



**National Bank of Rwanda**  
**Banque Nationale du Rwanda**

## **MONETARY POLICY COMMITTEE**

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

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**12<sup>TH</sup> APRIL, 2011**

## I. OVERVIEW

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*The significant improvement in the banking system liquidity that has been recorded in 2010 is expected to continue in the near term. It is in this perspective that broad money is projected to grow by 16.0% in 2011, supported by a significant increase by around 20% in credit to private sector against 11.1% in 2010. It is worth to note that the Broad money increased by 17% in 2010 due to an accumulation of the Net Foreign Assets of the banking system by 17.2%.*

*Monetary developments in the first quarter 2011 are in line with the projected growth of the credit to the Private Sector for the whole year. Indeed, the outstanding credit to the Private Sector grew by 4.7% between December 2010 and February 2011 and preliminary data for March 2011 indicate a sustained growth. This increase in lending to the economy is a result of the BNR' monetary policy decisions of progressively reducing the Policy Rate (Key Repo Rate-KRR) since December 2009, a policy that limits banks incentives to invest in monetary policy instruments but alternatively extend more credit to the Private Sector.*

*However, current rising inflationary pressures due to escalating global oil and food prices pose serious price instability threats for Rwanda. This is based on their high pass-through to domestic prices. Year-on-year inflation is projected at 4% by March, 5.7% in June from 0.2% in December 2010.*

*Considering these short term perspectives, during the MPC meeting of 12<sup>th</sup> April 2011, the Central Bank kept its KRR at 6% for the Second Quarter 2011. This decision takes into account the need to stimulate further growth of credit to the Private Sector while ensure positive real interest rate as a way forward to stimulate domestic savings mobilization and support the financial deepening required for projected economic growth.*

*This document provides in details underlying economic and financial fundamentals behind this MPC decision to keep unchanged the BNR policy rate during the second quarter 2011.*

## II. CURRENT ECONOMIC SITUATION

### II.1 GLOBAL ECONOMIC ENVIRONMENT

**G**lobal economic slowing down recovery due to persistent uncertainties in major financial markets and re-emerging global inflation.

#### a. Economic growth

According to the IMF forecasts in January 2011, world economy is continuing the recovering process boosted by emerging economies, but with a slight slowing down attributed to some persistent uncertainties in major financial markets, ongoing political stresses in North Africa and Middle East, as well as the economic damage recently caused by the earthquake in Japan. These unfavorable developments may weigh on the pace of the growth through oil and non-oil commodity prices leading to a global real GDP growth projected at 4.4% in 2011 from 5% in 2010.

In developed countries, latest indicators are pointing to continuous economic expansion in USA as the consumer confidence has improved at the beginning of 2011, while in the Euro Zone, although economic activity remained modest, near future outlook augurs improving economic activity. In Japan, led by temporary factors, private consumption became supportive for economic growth which could stand at 1.0% in the first quarter 2011. Before the earthquake disaster and nuclear accidents, economic growth was expected at 1.6% in 2011. However, according to analysts, the tragic natural disasters and nuclear accidents in Japan could constitute a potential catalyst for a double-dip recession.

In emerging economies, the economic activity continues to strongly recover as fixed investment and private consumption are growing significantly but also due to accommodative policy measures and following resurgent capital inflows. IMF projections in January 2011 set the economic growth in emerging and developing economies at 6.5% after 7.1% in 2010. In Sub-Saharan Africa, the economic growth is expected to reach 5.5% in 2011 against 5% in 2010.

#### b. Inflation and Commodity Prices

In developed countries as well as in emerging economies, inflationary pressures rose on higher oil and non-oil commodity prices. However, in developed countries, inflation remained contained due to persistent spare capacity and on high unemployment rate. According to the IMF estimates of January 2011, inflation stood at 1.5% at end 2010 in developed countries and 6.3% in emerging and developing countries after respectively 0.1% and 5.2% in 2009. Outlook regarding inflation is on upward following oil price effects after political unrest in North Africa and in the Middle East and on the back of Japanese devastating earthquake and Tsunami.

