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National Bank of Rwanda

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I. GENERAL ECONOMIC SITUATION

I.1 INTERNATIONAL ECONOMIC SITUATION

During the first half of the year 2007, the world economic growth remained solid, sustained by the strength of the growth of the main emerging economies, in spite of the downturn of the American economy. The survey data showed that the growth pace was maintained in spite of risks related to the rise in protective tendencies, a new increase in energy prices and the persistence of world economic imbalances. The price trend remained influenced by a regular increase in energy prices.

In the United States, the economic growth rate appreciably slowed down in the first quarter 2007, coming down to a rate of 0.6%, calculated on a year-to-year basis, against 2.5% recorded in the last quarter 2006. This drop in growth reflected the very negative influence of the net stock exports and the unfavorable trends in the real estate market. However, this shock was absorbed by the good behavior of the private consumer expenditure. Consequently, the inflationary pressure remained high, reaching 2.6% in April, against 2.4% in February 2007. Except for foodstuffs and energy, the inflation rate stabilized at 2.3% in April.

For the Euro zone, in the first quarter 2007, the real economic growth reached a quarterly rate of 0.6%, supported by domestic demand, and remained solid during the second quarter. The economic outlooks remained promising because of an external environment that was favorable to the increase in exports all over the zone. Thus, the GDP growth is expected to stand between 2.3% and 2.9% on average over the whole year 2007. The obstacle to a sustainable growth may stem from the possible rise in the protectionism and in a new possible increase in energy prices.

Concerning the price fluctuations, the Eurostat's estimates showed an annual change of 1.9% in the HCPI in May and April 2007, against 1.8% in January and February of the same year. The inflationary forecasts expected a rise in the inflation rate, which would fluctuate between 1.5% and 2.1% at the end of 2007.

In Japan, the economic activity strengthened following a strong domestic demand from the private sector and the increase in exports, while the companies' investments dropped for the first time since the last quarter 2005. During the first quarter 2007, real GDP growth was estimated at a quarterly rate of 0.6%. The Japanese economic outlooks remained favorable, sustained by the revival of exports and a good developments in the domestic demand.

As regards price fluctuations, the change in the consumer price index, under the effect of the fall in energy prices, became negative again in last February and March. For the first time since April 2006, inflation was negative. Nevertheless, this tendency quickly reversed, following new

rises in energy prices. Thus, the overall inflation went down by -0,1% in March and up by 0% in April, while for the except fresh products, the annual CPI fluctuation remained negative, that is -0.1% in April, against -0.3% in March 2007.

In emerging countries, the economic activity remained strong and an economic growth rate of 7.5% was expected at the end of 2007. This rate was slightly lower than that of 2006, that is 7.9%.

Africa whose growth rate was higher than 4% in 2006 for four consecutive years maintained its growth in 2007 with a rate of 5.9%. This growth was due to the improvement in the economic fundamentals, good macroeconomic management and to inflows of economic assistance from foreign partners. Moreover, the contribution of the oil-exporting countries was particularly very significant. Oil prices remained high and the production rose because of the entry of new oil-producing countries, such as Chad, Mauritania and Equatorial Guinea. However, the inflationary pressures remained and the inflation rate reached 12.7% in 2007, while it had been respectively 8.4% and 12% in 2005 and 2006.

Concerning the raw material market, oil prices went up, following the concerns resulting from the geopolitical environment, violence in Nigeria and renewal of tensions in connection with Iran and climatic risks. Besides, in addition to the usual constraints related to refining operations, new breakdowns occurred in the refineries. Moreover, the deterioration of a new imbalance between the supply and demand was announced because of the high demand wich regard to the supply that was proved to be lower than expected. From the price of US\$ 67 a barrel on April 11, 2007, the price of oil experienced a new record since it was established at US\$ 69.7 on June 5, 2007, that is an increase of 4.0%.

Concerning the prices in dollars of other raw materials, exclusive of energy, after a peak of 30% increase in March 2007, they went up again by 18% in May, compared to those of the previous year. The prices of foodstuffs increased appreciably, neutralizing the fall in those of metals.

At financial level, the Federal Reserve, in its meeting of May 9, 2007, maintained its reference rate of 5.25%, which had been in force since June 2006. However, the three-month rates increased from 5.07% and 4.6% respectively in April and January of the current year to 5.18% in May. Likewise, the yield of public bonds went up to 5.1% at the end of June, against 4.75% and 4.69% respectively in May and April 2007 particularly due to favorable forecastings in relation to the economic outlooks and the rise in the risk premium related to the stock market fluctuations. In the Euro Zone, monetary conditions remained relatively stable between February and June 2007. Nevertheless, the European Central Bank increased its reference rate by 25 basic points, which was fixed at 3% on June 6, 2007, while it was 2.75% last March. The three-month interest rates therefore went up to 4.13% that is 27 points more than their level of the beginning of

March. As regards the public bonds' ten-year rate, it went up from 4.10% to 4.37% between January 2006 and May 2006. On June 5, it rose again to 4.6%.

Just like in the United States, the rise in the yield of public bonds resulted from favorable economic outlook forecasts and the incorporation of the rise in the risk premium because of financial market fluctuations.

In Japan, the Japanese Bank, maintained its reference rate at 0.5%. The three-month rates slightly increased to stabilize at 0.67% in May, against 0.66% in April. The yield of the ten-year government bonds increased to 1.9% in June 2007, while it has always been 1.67% since April of the current year.

In the foreign exchange market, after a period of stability that went on from the mid-2006, the Euro fluctuated and has consequently continued to strengthen against the dollar since the last quarter 2006. Indeed, while the prospects remained not very clear in the United States because of the situation prevailing in the real estate sector, the Euro Zone posted economic results, which inspired confidence with the economic operators. Thus, the Euro, which was worth USD 1.30 in January 2007 appreciated in May and reached USD 1.35. The yen depreciated against the Euro, passing from a rate of 156.56 to 163.22 yens for 1 Euro, from January to May 2007 that is a depreciation rate of 4.3%. On June 5, the Euro reached a historical peak of ¥ 164.42 that is an appreciation of 5.1%, compared to the end of February 2007. Indeed, the economic development forecasts were stronger in the Euro zone than in Japan. Moreover, the interest rate gap became increasingly broad between the two areas.

I.2 NATIONAL ECONOMIC SITUATION

I.2.1 SECTORAL PERFORMANCES

A. Agricultural production

On the basis of the findings of the agricultural survey conducted by MINAGRI between June and July 2007, the total agricultural production in seasons A and B during the current year dropped by 3.83%, compared to the year 2006. Indeed, after a less performing season 2007A, compared to the same season of the previous year, the great farming 2007B season was marked by a delay in the rainfall, which resulted in low harvests in several areas of the country.

Table 1: Total production in seasons A and B (in tons)

Products	2006	2007	% Change
Cereals	361 674	352 057	-2.66
Leguminous plants	333 743	402,346	20.56
Tubers	2 930 095	2 527 351	-13.75
Bananas	2 653 548	2 686 198	1.23
Fruits & gardenings	858 011	896 080	4.44
TOTAL	7 137 071	6,864,031	-3.83

Source: MINAGRI

But it should be noted that even if the climatic risks constitute a great handicap for agriculture, in addition to a very limited arable land, the low fertility of the soils remains the main challenge in the Rwandan agricultural sector. Indeed, except for the rather fertile northern volcanic zones, the other areas of the country are less fertile due to the ageing of the soils and the low use of fertilizers, which primarily explains the absence of a significant increase in food production, even when the rainfall is favorable.

The agricultural production in season 2007B passed to 3.6 billion tons against 3.7 million tons recorded during the same season of the year 2006 that is a reduction of 2.58%. The delay in the rainfall experienced at the beginning of the season 2007B was therefore at the base of soon harvests for the majority of crops, mainly leguminous plants, cereals and bananas, with respective falls of 16.6%, 7.35% and 5.17%.in their production

It should be noted that this insufficiency of the rainfall was observed almost all over the country, except for some districts of the Northern Province (Burera and Gicumbi) and Western Province (Karongi and Nyabihu) that experienced a more or less normal rainfall.

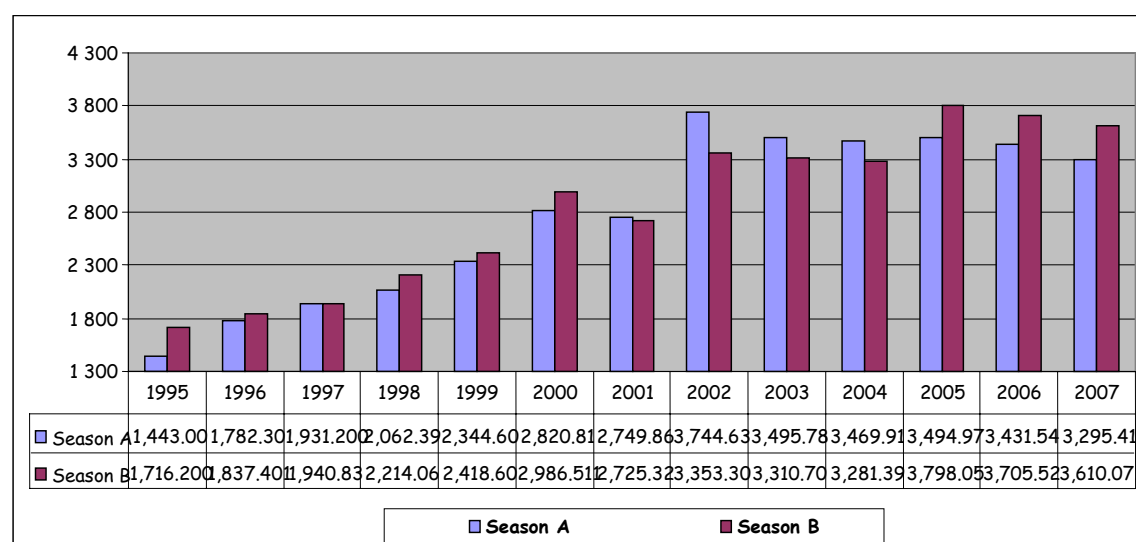
Table 2: Main foodstuffs production developments (in tons)

Total production	2004b	2005b	2006b	2007b	2007B/2006B, in %
Cereals	199.33	287.86	245.91	227.84	-7.35
Sorghum	150.95	213.09	174.19	152.62	-12.38
Maize	18.95	24.61	26.28	28.41	8.08
Wheat	7.90	13.21	10.25	14.10	37.54
Rice	21.54	36.94	35.19	32.72	-7.03
Leguminous plants	78.10	81.47	188.32	157.02	-16.62
Beans	62.50	60.44	163.45	135.64	-17.01
Garden peas	3.94	7.42	6.32	4.05	-35.93
Ground nuts	6.62	3.67	3.46	10.27	196.68
Soya	5.05	9.93	15.09	7.06	-53.22
Roots & tubers	1457.04	1526.61	1363.11	1387.43	1.78
Irish potatoes	390.17	563.80	525.0	396.07	-24.67
Sweet potatoes	580.39	566.02	460.19	549.21	19.34
Coco yams	54.56	57.40	50.25	68.34	35.99
Cassava	431.92	339.39	326.88	373.82	14.36
Bananas	1261.37	1609.09	1466.86	1390.98	-5.17
Gardenings & fruits	285.56	293.03	441.32	446.81	1.24
Total	3281.40	3798.05	3705.53	3610.07	-2.58

Source: MINAGRI

Nevertheless, in low altitudes areas, the insufficient rainfall did not much affect the market gardenings and fruits as well as tubers for which a low increase in the production was recorded, that is respectively 1.24% and 1.78%, compared to 35.99% for coco yams (+36%), 19.34% for sweet potatoes (+19,3%) and 14.36% for cassava (+14.4%). However, in relation to this high increase in the production of other tubers, a significant fall in the production of potatoes was recorded (25%).

