

***The National Bank of Rwanda implements the monetary policy through three tools:***

◇ ***Open market operations;***

◇ ***The discount rate;***

◇ ***The reserve requirement.***

During last decade, the Central bank used, a weekly auction for absorbing or injecting liquidity. From may 2008 to date, NBR replaced weekly auction and deposit facility(overnight) by repos operations.

***a. Open market operations***

The Central bank accepts surplus liquidity from banks and in return transfers eligible securities to them as collateral. The two parties agree to reverse the transaction at a future point in time, when the Central bank as borrower repays the principal of the loan plus interest and the creditor bank returns the collateral to the Central bank. The duration of these operations can vary between 1 to 14 days. Repos with shorter maturities are executed from time to time depending on the forecasts of banking sector liquidity. Owing to the systemic liquidity surplus in the Rwanda banking sector, repo tenders are currently used exclusively for absorbing liquidity.

The bids are ranked using the Dutch auction procedure, i.e. those with the lowest interest rate are satisfied as having priority and those with successively higher rates are accepted until the total predicted liquidity surplus for the day is exhausted. If the volume ordered by the banks exceeds the predicted surplus, the Central bank either completely refuses the bids at the highest rate or reduces them pro rata. Repo tenders are usually announced on Friday after the the Monetary Policy Committee's meeting and on an other working day banks can bid for 1-day repo at around 2:00 PM. Banks may submit their orders - i.e. the amounts of money and the interest rates at which they want to enter into transactions with the Central bank- within a prescribed time. The minimum acceptable volume is RWF 50 million. Bids exceeding the minimum must be expressed as multiples of RWF 50 million.

**b. Reserve requirement:** Cash reserve requirement can affect banks's free reserve in short run and supply of broad money. The cash reserve is one of the instruments available to NBRfor controlling base money.

**c. Discount window facility:** Central bank usually limit access to their fundsby commercial banks,by using a penalty rate and /or through the prescribed amount.

- *The supplementary monetary instrument* is forein exchange operations(sales) mainly to smooth unexpected liquidity fluctuations in the market.

Treasury bills and Treasury Bonds market dominate the money market in Rwanda. Treasury bills can be mobilised for government financing or for monetary purposes for absorbing excess liquidity for long duration.

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