In EAC Region, drawn by recent increase in oil and food prices on international markets and poor weather conditions, inflation continued to rise with the beginning of 2011. In Uganda, inflation hiked to 11% in March after 5% in January 2011. In Kenya, annual inflation was reported at 9.2% in March 2011 after 5.42% in January. Similarly in Tanzania, price level rose to

7.5% in February after 6.4% in January while in Burundi inflation was up to 5.0% in February from 4.8% in January 2011.

Concerning commodity markets, prices increased for both oil and non-oil commodities due to the strong demand from emerging markets and partly to shocks in supply for certain commodities. Brent oil prices shifted to USD 115.48/barrel on March 29<sup>th</sup>, 2011 after an average of USD 79.64 in 2010. In medium term, oil prices are expected to increase again.

In low and middle income countries, energy prices rose by 4.24% in February 2011 after 6.63% in the previous month. Non energy commodity prices rose by 4.84% led essentially by prices for food commodity (2.95%) of which grains (6.96%), agricultural raw materials (10.29%) and other raw materials (12.87%).

### **c. Financial Markets**

In the financial markets, central bank rates remained unchanged in developed countries and low enough to encourage investment financing. Furthermore, due to the recent concerns on financial markets related to the sovereign debt risk in some European countries, central banks introduced further accommodative policy measures. In USA, the Federal Reserve Open Market Committee (FOMC) kept its plan to purchase USD 600 billion of longer-term Treasury securities by the end of the second quarter of 2011 in order to help support the economic recovery. On 15 February 2011, the Bank of Japan also decided to maintain its policy rate in the range between 0 and 0.1%.

Long term interest rates rose in leading economies in the period from December 2010. In February 2011, ten year government bond yield rose to 3.43% from 3.37% in USA, to 3.17% from 3.16% in Euro Zone and to 1.26% from 1.22% in Japan respectively in February and January 2011. Long term interest rates rose in all three countries reflecting positive economic expectations in the euro area and the United States.

With regard to forex market, the euro was appreciating versus the dollar. However, due to recent new financial concerns in Europe, the euro has lost some of its earlier gains. The euro was almost stable against the pound during the last three months while it was appreciating against the yen.

Exchange rate developments have been responsive to movements in interest rate differentials among major economic blocks as well as to market perceptions of global financial market risks.

## II.2 NATIONAL ECONOMIC PERFORMANCE

**Stronger-  
than-expected  
economic  
recovery  
backed by a  
significant  
improvement  
in credit  
markets.**

### a. Production

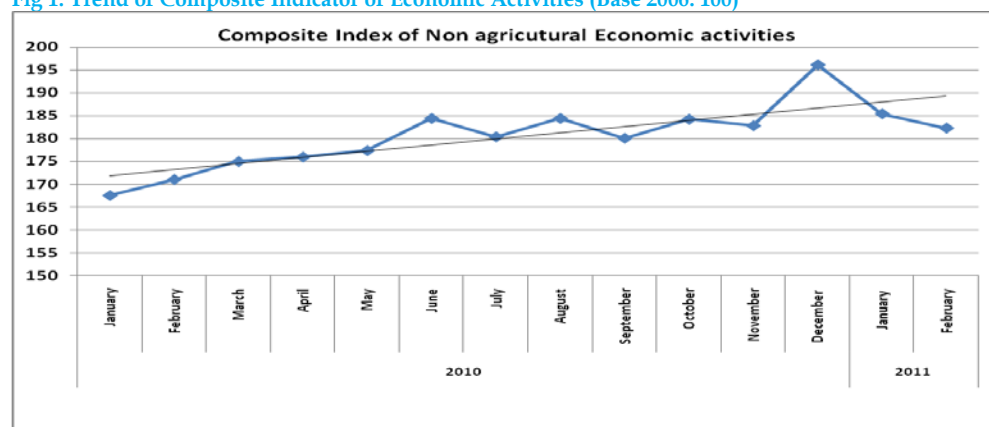
The Rwanda real GDP grew by 7.5% in 2010 against 6.1% in 2009 following mainly the recovery of services and industry sectors which recorded respectively increase of 9.6% and 8.4% of the value added. Agriculture sector also grew by 5% compared to 7.7% the previous year.

