MONTHLY ECONOMIC REPORT

OCTOBER 2023

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Highlights

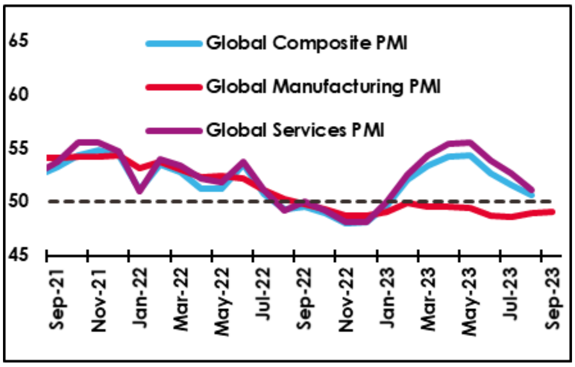
- Global growth is undoubtedly slowing down while the near-term outlook for inflation seems to have deteriorated.
- In a bid to balance the downside risk on economic growth and this upside risk on inflation, central banks in advanced economies seem to be almost at the mountain top with regard to policy rates.
- The GDP growth momentum in the US remains robust, following which the Federal Open Market Committee (FOMC) revised upward its median projections for both economic growth as well as employment levels.
- In the Euro area, after dodging a technical recession in early 2023, the economy registered anemic growth in Q2 at 0.1% from a prior estimate of 0.3%. Evidently, underlying weaknesses persist in the European economy, corroborated further by leading economic indicators.
- China's economy is showing signs of stabilizing. However, policymakers still face a daunting task in trying to revive growth after a brief post-COVID bounce in the wake of persistent weakness in the crucial property industry, a faltering currency and weak global demand for its manufactured goods.
- Global commodity prices remain relatively stable despite surging energy costs.
- In Kenya, economic activity remained weak in September. According to S&P Global, headline PMI reverted to contractionary territory at 47.8 from 50.6 in August.
- Inflation held steady at 6.8% in September. Certainly, the headwinds to consumer activity will therefore persist over coming months, which will be detrimental to overall economic activity.
- In Uganda, The Purchasing Managers' Index (PMI) has consistently remained above the 50 mark for several months, indicating a positive trend in Uganda's private sector. GDP growth is consistent with these trends, Real GDP growth expanded by 6.8% in Q2-2023 relative to 5.6% in Q1- 2022.
- Despite global headwinds and regional droughts, Tanzania's economy is projected to expand by 5.1% in 2023 before rising further to about 6.0% in the medium term. In the near term, the anticipated recovery of agricultural output, coupled with a robust services sector, is expected to stimulate growth.
- In the Q2-2023, Rwanda's real GDP growth declined to 6.3% relative to 7.5% in the same period of 2022. The slower GDP outturn is reflected in weaker economic activity across the key sectors on the back of unfavorable weather and weak private consumption in light of persistent inflation and monetary policy tightening.

Global Economic Overview

Global growth is undoubtedly slowing down- at least reading from the Purchasing Manager's Indices (PMI) for August and September. In September, the divergence in economic activity level across the main economies- China, the US and Europe widened further in September.

Notably, Euro Area's composite PMI declined to 47.1 in September from 49.9 in June, while that of the US stayed within the expansionary territory- at 50.1 in September. Obstacles to broader global GDP growth in the review period were the stronger US dollar, tight monetary policy and somewhat weak global trade-declining 3.2% year-on-year according to the World Bank.

Figure 1: Global Purchasing Managers' Indices



Source: S&P Global, NCBAResearch

Meanwhile, the near-term outlook for inflation seems to have deteriorated. Inflation pressures across several economies edged higher, albeit marginally as global energy price movements were on an upward trajectory. Moreover, the prices of some non-energy commodities have also rebounded, although remaining well below the peaks of 2022.

In a bid to balance the downside risk on economic growth and this upside risk on inflation, advanced economies' central banks seem to be almost at the mountain top with regard to policy rates. Expectedly, the policy curve may mirror a "table-mountain"- with little or no policy rate cuts in the next couple of months. Following this, Emerging Markets (EMs) and Frontier markets (FMs) monetary policy cycles will probably shift accordingly.

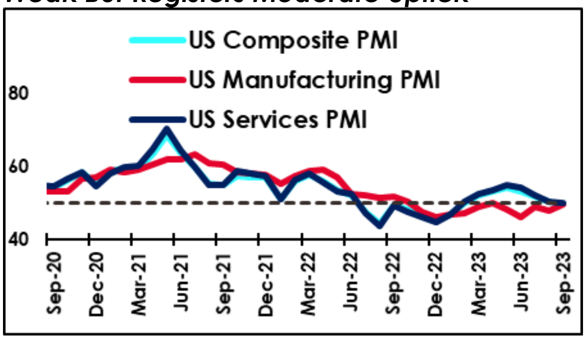
Resultantly, access to financial markets for EM and FM sovereigns remains costly. Following the Federal Open Market Committee (FOMC) upward revision of their median projections, markets have priced in "higher for longer" and consequently tightened further- pushing the US Treasuries to a very attractive range.

