q4.

Tea exports receipts increased from USD 13.76 million in 2016Q4 to USD 18.62 million in 2017Q4 due to the increase in both prices and volume. Tea prices increased by 14.9% from 2.90 USD/Kg in 2016Q4 to 3.33 USD/Kg in 2017Q4 while its volume increased from 4,749.6 tons in 2016Q4 to 5,591.1 tons in 2017Q4 on the account of increased tea production.

The mining sector performed well in 2017Q4, 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 from USD 23.63 million recorded in 2016Q4 to USD 43.12 million in 2017Q4.

Receipts from exported hides and skins decreased by 24.1%, from USD 1.93 million to USD 1.46 million, mainly due to the decrease in exported volume by 41.6%. However, the unit price increased by 29.8% from 1.32 USD/Kg in 2016Q4 to 1.71 USD/Kg in 2017Q4 due to value addition on hides and skins that are no longer exported in raw form but transformed, fetching a relatively higher price than the raw hides and skins.

Re-exports, mainly composed of petroleum products, machines and engines, vehicles and other re-exports, increased in both value and volume, mainly driven by the increase in re-exports of petroleum products by 15.0% in value and 11.1% in volume and other re-exports by 45.8% and 43.7% in value and volume respectively. Re-export products are mainly re-exported to DR Congo, accounting for more than 95.0% of the total re-exports value and volume.

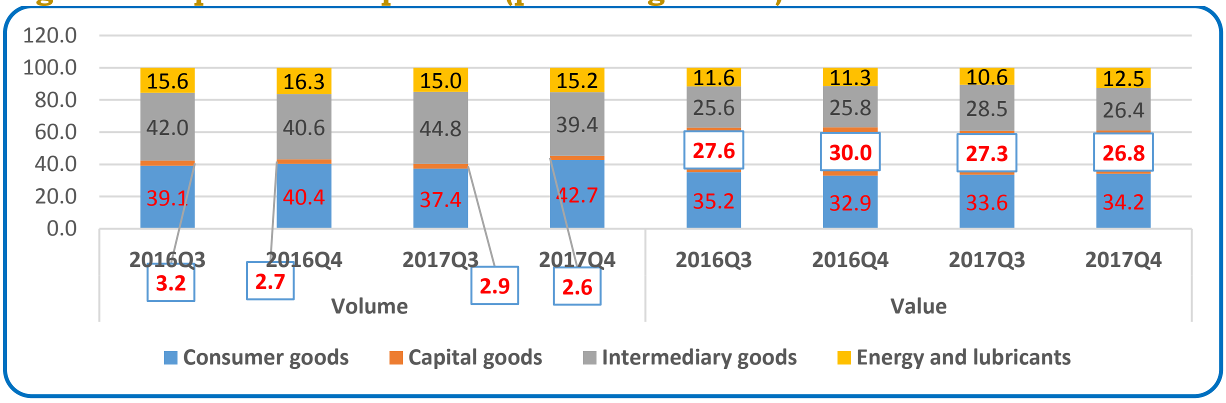
Non-traditional exports, which are dominated by other minerals, products of milling industry and other manufactured products significantly increased, amounting to USD 147.06 million in 2017Q4 from USD 43.17 million in 2016Q4. This increase was mainly driven by the good performance in other minerals, which rose by 337.3%, from USD 25.75 million in 2016Q4 to USD 112.59 million in 2017Q4 following the increase in international commodity prices.

In addition, products of milling industry, whose main products are wheat and maize flours and mainly exported to DRC increased by 176.9% in value, from USD 6.29 million in 2016Q4 to USD 17.42 million in 2017Q4, and 110.4% in volume, from 17,542.9 tons to 36,917.1 tons, driven by strong demand from the region buoyed by increased domestic production by local milling industries such as BAKHRESA Grain Milling (Rwanda) Ltd, MIKOANI Traders Ltd and MINIMEX.

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 2017Q4, imports volume was dominated by consumer goods with a share of 42.7% of the total formal imports volume, followed by intermediary goods (39.4%), energy & lubricants (15.2%) and capital goods (2.6%). In value terms, consumer goods also dominated with a share of 34.2%, followed by capital goods (26.8%), intermediary goods (26.4%) and energy & lubricants (12.5%).

Figure 6: Imports developments (percentage share)



Source: NBR, Monetary Policy & Research Department

In 2017Q4, formal imports value increased by 10.9%, to USD 568.04 million from USD 512.09 million in 2016Q4 while its volume increased by 12.6% after a decrease of 4.3% in 2016Q4, following an increase in the value and volume of all formal import components except capital goods which slightly decreased by 0.8% in value.

Table 8: Imports developments (annual % change)

	Volume				Value			
	2016Q3	2016Q4	2017Q3	2017Q4	2016Q3	2016Q4	2017Q3	2017Q4
Total imports	-5.6	-4.3	15.5	12.6	-6.7	-11.1	5.8	10.9
Consumer goods	9.2	13.9	10.3	19.0	16.5	-2.8	0.9	15.3
Food products	15.5	25.8	14.7	21.8	35.7	33.0	25.5	12.6
Beverages and tobacco	-19.9	18.7	27.6	-2.5	-33.7	-6.3	46.0	-4.1
Article of Clothing	-58.5	-62.5	2.6	0.1	-43.6	-32.2	18.9	5.5
Health and care	3.6	-12.4	7.5	16.7	18.6	-28.4	-6.1	56.1
Domestic articles	84.1	-17.8	-49.0	1.6	124.8	-27.2	-64.5	-2.1
Non-utility transport	4.0	21.6	-23.8	3.8	-9.7	7.4	-32.6	-2.5
Papers and cartons	-15.6	-19.0	-9.9	1.0	-6.1	-11.9	0.9	9.8
Other goods	-3.5	-18.3	-10.9	3.0	-9.6	-12.7	5.1	-9.4
Capital goods	-15.5	-25.9	5.1	8.2	-10.4	-14.8	4.6	-0.8
Transport Materials	-9.4	-42.1	3.0	29.4	6.2	-22.7	12.3	19.8
Machines, devices and tools	-15.8	-22.4	-7.7	-9.0	-8.8	-19.3	-4.4	-6.4
Intermediary goods	-18.7	-16.8	22.9	9.3	-20.8	-15.5	17.5	13.7
Construction materials	-25.9	-30.8	-4.2	2.0	-36.8	-25.8	-2.7	-6.9
Industrial products	5.4	-4.7	40.8	20.9	-7.7	-16.7	29.5	29.2
Fertilizers	-51.9	62.0	121.4	-17.1	-66.4	36.7	153.2	-12.8
Energy and lubricants	7.4	-1.6	10.5	5.5	-16.1	-12.0	-2.7	23.1
Petroleum products	0.5	-3.9	4.4	14.0	-17.5	-13.4	2.9	22.1
Trade balance					**-399.3**	**-344.1**	**-338.9**	**-255.1**
Cover rate of imports/ exports, %					**28.8**	**32.8**	**42.9**	**55.1**

Source: NBR, Statistics Department

Imports of consumer goods mainly composed of food stuffs increased by 15.3% in value, to USD 194.48 million in 2017Q4 from USD 168.71 million in 2016Q4 and 19.0% in volume to 246,746.7 tons in 2017Q4 from 207,279.3 tons in 2016Q4. The increase in consumer goods is mainly driven by the increase in importation of food stuffs particularly sugar and sweets (+66.8%), cereals, flours & seeds (+21.6%) as well as milk & milk products (+21.5%).