The country has started the year 2011 keeping momentum of economic recovery with continuing improvement in all key economic activities. In line with the global slowing down economic growth, Rwandan real GDP is projected at 7% in 2011 to be attributed to sustained recovery in services and industry activities of which their value addition is projected at around 9% and 7% respectively, boosted by expected further improvement in credit markets. Agriculture production is projected to achieve 5.8% from 5.0% achieved in 2010, assuming weather conditions remains favorable.

For Non-agriculture activities, as evidenced by the Composite Indicator of Economic Activities (CIEA) and the total turnovers registered by large companies, Industry and Services sectors have been performing better during the first two months of 2011 compared to the corresponding period of the previous year, showing a continuity of the economic recovery recorded since 2010.

The Composite Indicator of Non Agricultural Economic Activities (CIEA) shows a nominal annual increase of 6.11% in February 2011 against 5.2% in February 2010, and this recovery process indicates significant improvement in economic activities.

**Fig 1: Trend of Composite Indicator of Economic Activities (Base 2006: 100)**



Source: Research and Policy Analysis Department

The total turnovers registered by large companies in the industry and service sectors, rose by 22.1% in Jan.-Feb 2011 compared to the same period in 2010. Total sales increased from RWF 198.9 to 242.9 billion, of which industry sector rose by 37.3% attributed to the high turnovers in the construction industry (+86.2%) and manufacturing industries (+30.5%), while service sector grew by 16.8% driven by petroleum companies (+52.7%) and banks & insurance services (+27.2%).

**b. External sector**

With regard to the external trade, from January-February 2011, exports value increased by 44.4%, while its volume rose by 27.8%. This is attributed to coffee proceeds which increased highly by 148.1% in value and 154.8% in volume, as a result of a combination of higher prices and increased volumes. Tea exports have also performed better in both value and volume increasing by 18.7% and 14.3% respectively, resulting mainly from a rise in international prices, from an average of 2.75 USD/kg in Jan-Feb. 2010 to 2.85 USD/Kg in Jan-Feb. 2011.

**Table 1: Export developments (Value in million of USD, Volume in tons)**

	Jan- Feb. 2010		Jan-Feb. 2011		% change	
	Volume	Value	Volume	Value	Volume	Value
<b>EXPORTS, total</b>	<b>14 782</b>	<b>31.59</b>	<b>18 904</b>	<b>45.63</b>	<b>27.89</b>	<b>44.43</b>
Coffee	483	1.23	1 231	3.05	154.80	148.08
Tea	4 309	11.83	4 924	14.05	14.28	18.70
Tin	407	3.51	719	11.62	76.61	231.07
Coltan	133	0.54	110	1.22	38.60	128.61
Wolfram	79	4.9	76.7	6.1	-2.9	23.5
Hides and Skins	394	0.31	868	0.97	120.41	212.49
Pyrethrum	2	0.40	7	1.47	255.44	266.62
Re-exports	943	4.82	1 494	2.28	58.30	-52.75
Other export products	8 032	5.27	9 433	6.70	17.44	27.17
<b>IMPORTS, total</b>	<b>177 791</b>	<b>196.08</b>	<b>180 369</b>	<b>226.74</b>	<b>1.45</b>	<b>15.64</b>
Consumer goods	81 831	67.90	61 728	69.41	-24.57	2.21
Capital goods	6 241	52.33	6 951	52.60	11.37	0.52
Intermediate goods	60 436	45.40	78 672	65.88	30.17	45.11
Energy and lubricants	29 284	30.45	33 019	38.85	12.76	27.60

Source: NBR, Statistics Department

Imports value increased by 15.7%, while volume slightly increased by 1.5%. This slight increase in volume is mainly due to a significant decline in consumer goods imports (-24.6%) while imports of capital goods, intermediate goods, energy and lubricants have significantly increased by 11.4%, 30.2% and 12.8% respectively. This trend explains growth observed in economic activities during the period January-February 2011.