In the US

The GDP growth path for the US remains robust, following which the Federal Open Market Committee (FOMC) revised upward its median projections for both economic growth as well as employment levels.

The US economy continues to perform well, with real GDP growth in the second quarter of 2023 expanding by 2.1% and full year growth at the same rate. The manufacturing PMI edged higher to 49.8 in September from 48.9 in August and although below 50, it has consistently recorded very close to the neutral mark for several months. Meanwhile, the services PMI touched 50.2- remaining above 50 since February.

Figure 2: Manufacturing Sector Remains Weak But Registers Moderate Uptick



Source: S&P Global, NCBAResearch

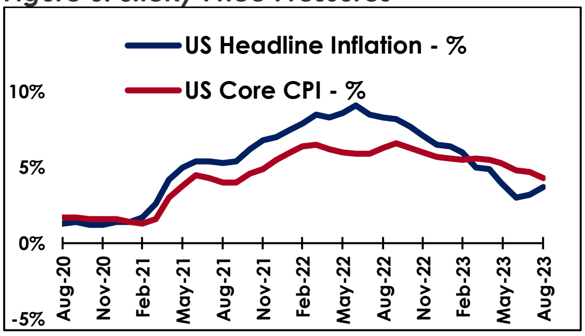
Table 1: FOMC Median Projections

FOMC MEDIAN PROJECTIONS					
		2023	2024	2025	2026
Fed Rate	September	5.6%	5.1%	3.9%	2.9%
	June	5.6%	4.6%	3.4%	
Unemployment Rate	September	3.8%	4.1%	4.1%	4.0%
	June	4.1%	4.5%	4.5%	
PCE Inflation	September	3.3%	2.5%	2.2%	2.0%
	June	3.2%	2.5%	2.1%	
Core PCE Inflation	September	3.7%	2.6%	2.3%	2.0%
	June	3.9%	2.6%	2.2%	
Real GDP Growth	September	2.1%	1.5%	1.8%	1.8%
	June	1.0%	1.1%	1.8%	

Source: Federal Reserve, NCBAResearch

On the inflation front, the latest figures illustrate that certainly, inflation has slowed-but could remain sticky above the 2% target for several quarters. More specifically, the FOMC projects headline as well as core inflation at 2.5% and 2.6%, respectively in 2024.

Figure 3: Sticky Price Pressures



Source: U.S. BEA, NCBAResearch

All-in-all, the numbers do present a convincing case for the FOMC to change the current monetary policy stance. In fact, the committee decided to hold the Fed Funds Rate at 5.25% - 5.5-% in the September meeting.

Even more critical to the global markets is the upward revision of the median Fed Funds Rate in September for 2024 and 2025 to 5.1% and 3.9%, respectively relative to the earlier projection of 4.6% and 3.4%, respectively. Simply, this indicates that rates are projected to stay higher for longer.

Given that interest rate differentials have remained supportive, and US economic growth is outperforming its peers, the safe haven dollar has proved persistent against other major currencies. Baring other factors that could deflect the appeal away from the greenback, we expect US dollar to trade higher into the near-term.

In the Euro area…

After dodging a technical recession in early 2023, the economy registered anemic growth in Q2. The final GDP figure was revised down to 0.1% from a prior estimate of 0.3%. Evidently, underlying weaknesses persist in the European economy, corroborated further by leading economic indicators. For example, output PMI recorded well below the 50.0 neutral mark through the entire third quarter indicating GDP contraction.

In September, the Manufacturing PMI edged down from 43.5 in August to 43.4. Although, provisional services PMI rose from 47.9 to 48.4 while the Composite Output rose by 0.4 points to 47.1.

The EU Commission's economic sentiment indicator in September revealed slight optimism. However, this high frequency data does not convincingly point to a concrete recovery path for the European market. To be sure, Germany and Italy continue to register deep contraction in output levels while Italy and Spain are pulling through somewhat unscathed. Further, there is notably lower demand for the euro area's exports. As a result, we expect the economy to remain subdued in coming months.

Surprisingly, the labour market has proved resilient. In September, the unemployment rate reached a record low of 6.4% in August from 6.5% in July supported by the services sector. However, with the momentum slowing, we expect the sector to create fewer jobs.

On the other hand, easing inflation pressures may provide some upside to investment in the economy. In August, headline inflation ticked lower to 5.2% from 5.3% previously, while core inflation dipped to 5.3%. Moreover, the provisional estimates are pointing to further cooling of price pressures in September. Headline and core inflation are estimated at 4.3% and 4.5% respectively. However, with greater exposure to oil markets, the inflation outlook is still uncertain.

Expectedly, the ECB raised the benchmark rates by +25bps. Accordingly, the interest rate on the main refinancing operations, marginal lending facility and the deposit facility increased to 4.50%, 4.75% and 4.00% respectively. Future policy decisions will remain data dependent as the ECB reaffirms the difference between a pause and pivot.