Imports of capital goods, dominated by machines, devices and tools as well as transport materials, slightly decreased by 0.8% in value but increased by 8.2% in volume in 2017Q4 compared to 2016Q4. The decline in the value of imported capital goods is mainly driven by machines, tools and devices which account for 62.3% of the total capital goods value that decreased by 6.4% and by 9.0% in volume. The decline is mostly due to high taxes imposed on machines imported to undertake big construction projects following the ratification of the new investment code that removed the exemptions that were formerly given to importers of such big machines.

In 2017Q4, imports of intermediary goods, dominated by construction materials, industrial products and fertilizers, increased by 13.7% in value and 9.3% in volume respectively mainly due to the increase in the value and volume of industrial products by 29.2% and 20.9%, respectively. The increase in the imports of industrial products which is dominated by food inputs is driven by increased demand for industrial products imported by local milling industries including BAKHRESA Grain Milling Ltd, MIKOANI Traders Ltd and PEMBE Flour Mills Sarl for production purposes. Conversely, the imports of construction materials declined by 6.9% in value due to the reduction in cement imports value by 26.6%, from USD 12.64 million in 2016Q4 to USD 9.28 million in 2017Q4, following the increase in domestic production of cement by CIMERWA (+9.9%).

Imports of energy and lubricants, of which 91.8% is petroleum products, increased by 23.1% in value and by 5.5% in volume. This increase is explained by the rise in imports of petroleum products by 22.1% in value and 14.0% in volume, on the account of increased oil prices on the international market following a decision by OPEC and some non-OPEC particularly Russia to cut oil production by 1.8 million barrel per day between January 2017 and December 2018 in a bid to rebalance the oil market.

2.2.2 Formal Trade with EAC Countries

In 2017Q4, the Rwanda's exports to EAC partner states increased by 22.4% in value from USD 38.2 million in 2016Q4 to USD 46.8 million. Both exports to Kenya and Uganda contributed to this good performance with an increase of 26.7% and 267.9%, respectively. Exports to Kenya was mainly driven by high exports of tea amounted to USD 31.48 million, exceeding USD 24.84 million for 2016Q4 by USD 6.64 million. To Uganda, the increase in exports receipts by USD 6.75 million from USD 2.52 million in 2016Q4 was mainly contributed by a rise in demand for the products of the milling industry dominated by corn soya blend. The Rwanda's exports to EAC member countries 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 during 2017Q4 increased by 3.5% from USD 115.3 million in 2016Q4 to amount to USD 119.3 million. The increase was mainly triggered by imports from Uganda and Tanzania, which respectively increased by 3.2% and 5.6% over USD 55.39 million and USD 25.71 million imported in the corresponding period of 2016Q4. The imports from EAC member countries are mainly composed of cartons, boxes, cases, bags, and other packing containers from Kenya, home used products and agricultural products.

Table 9: Trade flow of Rwanda within EAC bloc, (Value FOB in million USD)

Exports (FOB USD)						Yoy % change
	2016Q3	2016Q4	2017Q2	2017Q3	2017Q4	
Burundi	5.64	10.1	5.63	5.51	5.27	-47.8
Kenya	16.62	24.84	32.45	21.09	31.48	26.7
South Sudan	0.06	0.2	0.14	0.1	0.24	20.0
Tanzania	0.8	0.57	0.32	0.8	0.54	-5.3
Uganda	5.01	2.52	9.91	7.64	9.27	267.9
Total exports	**28.13**	**38.23**	**48.45**	**35.14**	46.8	22.4
Imports (CIF USD)						
Burundi	1.46	0.49	0.48	0.54	1.6	226.5
Kenya	40.5	33.66	40.15	40.84	33.4	-0.8
South Sudan	-	-	-	-	-	-
Tanzania	23.07	25.71	22.9	25.63	27.15	5.6
Uganda	57.09	55.39	50.83	58.44	57.15	3.2
Total imports	**122.12**	**115.25**	**114.36**	**125.45**	**119.3**	**3.5**
Trade balance	**-93.99**	**-77.02**	**-65.91**	**-90.31**	**-72.5**	**-5.9**
% cover rate of exports to imports - value	**23.0**	**33.2**	**42.4**	**28.0**	**39.2**	**18.3**

Source: NBR, Statistics Department

Consequently, the trade deficit fell by 5.9% to amount to USD 72.5 million in 2017Q4 from USD 77.0 million in 2016Q4, largely supported by slower growth in import bill against diversifying export base. Indeed, the imports from EAC coverage by exports to EAC improved to stand at 39.2% in 2017Q4 compared to 33.2% recorded in 2016Q4. With inclusion of informal cross border trade, the exports cover of imports rose to 58.6% in 2017Q4 from 41.2% during the corresponding period in 2016Q3. This improvement helped to ease exchange rate pressures.

2.2.3 Informal cross-border trade

Rwanda's informal cross-border exports with neighboring countries in 2017Q4, increased by 6.1%, amounting to USD 26.5 million from USD 25 million in 2016Q4. The main informal export partners include DR Congo representing a big share of 88.9% of the total informal cross-border trade exports, followed by Uganda (+7.7%), Burundi (+3.3%) and Tanzania (+0.1%). The informal exports mainly increased resulting from good performance in agricultural harvest as well as the removal of non-tariff barriers on beef, chicken and eggs by DR Congo.

Table 10: Rwanda Informal Cross Border trade (USD million)

	2016		2017			
	Q3	Q4	Q1	Q2	Q3	Q4
Exports	30.8	25	22.5	24.3	25.2	26.5
% change (yoy)	**28.3**	**-24**	**-27.1**	**-31.4**	**-18.1**	**6.1**
Imports	8.22	7.52	5.14	5.87	6.46	5.81
% change(yoy)	**39.8**	**42.9**	**-21.2**	**-28.9**	**-21.4**	**-22.7**
Trade Balance	22.5	17.5	17.3	18.4	18.7	20.7
% change (yoy)	**24.6**	**-36.4**	**-28.7**	**-32.1**	**-16.9**	**18.5**

Source: NBR, Statistics Department

Informal cross border imports decreased by 22.7%, amounting to USD 5.81 million in 2017Q4 from USD 7.52 million in 2016Q4. The slowdown in inform imports during the quarter resulted mainly from good agricultural harvest that reduced the demand for food items from neighboring countries. The main informal imports trading partners include Uganda, Burundi, DR Congo and Tanzania with shares of 65.7%, 19.6%, 8.5% and 6.3% respectively. Consequently, the developments indicate an increase in surplus of Rwanda's informal trade balance with neighboring countries by 18.5% to stand at USD 20.7 million from USD 17.5 million.

2.2.4 The exchange rate: bilateral and effective

In 2017, exchange rate pressures eased, owing to the improvement in Rwanda's export receipts in line with a continued recovery in international commodity prices, diversification of exports as well as the decline in the import bill. As a result, the FRW depreciated by 3.07% (y-o-y) against the USD in December 2017 compared to a depreciation of 9.7% in December 2016.

In December 2017, the FRW depreciated by 13.2% and 16.9% (y-o-y) against the British pound and Euro respectively following the improved economic performance in the Euro area as well as the depreciation of USD against these currencies. The FRW depreciated by 2.3%, 2.7% and 0.4% against the Kenyan, Ugandan and Tanzanian shillings respectively, while appreciating by 1.0% against the Burundian franc.