**II.3 INFLATION DEVELOPMENTS**

**Headline inflation is still moderate but growing during the first 3 months of 2011.**

**a. Current trend**

Despite some re-emerging inflationary pressures on domestic market following rising oil prices which exacerbate the seasonal factor, inflation was still moderate but growing during the first 3 months of 2011 compared to the previous years. On annual basis, from a low level of 0.23% in December 2010, headline inflation has hiked from 1.09% in January 2011 to 2.56% in February 2011 and is projected to be around 4% in March 2011. In terms of annual average, inflation has stabilized around 2% from December to February 2011, being 2.1% in February and 2% in January 2011 from 2.3% that was registered in December 2010. Previous trends were 4.8% in June, 6.5% in March and 7.7% in February 2010.

The rise in the CPI of February 2011 (+2.56%) is attributed primarily to the increase in education (+18.71%) due to the increase in private school fees that were recorded at the beginning of the year, as well as clothing and

footwear (+4.56%), alcoholic beverages and tobacco (+4.14%), transport (+3.99%) and miscellaneous goods and services (+4.49%).

Due to the seasonal factor, prices for fresh foods have started to rise in January (+2.16%) and hiked by 7.39% in February from a decline of 1.06% in December 2010. Energy prices rose by 3.66% in February from 2.44% in January 2011 and 3.61% in December 2010. The increase of energy prices are mainly explained by political tension in some big oil producer countries.

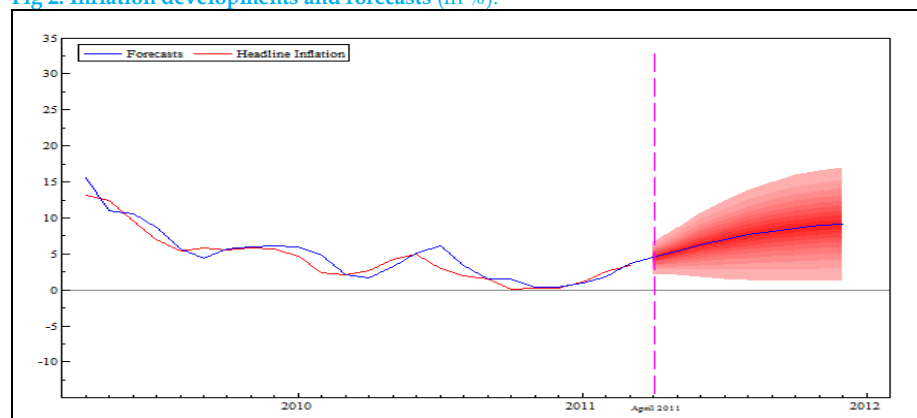
In February, energy and education are the first driving factors of inflation accounting for 25% each in overall inflation, against 20.4% for transport and 12.4% for food.

By origin, annual change in February 2011 CPI was 2.5% for locally produced consumer goods and services while prices of imported consumer goods increased by 2.9%. Underlying inflation, which does not account for fresh foods and energy, on annual basis dropped to 1.6% in February 2011 from 0.6% in December and 2010.

**b. Inflation forecasts**

According to the surveys for the first and second fortnight of March 2011, inflation is likely to continue its increasing trend in the coming months. International oil prices are projected to increase by more than 20% in 2011 and this is expected to exert inflation pressure in Rwanda through the increase of oil prices in domestic market and its impact on the cost of transport. Thus, taking into account these exogenous shocks, year-on-year inflation is projected at 4% by March, 5.7% in June and 7.5% in December, from 0.2% in December 2010.

Fig 2: Inflation developments and forecasts (in %).