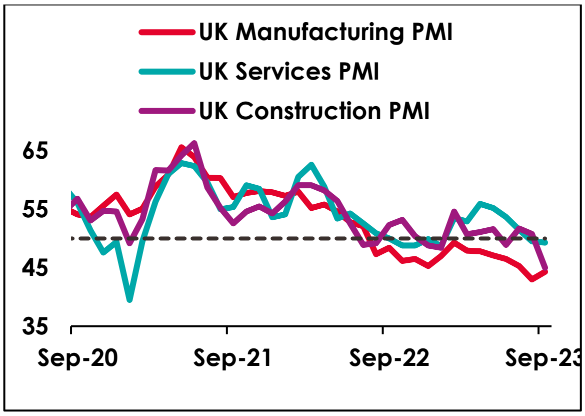
On the currency front, an uncertain economic landscape coupled with solid data reinforcing the wide gap between US growth and the rest of the world has sparked fears of Euro parity with the dollar. We do not foresee any material strength in the Euro in the near term.

In the UK…

Unexpected inflation outcome and Q3 economic slowdown catalyze surprise pause in policy tightening by The Bank of England

Despite the UK economy demonstrating fair resilience in the first half of 2023, the latest official statistics suggest that this is now fading. Notably, the UK PMI through the third quarter illustrated a weakening economy as stubborn inflation, lower household demand and higher borrowing costs weighed on activity levels in the private sector.

Figure 4: Broad Weakness Across Most Sectors



Source: S&P Global, NCBAResearch

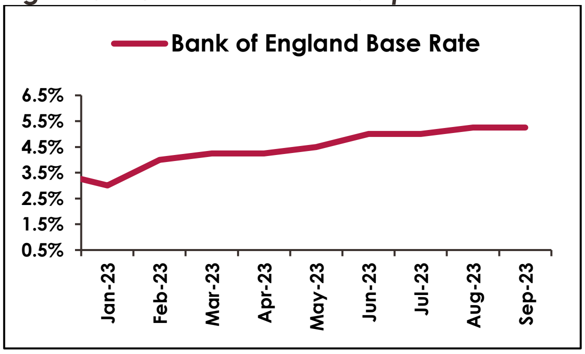
In September, both manufacturing and services contracted with faster deterioration noted in the former. Manufacturing PMI stood at 44.3 from 43.0 in August as firms cut production in response to lower demand both locally and in overseas markets.

Similarly, for the services sector, PMI ticked lower to 49.3 from 49.5 previously – the second time to post below the 50.0 threshold.

As a result, we expect third quarter GDP growth to trend lower. Stressing this sentiment further, both survey responses and official data reveal that the labour market is weakening. In September, the unemployment rate is estimated at 4.5%, 0.5% higher than the previous quarter and 0.3% above pre-pandemic period.

The Bank of England (BoE) took the market by surprise and opted to hold the benchmark rate at 5.25% - the first time since November 2021.

Figure 5: BOE Holds Rate In Surprise Move



Source: BoE, NCBAResearch

Although the decision was a close call, BoE members were seemingly confident that inflation will moderate to its 2.0% medium-term target in 2024. In as much as inflation is trending lower, the future path of interest rates is still uncertain given that forward guidance was little or absent.

China

Economy showing signs of just stabilizing but property slump threatens overall outlook

Chinese policymakers face a daunting task in trying to revive economic growth after a brief post-COVID bounce in the wake of persistent weakness in the crucial property industry, a faltering currency and weak global demand for its manufactured goods.

In September, manufacturing conditions somewhat improved for the second consecutive month – albeit slightly. PMI reading printed at 50.6 with production picking up in the month supported by marginal increase in local demand. External demand on the other hand weakened, resulting in pressure on employment levels.

Moreover, the service sector growth softened at the slowest pace in 2023 thus far. Notably, the Caixin Index dropped to 50.2 – the lowest reading in nine straight months of expansion. It seems that even tourism expenditure as we approach the 'Golden Week' national holiday could remain weak.

As a result of the shaky outlook for the country's consumer expenditure, China's inflation pressure remains weak.

We expect China's property market to remain under strain in the near term, with the situation for both home sales and property investment having deteriorated further in August. Despite the launch of a support package to bolster housing demand, we expect these measures to be limited to China's large cities- thus marginal improvement in the overall housing market outlook.

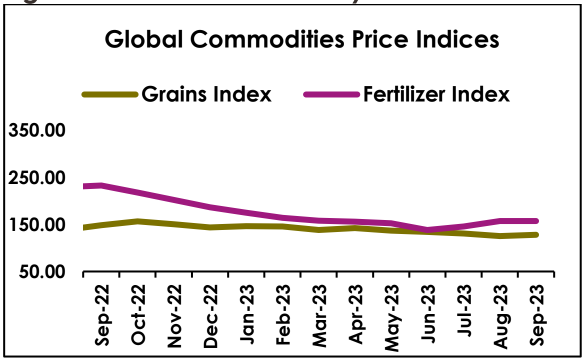
Commodities: Global Commodity Prices Remain Relatively Stable Despite Surging Energy Costs

Following the slow pace of expansion in economic activity that saw the global composite PMI (by S& P Global) touch 50.6 in August coupled with feeble global trade-with trade volume declining by 3.2% year-on-year in July, global commodities growth is seemingly weak.

