

INSTRUCTION N° 02/97 OF 12 AUGUST 1997 BEARING THE ORGANISATION OF THE MONEY MARKET

Given the law n° 11/97 of 26 July 1997 bearing the Statutes of the National Bank of Rwanda, especially in its article 55, 56 and 58;

Given the necessity to enable the National Bank of Rwanda to conduct a more flexible and active monetary policy, centered on indirect control of credit to the economy;

Given the necessity of promoting the mobilisation and optimal use of available financial resources;

Given the decision of the Board of Directors during its meeting of August 12, 1997 ;

In order to enable economic agents meet their financing needs at more competitive conditions;

The National Bank of Rwanda lays down the following dispositions bearing the organisation of the money market:

CHAPTER 1

GENERAL PROVISIONS

Article 1

The monetary market is open, under the conditions specified in the present Instruction, to the following participants : the National Bank of Rwanda hereinafter designated the Bank, deposit banks and other institutions approved by the Bank.

Article 2

The participating parties can exchange liquidities as part of credit lines that they mutually provide to one another or through firm purchases or sales, or through reverse repurchase of public or private bills, or through any other claims agreed upon between them.

Article 3

The conditions of duration and interest rate as well as the nature and the form of guarantees are agreed upon between the participating parties. These guarantees and corresponding documentary supports should however fulfil the eligibility conditions set by the Bank.

Article 4

The Bank intervenes on the money market to supply liquidities as part of injections through invitations to tender or overdrafts or repurchase operations.

It also intervenes to mop up liquidities through invitations to tender issued following the same modalities.

Moreover, in order to daily adjust the market rate in view of the monetary policy objectives, it can punctually intervene on the money market to inject or mop up liquidities.

CHAPTER II

INJECTIONS OF LIQUIDITIES

Article 5

Depending on the market liquidity and its projected development, the Bank determines, on irregular periodicity, the quantity of money it deems appropriate to inject through tender.

It informs the participating parties about its intention of supplying the market with liquidity and communicates to them the following tender characteristics:

- The nature and characteristics of commercial papers it accepts;
- The nature and maturity of bills that can be used as support to the subscription of overall commercial paper for mobilization;
- The value-date and the maturity of advances it is willing to provide;
- The date and hour when tenders have to be handed in.

Article 6

In their tenders, the participating parties should indicate the amounts they intend to borrow and corresponding interest rates classified in a decreasing order of the rate rounded off to 1/16th of percentage points.

Article 7

After the opening of tenders, the Bank supplies, within the limit of liquidities to be injected, the total or a certain percentage of expressed demands and at the rate to be determined according to the method it will have chosen.

It informs participating parties about the retained amounts and the weighted average rate of the tenders.

CHAPTER III

LIQUIDITIES DRAINING

Article 8

If deemed necessary, the Bank can mop up liquidities through tender opened to all participating parties. To this end, it informs the participating parties about its intention to borrow liquidities by specifying the value-date and the duration of the borrowing.

Article 9

The participating parties interested by the tender should indicate in their offers, the amount they are willing to lend as well as the corresponding interest rate. These amounts should be classified in an increasing order of the rates rounded off to 1/16th of percentage points.

Article 10

After the opening of tenders, the Bank closes the loans for up to the amount it intends to mop up in conformity with the method it will have chosen and informs the participants about the claimed amounts and the weighted average (blended) rate of the tenders.

CHAPTER IV**RECOURSE TO REPURCHASE OPERATION AND OTHER INTERVENTIONS****Article 11**

The participating parties may directly resort to the Bank refinancing in the form of repurchase operation. The Bank will fix the interest rate that applies.

Article 12:

The Bank can, at any time, intervene on the market in order to mop up liquidities or to supply liquidities to other participating parties. These operations are carried out at the conditions prevailing on the market.

CHAPTER V**MOBILISATION GLOBAL BILL****Article 13**

In support to their refinancing requests on the money market, participating parties should hand in commercial papers issued to the order of the Bank for a total amount equal at least to the demand amount increased by interests.

Article 14:

The global mobilization commercial papers should be guaranteed by the State or bear the signature of another bank or that of any other guarantor approved by the Bank. In this case, they should represent up to 90 % of the amount of bills used as support. Otherwise, this quota is reduced to 70 %. Only outstanding on principal of credits can be used as support of subscription to commercial papers for mobilisation. These should be stipulated at maturity of advance and supported by a statement of the bills serving as support to them.

CHAPTER VI

BILLS ELIGIBILITY CONDITIONS

Article 15

The bills accepted as supports of mobilisation of commercial papers must be domiciled with a bank and fulfil the conditions stipulated in the legislation in force. The subscriber, in the case of promissory notes, the drawer and the drawee, in the case of bill of exchange, and eventual guarantor in any of these cases, should notoriously be solvent, and must particularly not be listed as defaulter at the *Central credit surveillance*.