### III. MONETARY SECTOR DEVELOPMENTS

#### III.1 MONETARY POLICY

*In response to sharply declining inflation, the Key Repo Rate has been reduced progressively to stimulate lending to the economy.*

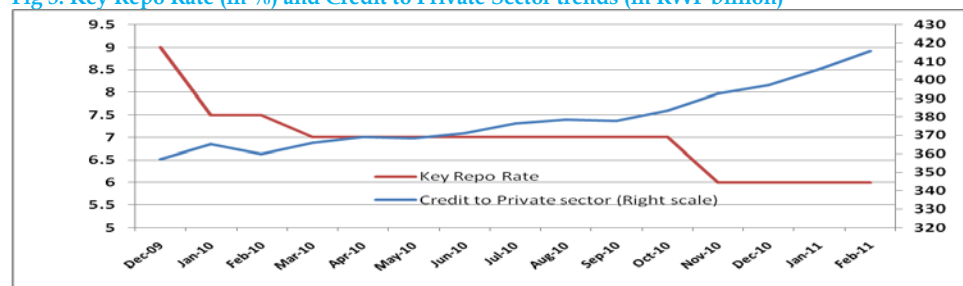
For this first Quarter 2011, NBR has maintained its accommodative monetary policy implemented in 2010 focusing on supporting the gradual economic recovery by stimulating the lending to the economy, as far as underlying inflationary pressures remained low and real interest rates positive to continue to stimulate domestic savings mobilization.

This policy has been implemented following the Monetary Policy Committee (MPC) decisions to maintain the central bank policy rate low. The key objective was to progressively releasing more liquidity in the banking system by keeping the cost of funds for banks at low level and limits their incentives to invest on money market. Thus, the Key Repo Rate (KRR) was reduced to 6% in November 2010 from successively 9% in December 2009, 7.5% in March 2010 and 7% in June 2010.

It is worth to recall prior to the above measure, the Central Bank and the Government undertook important policy responses to address the liquidity crunch and credit squeeze occurred in 2009. These measures included the downward review of the required reserve ratio from 8% to 5%, not to roll over matured Government T-bills and introduction of liquidity facilities.

As a result, the banking system has been experiencing significant improvement in liquidity situation allowing substantial increase in credit to the economy.

Fig 3: Key Repo Rate (in %) and Credit to Private Sector trends (in RWF billion)



Source: Research and Policy Analysis Department

#### III. 2 MONEY SUPPLY AND DEMAND

*Significant Money Supply expansion emanating from the domestic credit.*

Between December 2010 and February 2011, Broad Money has increased by 0.6% attributed to the increase by 30.5% in Net Domestic Assets (NDA) due to a significant improvement in credit to private sector (4.7%) and an increase of 9.8% of the net credit to the central Government, while other items net declined by 1.8% in absolute terms. However, during the period, Net Foreign Assets recorded a decline of 5% following a delay in external budget support disbursement.

On money demand side, unlike currency in circulation which declined by 8.2% after its high level of December 2010, deposits with the banking system

have slightly increased by 2.2%. Foreign currency deposits increased by 19.8% and time deposits by 1.8% while demand deposits declined by 4.6%.

Table 2: Monetary survey by end February 2011 (end period, in RWF billion)