Fig. 1: Agricultural production developments, seasons A and B



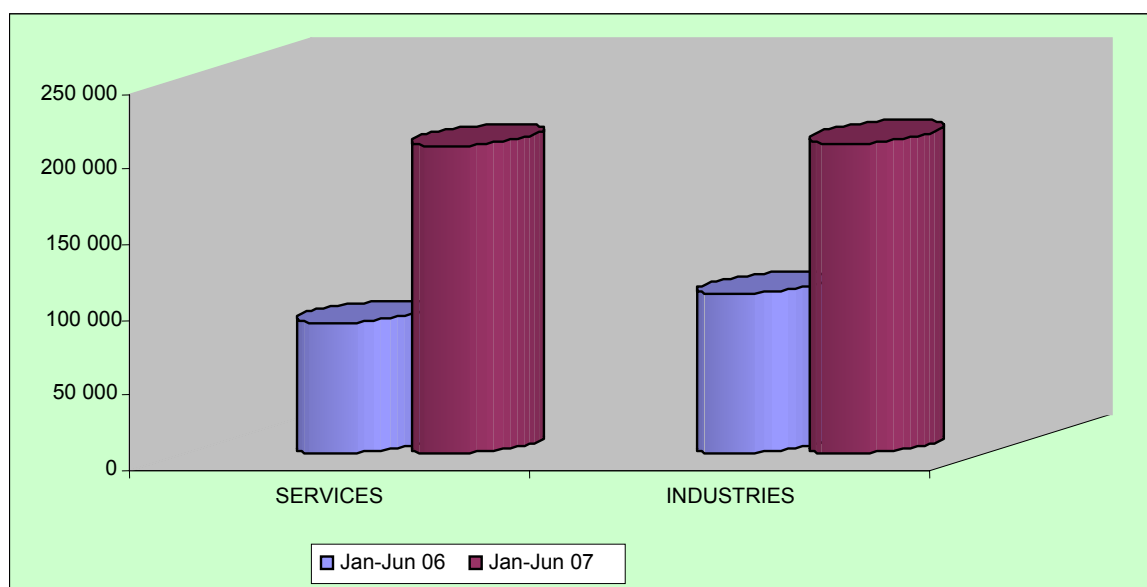
Source: MINAGRI

B. Non agricultural activities

During the first half of the year 2007, the non agricultural activities evolved in an overall favorable economic situation, as evidenced by the performances achieved by the companies in relation to the volume of sales in the various sectors between January and June, compared to the same period of the year 2006.

The industrial and service sectors recorded an increase in large companies' turnovers, that is 21.5% and 24.1% respectively, compared to the same period of 2006.

Fig. 2 Turnovers of large industrial and service companies all over the country, January 2006- June -2007 (in millions of RWF)

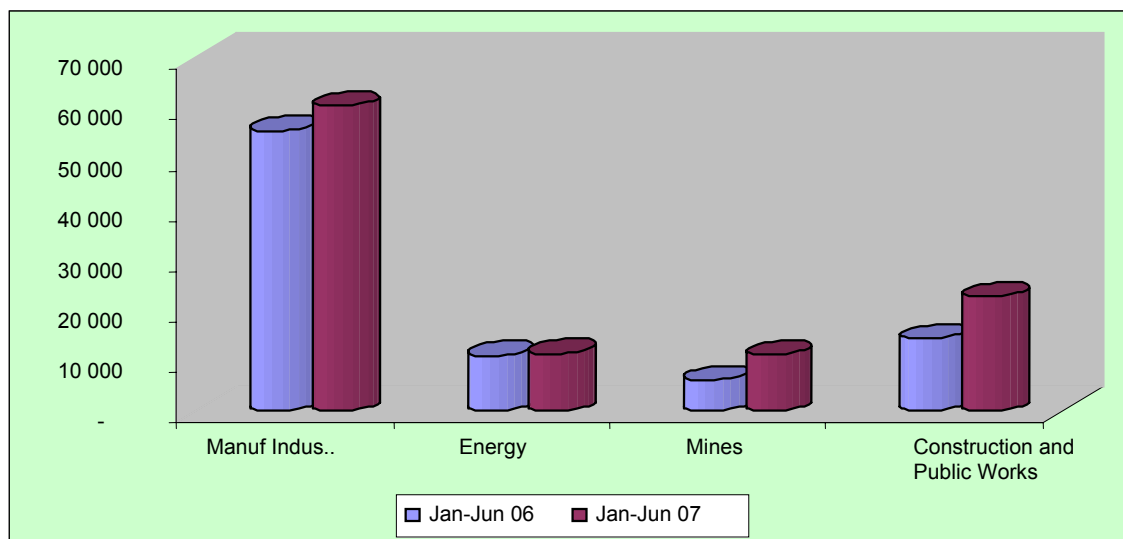


Source: RRA, Department of Big Taxpayers

B.1. Industrial Sector

The Rwandan industry experienced a good economic development during the first half of the year 2007. The mining and building companies continued to record good performances, as their turnovers increased by 83.2% and 58.8% respectively, compared to the same period of the year 2006.

Fig. 3: Turnovers of large industrial companies (in millions of RWF)

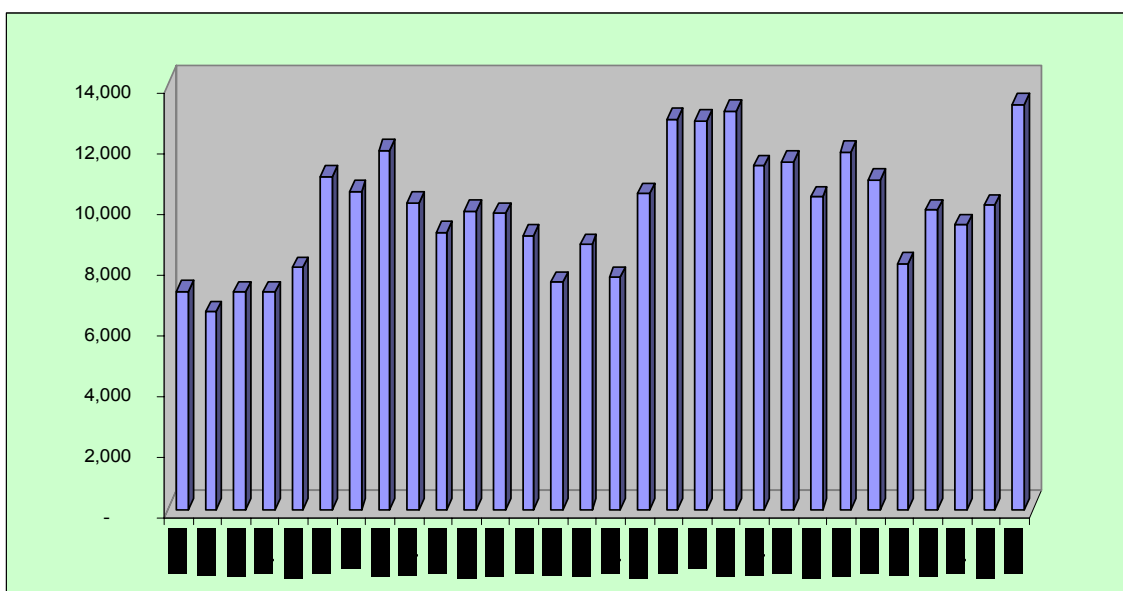


Source: RRA, Department of Big Taxpayers

B.1.1. Manufacturing industries

During the period under review, the manufacturing industries recorded an increase of 8.7% of their total turnovers in comparison with the same period of the year 2006. This performance was mainly experienced by alcoholic and nonalcoholic drinks production industries, which recorded a rise of 18% in their turnovers during this period, compared to that of the previous year.

Fig. 4: Turnovers of Manufacturing Industries (in millions RWF)



Source: RRA, Department of Big Taxpayers

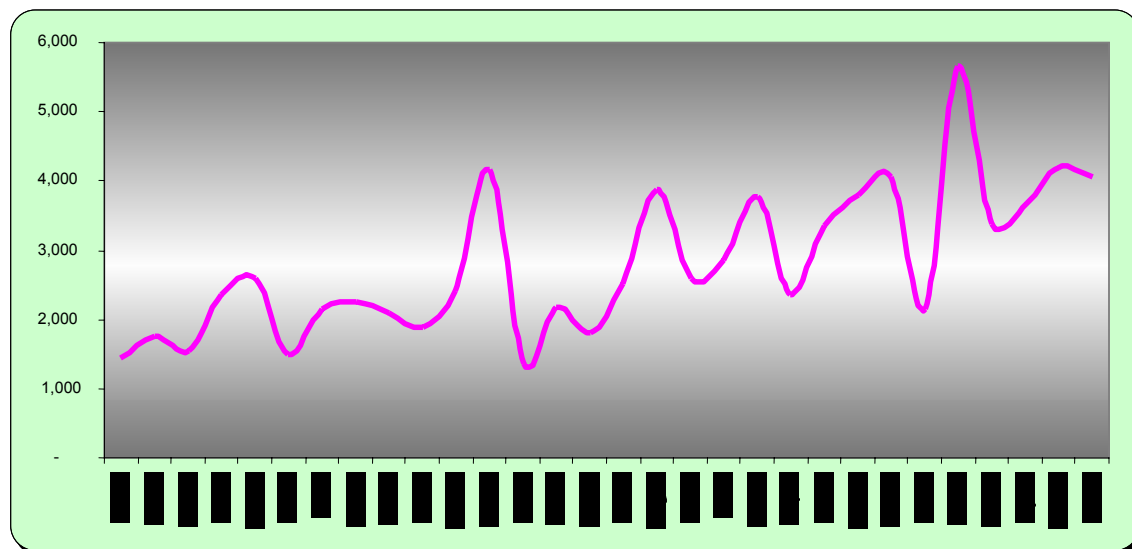
B.1.2. Energy Sector

The energy production companies also recorded a 3.9% increase in their turnover for the period under review, compared to the same period of 2006. This achievement was primarily due to, inter alia, a better use of power generators. However, the energy production has not succeeded yet to meet the domestic demand.

B.1.2. Building Industry and Public Works

The building industries and public works sector experienced a period of growth and continued to benefit from a favorable economic situation. During the first six-month period of the year 2007, the building companies increased their activities due to road infrastructure rehabilitation projects as well as the construction work of various types of buildings in Kigali where new districts (for example, Gacuriro) have been developing quickly like in other cities of the country. Thus, the turnover of the large building companies recorded an increase of 58.8% during the period under review, compared to the same period of the previous year.

Fig. 5: Developments of the total turnover of large BIPW companies (in millions of RWF)



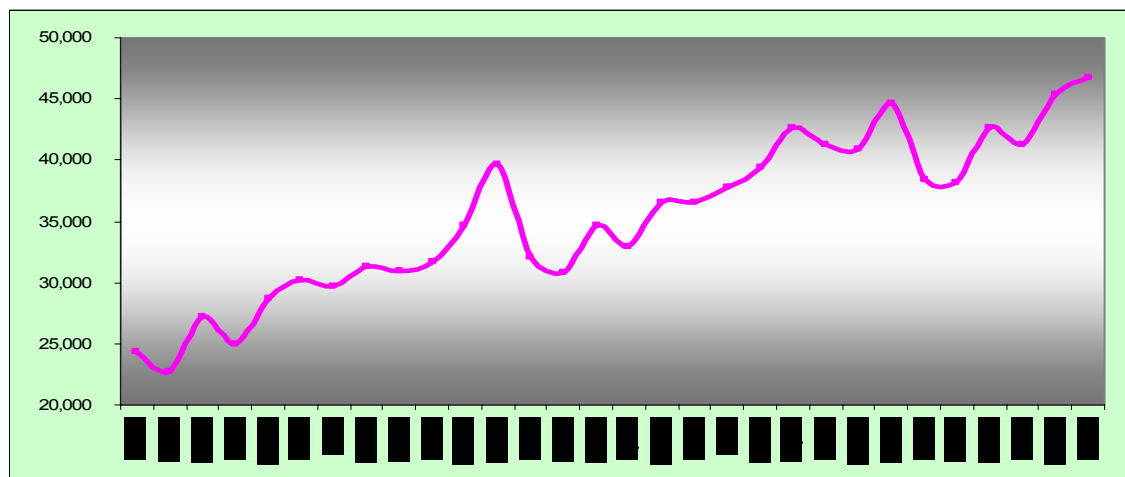
Source: RRA, Department of Large Companies

B.2 Service Sector

The service sector’s activities recorded an increase of 24.1% in their turnover during the first half of the year 2007, compared to the same period of last year. These performances were found in almost all the branches of the sector, particularly in the following branches: banks and insurances, Post and Telecommunication, Transport, Warehousing and Commerce, which

experienced an increase in their respective turnovers of 22.4%; 42.8%; 39.1%; 31.9%, compared to the same period of the previous year.