For agricultural commodities, in-line with our view in the September Monthly Economic Report, global prices of grains have hardly moved much. Interestingly, this has been despite Russia walking away from the Black Sea trade deal on July 17.

The explanation lies in the fact that South America's as well as US crop conditions have been quite positive in 2023. Corn and soybean prices have declined since Q2 this year following record 2022/23 harvests.

Figure 6: Global Commodity Prices



Source: World Bank – Commodity Prices, NCBAResearch

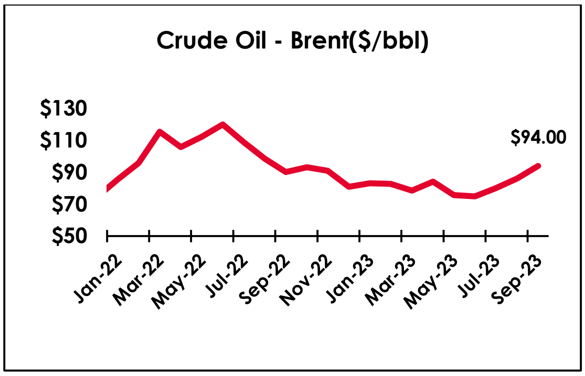
Positively, fertilizer prices have deflated 30-50% versus 2022 owing to improving application and output as well as cutting production costs. However, the El Niño weather pattern remains a significant source of uncertainty in most agricultural regions.

In the absence of the Black Sea trade corridor, the markets could close the year without the 123mmt of grain harvested already- according to the Russia Ministry of Agriculture. Hence, price volatility remains a worry.

All-in-all, despite the weak demand outlook for China, households will somewhat continue to face high nominal prices due to steep transport costs as well as entrenched market risk premium carried over from March 2022.

The oil market turned out to be more volatile than we had projected in September. The surprise came not from the decision by Saudi Arabia and Russia to continue withholding supplies, but Russia's 21 September ban on the exports of gasoline and diesel fuel. Though the ban exempts member states of the Eurasian Economic Union or shipments already placed under customs procedures, crude oil prices rose to US$96 a barrel.

Figure 7: Production Cuts Inflate Global Crude Prices - But Still Below 2022-Peaks

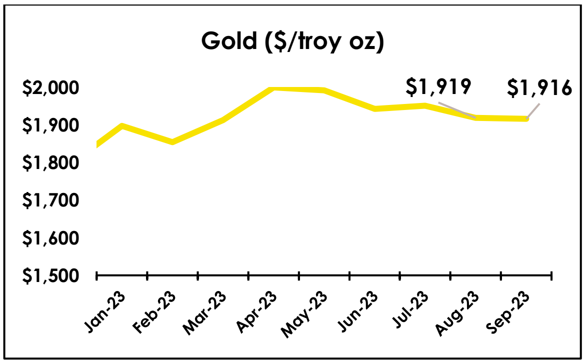


Source: World Bank – Commodity Prices, NCBAResearch

In terms of outlook, we posit that given that the objective of the ban was due to the high seasonal diesel demand from farmers, this could be temporary. Overall, weak GDP growth outlook is expected to hold prices under US$100 a barrel in October-November, absent, any geopolitical shocks.

Gold prices held steady in September at $1,916 per troy oz, relative to $1,919 in the previous period. Curiously, this was in spite of the increase in US Treasury yields. It would then seem that demand proved low following the sub-5% China GDP as well as continued economic activity weakness in Europe. Into October, with the low Chinese retail gold demand and somewhat disappointing global PMI data, demand is expected to only come from central banks, driven by an objective to diversify their foreign exchange reserves investments.

Figure 8: Prices Of Precious Metals Remain Stable



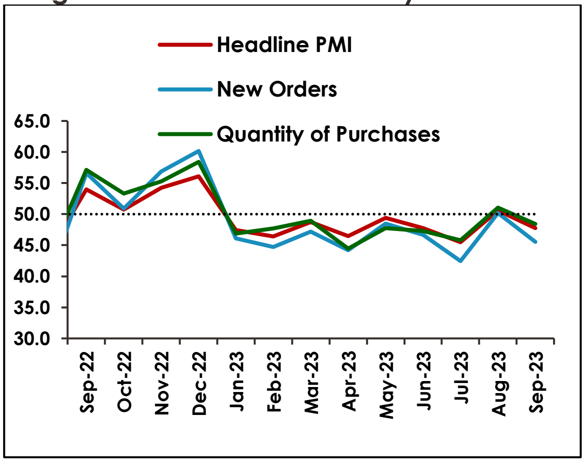
Source: World Bank – Commodity Prices, NCBAResearch

Kenya

Economic Activity Still Weak in September

According to S&P Global, headline PMI reverted to contractionary territory at 47.8 from 50.6 in August.