	2009		2010				2011		% Change Feb-11/ Dec-10
	Dec	Mar	Jun	Sept	Dec	Jan	Feb		
Net foreign assets	442.9	407.7	474.4	484.8	518.9	498.1	493.2	-5.0	
Net domestic assets	82.6	95.0	80.5	86.1	97.0	112.2	126.3	30.2	
Domestic credit	217.0	246.8	244.0	244.0	268.2	286.2	294.5	9.8	
Central government (net)	-141.3	-119.9	-125.8	-132.5	-131.3	-122.5	-123.1	6.3	
Autonomous Agencies	-1.9	-1.9	-4.3	-4.3	-0.8	-0.6	-0.6	24.2	
Public enterprises	3.0	2.8	2.9	2.8	3.2	3.4	2.5	-22.2	
Private sector	357.3	365.9	371.2	378.0	397.1	405.9	415.7	4.7	
Other items net (Assets: +)	-134.5	-151.8	-163.5	-157.9	-171.2	-174.0	-168.2	1.8	
Broad money M3	526.6	502.8	554.9	571.0	615.9	610.2	619.5	0.6	
Currency in circulation	77.0	68.4	83.5	81.8	90.5	83.7	82.7	-8.6	
Deposits	447.5	434.4	471.5	489.3	525.4	526.5	536.8	2.2	
of which: demand deposit	190.1	179.4	207.1	212.0	240.1	234.2	229.0	-4.6	
time deposit	162.4	160.2	171.4	173.0	186.1	183.9	189.0	1.6	
Foreign currency deposits	97.0	94.8	92.9	104.3	99.2	108.4	118.8	19.8	

Source: Statistics Department

Domestic credit of the banking sector expanded by 9.8% in February 2011 driven by the credit to the private sector which significantly increased by 4.7%, reflecting continuous recovery process in credit markets observed since 2010.

New authorized loans by the banking system have been also increasing, showing the continuing improvement in banking system liquidity conditions. In 2010, banks authorized new loans totaling RWF 262.0 billion of which RWF 52.6 billion were authorized in the first quarter. During the same period of the year 2011, banks kept momentum as new authorized loans stood at RWF 60.9 billion in the first quarter 2011. The new authorized loans continued to be granted mainly to Commerce, Restaurants and Hotels, public works and building industry and manufacturing industries. It is worth to note as well good developments in lending to agriculture where 3.8 billion new authorized loans were recorded against 0.9 billion in Q1, 2010.

Table 3: New authorized loans to the private sector (RWF billion)

	2009		2010		2011			
	Q1	Year	Q1	Year	Jan	Feb	Mar	Q1
Agriculture, animal husbandry & fishing	0.8	3.7	0.9	5.1	3.2	0.3	0.4	3.8
Mining Industries	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Manufacturing Industries	5.0	20.1	7.0	26.8	0.5	0.0	2.1	2.5
Energy and Water	0.0	3.2	0.0	1.4	0.0	0.0	0.0	0.0
Public works and building industry	7.1	36.7	7.5	45.1	3.1	4.9	6.3	14.3
Commerce, Restaurant & hotels	18.7	73.0	19.9	111.8	5.5	5.7	9.6	20.8
Transport, Warehousing & Communications	5.5	31.9	9.0	22.7	1.0	0.8	0.8	2.6
O.F.I, Insurances and other Non-Financial Services	1.9	7.5	1.5	8.5	0.1	6.7	0.2	7.0
Services provided to the Community	1.1	4.7	1.3	9.8	0.0	0.7	0.9	1.6
Activities not classified not classified elsewhere	4.0	17.6	5.5	30.9	2.3	2.5	3.5	8.3
<b>TOTAL</b>	<b>44.0</b>	<b>198.4</b>	<b>52.6</b>	<b>262.0</b>	<b>15.6</b>	<b>21.6</b>	<b>23.7</b>	<b>60.9</b>

Source: Financial Stability Directorate

### III.3 BANKING SYSTEM LIQUIDITY CONDITIONS

*Sustained improvement giving more confidence to banks in treasury management and lending to the economy.*

The banking system liquidity has continued to improve as evidenced by the loans authorized to the economy and the volume of the NBR interventions on the money market to mop up excess liquidity which is today fluctuating around RWF 56.0 billion from RWF 45 billion at the same period last year.

By 5<sup>th</sup> April 2011, government t-bills dominated the money market operations with the outstanding of 57.5% of the total, against 42.5% for repos operations. In the line of the Government long term deposit facility, by 5<sup>th</sup> April 2011, RWF 17.1 billion were used mainly for financing mortgage and equipments.