Fig. 6: Development of the turnover of large service firms (in millions of RWF)



Source: RRA, Department of Big Taxpayers

1.2.2 INFLATION

a. Overall Inflation

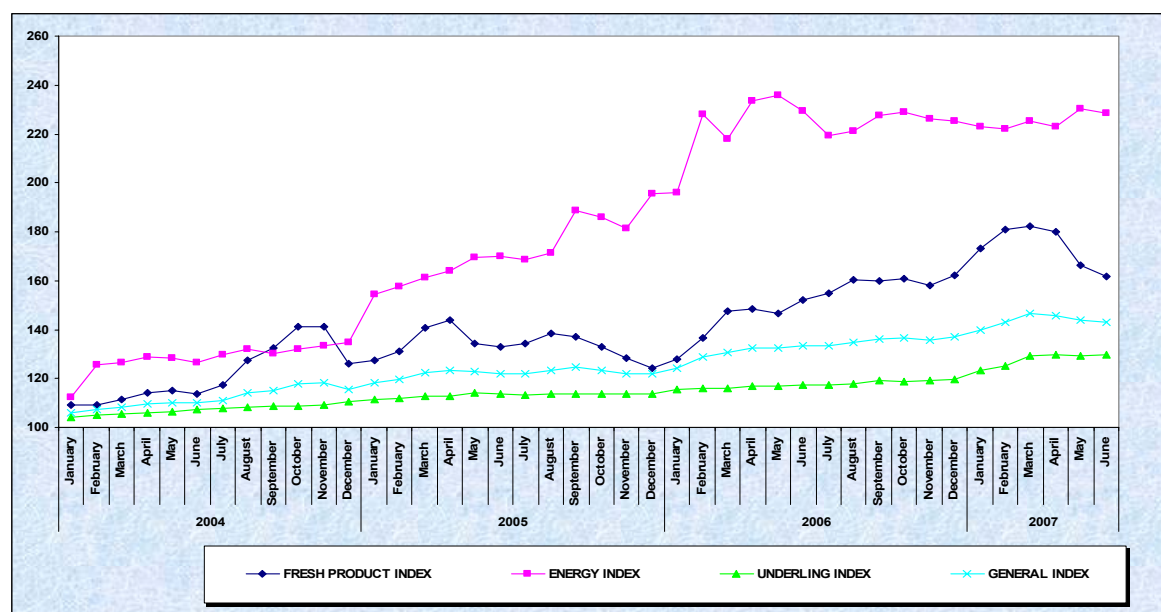
Since March 2007, the inflationary pressures dampened significantly, compared to the situation that had been prevailing since the beginning of the year 2006. On year-to-year basis, inflation fell from the high level of 12.1% in December 2006 to 7.3% in June 2007. On annual average, the recorded inflation also accounted for 7.3% in June 2007, against 9.3% in the same month of the previous year.

The deceleration of inflation observed from April this year is explained by a significant fall in the prices of foodstuffs, particularly vegetables. The supply of food crops improved appreciably compared to the same period in 2006, which was marked by a low food crop production and a disturbance in the supply of some foodstuffs. It is to be underlined however that the improvement in the supply in 2007 is not explained only by an increase in local food production, but also by the increase in imported food crops from the neighbouring countries, as evidenced by their significant volume on our markets.

But, even if the inflationary pressures are less significant than in 2006, it should be noted that the general level of consumer prices remained high, considering the objective of the economic Program, which is to maintain inflation at 5.5% over the year 2007. From January to June, the overall inflation was already about 4.54%. It is certainly a considerable improvement in comparison with the 9% recorded during the same period of 2006, but it will be necessary for the

same tendency for the deceleration of inflation to remain stable so that its level does not deviate much from the planned annual objective.

Fig. 7: Developments of the global CPI and those of the main foodstuffs and services (in % CPI, base 2003=100)



Source: NBR, Research Department

During the first half of the year 2007, the relatively low fluctuations of household consumer prices are primarily explained by a significant fall in the overall prices of foodstuffs, whose variations fell down from 5,38% in the first quarter to -6,92% in the record quarter.

Table 3: Overall monthly changes per quarter of the Consumer Price Index (in % CPI; base 2003=100)

Item	Weighted	2006			2007		
		Quar 1	Quar 2	Total	Quar 1	Quar 2	Total
1. Foodstuffs, non alcoholic drinks	3709	11.96	3.28	15.24	5.38	-6.92	-1.55
- Bread and cereals	625	8.60	9.97	18.57	1.01	-4.85	-3.85
- Meat	345	2.90	2.14	5.04	-0.57	-0.20	-0.76
- Fish and seafood	114	5.69	0.96	6.65	8.18	-0.06	8.11
- Leguminous plants	1332	22.35	2.04	24.39	11.92	-13.22	-1.30
- Non alcoholic drinks	180	2.06	0.06	2.12	3.28	2.26	5.54
2. Alcoholic beverages & tobacco	221	0.49	0.27	0.76	8.78	0.21	8.99
3. Clothes & footwear	500	0.44	0.78	1.21	-1.26	0.39	-0.87
4. Housing, water, gas, electricity & other fuels	1579	7.38	3.59	10.97	16.90	0.88	17.78
5. Furniture, household equipment & current house upkeep	764	0.93	-1.73	-0,81	0.10	1.38	1.48
6. Health	708	-0.33	0.87	0,54	8.66	2.32	10.98
7. Transport	987	1.60	0.56	2.15	1.18	0.40	1.58
8. Communications	37	0.85	0.00	0.86	-0.44	0.00	-0.44
9. Leisure &, culture	206	0.60	-0.04	0.56	-0.40	-5.12	-5.52
10. Education	432	21.20	0.00	21.20	11.89	0.02	11.91
11. Restaurants & hotels	273	-4.26	3.74	-0.52	8.00	9.22	17.21
12. Miscellaneous goods & services	584	0.50	0.08	0.58	-0.43	-1.23	-1.66
GENERAL INDEX	10 000	6.93	2.07	9.00	6.74	-2.20	4.54

Source: NBR, Research Department.

However, the general level of prices of the products in the category of "Housing, water, gas, electricity and other fuels" showed a clear upward trend during the first six-month of 2007, with a much more accelerated rate (+17.78%), compared to the same period of last year (+10.97%). It should also be noted that the general upward adjustment of school fees, health care, communication tariffs and some excise duties had a significant and permanent impact on the inflation during the first half of 2007.

B. Underlying inflation

Contrary to the overall inflation trend, the underlying inflation accelerated on year-to-year basis, reaching 10.6% in June, against 5.3% in the same month of 2006. As already mentioned above, this is an unusual situation, which is explained by the rise in school fees as well as health drugs and soft and hard drink expenses. Indeed, the level of this type of inflation remained high because the counterbalance of the prices of foodstuffs, which appreciably decreased, had no impact since it excluded these very foodstuffs from the housewife's shopping basket as well as energy because of the strong volatility of their prices.

But, it should be noted that the rise in underlying inflation was strongly marked by the increase in the prices of some specific services that were recorded over the first quarter of the year. It cannot therefore be interpreted as a phenomenon that would relate to an expansionary monetary policy.

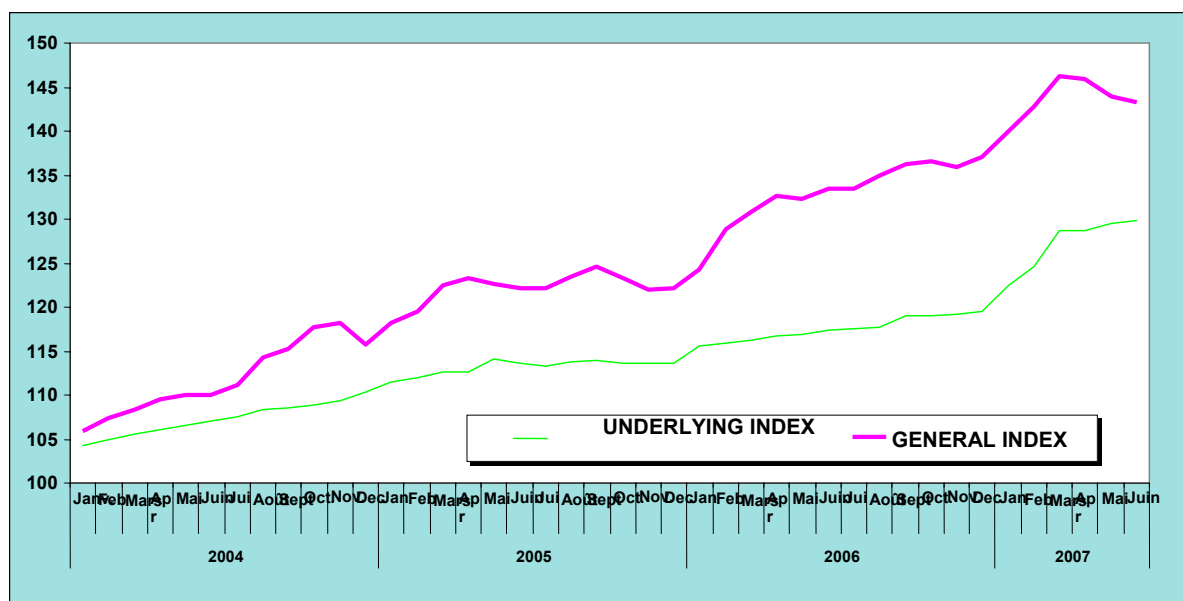
Table 4: Overall and underlying inflation Developments (% monthly changes on year-to-year basis)

	Weighted	2006		2007					
		Jun	Dec	Jan	Feb	Mar	Apr	May	Jun
FRESH PRODUCTS PRICE INDEX	2 186	152.2	162.4	167.7	174.1	175.0	174.1	166.3	161.9
Monthly changes		3.9	2.6	3.3	3.8	0.5	-0.5	-7.7	-2.7
Year-to-year basis		14.4	30.5	31.3	27.6	18.7	17.3	13.6	6.4
ENERGY PRICE INDEX	761	229.3	225.1	223.0	221.9	225.3	223.1	230.5	228.5
Monthly changes		-2.8	-0.5	-0.9	-0.5	1.5	-1.0	3.3	-0.9
Year-to-year basis		35.0	15.1	13.9	-2.6	3.3	-4.4	-2.3	-0.3
UNDERLYING INFLATION INDEX*	7 053	117.4	119.6	122.5	124.6	128.7	128.8	129.5	129.8
Monthly changes		0.5	0.4	2.4	1.8	3.3	0.0	0.0	0.3
Year-to-year basis		3.3	5.3	6.0	7.5	10.8	10.3	10.8	10.6
GENERAL PRICE INDEX	10 000	133.5	137.0	140.0	142.8	146.2	145.9	143.9	143.2
Monthly changes		0.9	0.8	2.2	2.0	2.3	-0.2	-1.4	-0.5
Year-to-year basis		9.4	12.1	12.6	10.8	11.8	10.0	8.7	7.3

* Index excluding fresh products and energy

Source: NBR, Research Department

Fig. 8: Global and underlying inflation Developments from January 2004 to May 2007 (CPI, base 2003=100)



Source: NBR, Research Department

II. EXTERNAL SECTOR

II.1 TRADE BALANCE

Concerning foreign trade, the upward trend of imports and exports experienced these last years continued from January to June 2007, with a significant increase in imports and exports. Imports totaled USD 311.08 million, against 73.08 million of exports. The achievements of the first half of 2007 show respective increases of 7.08% and 23.81% in exports and imports values, compared to the same period of the year 2006. However, the imports-exports rate coverage remains very low; that is 21.80% for the period under review.