Figure 9: Weakening Shilling & High Fuel Costs Weigh On Private Sector Activity

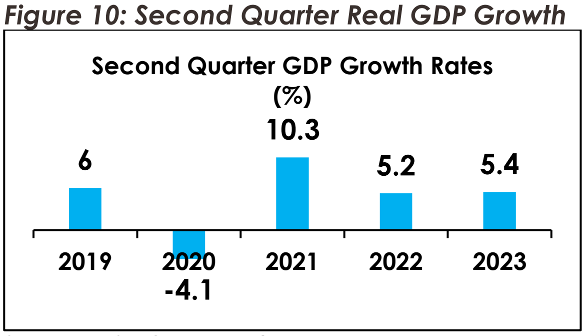


Source: S&P PMI, NCBAResearch

Both output and new order volumes declined for the seventh time in eight months as input prices proved a continuing pain for the business owing to currency depreciation and higher fuel costs. As a result, firms increased output charges and in turn, depressed already weak consumer demand.

In-line with this headline PMI trend year-to-date, the official real GDP growth rate in the second quarter-remained somewhat below the optimal growth level at 5.4%. This is relative to 5.2% and 6.0% in a similar period in 2022 and 2019, respectively.

Figure 10: Second Quarter Real GDP Growth

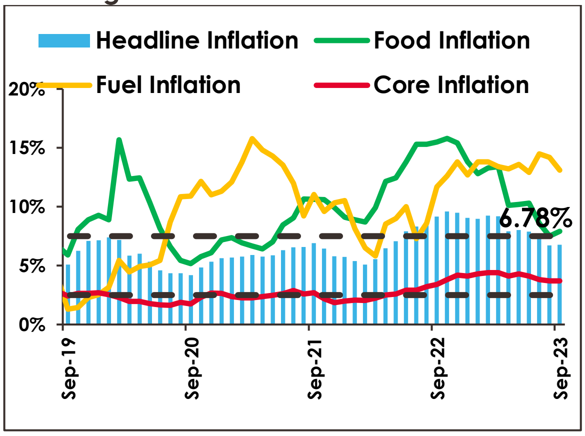


Source: KNBS, NCBAResearch

Inflation Holds Steady at 6.8% despite Expectations Remaining Elevated

Annual headline inflation in September remained almost unchanged at 6.8% from 6.7% in August. Prices pressure emanated from a combined rise in energy prices, particularly fuel and reduced supply that elevated prices of a few food items.

Figure 11: Overall Inflation Remained Broadly Unchanged But Risks Persist



Source: KNBS, NCBAResearch

Indicatively, annual food inflation increased slightly to 7.9% from 7.5% in August on account of higher prices for vegetables.

Meanwhile, core inflation remained stable at 3.7%- reflecting more of the pass-through from the currency depreciation than demand pressure.

Looking ahead, the inflation outlook remains uncertain. While, the El Niño weather pattern is expected to bring above-average rainfall to Eastern Africa, affecting agriculture, slightly above average rainfall could yield bumper harvests- positively influencing the inflation outlook.

Certainly, the headwinds to consumer activity will therefore persist over the coming months- which will be detrimental to overall economic activity.

Higher than budgeted financing cost leads to upward revision of fiscal deficit.

Interest rates are trending at historical highs both locally and in external markets, the effect of which has extended to public finances amid elevated debt costs, constraining room for priority investments.

Underscoring this, the National Treasury revised upward the projections for domestic interest payments by KES 18.1Bn to KES 646.4Bn. On foreign debt service front, currency depreciation as well as interest rate movement on the USD loans led to upward revision by KES 65.1Bn to KES 272.5Bn.

To account for increased costs, the net domestic financing target rose from KES 316.9B to KES 415.3B. This resulted in a wider fiscal deficit projection - an estimated 5.4% of GDP at KES 864.0Bn.

In light of this, the National Treasury proposed a medium-term revenue strategy (2024 – 2027) to address recent deterioration of ordinary revenue collection at 14.1% in 2022/2023 from 18% in 2013/2014.

In the near-term however, fiscal liquidity will remain tight while debt service plays out as a key expenditure component for the government against a higher for longer interest rate environment.

Yield curve – peak not in reach just yet

The yield curve dynamics are revealing that the peak is further away than previously anticipated.

In September, yields across the three, six and twelve month papers rose to 14.821% (+108.80bps), 14.950% (+145.90bps) and 15.054% (+104bps) respectively – complicating local financing especially as demand for domestic papers was rather paltry in the month. To address the funding pressure, the sovereign stretched its overdraft facility to KES 78.2Bn from KES 48.18Bn at the end of July 2023.

