



NATIONAL BANK OF RWANDA

INTERNATIONAL CONFERENCE ON MONETARY POLICY FRAMEWORKS IN DEVELOPING COUNTRIES: PRACTICE AND CHALLENGES

EXPERIENCE OF RWANDA

Kigali, Serena Hotel, July 20th , 2012



OUTLINE

- I. **BNR MONETARY POLICY BACKGROUND**
- II. **MONETARY POLICY FRAMEWORK**
- III. **MONETARY POLICY INSTRUMENTS**
- IV. **MONETARY POLICY COMMUNICATION STRATEGY**
- V. **POLICY COORDINATION: DEAL WITH SUPPLY SHOCKS**
- VI. **ACHIEVEMENTS**
- VII. **CHALLENGES**
- VIII. **WAY FORWARD**



I. BNR MONETARY POLICY BACKGROUND

- BNR is an independent Central Bank
- **Main missions of the BNR:**
 - ✓ Ensure and maintain price stability;
 - ✓ Enhance and maintain a stable and competitive financial system without any exclusion;
 - ✓ Support Government's general economic policies, without prejudice to the two previous missions.



BACKGROUND (CTD)

- ❑ **To achieve its mission, BNR shall :**
- ✓ Define and implement the monetary policy;
- ✓ Supervise and regulate the financial sector: banks, microfinance institutions and pension funds institutions;
- ✓ Supervise and regulate payment systems.



BACKGROUND (CTD)

- BNR monetary policy framework can be grouped into 3 distinct time periods:
 - ✓ 1964-1990: use of direct monetary instruments;
 - ✓ 1990-1995: transition to financial liberalization
 - ✓ Since 1995: Use of indirect monetary policy instruments



BACKGROUND (CTD)

- In this presentation, we focus on the BNR experience in monetary policy formulation and implementation during the recent period (1995-2012)



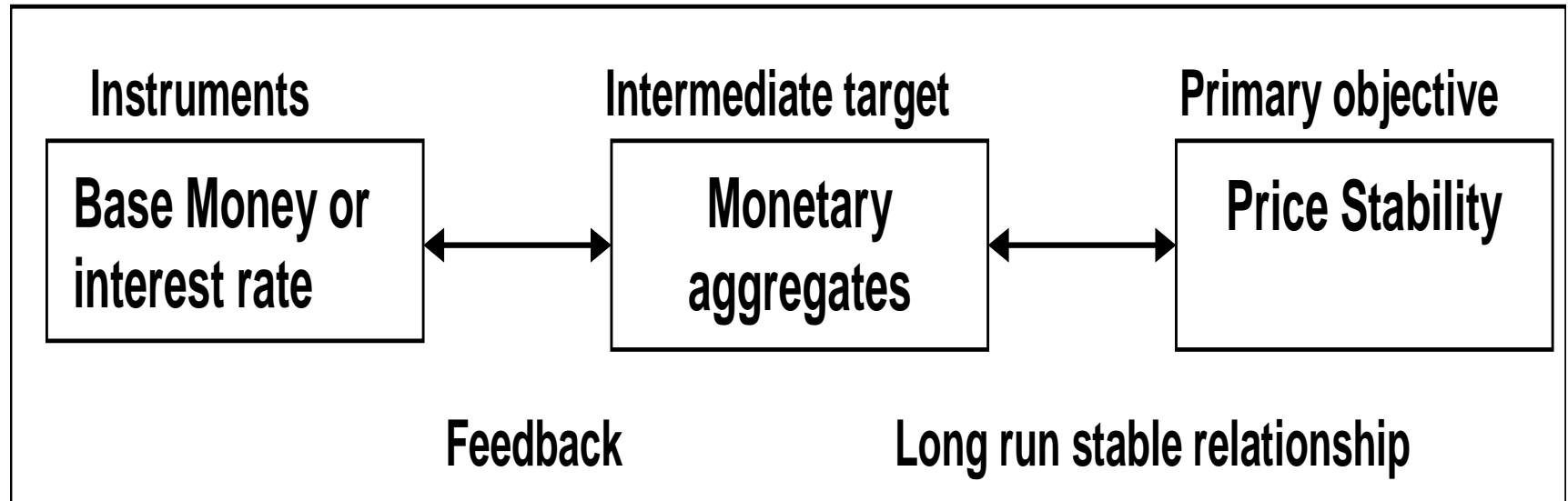
MONETARY POLICY FRAMEWORK

- Current Monetary Policy Framework: monetary targeting regime, since 1995
- Nominal anchor: Broad money, M3
- Operating target: Reserve money
- Ultimate objective: Price stability