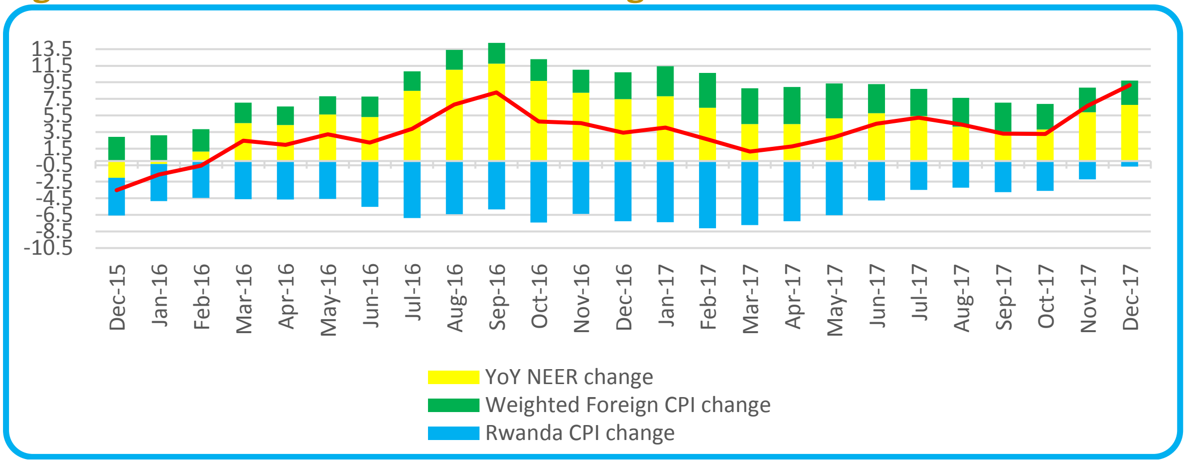
Table 11: Appreciation/Depreciation rate of selected currencies against the FRW

	USD/FRW	GBP/FRW	EUR/FRW	KES/FRW	TZS/FRW	UGS/FRW	BIF/FRW
Dec-13	6.1	8.0	10.2	5.3	6.2	11.7	4.9
Dec-14	3.6	-2.4	-8.5	-2.8	-7.0	-6.7	1.0
Dec-15	7.6	2.8	-3.2	-4.6	-13.5	-11.6	10.0
Dec-16	9.7	-9.2	5.3	9.6	8.6	2.3	-0.2
Mar-17	0.8	2.5	2.5	0.3	-1.6	0.8	-0.3
Jun-17	1.3	7.5	10.4	0.0	-1.4	2.0	-1.0
Sept-17	2.2	11.8	14.7	1.5	-0.9	2.6	-1.4
Dec-17	**3.07**	**13.2**	**16.9**	**2.3**	**0.4**	**2.7**	**-1.0**

Source: NBR, Monetary Policy and Research Department

The FRW real effective exchange rate depreciation increased to 9.2% (y-o-y) in December 2017 from 3.4% in December 2016, 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 7: Drivers of real effective exchange rate



Source: NBR, Monetary Policy and Research Department

2.3 Monetary and Financial Developments

2.3.1 Money Supply and Demand

Broad Money (M3) increased by 12.3% (y-oy) from an increase of 7.6% realized in 2016Q4 to FRW 1,791.4 billion from FRW 1,594.7 billion.

2.3.1.1 Money Supply

The above-mentioned increase in broad money resulted from a growth in both net foreign assets by 8.6% and in net domestic assets by 15.5% in 2017Q4 from an increase of 15.1% and 1.9% respectively in 2016Q4.

Growth in net foreign assets was mainly driven by the increased foreign exchange inflows, including export receipts. Growth in net domestic assets was due to an increase in net credit to government of 378.8% from -69.1% in 2016Q4, and in credit to the private sector of 13.9% in 2017Q4 from 9.1% recorded in 2016Q4, standing at FRW 1,464.2 billion in 2017Q4.

Table12: Monetary aggregates (FRW billion)

	2015	2016		2017		% change			
	Q4	Q3	Q4	Q3	Q4	16Q4/ 15Q4	17Q4/ 16Q4	16Q4/ 16Q3	17Q4/ 17Q3
Net foreign assets	**642.6**	**546.7**	**739.5**	**662.5**	**803.3**	**15.1**	**8.6**	**35.3**	**21.2**
Foreign assets	860.8	872.6	1078.2	1084.4	1204.4	**25.3**	**11.7**	**23.6**	**11.1**
Foreign liabilities	218.1	325.9	338.7	421.9	401.1	**55.3**	**18.4**	**3.9**	**-4.9**
Net domestic assets	**839.5**	**954.1**	**855.2**	**1084.9**	**988.1**	**1.9**	**15.5**	**-10.4**	**-8.9**
Domestic credit	1223.1	1409.3	1340.9	1611.4	1568.7	**9.6**	**17.0**	**-4.9**	**-2.6**
Central government (net)	39.5	47.7	12.2	159.6	58.4	**-69.1**	**378.8**	**-74.4**	**-63.4**
Credit	304.1	299.9	284.5	400.3	379.4	**-6.4**	**33.3**	**-5.1**	**-5.2**
Deposits	264.6	252.2	272.3	240.7	321.0	**2.9**	**17.9**	**8.0**	**33.4**
Public enterprises	5.6	40.6	43.3	43.1	46.1	**674.9**	**6.5**	**6.7**	**7.0**
O/W in foreign currency	1.3	17.3	21.7	21.7	20.6	**1623.2**	**-5.1**	**25.3**	**-5.2**
Private sector	1178.1	1320.9	1285.4	1408.7	1464.2	**9.1**	**13.9**	**-2.7**	**3.9**
O/W in foreign currency	134.9	215.5	163.0	200.7	211.7	**20.8**	**29.9**	**-24.4**	**5.5**
Other items net (Assets: +)	-383.7	-455.2	-485.7	-526.5	-580.6	**26.6**	**19.5**	**6.7**	**10.3**
Broad money (M3)	**1482.1**	**1500.8**	**1594.7**	**1747.4**	**1791.4**	**7.6**	**12.3**	**6.3**	**2.5**
Currency in circulation	142.6	133.6	145.9	147.9	162.7	**2.3**	**11.6**	**9.2**	**10.0**
Deposits	1339.5	1367.2	1448.8	1599.5	1628.7	**8.2**	**12.4**	**6.0**	**1.8**
O/W: demand deposits	614.6	548.4	587.9	648.5	650.1	**-4.3**	**10.6**	**7.2**	**0.2**
Time and saving deposits	469.0	523	532.4	567.9	580.1	**13.5**	**9.0**	**1.8**	**2.2**
Foreign currency deposits	255.9	295.8	328.5	383.1	398.5	**28.4**	**21.3**	**11.1**	**4.0**

Source: NBR, Monetary Policy and Research Department

New authorized loans by the banking sector grew by 1.7% in 2017Q4 from a decline of 1.2% percent recorded in 2016Q4, amounting to FRW 215.7 billion in 2017Q4. The growth of new authorized loans in 2017Q4 was reflected in the expansion of new loans in public works and building (15.3%), Transport warehousing and communication (128.9%) and activities not classified elsewhere mainly composed by personal loans (17.6%) in line with good macroeconomic conditions during that period. Q-o-Q new authorized loans expanded by 12.1% against 41.6% recorded in the corresponding period of last year.