Table 5: Trade Balance, semester 1, 2006 and 2007 (value in millions of USD)

Products	2006		2007		% changes
	Value	% Total	Value	% Total	
EXPORTS	68.25	100,00	73,08	100,00	7,08
Coffee	26.05	38.16	5.39	7.37	-79.31
Tea	17.21	25.21	16.84	23.04	-2.14
Tin	6.12	8.97	13.92	19.05	127.30
Coltan (Colombo Tantalite)	5.33	7.81	7.10	9.71	33.14
Wolfram	4.05	5.94	10.91	14.92	169.13
Hides and Skins	1.07	1.57	1.80	2.46	67.35
Pyrethrum	1.50	2.20	1.80	2.46	19.77
Others	1.34	1.97	5.18	7.08	285.47
Re-exports	4.93	7.23	9.37	12.82	90.00
IMPORTS	251.25	100.00	311.08	100.00	23.81
FINAL CONSUMPTION GOODS	72.65	28.92	93.84	30.16	29.16
Of which: - Foodstuffs	20.27	8.07	35.38	11.37	74.56
- - Pharmaceuticals	19.74	7.86	20.96	6.74	6.19
CAPITAL GOODS	61.23	24.37	82.13	26.40	34.14
Of which: - Transport materials	11.78	4.69	25.50	8.20	116.44
- Machines, devices & tools	39.00	15.52	42.70	13.73	9.49
SUPPLY GOODS	71.88	28.61	83.70	26.91	16.44
Of which: - Construction materials	25.61	10.19	25.25	8.12	-1.41
- Products of industrial use	36.36	14.47	44.58	14.33	22.62
- Fertilizers	1.34	0.53	6.16	1.98	358.38
ENERGY & LUBRICANTS	45.49	18.10	51.41	16.53	13.02
Of which: Fuel	42.97	17.10	47.40	15.24	10.33
TRADE BALANCE	-147.10		-193.25		-31.37
Imports- exports rate coverage, in %	24.16		21.80		-9.77

Source: NBR, Department of Foreign Exchange Inspection and Balance of Payments

The first quarter 2007 was marked by a significant imports growth by about 23.8% in value and a slight increase in exports by 7.08%, compared to the same period of the previous year. This upward trend of imports may continue during the second quarter of the year, which would confirm the forecasts about the rise in imports by 29% throughout the year 2007. On the other hand, the rise in exports will be mitigated by poor performances expected from the main export crop, which is coffee. Indeed, the mid-term evaluation of the coffee campaign lets predict a significant fall in the production, with a consequence of decline in the exported volume, and therefore a significant drop in the export revenue. In spite of this poor coffee performance, an increase in exports of about 10% is expected over the year 2007, mainly due to achievements in exports of tea and minerals.

A. Exports

Although structurally low, the value of the country's exports experienced an increase of 7.08% during this first quarter 2007, compared to the same period of 2006, passing from USD 68.2 million to USD 73.08 million, primarily due to the good performances of mineral exports.

The initial export forecasts of about 23,000 tons of ordinary coffee should be seriously reviewed downward. The national commercial coffee production would probably be only between 14,000 tons and 15,000 tons and the revenue expected in this sector will amount to about 40 million instead of 61 million initially planned.

The coffee contracts already concluded by the exporters at the end of June 2007 bear on 2,752 tons worth USD 5.2 million. At the same period of the previous year, the contracts concluded bore on 12,902 tons worth USD 26 million that is a fall of 78 and 79% respectively in volume and value.

Concerning tea, the exports at the end of June 2007 recorded a rise of 14% in volume at the same period of last year. This rise in exported volume did not result in a consequent increase in the value of exports of tea following a price fall during the period under review. Indeed, according to OCIR Thé, the average price of tea dropped from USD 1.95/Kg to USD 1.68/Kg, that is a 14% fall due to an increase in supplies, compared to the demand on the international market during this first half of the year.

On the other hand, the mining sector exports continued to show good performances as all major mining products (Tin, Coltan and Wolfram) since they recorded a significant increase in value and volume during the first half-year period of 2007. Tin exports appreciably increased in volume and value by 44% and 127% respectively. The price also recorded a rise of 58.2% during the first half of this year, compared to the same period of last year. Wolfram equally recorded good performances with rises of 137% in volume and 169% in value. The price of this product has also been going up for two years for the period under review since it recorded an increase of 14% in comparison with the first half of 2006, passing from 64 to USD 7.27/Kg. Coltan also experienced an increase in volume and value of 20% and 33% respectively as their prices passed from USD 15.43/Kg to USD 17.16 /kg, that is an increase of 11% during the period under review.

Hides and skins Exports increased in value, following the combined effects of the rise in price and exported volume. Indeed, the average price passed from USD 1.78/Kg in the first six-month period of 2006 to USD 2.06/Kg over the same period of 2007, which is a increase of 16%. The volume exported passed from 605 tons during the first six-month period of 2006 to 873 tons over the same period of 2007 that is a significant rise of 44 %. In the first half of 2007, bovine, sheep and caprine skins exports accounted respectively for 4%, 87% and 9% of total skins exports.

Although their weight remains marginal with regard to total exports, that are 7%, other export products, namely flowers, cement and cosmetics experienced good performances over the period under review, compared to the same period of 2006.

Re-exports recorded a big rise of 90% in value and primarily include benzene, diesel, drugs, second hand clothes, vehicles and various apparatuses and machines.

B. Imports

During the first six-month period of 2007, imports increased to about 23.8% in value and 48.52 % in volume. All categories of imported goods recorded an increase both in value and volume.

Final consumer goods imports increased by 29.16% in value, passing from USD 72.65 million at the end of June 2006 to USD 93.84 million at the end of June 2007. Foodstuffs imports, which represented a share of 28% at the end of June 2006 accounted for 38% of this total at the end of June 2007. They therefore recorded an increase of 74.57% in value, compared to the same period of 2006. The most imported foodstuffs were cereals, oil and edible fats as well as sugar, which accounted altogether for 80% of the value of imported foodstuffs.

In the same way, capital goods imports increased by 34.14% in value, passing from USD 61.2 million to USD 82.1 million drawn by machines and other equipments whose value increased by 9.49% worth USD 42.7 million for the period under review. The big importers of these machines and equipments are ELECTROGAZ (electrical transformers), MINADEF (communication devices), Modern Technologies Services (power generators), MTN and TERRACOM (electrical and telecommunication devices), PEMBE FLOUR MILLS (cleaning machines), and SECAM (automatic data processing machines).

Supply goods experienced an increase of 16.44% in value from January to June 2007, compared to the same period of 2006. This increase was due to the rise in the importation of industrial imports and fertilisers, which recorded respective increases in value of 22.62 % and 358.29%.

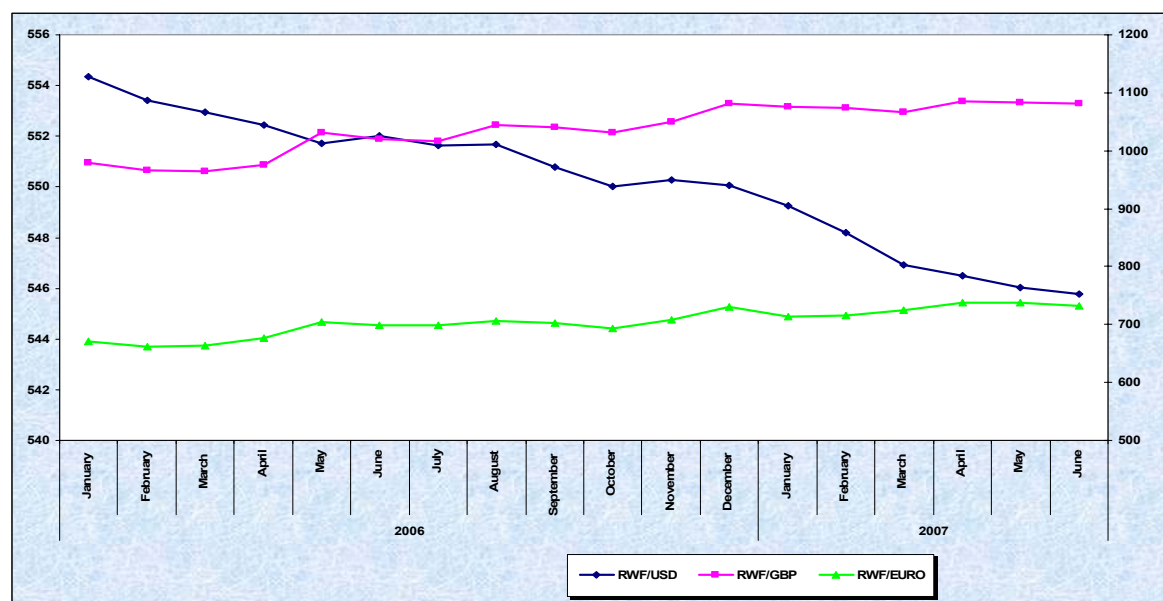
As for energy and lubricants which constituted more than 92.21% of fuel, their importation increased by 13.03% in value and 6.62% in volume. Their value was worth USD 51.4 million (16.5% of the total imports) for the period between January and June 2007, against USD 45.5 million for the same period in 2006. The value of fuel referred to, is that declared by customs.

II.2 EXCHANGE RATE

The stability of the RWF that with regard to foreign main hard currencies was maintained during the first half of the year 2007, as it was supported by a relatively high level of international exchange reserves within the banking system. During this period, the national currency experienced a slight appreciation of 0.8% vis à vis the American dollar, with an average exchange rate of 545.76 units for 1 USD in June, against 550.05 in December 2006. Compared to average exchange in June 2006, that is 552.02 RWF for 1 USD, the Rwandan franc appreciated by 1.13%

against this currency, which remains by far the most used one in the country’s trade with foreign partners.

Fig. 9: Developments of the exchange rates of the RWF



Source: NBR, Department of International Operations

Table 6: Developments of the average exchange rate of the RWF against the USD, Euro & £

Period	RWF/USD	RWF/GBP	RWF/EURO	
2006	January	554.36	978.15	670.65
	February	553.39	966.73	660.66
	March	552.94	964.61	664.2
	April	552.43	974.42	676.19
	May	551.70	1030.28	703.86
	June	552.01	1019.17	699.54
	July	551.63	1016.51	699.59
	August	551.68	1043.6	706.71
	September	550.77	1039.81	701.70
	October	550.01	1030.53	693.85
	November	550.25	1050.09	707.04
	December	550.05	1080.7	729.54
2007	January	549.24	1075.85	714.27
	February	548.18	1073.46	716.16
	March	546.93	1065.50	724.15
	April	546.50	1085.57	737.46
	May	546.04	1083.32	738.05
	June	545.76	1080.80	731.31

Source: NBR, Department of International Operations

However, the Rwandan franc continued to depreciate against the British pound and the Euro, whose values stabilized on the international foreign exchange markets. Compared to the British pound, between June 2006 and June 2007, the Rwandan franc experienced a significant

depreciation of 6.05%, while compared to December 2006, it was almost traded at the same rate of 1080.8. However, unlike the American dollar, during the first half of the year 2007, the rate of exchange of the Rwandan franc against the British pound was marked by frequent fluctuations from one month to another.