MONETARY POLICY FRAMEWORK (CTD)

- The monetary policy transmission mechanism can be illustrated as follow (from the quantity of reserve money to inflation):





MONETARY POLICY FRAMEWORK (CTD)

- **Formulation and implementation framework:**
 - ✓ Annual monetary programs under PSI since 2010 following PRGF;
- **Key assumptions:**
 - ✓ Stability and predictability of money multiplier
 - ✓ Stability of money demand: link between M3 and inflation



MONETARY POLICY INSTRUMENTS

- ❑ **Open market operations:**
 - ✓ Repos: for liquidity absorption;
 - ✓ Reverse-Repos: for liquidity injection;
 - ✓ Key Repo rate (KRR) is the central bank rate: its change is decided by the Monetary Policy Committee (MPC)
 - ✓ T-bills (4 weeks, 13 weeks, 26weeks and 52 weeks...);
 - ✓ Lending and deposit standing facilities
- ❑ **Discount window (KRR+4%)**
- ❑ **Reserve Requirements**



MONETARY POLICY COMMUNICATION STRATEGY

- ❑ Since 2010, BNR has significantly improved its monetary policy communication strategy with the public.
- ❑ **Main objectives:**
 - ✓ Influence economic agent's expectations;
 - ✓ engage the public support for the long run goal of price stability;
 - ✓ Increase the transparency and accountability of BNR.



MONETARY POLICY COMMUNICATION STRATEGY (CTD)

- **Tools of communication strategy:**
 - ❑ **Communication of MPC decisions: briefing to MDs of banks, press release, press conferences, publications, etc...**
 - ❑ **Monetary policy and Financial Stability Statement by the Governor (in Kigali and provinces):**
 - ✓ At the beginning of the year: Assessment of the previous year and announcement of the programme of the year.
 - ✓ A mid term review: to assess the achievement after the first half of the year.
 - ❑ **Financial awareness campaign**



POLICY COORDINATION: DEAL WITH SUPPLY SHOCKS

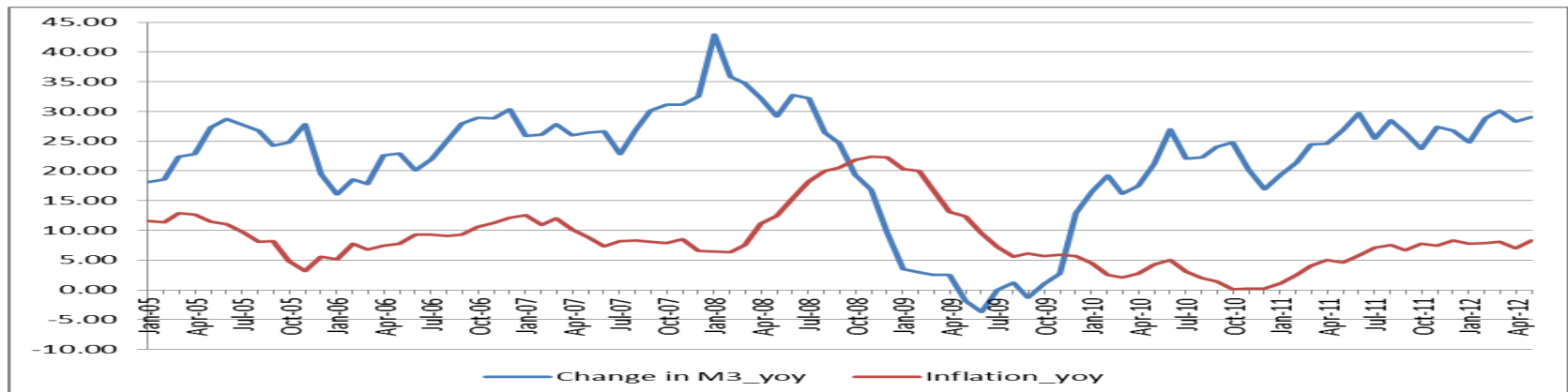
- To achieve its goal of price stability BNR has played an important role in:
- ✓ Bringing on board key stakeholders involved in economic management to coordinate policies and actions to mitigate the impact of supply shocks on inflation.
- ✓ Strengthened coordination between monetary and fiscal policies by a joint BNR/MINECOFIN Treasury Management Committee