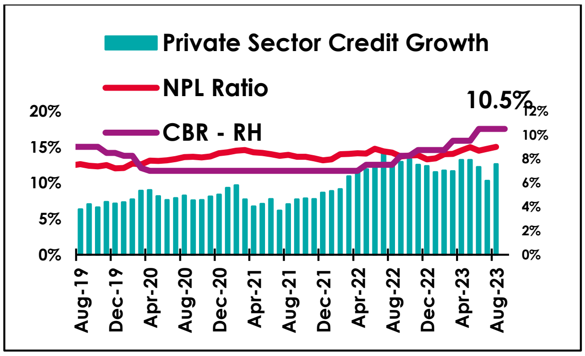
In addition, the aforementioned fiscal play is not only signaling expected increased appetite for domestic funds by the sovereign, but is also aggravating investor uncertainty on the public finance front – pushing rates higher. In 2023 thus far, in addition to illustrating significant volatility, the 2024 Eurobond has risen by 580bps.

Concerningly, interest rate expectations seem ahead of the monetary policy decisions- both on the policy rate as well as open market operations.

MPC retains CBR at 10.5%

On 03 October 2023, The Monetary Policy Committee (MPC) held the CBR at 10.5%. The decision was backed by the view that prior policy tightening is yet to fully filter through to the economy and that inflation levels remain within the medium term target band – albeit sticky.

Figure 12: MPC Retains CBR At 10.5% - Against Background Of Strong Credit Growth & Rising NPLs



Source: CBK, NCBAResearch

In the near-term the MPC anticipates lower food prices to push inflation lower as ongoing harvests improve supply.

Given the ongoing transmission of a more restrictive policy stance, extension of credit to the private sector seems to be only robust around consumer loans and business working capital loans- with very little on capital expenditure.

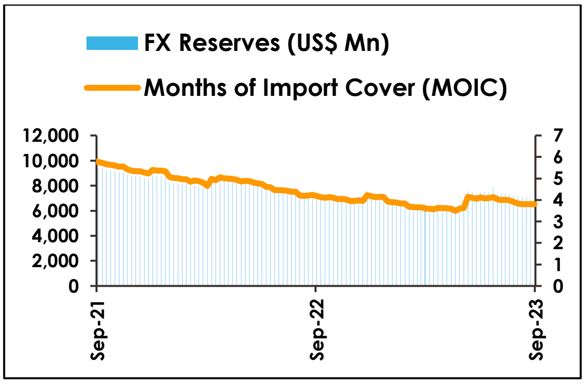
Current account performance improves marginally – little reprieve for the KES

In the 12 months to August 2023, total goods exports grew by a paltry 0.5% relative to the corresponding period of 2022. Meanwhile, total imports declined by 11.9% in the year to August relative to a growth of 16.0% in the corresponding period of 2022. The sharp decline is due to a broad decline in imports.

Whereas, this has resulted in a narrower trade deficit of 3.7% of GDP in the period, seasonally, we do not foresee any significant improvements in commodity exports in the rest of 2023. With sticky and elevated global energy prices, we expect the current account deficit to reach 4.1% of GDP in December 2023.

With little or no chance for the CBK to intervene actively in the FX market- given low FX reserves position, the shilling's performance will largely hinge on the persistent demand and supply imbalances in the market.

Figure 13: Dwindling Foreign Exchange Reserves On Continued Debt Service

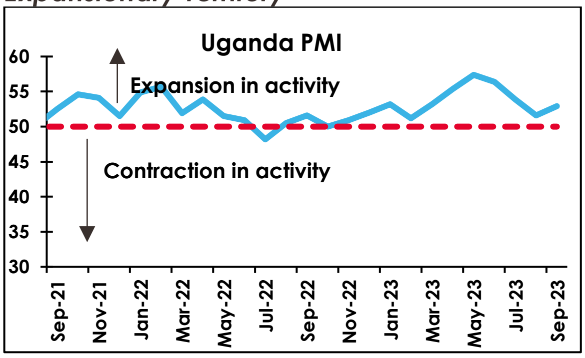


Source: CBK, NCBAResearch

Uganda

The Purchasing Managers' Index (PMI) has consistently remained above the 50 mark for several months, indicating a positive trend in Uganda's private sector. To be sure, headline PMI for September rose to 52.9 reversing the marginal slowdown recorded in August. This marked the eleventh consecutive monthly improvement in business conditions for Uganda's private sectors.

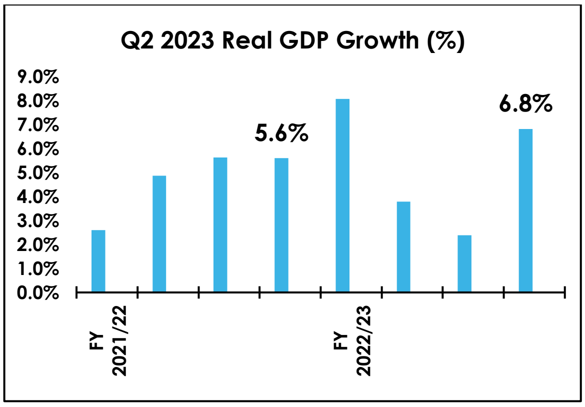
Figure 14: Private Sector Activity Firms Up In Expansionary Territory



Source: S&P Global, NCBAResearch

Official statistics seem consistent with strong growth in the economy. Real GDP growth expanded by 6.8% in Q2-2023 relative to 5.6% in Q2- 2022. The service sector seems to have recovered to pre-Covid levels registering growth of 8.8% from 3.7% in Q2-2022, and following a 5.5% contraction in 2020.