The Rwandan franc also depreciated against the Euro by about 4.5% between June 2006 and June 2007, and 2.4% between December 2006 and June 2007. However, like the British pound, the exchange rate of the Rwandan franc against the Euro experienced noticeable monthly fluctuations.

It is necessary to underline a significant change that has been going on on the foreign exchange market since the beginning of this year in comparison with the previous one: the demand for foreign exchange from commercial banks experienced a noticeable increase. This resulted in the important volume of foreign exchange sold during this period, as evidenced in Table 7 below. From January to June 25, 2006, the NBR sold to commercial banks USD 89.5 million, against USD 52.7 million during the first half of 2006.

Table 7: Volume of auction sales of foreign to commercial banks between January and June (in millions of USD)

	January-June 2006	January -June 2007	Absolute change
January	8.30	6.55	-1.75
February	6.20	13.50	7.30
March	9.90	18.50	8.60
April	8.80	12.00	3.20
May	9.75	21.50	11.75
June	9.75	17.00	7.25
Total	52.70	89.05	36.8

Source: NBR, Department of International Operations

It is definitely advisable to note that in the current context where the national banking system has a rather solid capacity to meet all the demand for foreign currencies on the domestic exchange market, from June 25, 2007, the National Bank of Rwanda suspended the auction system, which had rather become a speculative opportunity for the banks. Their practice of causing a systematic drop in the exchange rate could no longer be justified as it marginally impacted the exchange rates applied to their customers. Thus, after suspending the auction sales system, the NBR decided to sell foreign currencies to any bank at the reference rate of the day. This rate represents the weighted average exchange rates applied by banks to their customers the previous day, including the interbank market.

III. PUBLIC FINANCE AND PUBLIC DEBT

III.1 PUBLIC FINANCE

In 2006, the total deficit was RWF 11.1 billion on cash basis, and the current deficit amounted to 43.4 billion FRW. In March 2007, the current deficit totaled RWF 137 billion, and in June it reached RWF 25.8 billion. Further to the improvement in the performances of the the government revenue collection and the significant external financial support, public financial transactions led to an overall surplus of RWF 37.9 billion (including grants) at the end of June 2007, on payment order basis. As for the second quarter 2007, the revenue and grants collected amounted to about RWF159.5 billion, against RWF 80.8 billion in the previous quarter, that is an increase of 97.4%. The total revenues amounted to RWF 52.6 billion, against RWF 67.8 billion planned in the PRGF program. In addition, the total expenditure rose to 115.8 billion FRW in the second quarter 2007, against RWF 107.7 billion in the first quarter. It should be noted that the PRGF program had fixed this expenditure at RWF 103.9 billion.

Table 8: Government’s financial operations (in thousands of RWF)

Description	2001	2002	2003	2004	2005	2006	Mars 07	June 07
Total Revenues And Grants	148.2	172.0	195.5	272.5	344.8	375.9	80.8	159.5
Total revenues	86.2	101.2	122.4	147.0	180.3	207.2	56.7	52.6
Tax revenues	79.5	94.5	114.7	134.6	162.5	192.6	53.6	49.5
Non tax revenues	6.7	6.6	7.7	12.4	17.7	14.6	3.1	3.2
Grants	62.0	70.8	73.1	125.5	164.5	168.7	24.1	106.9
Total Expenditure And Net Lending	158.1	191.6	216.3	274.9	340.7	378.9	111.3	121.6
Total expenditure	157.5	191.0	212.3	253.3	336.3	369.3	107.7	115.8
Current expenditure	107.5	134.6	161.2	163.8	214.9	250.6	67.3	75.2
Current deficit	-21.3	-33.4	-38.8	-16.8	-34.6	-43.4	-13.7	-25.8
Capital expenditure	50.0	56.4	51.1	89.5	121.4	118.7	40.4	40.6
Net lending	0.6	0.6	4.0	21.6	4.4	9.6	3.6	5.8
Overall deficit (payment order basis)								
Excluding grants	-71.9	-90.5	-93.9	-127.9	-160.4	-171.7	-54.6	-68.9
Including grants	-9.9	-19.7	-20.8	-2.4	4.1	-3.0	-30.5	37.9
Change in arrears	-31.7	-1.7	-13.2	-17.1	-10.7	-8.0	-1.6	-2.3
Overall deficit (cash basis)	-41.5	-21.4	-34.0	-19.5	-6.6	-11.1	-32.1	35.6
Net financing	42.6	31.0	26.1	23.9	-1.8	17.9	32.1	-35.6
External (net)	40.9	30.5	20.9	48.1	34.3	34.9	9.8	9.8
Domestic	1.7	0.4	5.2	-24.2	-32.5	-17.0	22.2	-45.4
Errors & omissions	1.0	9.6	-7.9	4.4	-4.8	-6.8	0.0	0.0

Source: Ministry of Finance and Economic Planning

III.1.1 Revenues

The government revenues and grants amounted to RWF 159.5 billion at the end of the second quarter 2007. Domestic revenues amounted to RWF 52.6 billion at the end of June 2007, accounting for 33.0% of the government’s total financial resources. It is worth noticing that the

significant increase in the government revenues is due to an inflow of foreign assistance as budgetary support. As for the capital grants, they remained relatively stable.

During the second quarter 2007, the grants amounted to RWF 106.9 billion against RWF 24.1 billion in the first quarter. Tax revenues totaled RWF 49.5 billion at the end of the second quarter 2007, against an estimate of RWF 62.8 billion. This situation was mainly due to taxes on goods and services and direct taxation, which experienced a downward trend and did not behave as previously planned. Indeed, revenues from direct taxation and taxes on goods and services were RWF 15.7 billion and 24.1 billion RWF respectively, against RWF 24.3 billion and RWF 30.1 billion previously planned in the PRGF program.

Taxes on external trade amounted to RWF 9.7 billion in the second quarter 2007 against RWF 6.9 billion in the first quarter. This situation is primarily explained by the fall in the exemption in taxes on capital goods imports. As for VAT, the injection of liquidities in the economy through government expenditures and credit to the private sector increased the demand for taxable goods and led to an increase in revenues.

In conclusion, it should be stressed that the increase in domestic revenues has remained marked by the recently initiated reforms such as the pay as you earn system (PAYE), the public service reforms and the widening of the trade tax coverage on the benefits in kind of the wage earners.

III.1.2 Public expenditure and net lending

The total public expenditure and net lending at the end of the second quarter 2007 amounted to RWF 121.6 billion. The current expenditure accounted for 64.9% of total expenditures, while the capital expenditures represented 35.1%. Composed of wages and salaries, expenditures on goods and services, exceptional expenditures, interest payments and subsidies as well as transfers, current expenditures amounted to RWF 75.2 billion at the end of June 2007. This development shows a significant deviation, compared to the projected amount in the PRGF program, that is RWF 65.5 billion. In order of importance, current expenditures were allocated as subsidies and transfers (40.3%), wages and salaries (22.2%), expenditures on goods and services (19.5%), exceptional expenditures (16.2%) and interest payments (1,7%). Capital expenditures totaled RWF 40.6 billion and were financed at 72.2% by external resources and 27.8% by domestic resources. In addition, mainly composed of loans to public companies, the net lending totaled RWF 5.8 billion.

III.1.3 Budget Deficit and its financing

Following the increase in external assistance, the Government's financial operations showed a total surplus (including grants) of RWF 37.9 billion on payment order basis, at the end of the second quarter 2007, while this surplus amounted to Rwf 35.6 billion on cash basis.

At end March 2007, the government's financial operations had registered a deficit of Rwf 30.5 billion on payment order basis and of Rwf 32.1 billion on cash basis.

This development shows an increase in the external assistance as a budgetary support during the second quarter of the year. The surplus of RWF 35.6 billion recorded, on cash basis, at the end of June 2007 was financed by external resources, including special drawing rights (budgetary and project lending) worth RWF 10.9 billion and enabled to reduce the public debt from the banks by RWF 44.0 billion.

III.2 DOMESTIC PUBLIC DEBT

Concerning the public debt, its increase at the end of 2006 reflected the government's participation in the efforts in sterilizing excess liquidities in the Rwandan economy, resulting from the inflow of external assistance and public expenditures. However, it would be mentioned that a downward trend of the public debt was observed during the first and second quarters 2007.

It is also necessary to stress that the debt under the category "others" amounting to RWF 66.4 billion at the end of June and was mainly due to the Social Security Fund of Rwanda's debt, including the debt under "Development Bill" and arrears of contributions of the Public Service employees as well as penalties.

Table 9: Domestic public debt developments (in billions of RWF)

Description	2001	2002	2003	2004	2005	2006	March 2007	June 2007
NBR	43.5	42.9	43.9	42.1	42.1	41.8	43.1	41.2
Consolidated debt	43.5	42.9	42.4	42.1	42.1	41.8	41.8	41.2
Overdraft and advances	0	0	1.5	0	0	0	1.3	0
Revaluation	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0
Banking Sector	10.7	16.6	16	20.4	13.1	26.3	15.4	16.6
Treasury bills	5.9	12.1	11.8	11.5	6.4	21.0	10.1	11.8
Reconverted development bills	4.8	4.5	4.2	3.9	2.7	2.3	2.3	2.3
Recapitalization	-	-	-	5.0	4.0	3.0	3.0	2.5
Non Banking Sector	28.5	30.5	32.2	44.8	59.2	82.2	85.6	82.0
Treasury bills	2.3	5.6	7.5	20.5	12.1	14.4	17.8	14.2
Reconverted development bills	3.6	3.1	2.9	2.5	1.5	1.2	1.2	1.2
Development bills	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Others	22.5	21.7	21.7	21.7	45.4	66.4	66.4	66.4
TOTAL OUTSTANDING DEBT	82.7	90	92.1	107.3	114.3	150.3	144.1	139.8
Interest arrears	0.4	0.4	0.5	0.6	0.6	0.7	0.7	0.7
TOTAL STOCK	83.1	90.4	92.6	107.9	114.9	151.0	144.8	140.5

Source: NBR, Research Department

As shown in the above table, the public debt developments in the second quarter 2007 indicates that Government increased its borrowings from commercial banks and decreased its debt to non-banks, whereas in the first quarter it had more appealed to non-banks than to the banking sector. Thus, the public debt in treasury bills subscribed to by commercial banks passed from RWF 10.1 to RWF 11.8 billion, that is an increase of 16.8%, while that to non-banks decreased from 17.8 to RWF 14,2 billion, which is a fall of 20.2%.

IV. MONETARY DEVELOPMENTS

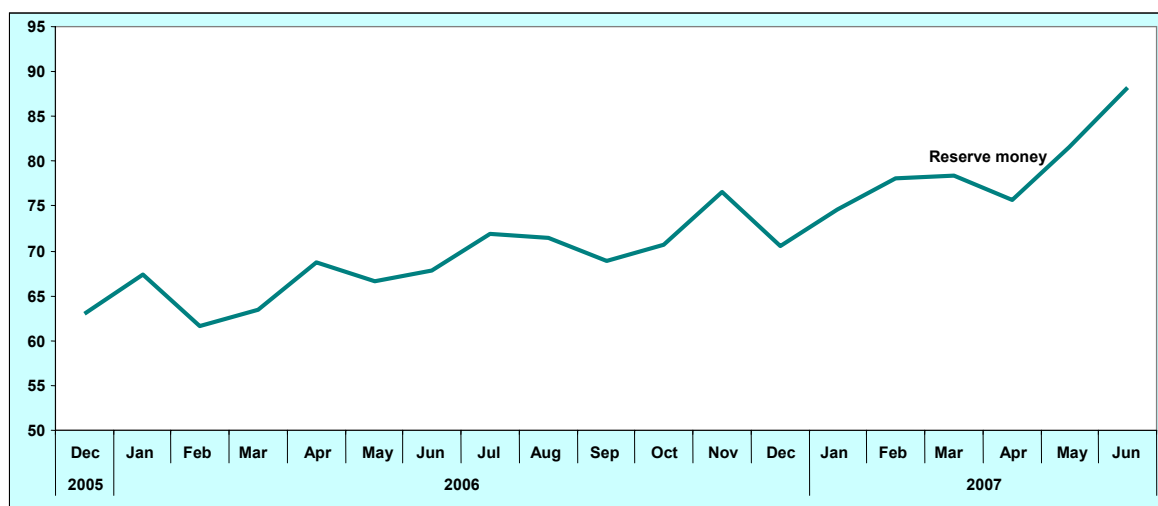
During the second quarter of the current year, the monetary developments were marked by an increase in broad money of 7% between December 2006 and June 2007. These developments were supported by an increase in foreign assets, while the domestic credit recorded a fall within the same period.