**Table 4: Outstanding of net borrowing by BNR and Government (RWF million)**

	Dec-09			Dec-10			5th Apr. 2011		
	Monetary	Fiscal	Total	Monetary	Fiscal	Total	Monetary	Fiscal	Total
REPOS (1 to 14 days)	45.0	-	45.0	67.9	12.0	79.9	54.3	-	54.3
T-bills (28 to 364 days)	29.3	-	29.3	1.5	54.5	56.0	1.8	71.8	73.6
<b>Total (1)</b>	<b>74.2</b>	<b>-</b>	<b>74.2</b>	<b>69.4</b>	<b>66.5</b>	<b>135.9</b>	<b>56.1</b>	<b>71.8</b>	<b>127.9</b>
T-bonds (2)	-	14.3	14.3	-	15.0	15.0	0.0	12.5	12.5
Liquidity facility (3)	8.6	6.8	15.4	8.0	13.0	21.0	5.6	17.1	22.7
3 to 12 months	8.6	-	8.6	8.0	-	8.0	5.6	-	5.6
5 years	-	6.8	6.8	-	13.0	13.0	-	17.1	17.1
<b>Net borrowing (1)+ (2)- (3)</b>	<b>65.6</b>	<b>7.5</b>	<b>73.0</b>	<b>61.4</b>	<b>68.4</b>	<b>129.9</b>	<b>50.5</b>	<b>67.2</b>	<b>117.7</b>

Source: Financial Markets Department

### III.4 INTEREST RATES DEVELOPMENTS

*Recent rising short term interest rates on money market.*

Money market interest rates have been relatively high during this first quarter of 2011. It is a reversal of trend in short term interest rates explained by an important increase of Government T-bills issuance and Central Bank’s mopping up operations towards achieving the Reserve Money Targets. In fact, repo rate increased from 5.47% in November 2010 and maintained at its maximum level of 6.0% since December.

**Table 5: Short-term interest rates (%)**

	2010					2011		
	Jan	Mar	June	Sept	Dec	Jan	Feb	Mar
<b>Key Repo Rate</b>	7.5	7.0	7.0	7.0	6.0	6.0	6.0	6.0
<b>Discount Rate</b>	11.5	11.0	11.0	11.0	10.0	10.0	10.0	10.0
<b>Repo rate</b>	4.6	3.5	5.4	5.2	6.0	6.0	6.0	6.0
<b>T-Bills Rate</b>	8.8	7.9	7.2	7.5	7.2	7.0	7.0	8.8
<b>Interbank rate</b>	7.3	6.3	7.0	7.3	6.7	6.7	6.6	7.3
<b>Deposit Rate</b>	7.6	7.2	6.3	6.2	7.1	7.5	7.5	7.4
<b>Lending Rate</b>	17.0	16.9	17.4	16.8	17.0	15.6	16.9	16.6

Source: Financial Markets Department

Commercial bank’s deposit weighted average interest rate has been increasing since July 2010 and stood at 7.4% in March 2011 as some banks have been increasing retail deposits rates, contrary to previous behavior when they were more interested by attracting big depositors. On the other side, commercial banks lending interest rates remained high, despite the Central Bank signal of keeping its policy rate at 6%. It was 16.6% and 16.9% in March and February respectively from 17.0% in December 2010.

### III.5 EXCHANGE RATE DEVELOPMENTS

*Continuing stability of RWF against USD, while depreciating against EUR and GBP.*

Favorable macroeconomic environment has been characterized by relatively stable nominal and real RWF exchange rate as well. The Rwandan franc recorded a slight depreciation of 1% versus the USD standing at RWF 600.0 per USD by end March 2011 from 594.45 by end December 2010. The RWF depreciated more against both EUR and GBP by 10% and 7% respectively under the same period. This is explained by the appreciation of both currencies vis-a-vis USD.

Further, against regional currencies, RWF depreciated by 4%, 2% and 3% versus Kenyan, Tanzanian and Ugandan shillings respectively, while appreciating by 1% vis-à-vis Burundi franc between March 23, 2011 and December 2010.