Table 13: New authorized loans by sector (FRW billion, unless otherwise indicated)

Branch of activity	2015	2016		2017				% change	
	Q4	Q3	Q4	Q1	Q2	Q3	Q4	16Q4/ 15Q4	17Q4/ 16Q4
Non-classified activities	18.9	19.5	20.4	23.4	21.1	22.1	24	8.1	17.6
Agricultural, fisheries& livestock	2.9	3	2.2	2.9	2	2.2	1.7	-24.3	-25
Mining activities	0	0.1	0	0.4	0.3	0	0.2	-	-
Manufacturing activities	21.4	6.3	21.8	8	20.4	13.4	18.4	1.8	-15.6
Water & energy activities	0.03	0.1	16.6	8	0.9	4.9	6.5	54,505.3	-61.1
Public works and buildings	67.4	49.5	55.6	55.2	50	61.5	64.1	-17.5	15.3
Commerce restaurants and hotels	76.7	55.9	76.6	84.7	84.6	69.9	71.7	-0.1	-6.4
Transport & warehousing & communication	18	9.2	9.9	19.7	18.5	12.7	22.7	-45	128.9
OFI &Insurances and other non-financial services	1.8	1.2	1.1	5.4	1.1	2.2	0.8	-37.4	-31.8
Services provided to the community	7.6	4.9	8	6.1	4.1	3.5	5.8	5.9	-27.1
Total	**214.6**	**149.8**	**212.1**	**213.7**	**202.9**	**192.5**	**215.7**	**-1.2**	**1.7**

Source: NBR, Financial Stability Directorate

In 2017Q4, commerce, restaurants and hotels remained the most financed economic sector representing 33.2% of the total new authorized loans, followed by public works and buildings (29.7%).

Table 14: Distribution of new authorized loans by sector of activities (% share of total new loans)

Branch of activity	2015	2016		2017			
	Q4	Q3	Q4	Q1	Q2	Q3	Q4
Non-classified activities	8.8	13	9.6	10.9	10.4	11.5	11.1
Agricultural, fisheries& livestock	1.4	2	1	1.4	1	1.1	0.8
Mining activities	0	0.1	0	0.2	0.1	0	0.1
Manufacturing activities	10	4.2	10.3	3.7	10.1	7	8.5
Water & energy activities	0	0.1	7.8	3.7	0.4	2.5	3
Public works and building	**31.4**	**33**	**26.2**	**25.8**	**24.6**	**31.9**	**29.7**
Commerce restaurants and hotels	**35.7**	**37.3**	**36.1**	**39.6**	**41.7**	**36.3**	**33.2**
Transport & warehousing & communication	8.4	6.1	4.7	9.2	9.1	6.6	10.5
OFI &Insurances and other non-financial services	0.8	0.8	0.5	2.5	0.5	1.1	0.3
Services provided to the community	3.5	3.3	3.8	2.9	2	1.8	2.7
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

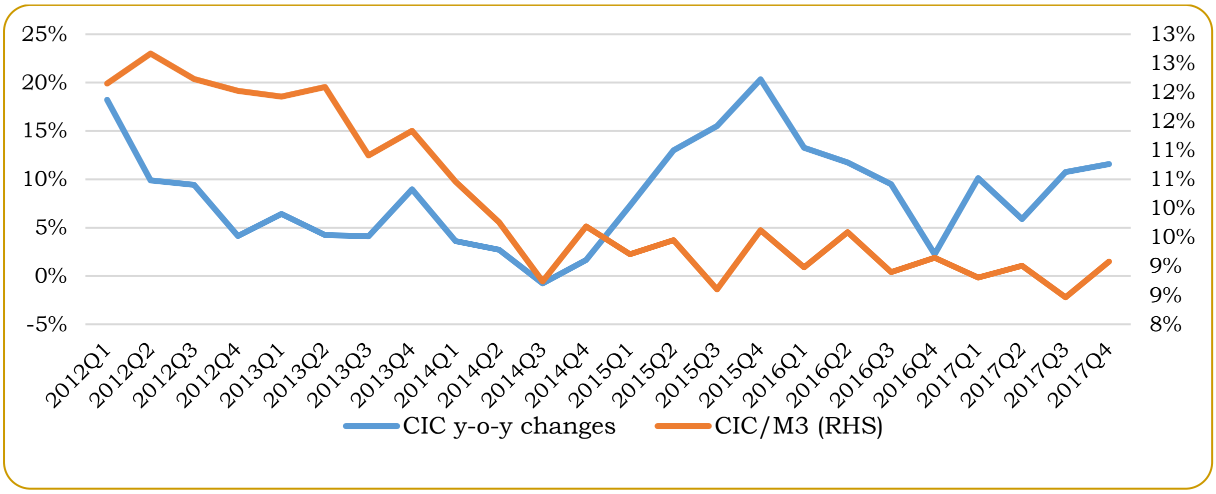
Source: NBR, Financial Stability Directorate

2.3.1.2 Money demand

Currency in circulation grew by 11.6% in 2017Q4 from 2.3% in 2016Q4 in line with increased economic activities in 2017Q4 compared to 2016Q4. It also grew by 10.0% in 2017Q4 compared to the previous quarter against 9.2% realized in the same period in the year earlier.

The currency in circulation to broad money (M3) ratio declined to 9.0% on average in 2017 compared to 12.0% in 2012. This downward trend is mainly explained by the increase financial inclusion following the extension of the financial sector network.

Figure 8: Currency to broad money ratio and CIC growth (%, y-o-y)