IV.1. RESERVE MONEY DEVELOPMENTS

Reserve money, which is the operational objective of the NBR’s monetary policy, passed from 78.3 to RWF 88.2 billion between March and June 2007, that is a considerable increase of 12.1% against 11.1% that was recorded between December 2006 and March 2007. The current change in reserve money developments reflects the pressure exerted by excess liquidity but also the flexibility of the PRGF program, which allowed for a higher reference level.

The flexibility of the 2007 program addressed the NBR’s long standing concern related to the fact of having a realistic monetary program that is compatible with the country’s economic realities. This will make it possible to maintain the development of the reserve money around its reference level and avoid "emergency landings" at the end of each quarter.

Fig. 11: Reserve money developments (in billions of RWF)



Source: NBR, Research Department

The raising of the level of reserve money made it possible for the monetary authorities to reduce the level of its interventions on the money market, while complying with the monetary discipline prescribed in the monetary program. Thus, the net credit to the banks came down from RWF - 49.3 billion to -32.7 billion from March to June 2007 that is a reduction of 33.6% of the National Bank of Rwanda’s debt to the banking system.

IV.2 BROAD MONEY DEVELOPMENTS

As previously mentioned, broad money increased by 10.3% between March and June 2007, passing from RWF 277.12 billion to RWF 305.75 billion. This trend is explained by the increase in the net foreign assets (+33.1%) compensated by the decrease in domestic net assets (-53.3%).

Table 10: Broad Money developments (in billions of RWF)

	2006				2007			% Change Dec 06 - Jun 07
	Dec	Jan	Feb	Mar	Apr	May	Jun	
Net Foreign Assets	284.74	274.34	269.77	261.10	255.82	284.44	347.63	22.09
Net Domestic assets	0.91	-9.98	-0.19	16.02	33.85	16.51	-42.00	-4715.38
Domestic credit	93.36	85.03	96.81	113.59	123.30	106.92	53.10	-43.12
Net Credit to Government	-69.24	-77.74	-70.17	-59.82	-50.58	-71.14	-128.72	85.89
Autonomous Agencies	-1.97	-1.99	-0.34	-0.47	-0.46	-0.47	-0.47	-76.19
Public Companies	2.41	2.42	2.01	2.02	1.88	1.83	1.74	-27.60
Private Sector	162.16	162.34	165.31	171.85	172.46	176.70	180.54	11.33
Other net items	-92.45	-95.01	-97.00	-97.56	-89.46	-90.40	-95.10	2.86
Broad Money	285.65	264.36	269.58	277.12	289.67	300.96	305.75	7.04
Currency in Circulation	54.65	49.01	49.42	49.95	50.73	51.26	54.43	-0.40
Deposits	231.00	215.36	220.16	227.17	238.93	249.70	251.20	8.74
Of which:-Demand deposits in	103.13	98.86	107.92	109.99	119.16	127.79	121.00	17.36
RWF								
-Time deposits in RWF	69.02	57.87	54.54	60.57	62.24	63.81	71.80	4.05
- In Foreign currency	58.84	58.63	57.70	56.61	57.53	58.10	58.46	-0.66

Source: NBR, Research Department

IV.2.1 BROAD MONEY AND ITS COUNTERPART

IV.2.1.1 Net foreign assets

The increase in the banks' net foreign assets from RWF 261.1 billion to RWF 347.6 billion (33.3%) exerted an expansionary effect on monetary developments from March to June 2007. Thus, the commercial banks' net foreign assets recorded an increase of RWF 5 billion, passing from RWF 54 billion to RWF 59 billion, while those of the NBR strengthened by 39.4%, passing from RWF 207.1 to RWF 288.6 billion.

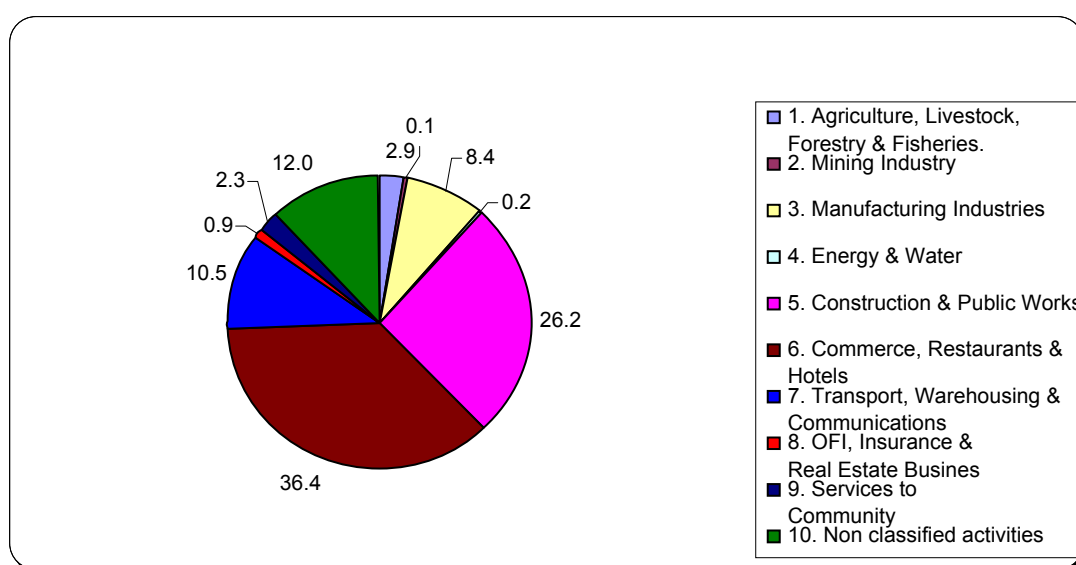
The increase in the NBR's foreign assets is mainly explained by the external disbursements of USD 141.7 million for budgetary support, and USD 56.65 million for project support. During the second quarter 2007, the main financial donors were the World Bank, the United Kingdom and the European Union, with respectively USD 51.5 billion, USD 65.5 billion and USD 23.52 million.

IV.2.1.2 Domestic net assets

The banking system’s net domestic assets passed from RWF 16 billion to RWF -45.9 billion between March and June 2007. This fall in the domestic net assets resulted from a considerable fall in the net credit to Government.

During the period under review, the net credit to Government passed from RWF -59.8 billion to RWF -128.7 billion that is a fall of 115.2%. This fall resulted from external disbursements for budget support, which substantially increased the Government’s deposits.

Fig. 12: Credit allocation as per activity sector (in %)



Source: Research Department

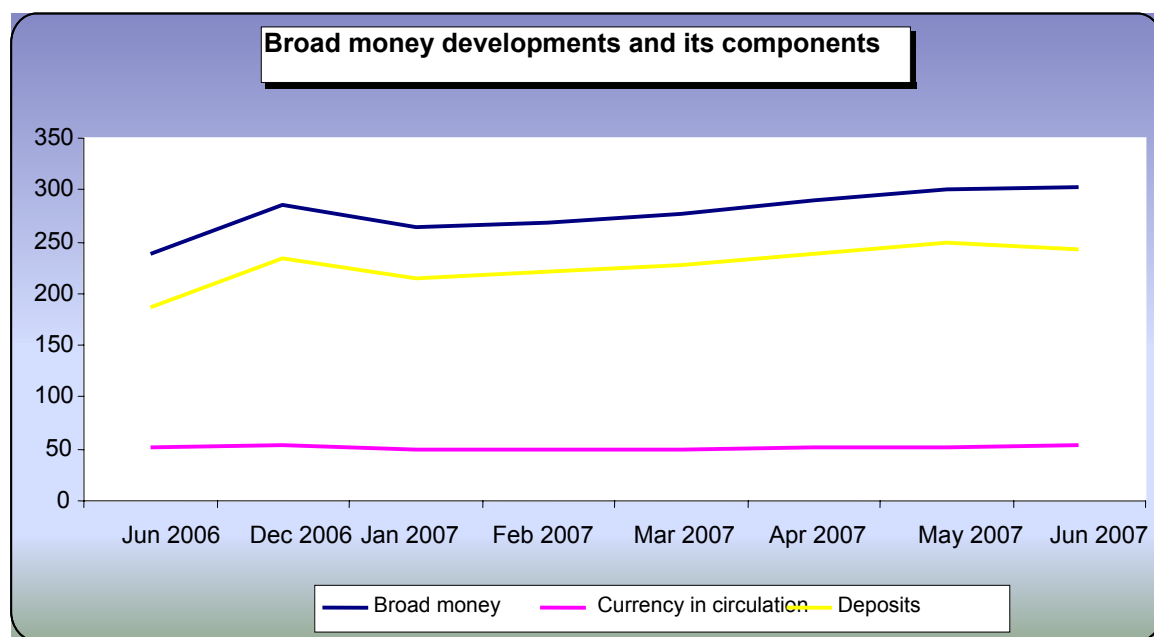
As regards credit to the economy (credit to Public companies and Private Sector), it passed from RWF 171.8 to RWF 180.5 billion, that is an increase of 5.1%.

The sectoral allocation of credits at the end of June 2007 shows the predominance of "Commerce, restaurants and hotels", "Construction and Public works," "Non classified activities" and "Transport, warehousing and communications" in respective proportions of 36.4%, 26.2%, 12.0% and 10.5%; credit to agriculture represented only 2.9%.

IV.2.2 BROAD MONEY AND ITS COMPONENTS

Money demand increased from Rwf 277.1 billion to RWF 305.75 billion between March and June 2007, that is a variation of 10.3%. The biggest component of the money demand that is the deposits increased by 10.6% while currency in circulation went up by 9%.

Fig. 13: Broad money (M2) developments (in billions of RWF)



Source: NBR, Research Department

IV.2.2.1 Currency in circulation

The change currency in circulation observed during the second quarter (9%) is explained by the currency demand related to the coffee campaign during the period under review.

IV.2.2.2 Deposits

Between March and June 2007, deposits recorded an increase of 10.6 %, passing from RWF 227.2 billion to RWF 251.2 billion.

It is worth mentioning that term deposits experienced the highest increase, with a variation of 18.5%, while deposits and foreign currency deposits increased by 10% and 3.3% respectively.

V.3 BROAD MONEY EXTENDED TO THE UBPR

Broad money, including the UBPR and its branches, increased from RWF 313.0 billion to RWF 341.0 billion, that is an increase of 8.1% against a decrease of 2.5% that was recorded between December 2006 and March 2007.