Therefore, the Real Effective Exchange Rate depreciated slightly during the first 2 two months of 2011 standing at 79.42 in February from 78.28 in December 2010 which was consistent with the nominal trend of Rwandan franc against USD and other regional currencies.

During the first Quarter 2011, On domestic forex market has been characterized by a slightly higher commercial banks' demand for forex compared with the same period of last year as BNR sold USD 48.3 million against USD 44.8 million in 2010. Also, interbank foreign exchange market recorded a moderate improvement as USD 14.9 was sold against 11.4 million under the same period of last year. Considering these developments and according to projected forex resources and expenditures, the current RWF exchange rate overall stability should be maintained during the second quarter 2011 and its potential impact on inflation limited.

## IV. MONETARY POLICY ORIENTATION FOR THE SECOND QUARTER 2011

### IV.1 ECONOMIC AND FINANCIAL ENVIRONMENT

*Need for further support to lending to the economy, while closely monitor inflation developments.*

Despite rising inflationary pressures due to exogenous shocks from international oil and food prices volatility, Rwanda has started the year 2011 with favorable economic and financial environment. This environment is characterized by sustained economic recovery process, boosted by continuing credit markets conditions improvement and stable RWF among others. The banking system has been strongly consolidating its liquidity conditions and the Government is committed to keep momentum and target a real GDP growth of 7% or more in 2011.

However, Rwanda will face challenging surged uncertainties in global economy due to international oil prices increases. This constitutes for Rwanda a serious threat to the price stability, due to high pass-through of oil prices in domestic prices.

Despite the expected inflation pressures and taking into account the current liquidity conditions in the banking system, the 2011 Monetary Program is projecting a strong recovery in credit to private sector growth to reach 19.7%

in 2011 from 11.1% in 2010. This increase is consistent with the expected economic growth target, while avoiding the exacerbation of inflationary pressures.

**Table 6: Key monetary indicators in the 2011 program (RWF billion)**

	2010			2011		% Change	
	Dec	Mar	June	Sept	Dec	Mar-June, 11	2011/2010
BNR Net Foreign Assets	414.9	357.7	391.2	409.5	463.2	10.2	11.6
BNR Net Domestic Assets	-283.9	-227.2	-249.8	-263	-311.3	13.3	9.7
<i>of which Net Credit to Government</i>	-176.3	-132.2	-113.9	-133	-150.9	-16.3	-14.4
<i>Commercial banks net</i>	-60.6	-41.8	-76.7	-70.8	-102.3	83.5	68.8
Credit to private sector	397.1	426.9	436.5	463.5	474.2	4.9	19.4
Currency in circulation (out of banking system)	90.5	83.4	91.9	91.4	99.2	10.2	9.6
Cash in vault, estimates	13.7	16.1	18.3	18.0	20.2	24.5	47.4
Currency in circulation (out of BNR)	104.2	82.0	110.2	109.4	119.4	12.3	14.6
Reserve Money	130.9	130.7	141.4	146.5	151.9	5.1	16.0
Deposits (banking system)	525.4	545.1	562.7	603.4	621.2	4.5	18.2
Broad Money (M3)	615.9	626.3	652.9	694.8	714.4	2.5	16.0

Source: Statistics Department

## IV.2 WAY FORWARD

**U**nchanged policy rate at 6%, to be in force during the second quarter 2011.

Considering the current developments and outlook in economic fundamentals, the NBR Monetary Policy in the second quarter 2011 will remain accommodative to sustain increasing lending to the economy in consistency with the objective of achieving 7% real GDP growth in 2011. However, NBR will regularly and closely monitor the developments in external and domestic drivers of inflation to ensure underlying inflationary pressures are well anchored in order to avoid accommodating the second round effects of exogenous inflationary shocks.

Taking into consideration the current trend in inflation and its projections by June 2011, the Central Bank kept unchanged the KRR at 6%, to be in force during the second quarter 2011.

Therefore the interbank interest rates corridor remains ]4-8[ and the discount rate 10% (KRR+4%).

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