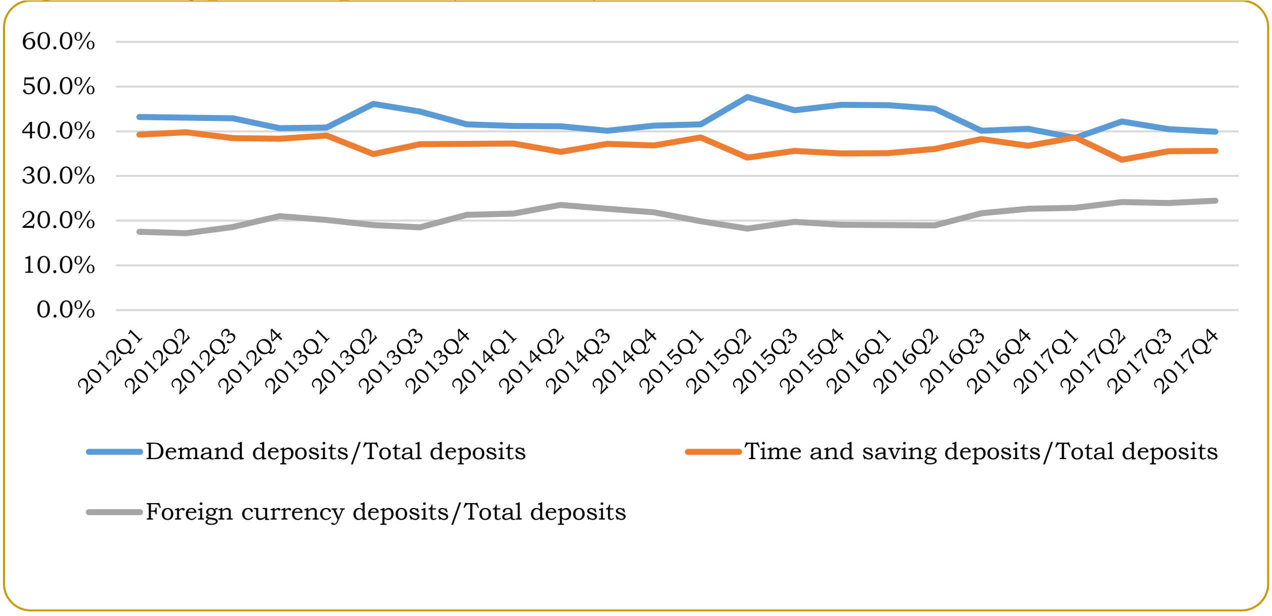


Source: NBR, Statistics Department

In 2017Q4, total deposits expanded by 12.4% (y-o-y) from 8.2% recorded in 2016Q4 as a result of increased economic activities in 2017Q4 compared to 2016Q4. The growth of total deposits in 2017Q4 compared with 2016Q4 is reflected in all type of deposits. Demand deposits grew by 10.6 percent from -4.3%, time and saving deposits rose by 9.0 percent from 13.5% and foreign currency deposits picked up by 21.3% from 28.4%.

The share of demand deposits in total deposits remained high, averaging 42% of total deposits in the recent past, followed by time and saving deposits with a share of 37% and foreign currency deposits with 21%.

Figure 9: Type of deposits (% share)



Source: NBR, Statistics Department

Regarding the deposits by category of depositors, Households and non- profit Institutions Serving Households (NPISHs) continued to have the biggest share, with 45.6% end 2017Q4 followed by other non-financial corporations (26.6%), social security funds (17.3%), other financial institutions (7.6%) and public enterprises (2.9%)

Table 15: Deposits by category of depositors (% share)

	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Other financial institutions	6.6	7.3	9.0	9.3	8.3	8.4	7.4	7.0	8.0	8.6	7.8	7.6
Social Security Funds	17.2	16.3	15.7	15.8	16.3	14.9	15.7	15.0	16.1	15.3	19.1	17.3
Public enterprises	4.0	3.8	4.7	4.2	5.0	4.2	3.6	3.8	3.9	3.7	3.0	2.9
Other non-financial corporations	27.2	28.8	27.7	25.9	25.9	26.0	25.0	26.4	25.5	27.8	25.0	26.6
Households and NPISHs	44.9	43.7	42.9	44.9	44.5	46.6	48.2	47.8	46.5	44.7	45.0	45.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NBR, Monetary Statistics Department

2.3.2. Banking system liquidity developments

The banking system liquidity conditions improved during the fourth quarter of 2017 compared to the same quarter of the preceding year. Commercial banks' most liquid assets expanded by 26.4%, standing at FRW 333.3 billion in 2017Q4 from FRW 263.6 billion recorded in 2016Q4. Compared to their levels in the previous quarter, they increased by 10.5%.

Table 16: Most liquid assets of commercial banks (FRW billion)

	2015	2016				2017				% change	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	17Q4/ 16Q4	17Q4/ 17Q3
T-bills	225.1	232.7	214.0	180.3	177.7	192.3	207.9	245.0	249.6	40.5	1.9
Repo	26.5	15.0	34.0	0.0	30.5	21.0	60.4	13.0	30.0	-1.6	130.8
Excess reserves	17.1	20.7	31.7	20.5	24.5	14.8	9.9	15.2	20.6	-15.9	35.5
Cash in vault	34.2	30.5	32.0	28.3	30.8	31.4	30.9	28.4	33.1	7.5	16.5
Total	**302.9**	**298.8**	**311.7**	**229.2**	**263.6**	**259.5**	**309.1**	**301.6**	**333.3**	**26.4**	**10.5**

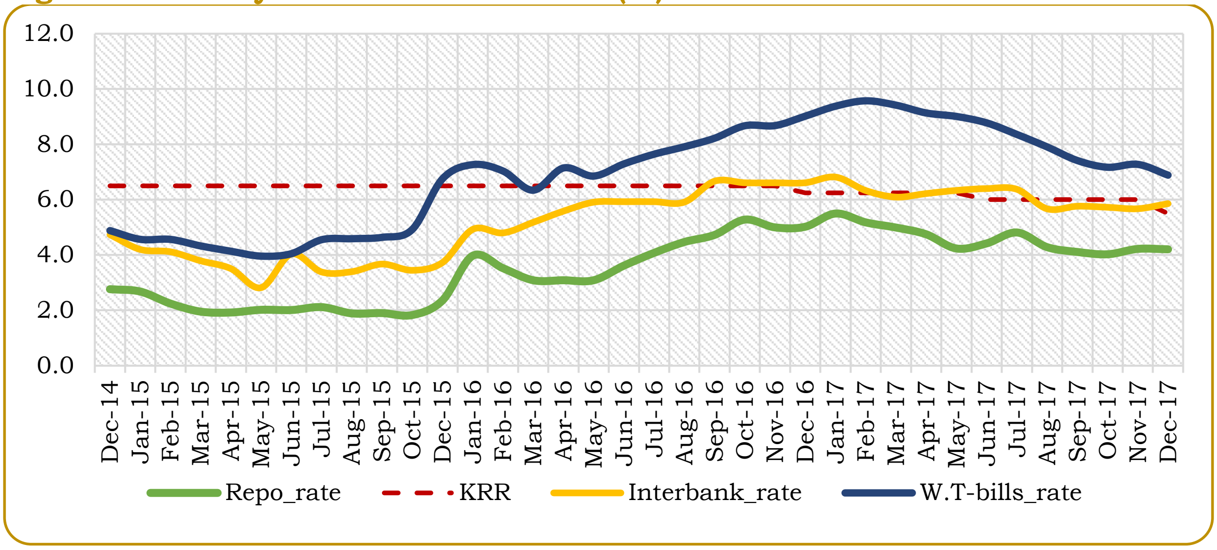
Source: NBR, Monetary Policy & Research Department

That increase emanated from the improvement in economic activities as evidenced by the increase in deposits of the banking sector by 12.6% in 2017 from 8.2% in 2016. In addition, the NBR injected FRW 21.0 billion in 2017Q4 compared to FRW 4.1 billion in 2016 through SWAP transactions with commercial banks. Furthermore, following the improvement in external sector, sales to banks reduced to USD 60.5 million equivalent to FRW 51.0 billion in 2017, from USD 67.5 million equivalent to FRW 55.1 billion during the previous year.

2.3.3 Interest rates developments

In line with the prevailing liquidity conditions and the key repo rate, money market interest rates decelerated over the period under review. Repo, T-bills and interbank rate respectively decreased to 4.21%, 5.85% and 5.85% in 2017Q4from 5.02%, 6.61% and 9.02% in 2016Q4.

Figure 10: Money market interest rates (%)



Source: NBR, Monetary Policy and Research Department

With regard to commercial banks interest rates, weighted average lending interest rate decreased to 17.12% in 2017Q4 from 17.35% in the same quarter of 2016. During the same period, weighted average deposit interest rate declined on average to 7.19% from 7.70% during the same period. However, the spread between the two stayed relatively high owing to persistent structural problems in the banking sector such as high operating costs and high non-performing loans.