Figure 15: Positive Outlook On Strong Q2-2023 Growth



Source: UBoS, NCBAResearch

The service sector, in particular - Accommodation and food service activities have returned to normalcy (making a remarkable recovery and growing by 28.9%). Conversely, the agriculture sector growth was weak in comparison to last year. GDP growth significantly dropped to 2.1% compared to 9.3% attributable to a decline in food production and crop growing activities. Industry sector growth remained relatively flat at 7.0% from 6.9% in 2022.

This sustained robust growth can be attributed to stable macroeconomic factors, including well-controlled inflation, a resilient currency, and effective policies, all of which have maintained strong domestic demand.

That said, annual CPI remained low at 2.7% in September from 3.5% in August - marking the 11 consecutive decline. The deceleration was supported by a notable drop in food prices to 7.9% from 9.8% previously. Meanwhile, core inflation continued to moderate to 2.4% from 3.3% a month prior.

Unsurprisingly, the Monetary Policy Committee held the CBR at 9.5% in their October meeting against expectations of further cooling in prices to average 3.0-4.0% through Q4-2023. Although currency depreciation and volatility in international markets pose risk to the outlook.

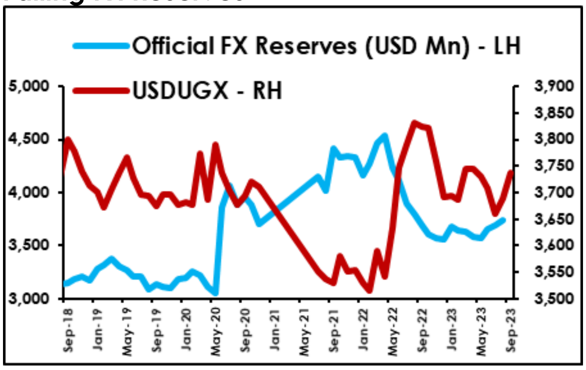
On growth, the MPC projects growth to expand by 6% in FY 2023/24 and an average of 6.5% in the medium-term.

On the currency, the UGX has performed well in comparison to its regional peers supported by robust exports receipts, particularly for coffee. In Q2-2023, coffee exports grew by 6.3% relative to the corresponding period of 2022. As a result, the current account deficit narrowed to USD 802.15Mn from USD 743.80Mn.

However, over the month export flows were rather muted as firms sought to stimulate domestic demand. As a result, increased demand for hard currency mainly from importers pushed the Uganda shilling 1.3% lower against the USD.

In quickly taming price pressures, The Bank of Uganda has ensured the movements on the UGX are solely driven by demand and supply forces with little interference in the FX market. Resultantly, the central banks official FX reserves have steadily risen to USD 3,974 Million in August from USD 3,674 Million in January 2023.

Figure 16: Weak External Outlook Amidst Falling FX Reserves



Source: BOU, NCBAResearch

All-in-all, Uganda's economy appears poised for continued growth, and recovery, provided it effectively manages external pressures. However, the potential impact of the halt in donor funding following anti-gay legislation could have significant repercussions, especially for vulnerable populations, affecting areas such as education and healthcare.

Tanzania

Despite global headwinds and regional droughts, Tanzania's economy is projected to expand by 5.1% in 2023 before rising further to about 6.0% in the medium term.

In the near term, the anticipated recovery of agricultural output, coupled with a robust services sector, is expected to stimulate growth.

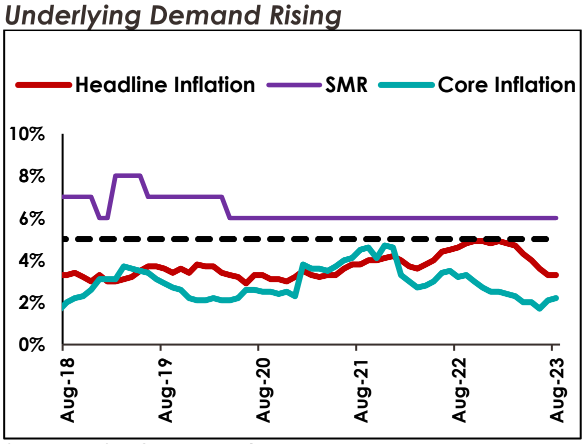
However, a combination of limited fiscal transparency, low budget-execution rates, and a weak public financial management system could undermine Tanzania's growth outcomes.

Positively, the sovereign is making strong progress with regard to revenue collection. Domestic revenue collection was just shy of the target at TZS 2.07 Trillion – 92% of the July target – relative to TZS 1.79 Trillion in July 2022. The impressive revenue collection was supported by increased income tax collections.