Table 11: Broad Money extended to the UBPR (in billions of RWF)

	2006			2007			% Change	
	Dec	Jan	Feb	Mar	Apr.	May	Jun	Dec 06 - Jun 07
Net foreign assets	285.1	274.4	269.8	261.2	255.9	284.5	347.7	21.94
Net domestic credit	35.7	21.9	36.0	51.8	70.7	59.1	-6.2	-117.41
Domestic credit	142.2	127.4	145.7	164.1	174.5	157.3	103.9	-26.96
Net credit to Government	-69.5	-77.8	-70.2	-59.9	-50.6	-71.2	-127.9	-83.90
Autonomous agencies	-2.0	-2.0	-0.3	-0.5	-0.5	-0.5	-0.5	76.19
Public Companies	2.,4	2.4	2.0	2.0	1.9	1.8	1.7	-27.60
Private Sector	211.3	204.8	214.3	222.5	223.6	227.1	230.5	9.07
Other net items	-106.5	-105.5	-109.7	-112.3	-103.7	-98.1	-110.1	3.38
Broad Money	320.9	296.3	305.9	313.0	326.6	343.6	341.0	6.27
Currency in circulation	52.7	46.6	45.8	47.2	47.9	49.6	51.7	-1.89
Deposits	268.1	249.7	260.0	265.7	278.7	294.0	289.2	7.88
Of which:- Demand deposits (in RWF)	103.2	98.4	106.4	104.5	114.5	125.6	112.5	9.06
- Time deposits (in RWF)	105.8	92 7	96.0	104.7	106.7	110.3	118.3	11.81
Foreign currency deposits	59.2	58 6	57.7	56.6	57.5	58.1	58.5	-1.22

Source: NBR, Research Department

At the end of June 2007, the broad money extended to the UBPR exceeded the banking system's broad money by 11.5%, while credit to the economy in extended broad money was RWF 231.7 billion, against RWF 181.8 disbursed by the banking system. These figures indicate the importance of micro-finance institutions in the Rwandan economy.

V. MONEY MARKET AND INTEREST RATES

V. 1 MONEY MARKET

From January to June 2007, the liquidity exchanges on the interbank market totaled RWF 12.3 billion, against RWF 20.2 billion in 2006 over the same period. It should be noted that no interbank operation was made in March, April, and May 2007. Concerning liquidity loans, it is important to note that the mopping up operations totaled RWF 197.2 billion, against RWF 157.5 billion in the first six-month period of the year 2006, that is an increase of 25.2%.

Table 12: Money market operations (in billions of RWF)

Item	January-June		Change
	2006	2007	
Interbank market	20.2	12.3	-7.9
Liquidity loan	157.5	197.2	25.2
Overnight	527.5	1 180.4	652.9
Treasury bills	133.3	72.9	-60.4
Government	34.7	36.9	2.2
Monetary policy	98.7	36.1	-62.6

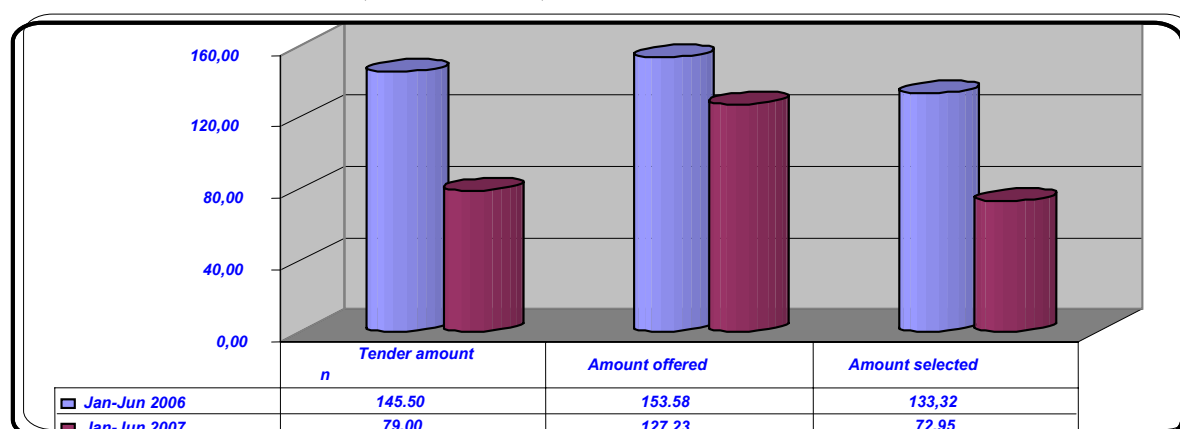
Source: NBR, Department of Money and Capital Markets

During the period under review, the overnight transactions increased significantly to the extent that it more than doubled over the same period of 2006 and reached RWF 527.5 billion, against RWF 1,180.4 billion, recording a variation of 123.8%. This phenomenon is explained by the fact that the NBR consciously favoured the renewable 24 hour-investment operations, whose return was relatively low so as to control the cost of the monetary policy.

No operation was recorded on the discount window during this period.

Concerning the issuance of Treasury Bills, the amount of tenders totaled RWF 79 billion in the first half of 2007, compared to RWF 145.5 billion in 2006 over the same period, which is a decrease of about 50%. Compared to the first six-month period of the previous year, the volume of tenders was worth RWF 127.23 billion at the end of June 2007, against RWF 153.58 billion in 2006. As for the selected tenders, they were worth RWF 72.95 billion at the end of June 2007, against RWF 133.32 billion in 2006 over the same period. This fall was ascribable to the suspension of the 4 week-maturity preferred by the banks, and the constraint related to the control of the domestic debt.

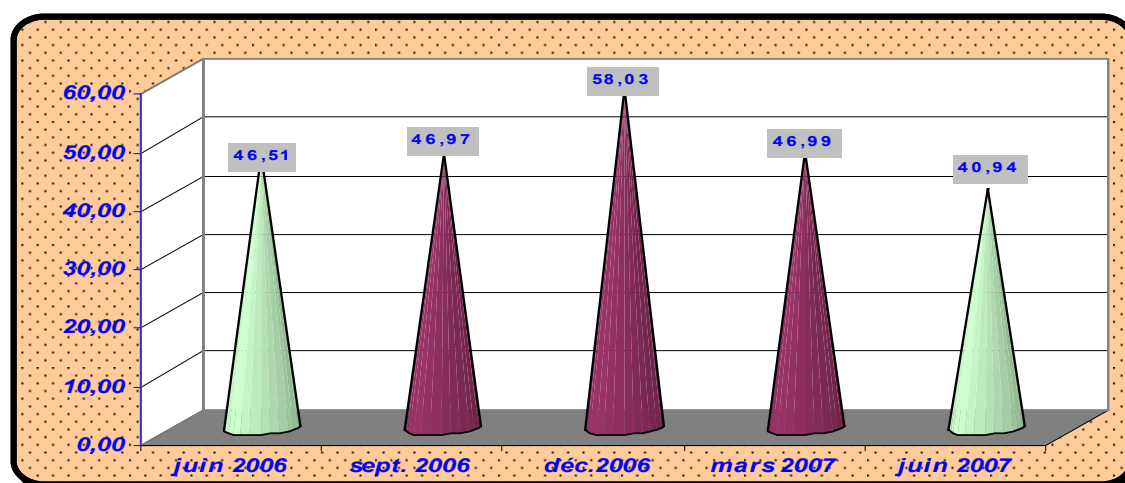
Fig. 14: Treasury bills announcements, tenders and selected offers as from January 2006 to June 2007 (In billions of RWF).



Source: NBR, Department of Money and Capital Markets

Concerning the nature of the issue of Treasury bills, those which were mobilized for monetary policy purposes accounted for RWF 36.1 billion, against RWF 36.9 billion on behalf of the Treasury. In terms of stock, the net issue reached RWF 40.94 billion until the end of June 2007, against RWF 46.51 billion in 2006 on the same date that is a fall of about 12%. This decline was explained by the moderate resort to the Treasury for this kind of financing and the preference of the Central Bank for the 7 day-liquidity operations, and the overnight investment at a relatively low cost.

Fig. 15: Treasury bills stock (in billions of RWF)



Source: NBR, Department of Money and Capital Markets

V.2 INTEREST RATES

During the first six-month period of the year 2007, except for the discount rate fixed by the Central Bank, the money market rates experienced a downward change, particularly in June 2007. Contrary to this trend, the average deposit rate was relatively stable. It fluctuated around 7.5%, while the lending rate experienced a rise, passing from 15.76% in January 2007 to 16.39% in June 2007.

Table 13: Interest rate developments (in %)

	2006					2007					
	Jan	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Deposit rate	7,9	8,1	8,3	8,4	8,3	8,0	7,9	7,9	7,9	7,6	7,6
Lending rate	15,8	15,7	16,3	16,3	16,1	15,8	16,2	16,0	15,3	16,0	16,4
Mopping up excess liquidity	9,0	9,0	9,0	8,9	7,4	8,2	8,3	8,7	8,1	7,0	5,5
Discount rate	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5	12,5
Interbank rate	9,4	8,9	8,4	7,4	7,4	7,8	8,0	8,0	8,0	8,0	8,0
Average Treasury bills rate	10,5	10,2	10,4	9,9	8,1	8,8	8,1	9,6	9,6	8,9	6,7

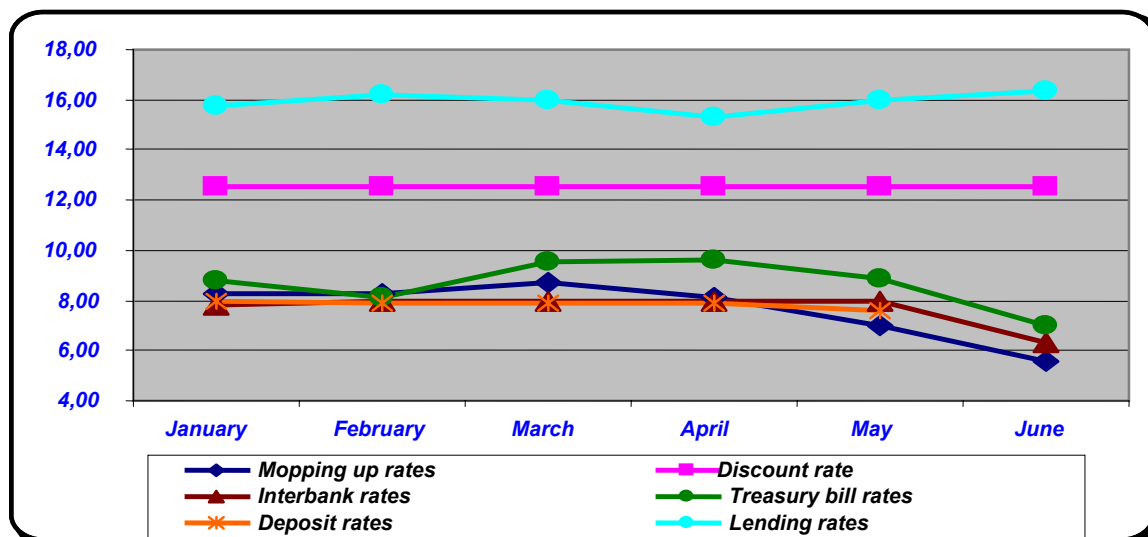
Source: NBR, Department of Money and Capital Markets

The interbank market rate decreased, passing from 7.83% in January 2007 to 6.33% in June 2007.

As regards the financing rate, it remained at the same level (12.5%) since the implementation of the new interest rate management policy in August 2005.

The rate applied to liquidity carry forward operations also decreased, passing from 8.24% in January to 5.59% in June 2007 that is a reduction of more than 2.65%. This trend is explained by the abundance of cash within the Rwandan banks. Unlike other money market rates, the Treasury bills weighted average also decreased, passing from 9.57% in March to 7.03% in June 2007. It should be pointed out that the development of the money market interest rates seems not to have any effect on the interest rates applied by the banks. This reflects the complex phenomenon of the faulty running of the monetary impulse transmission system in the Rwandan economy.

Fig. 16: Interest Rate developments during the first six-month period 2007



Source: NBR, Department of Money and Capital Markets

VI. SOUNDNESS OF THE FINANCIAL SYSTEM

VI.1 SOUNDNESS OF THE BANKING SECTOR

The total assets of the banking system amounted to RWF 379.8 billion in June 2007 against RWF 353.6 billion in December 2006, this indicates that the Rwandan commercial banks' activity increased by 7.4% during this period. This improvement was mainly due to a large increase in credit to economy by Rwandan banks. Indeed, credit payments passed from RWF 180.5 billion in March 2007 to RWF 189.7 billion at the end of June 2007 that is an increase of 5.1%.