Table 17: Market interest rates (% average)

	2012	2013	2014	2015	2016	2017	2017			
							Q1	Q2	Q3	Q4
Lending	16.70	17.32	17.26	17.33	17.29	17.17	17.03	17.11	17.41	17.21
Deposit	8.85	9.93	8.24	8.24	7.91	7.63	7.48	8.11	7.73	7.19
Spread	7.85	7.39	9.02	9.09	9.38	9.54	9.55	9.00	9.68	10.02

Source: NBR, Monetary Policy and Research Department

2.3.2 Financial stability analysis: tracking key indicators

The available data for end 2017Q4 show that the banking sub-sector continues to dominate the Rwanda's financial sector and remains resilient and stable as evidenced by performance indicators. In particular, 2017Q4 left the banking sector profitable and capitalized but to lesser extent compared to the same period in 2016Q4. In overall, total assets stood at FRW 2,685 billion as at end 2017Q4, representing an annual increase of 12.9%. In terms of assets growth, are attributable to strong credit demand due to improved economic activities in the last two quarters of 2017 from a slowdown of 1.7% experienced in 2017H1. In addition, the stock of the government securities, which grew by 37.3% to stand at FRW 271.7 billion also contributed to the increase. In overall, the banks assets stood at 66.4% of the total financial assets as of end 2017Q4. The growth in stock of government securities held by banks was mainly supported by short-term securities, which grew by 41.8% on annual basis.

Concerning the soundness of the sector, banking sector remains well capitalized, with all capital adequacy ratios above their minimum requirements. Capital adequacy ratio (CAR) in particular stood at 21.4%, well above the minimum prudential requirement of 15%. This indicates the sufficiency of banks' capital buffers to withstand unexpected adverse shocks.

Similarly, the period under review left the banking industry liquid. On consolidated basis, the banking liquidity ratio stood at 43.7%, higher than the minimum prudential liquidity ratio of 20%. This buffer continues to ensure both the depositors' protection and stability of the banking system. On the other hand, the gross loans to total deposits ratio in 2017Q4 stood at 108.9% the same level as of 2017Q3. This high level of loans ratio indicates that banks do not only rely on deposits to finance the economy.

However, the banking sector's net profit after tax stood at RWF 28.5 billion in 2017Q4, reflecting an annual decline of 25.6%. This was most attributable to slower growth (+8.1%) of income generated by banks compared to 10.7% growth in expenses. The income growth was mainly affected by 15.7% decline in other incomes and by 5.8% in interest income on government securities generated by banks. On the other hand, high growth rate in expenses of banks was mainly prompted by increase in other interest expenses, provision for bad debts, and staff costs, which grew by 61.3%, 26.4% and 10.4%, from 26.7%, 14.7%, and 9.1%, in the same quarter of 2016, respectively.

Consequently, the banks' profitability grew at a slower pace in 2017Q4 with return on equity (ROE) and return on assets (ROA) respectively stood at 6.2% and 1.1%, lower than 8.8% and 1.7% recorded in 2016Q4. In general, the slower growth of the banks' profitability contributed to slower buildup of the capital buffer with a decrease of 0.2 basis points as presented in the following table:

Table 18: Key Financial soundness indicators, (in %)

Indicator	2016			2017			
	Q2.	Q3.	Q4.	Q1	Q2	Q3	Q4
Solvency ratio (total capital)	23.3	22.2	21.9	21.2	20.8	22.3	21.4
NPLs / Gross Loans	7.0	7.5	7.6	8.1	8.2	7.7	7.6
Provisions / NPLs	42.7	43.4	42.7	44.4	44.9	43.9	46.7
Large Exposures / Gross Loans	25.6	29.9	31.7	32.1	33.6	31.7	33.6
Return on Average Assets	1.7	1.9	1.7	1.8	1.7	1.6	1.1
Return on Average Equity	9.2	10.0	8.8	10.1	9.6	8.9	6.2
Overhead to Income	49.9	48.9	49.9	49.0	48.2	48.5	48.4
Liquid assets/total deposits	42.8	42.3	41.7	43.3	44.0	43.7	43.7
Gross Loans / Total Deposits	106.2	112.3	109.1	110.8	108.4	108.7	108.9
Forex exposure/core capital (min/max 20 %)	-6.7	-1.8	-6.3	-7.4	-6.1	-7.2	-7.8
Forex Loans/Forex Deposits	55.7	46.1	38.8	43.5	42.5	44.1	46.7

Source: NBR, Financial Stability Directorate

On the other hand, the quality of banks loan book stabilized at the level recorded in 2016Q4 with NPLs ratio standing at 7.6%. The foreign exchange exposure as a measure of market sensitivity remained within the prudential limits in 2017Q4 whereby the net open position stood at -7.8% and rests within the regulatory limits of +/- 20%. On the other hand the level of foreign currency loans surpassed the foreign currency deposits as shown by their ratio increased to 46.7% in 2017Q4 up from 38.8% in 2016Q4, reflecting an increased demand for forex.

2.3.3 Financial stability and outlook

2017Q4 left the banking industry slightly less profitable and capitalized compared to the same period in 2016. To ensure the future quality of bank assets, NBR continues engage with banks in matters relating to strengthening of the credit underwriting and monitoring processes. In addition, the long-term sources of funds for banks is also likely to continue being enhanced by several ongoing mechanisms undertaken to boost depositors' saving culture.

III. INFLATION DEVELOPMENTS

3.1 Inflation Developments

In 2017Q4, headline inflation eased to 2.2% from 3.5% of the previous quarter following the drop in food prices. Food inflation fell from 7.4% in 2017Q3 to 1.9% in 2017Q4, offsetting the increase in transport and housing inflation from 1.2% to 3.0% and from 1.7% to 2.3% in the same period respectively.

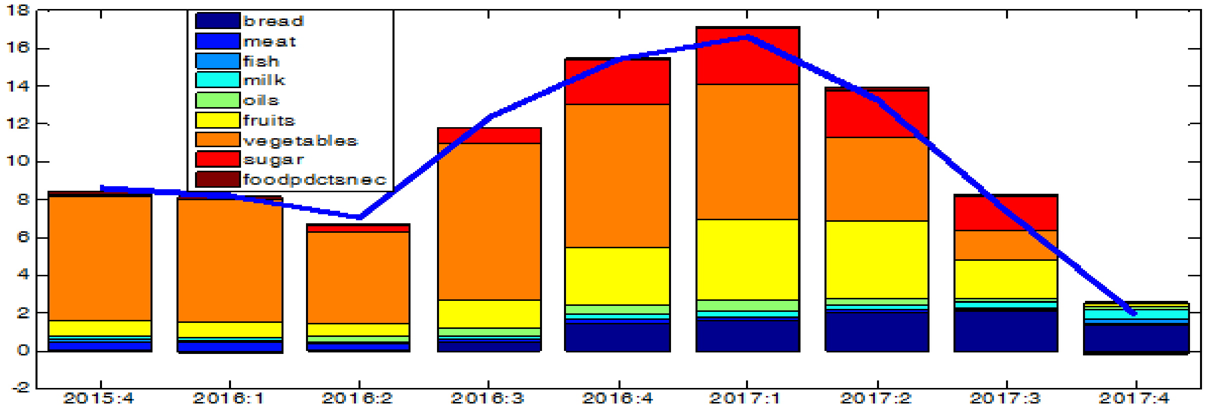
Table 19: Inflation developments for key items (%, Y-o-Y)