Only the public and private bills representing seasonal credits, trade credits or time credits granted with the objective of developing the capacities of production are accepted as supports of operations on the money market.

Article 16

Seasonal credits are those designed to cover seasonal needs corresponding to some exploitation cycles (industrial campaign) or categories of sectors of activities (agricultural or agro-food campaign) or exportation of seasonal produces.

Bills representing seasonal credits should at least bear two signatures, one of the drawer or the subscriber and the other for the remitting bank. They are issued for a maximum of three months maturity. Nevertheless, they can be continuously renewed on the condition that the total duration should not exceed nine months. The renewal is done either through the issuing of a replacement bill or through modification of the initial bill. The authorized signatories approve the renewal either directly on the bill itself, or through a separate act duly legalized or certified by the bank that holds the specimen of signatures.

The bills for the financing of exports must be drawn by exporters on their clients abroad and be guaranteed by a first class non-resident bank.

Article 17

The bills representing trade credits should bear three signatures. These compulsorily represent the drawer signature, that of the acceptor drawee or that of a guarantor and the signature of the remitting bank.

The duration of the bill shall not exceed three months. Nevertheless, this duration may be extended to six or nine months within the limits specified by the Bank regulations. But, at the instant of its submission as a support of commercial paper, the bill's remaining duration should not exceed more than three months to maturity.

The remitting participant shall guarantee to the Bank that the bills presented are for trade motive, and shall have the required supporting documents thereof annexed to them.

Article 18

The bills representing medium-term credits should aim at developing production capacities. They should bear three signatures, the signature of the subscriber, that of the remitting bank and that of the guarantor. In absence of the last signature, the bills are only acknowledged for 70 % of their amounts.

At the time of its submission, the bill's remaining duration should not exceed more than three months to maturity.

Article 19

Not later than the 10th of every month, the participants communicate to the Bank a statement of their bills portfolio by respecting the above-defined eligibility conditions and classified in accordance to maturity.

They are required to inform the Bank on any change in their portfolio and in the situation of credits eligible for refinancing, and, in particular, the anticipation of settlements or deterioration of the beneficiary creditworthiness.

Article 20

The bills accepted as support to commercial papers are endorsed and temporally transferred to the Bank until maturity of the advance. The participant remitting the bills commits himself/herself to repurchase them at maturity.

If a participant wishes to retire the bills before maturity of the advance, he/she must replace them with bills of equal or higher amount and fulfilling the same conditions of eligibility.

Article 21

The Bills remitted as supports should not be subjected to any commitment in favor of any third party.

The Bank can put conditions on its lending operations by constituting complementary guarantees in its favor.

Article 22

The Bank may carry out the necessary controls and verifications to make sure that the conditions of eligibility of the bills presented are respected.

To this effect, in addition to the documents and supporting materials submitted in supports to the bills, the Bank can request any other useful information or justification and carry out any other on-site control.

If it happens that a bill remitted as guarantee does not fulfill the eligibility conditions, the corresponding amount will de facto be debited to the concerned participant's account, with the value-date of the first advance for which the bill was presented as a guarantee.

If need be, for the participant subjected to the constituting of reserve requirements, the latter will be reassessed retroactively. In addition, if the participant's account becomes debtor due to adjustment operated, a penalty whose rate is fixed by the Bank will be applied.

CHAPTER VII

INFORMATION SHARING

Article 23

During the day, market participants must indicate their rates for the supply and demand of liquidities, classified by term. They are required to promptly inform the Bank on the amount and rate applied for each transaction.

At the day end, participants submit to the Bank a summary of all lending and borrowing operations, providing details on the amount, the term and interest rate for each operation.

Article 24

Not later than the working day following the date on which the above information are received, the Bank communicates to participants the weighted average rates by amounts of day-by-day operations and the amounts for other terms. These average rates are rounded up by 1/16th points of the nearest percentage.

The Bank also communicates any other information deemed useful for assessing the money market.

CHAPTER VIII

OTHER DISPOSITIONS

Article 25

The amounts lent to participants in the framework of injection of liquidities through tender or rediscount are recorded, on the date of the operation, as credit into the participants' respective accounts maintained at the Bank

At maturity, these accounts are de facto debited of the principal of the loan marked up with interests. Any debit balance which could result from this recording will entail a penalty whose rate is fixed by the Bank.

Article 26

Practical methods and modalities to implement the injection and drain off of liquidities, as well as penalties specified by articles 22 and 25 will be determined by the Bank and made available to the participants prior to their enforcement.

Article 27

The Bank has the right to cancel any tender, as well as any other operation deemed prejudicial to the monetary policy running.

Article 28

The money market operates without interruption all working days from 8h30 to 16h00.

CHAPTER IX**FINAL DISPOSITIONS****Article 29**

Any previous dispositions contrary to, or overlapping with provisions of the present Instruction are abrogated.

Article 30

The present Instruction enters into effect starting from September 1, 1997.

Kigali, August 12, 1997.

François MUTEMBEREZI
Governor