Unfortunately, with priority spending geared toward infrastructure in line with the five-year National Development Plan (2021 –2026), we expect the fiscal deficit to firmly remain in deficit.

Headline inflation stagnated in August 2023 at 3.3% from a month earlier and after easing for six consecutive months. The moderation in prices was driven by a sharp drop in food inflation on the back of an increase in food supply following the seasonal harvest coupled with a decrease in some global commodity prices. Notably, food prices declined further to 5.6% from 6.1% in July.

Figure 17: Price Pressures Remain Muted – But Underlying Demand Rising



Source: NBS, NCBAResearch

On the other hand, after 10-months of cooling, the core index ticked marginally higher to 2.2% from 2.1% previously. In the reminder of 2023, inflationary pressures are expected to remain muted, as ample food supply will cushion the economy against external shocks particularly in the commodities markets. To be sure, food stocks held by the National Food Reserve Agency more than doubled in July to 94,088 tonnes.

On the external front, the sector remains fragile and vulnerable to external shocks although, the economy seems to be recording decent growth in trade. In August, exports of goods and services grew by 13.0% y/y to USD 1,245Mn-attributable to strong exports in coffee and gold.

Meanwhile, Tanzania's import bill has reduced significantly on declining fuel imports, foodstuffs and consumer goods. In August, imports declined by 17.0% yoy to USD 1,446Mn. Hence, a narrower current account deficit.

However, the FX market has seemingly not reflected this, with the Tanzania shilling continuing to cede ground to the US dollar. The market generally expects further depreciation despite support by the Bank of Tanzania (BoT).

Concerningly, the market seems to be in the dark with regard to the level of current FX reserves. The last update on this by the BoT indicates USD 5.25Bn for end July.

Rwanda

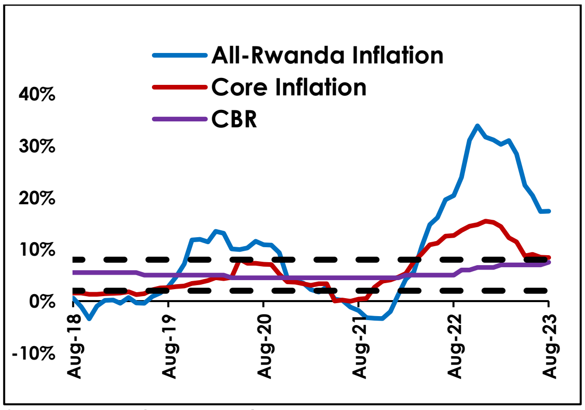
In the second quarter of 2023, real GDP growth declined to 6.3% relative to 7.5% in the same period of 2022. The slower GDP outturn is reflected in weaker economic activity across the key sectors. In particular, agricultural activities recorded no growth in comparison to the second quarter of 2022 due to effects of weather related challenges. Indicating this, food production decreased by 3.0% following the bad harvest of food crops.

Growth in the services sector touched 10%- weaker in comparison to Q2-2022 that expanded by 12.0%. Economic activity in this sector was dampened by significantly slower growth in wholesale and retail trade as well as transport. Meanwhile, the industry sector expanded by 6.0% similar to the same period in 2022.

On the expenditure front, the effects of historically high inflation were evident: Household consumption decreased by 4.0%. Headline growth was thus supported by a 31% increase in government consumption.

The prospects for improved private consumption remain a distant reality for the economy, as stubborn inflation shows no signs of easing. In August, annual headline inflation ticked higher to 17.4% from 17.3% in July 2023. Price pressures continued to rise across all broad categories, however were more evident in food prices. Core inflation, which excludes fresh food and energy prices, dipped marginally to 12.1% from 12.4% previously.

Figure 18: Central Bank Tightens Monetary Policy Further As Price Pressures Remain Elevated



Source: NBR, NCBAResearch

The effects of high inflation and tightening monetary policy are filtering through to the economy by limiting credit demand. Notably, private sector credit growth declined to 10.59% in July 2023 from 15.06% in July 2022. We expect the extension of credit to slow further following the 50bps policy rate hike by the National Bank of Rwanda in August.

Despite the strong recovery in service exports and resilient remittance inflows, the current account deficit widened to 12.2% of GDP primarily due to increasing goods trade deficit and reduced budgetary grants.

In Q2-2023, exports grew slower- by 5.3% than imports that grew by 9.9%- thus, the external sector outlook is projected to worsen in end 2023. Therefore, the current account deficit is projected to widen to 11.3% of GDP.

In the FX market, year-to-date the Rwanda Franc has depreciated by 13% against the US dollar. A widening current account, dollar liquidity challenges and higher commodity prices exacerbated further losses on the local currency.

However, adequate foreign exchange reserves continue to provide some cushion to the Franc. In the first half of 2023, the central bank injected a total of USD 145Mn, an increase from USD 128Mn in H1-2022. As at June 2023, international gross reserves were sufficient to cover 4.4 months of imports.

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