	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2	2017Q3	2017Q4
Headline	4.5	4.9	6.4	7.0	7.7	6.2	3.5	2.2
Core	3.0	3.8	4.5	5.2	5.5	4.6	3.1	2.5
Imported	2.6	4.1	5.4	7.3	8.8	6.9	3.9	4.7
Domestic	5.2	5.2	6.7	6.9	7.4	6.0	3.4	1.4
Food	7.5	7.0	12.3	15.4	16.6	13.3	7.4	1.9
-Vegetables	17.2	14.3	24.7	22.4	21.1	13.2	4.5	-0.7
Housing	3.2	3.2	2.2	1.2	2.0	1.8	1.7	2.3
Transport	5.4	7.3	8.7	7.7	8.5	5.4	1.3	3.0
Alcoholic	9.5	9.3	1.8	0.7	5.6	8.5	9.1	8.2
Clothing	0.4	0.2	2.3	3.8	6.9	7.0	5.5	4.4
Education	1.3	1.7	1.9	2.3	-0.2	-0.8	-1.0	-0.9
Energy	5.0	6.2	3.9	1.7	4.3	5.2	3.5	6.3

Source: NBR, Monetary Policy & Research Department

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, leading to a decrease in prices for domestic vegetables as well as in prices for fruits and sugars imported from the region. Vegetables inflation fell from 4.6% in 2017Q3 to -0.5% in 2017Q4, fruits inflation dropped from 17.2% to 0.9% and sugar inflation plummeted from 22.5% to 1.0% during the same period. Except for milk and fish, the prices of other food items namely, oils and bread & cereals also eased.

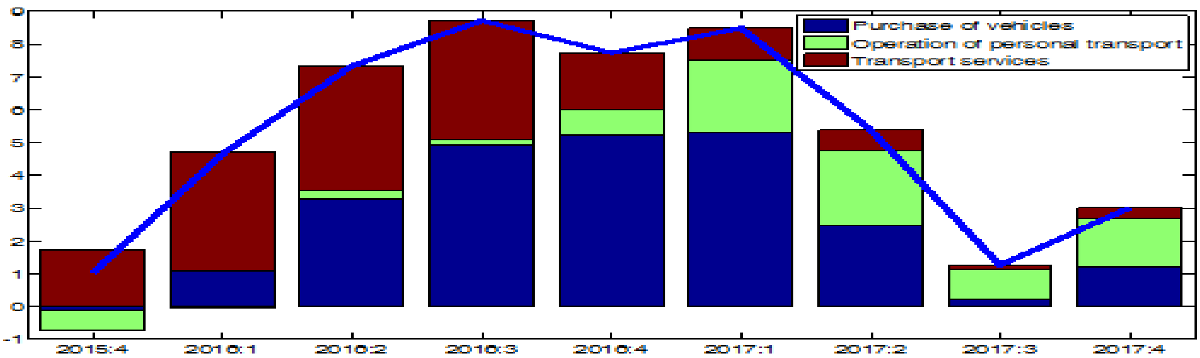
Figure11: Contribution to Food Inflation (%, Y-o-Y)



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

Notable upward pressures on overall inflation came from transport inflation. The surge in transport costs was driven by the pressures from the international oil prices which increased to around 57$ per barrel, on average ,towards the end of 2017 pushing the local pump prices up from 969frw/liter in July and August 2017 to 1031frw/liter in November and December 2017.

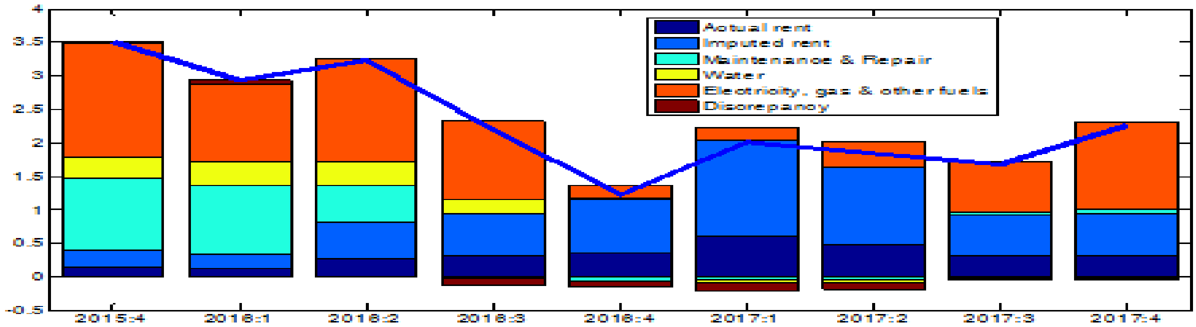
Figure12: Contribution to Transport Inflation (%, Y-o-Y)



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

The slight increase in housing inflation was mostly reflected in the prices of charcoal and firewood. Ordinarily, production permits increase in rainy season and decrease in dry season to mitigate potential forest fires. However, charcoal production goes up in dry season because the rainy season is not favorable for production even though it can increase in case of reduced rainfalls. In 2017Q4, charcoal and firewood inflation surged to 6.5% from 3.9% in 2017Q3.

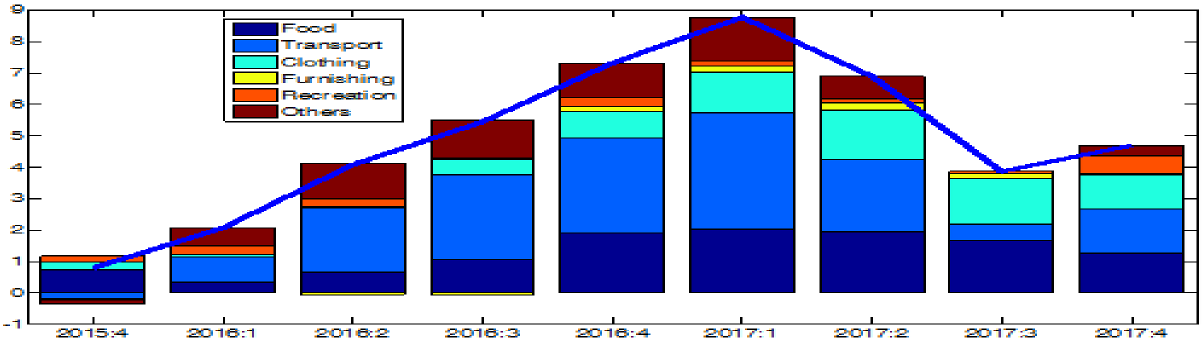
Figure13: Contribution to Housing Inflation (%, Y-o-Y)