In addition, the banking system's consolidated solvency ratio improved and reached 15.3% at the end of June 07, against 13.4% in December 2006, with a net equity capital of RWF 31.4 billion and weighted assets of RWF 205.2 billion. This ratio improved in June 2007 with the closure of the restructuring plan of the only bank whose solvency level did not comply with the required 10% ratio. Indeed, a new investor, ECOBANK Rwanda, has just acquired 90% of the shareholding of this bank by injecting RWF 6.4 billion into it in June 2007.

Table 14: Developments of some financial indicators (in %, unless otherwise indicated)

Indicators	2006	June 2007
Return on average capital	33	25.2
Return on average assets	2.4	2.2
Running efficiency	67	52
Solvency ratio	13.4	15.3
Net equity capital (in billions of RWF)	26.6	31.4
Non performing loans (exclusive of bank charges)	19	17.6
Provisions for liabilities	86	80

Source: Banking Supervision Department

On a consolidated basis, the commercial banks’ results showed a positive profitability of 3.4 billion RWF, particularly due to two large commercial banks’ respective results of RWF 1.4 billion and RWF 1.9 billion. This situation improved with the recovery of the above-mentioned bank in difficulties, which lost RWF 906.7 million in June 2007, mainly because of the payment of its outstanding debts.

The outstanding non performing loans reached RWF 47 billion as on June 30, 2007 against RWF 43.9 billion in December 2006, but their relative proportion in the gross liabilities slightly improved to account for 17.6%, against 19% in December 2006, exclusive of bank charges. However, there is a risk of delay in the achievement of the objective relating to nonperforming loans (ratio target of 10%), owing to the fact that the banks do not have yet effective collection services, and the administrative procedures of recording the mortgage guarantees still remain too long. To speed up the process of reducing the banks’ outstanding liabilities, instructions are being elaborated on how to write off 18-month contentious bad debts.

Regarding the requirement to achieve a minimum authorized share capital of RWF 5 billion by the end of 2007, all the commercial banks have so far complied with it, except for two of them, whose managers continue to seek suitable solutions to meet this requirement.

The UBPR started a partnership with RABOBANK, a famous bank created on a corporative model, that will provides it technical assistance and equity participation in order to set up a true commercial bank that would see the different branches changing into counters of this new bank. This process is highly advanced and should be completed before the end of the year 2007.

VI.2 CURRENT STATUS OF MICRO FINANCE INSTITUTIONS (MFIs)

A vigorous action towards the MFIs, such as the provisional approval to the “Union des caisses des travailleurs” (UCT), was taken in order to find a final solution to outstanding issues. The authorities concerned (MINICOM, MINECOFIN, NBR, provincial and district authorities) were strongly involved, particularly through the strengthening of coordination between the NBR and

MINICOM for the approval of COOPECs. In light of a short survey of the provisionally approved MFIs, the NBR has already come to a conclusion about each pending case, and a synoptic table of decisions was designed. For some of them, the principle of a final approval was adopted but, as a precondition, they will have to acquire a legal status from MINICOM. For some others, in addition to this common precondition, the NBR found it convenient to meet the local administrative authorities in the presence of the elected managers of the COOPECs concerned to discuss their fate. To this end in view, visits were organized all over the Provinces. These visits as well as working meetings in NBR with the managers of the MFIs enabled to mobilize the MFIs already created in the form of Limited Liability Company to reach the minimum equity capital of RWF 300 million by the end of 2007.

The NBR was able to find a solution to the “Union des Caisses des Travailleurs (UCT)” approval process, which was primarily characterized by bad governance and the deterioration of its financial soundness. In order to protect the interests of the depositors and ensure the continuity of the activities of the UCT workers, as well as the transition towards the setting up of the workers’ cooperatives with a legal status from MINICOM and approval from the National Bank of Rwanda (NBR), the latter required of the UCT’s General Assembly to adopt a light functioning structure including an Executive Secretariat and a Technical Commission in charge of ensuring the transition towards the establishment of Autonomous Cooperatives. These Secretariat and Commission operate on behalf of Management and the UCTs’ elected bodies, whose mandate will come to an end by December 31, 2007.

The process of the MFIs’ approval by the NBR continued during the first half of 2007. This six-month period was particularly characterized by the introduction of new applications. The main new applicants which are UMWALIMU SACCO, a teachers’ credit and savings cooperative, DUKORERE U RWANDA, a COOPEC that covers all the Country and gathers the Members of the Electoral Commission. It intends to operate all over the Country’s provinces with the autonomous Union-affiliated COOPECs, and finally, a youth cooperative, the Coopérative de la Jeunesse pour l’Auto-emploi et le Développement (COOJAD). Other small COOPECs’ applications are being analyzed, including those of COOPEC ZAMUKA and the Coopérative pour le Développement de la Masse Rurale de RULINDO (CODEMARU).

In 2006, significant progress was made in the liquidation process of the 9 MFIs in difficulties. In order to satisfy the depositors, the Government had agreed to refund 50% of the deposits, and the other part was to be covered by the recovery of the credits contracted from closed MFIs.

According to the UBPR’s reports, the number of declared customers is 45,766 with RWF 2,930,214,203 net credit deposits. At the end of June 2007, 84.6% of the customers were paid, and 60.5% of the amount to be paid was disbursed.

VII. APPENDICES

VII.1 TECHNICAL NOTES ON THE MONETARY STATISTICS

The data of the money sector published in this bulletin are established in accordance with methodology of the Monetary and Financial Statistics Manual published in 2000 by the International Monetary International Monetary Fund.

Assets and liabilities are presented by types of financial instruments; then a break down of the position of each financial instrument in its principal sectors of the economy is made.

The purpose of the monetary statistics is to build the monetary aggregates of the national economy.

DEFINITIONS

1. Financial instruments

1.1 Financial assets

1.1.1 Monetary Gold: gold held by the central bank as part of official reserves. The gold which does not form part of the official reserves is classified like non-financial asset.

1.1.2 SDR: international reserves assets issued by the IMF and allocated to members to supplement existing official reserves. SDR holdings represent unconditional rights to obtain foreign exchange or other reserve assets from other IMF members.

1.1.3 Currency: notes and coins of a fixed nominal value, issued by the central banks or governments, and having legal tender within the national economy.

1.1.4 Foreign currency: notes and coins issued by non-residents and representing liabilities of central banks or governments in other countries.

1.1.5 Transferable Deposits: include all deposits that are (1) exchangeable on demand at par and without penalties or restrictions and (2) directly usable to make payments by check, draft, giro order, direct credit/debit or other direct payment facility.

1.1.6 Other deposits: comprise all claims other than transferable deposits, which are represented by evidence of the deposits.

This is the case for sight deposits that permit immediate cash withdrawals but not of direct third-party transfers, savings and fixed-term deposits, non transferable deposits denominated in foreign currency, shares or the similar titles issued financial corporations, shares of money-market mutual funds that have restrictions on transferability.

1.1.7 Securities other than shares: negotiable instruments serving as evidence that units have obligations to settle by means of providing cash, a financial instrument or some other item of

economic value. Some common types of securities are government treasury bills, the government bonds, corporate bonds and debentures, commercial paper and certificates of deposits issued by depository corporations.

1.1.8 Loans: financial assets that are created when (1) a creditor lends funds directly to a debtor and (2) are evidenced by non-negotiable documents.

The valuation of loans and deposits is an exception to the valuation principle based on market price or fair value. Loans and deposit values are hence based on creditors' outstanding claims without adjustments for expected loan or deposit losses.

1.1.9 Shares and other equity: instruments and records acknowledging, after the claims of all creditors have been met, claims on residual value of a corporation. This category includes proprietor's net equity in quasi-corporations, as well as shares and equity in corporations.

1.1.9 Shares and other equity: instruments and records acknowledging, after the claims of all creditors have been met, claims on residual value of a corporation. This category includes proprietor's net equity in quasi-corporations, as well as shares and equity in corporations.

1.2 Liabilities

1.2.1 Currency: see definition in 1.1.3

1.2.2 Deposits included in broad money: transferable deposits and other deposits issued by resident depository corporations and included in the national definition of the broad money.

1.2.3 Deposits excluded from broad money: transferable deposits and other deposits which are not included in the national definition of broad money. This category includes all deposits of the central government, depository corporations and non residents.

1.2.4 Securities other than shares included in broad money: negotiable instruments included in the national definition of broad money, and held by sectors designated as holders of the currency.

1.2.5 Securities other than shares excluded from broad money: negotiable instruments which are not included in the national definition of broad money. This category includes securities other than shares held by central government, depository corporations and non residents, as well as securities other than shares held by other sectors and which are not included in broad money.

1.2.6 Loans: comprise credits and advances granted by various sectors

1.2.7 Shares and other equity: category including:

.Funds Contributed by owners: total amount from initial and any subsequent issuance of shares, stocks or other form of ownership of corporations and quasi-corporation.

.Retained earnings: after tax profits that have not been distributed to the shareholders or appropriated as general or special reserves.

. Results of the period: cumulated profits or losses, if these benefits or losses are not taken into account in the retained earnings.

.General and special reserves: appropriations of retained earnings.

. SDR allocation: counterpart of the SDR provided by the IMF to the central banks.

.Valuations adjustments: net counterpart to changes in value of assets and liabilities on the balance sheets of financial corporations, excluding those changes in value that are recorded in net profit or loss for the period.

2. Sectors of the economy

The main sectors of the domestic economy are the financial corporations, non-financial corporations, government units, households, non-profit-institutions.

Financial corporations: comprise the central bank, deposit money banks, non bank depository institutions, other financial corporations, insurance companies and pension funds, other financial intermediaries and financial auxiliaries.

Non-financial corporations: include public and private non-financial corporations.

General government: are legal entities that are established by political process and have legislative, judicial or executive authority over other institutional units within a specific area. They include central government, local governments and the social security funds.

Households: consist of individuals, families, or other groups of persons who share the same living accommodation, pool some or all of their income and wealth, and consume some goods and services collectively.

Non profit institutions: legal or social entities, created for the purpose of producing goods and services, whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control or finance them

For the presentation of the monetary statistics, households and non-profit institutions are combined to make the position "other resident sectors ".

3. Broad money liabilities and their counterparts

3.1 Broad money liabilities

Broad money liabilities comprise currency out of depository corporations, transferable deposits and the other deposits held by other domestic sector with the monetary system, excluding those held by central government. The definition of each component is in section I.

3.2 Counterparts of broad money

These are claims corresponding to broad money. Four types of them exist:

3.2.1 Net foreign assets: total amount of foreign assets less foreign liabilities of the money sector.

3.2.2 Net credit to government: total assets of the central government less its liabilities towards the banking sector.

3.2.3 Claims on other sectors: total assets held by the banking system corresponding to the liabilities of domestic sectors other than the central government and other depository corporations. They form the main component of broad money counterparts.

3.2.4 Other items net: denotes a residual category for other liabilities less other assets, where other liabilities includes all liabilities not included in broad money.

4. Rates

4.1. Lending rate: is the interest rate charged by the banking sector on the loans they grant to the customers.

4.2. Deposit rate: is the interest rate paid by the banking sector on deposits or funds collected from the depositors/lenders.

4.3. Inter bank rate: is the interest rate charged by the banks to their colleagues, and negotiated freely on the interbank market (one of the compartments of the money market).

4.4. Rate of the money market: is the interest rate charged or paid by the central bank during its operations of open market.

4.5. Discount rate: is the interest rate at which the central bank lends its money to commercial banks facing short term needs of cash.

4.6. Rate on the market of the Treasury bills: is a weighed average resulting from the operations of tender on the Treasury bills market over a given period.

4.7. The central bank's rate: is the maximum interest rate that the Central Bank is ready to pay for its seven days' mop ups of cash or the minimum interest rate it is ready to accept for cash loans to commercial the banks if the banking system fall illiquid.

VII. STATISTICAL APPENDICES