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

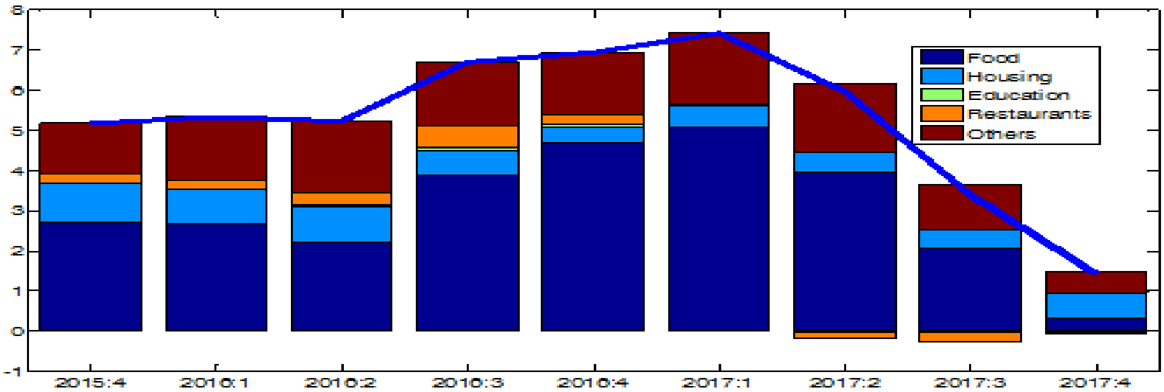
While domestic inflation eased from 3.4% in 2017Q3 to 1.4% in 2017Q4, imported inflation picked up from 3.9% to 4.7% in the same period. Domestic inflation followed the aforementioned improvements in agricultural production.

Figure14: Contribution to Imported Inflation (%, Y-o-Y)



The uptick in imported inflation came from the increase in transport costs because of the aforementioned reasons. Besides, the imports of recreation and cultural activities especially textbooks also picked up.

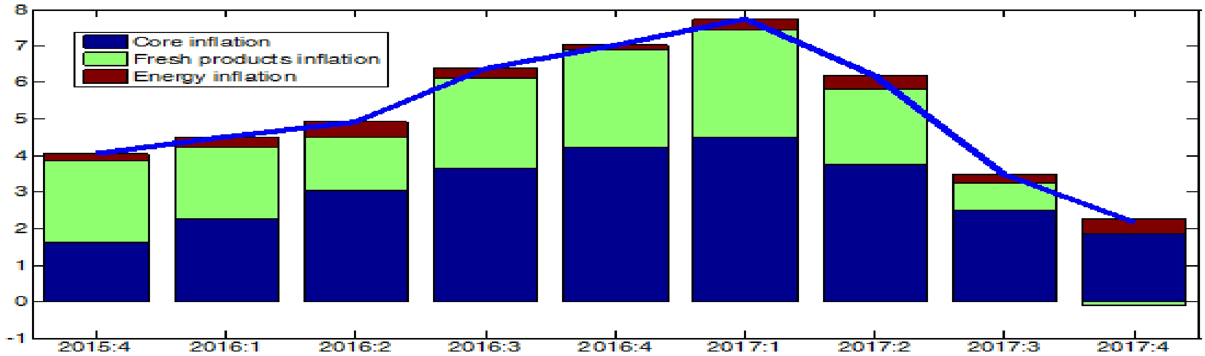
Figure15: Contribution to Domestic Inflation (%, Y-o-Y)



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

Core inflation, which excludes energy and fresh products, went down from 3.1% to 2.5%, reflecting the non-inflationary aggregate demand and the ease in prices of some core items such as clothes and footwear.

Figure16: Core, Energy and Fresh Products Inflation (%, Y-o-Y)



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

IV. INFLATION OUTLOOK AND RISKS

4.1 Demand-side pressures

Following the improvement in agricultural production during the second half of 2017 and the continued increase in international commodity prices, real GDP growth recovered from 1.7% in 2017Q1 to 4.0% and 8.0% in 2017Q2 and 2017Q3, respectively. Despite this positive trend, aggregate demand remains subdued and thus non-inflationary.

4.2 Supply shocks

As expected, the improvement in weather conditions and agriculture production have led to the ease in food inflation and this is likely to continue until the end of 2018Q1. In line with the increment in international oil prices, local pump prices rose from 993 FRW/liter to 1031 FRW/liter on 3rd October 2017. Despite this increase, the effect on inflation has remained minimal.

4.3 Exchange rate developments

In 2017, exchange rate pressures eased owing to the improvement in Rwanda's export receipts in line with a continued recovery in international commodity prices, diversification of exports as well as the decline in the import bill. As a result, the FRW depreciated by 3.07% (y-o-y) against the USD in December 2017 compared to a depreciation of 9.7% in December 2016. Exchange rate pressures are expected to remain low in 2018, helping to mitigate any imported inflationary pressures.

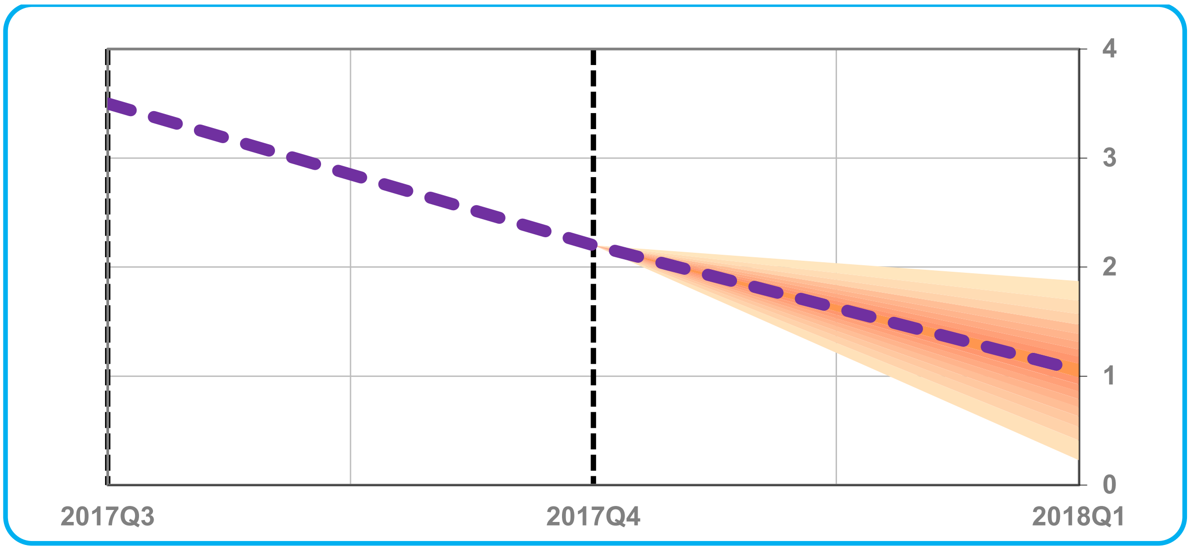
4.4 Global and regional inflationary pressures

The global economy kept a positive growth momentum in 2017 and is projected to further improve through 2018 as the world growth forecast was revised upwards to 3.9% in 2018 from 3.7% initially projected by the IMF in October 2017 forecasts. In line with improving global demand, commodity exports for Rwanda are expected to continue improving and this will help not only to fuel growth but to also mitigate exchange rate and inflationary pressures.

4.5 Inflation forecasts

With the exception of the ongoing increase in oil prices, all other factors pose no upward pressures to the inflation outlook. As highlighted above, the main downside pressures on inflation are expected to continue coming from the ease in exchange rate pressures and the good performance of the agriculture sector linked to the improvement in weather conditions. In view of the above, headline inflation is likely to lie between 0.7% and 1.4% in 2018Q1.

Figure 17: Inflation forecasts (fan chart)



Source: NBR, Monetary Policy & Research Department