ACHIEVEMENTS

- BNR monetary policy has contributed to achieve low and relatively stable inflation

Chart 1: Link between M3 and inflation (overall stability of money demand)

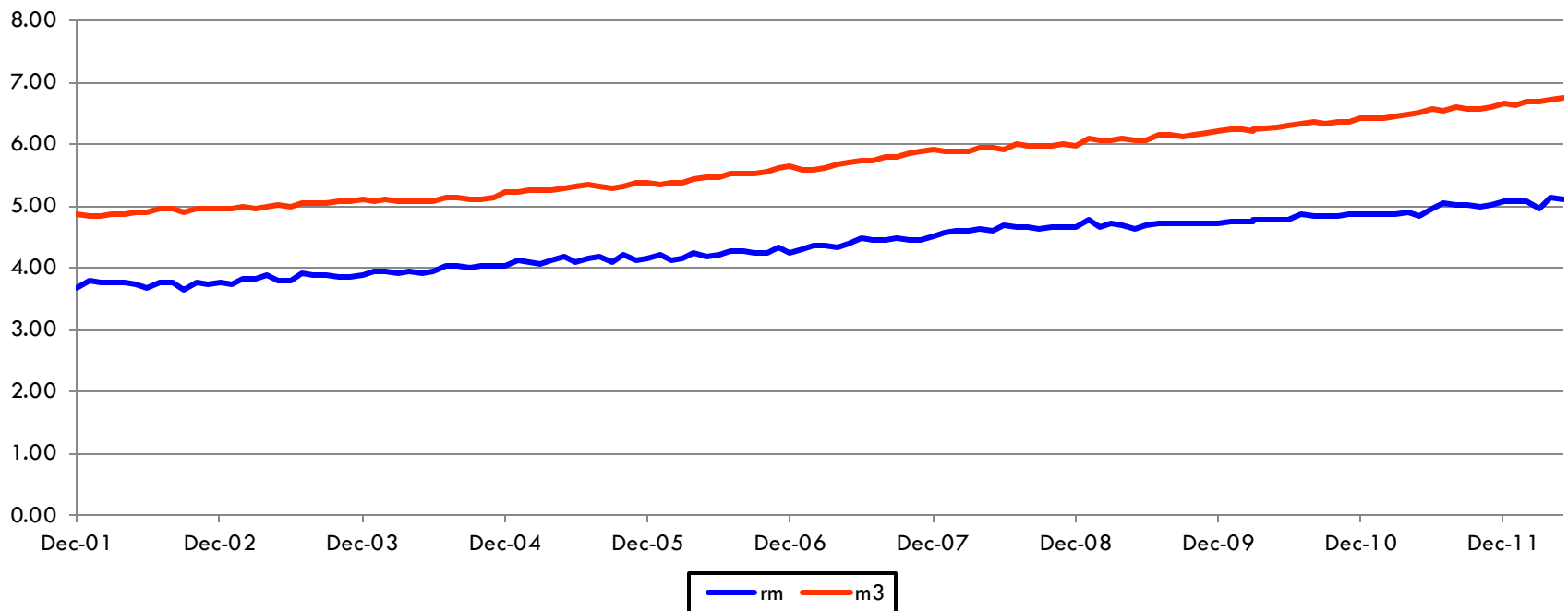




ACHIEVEMENTS (CTD)

- **Link between Reserve money and M3: BNR controls M3 through Reserve Money.**

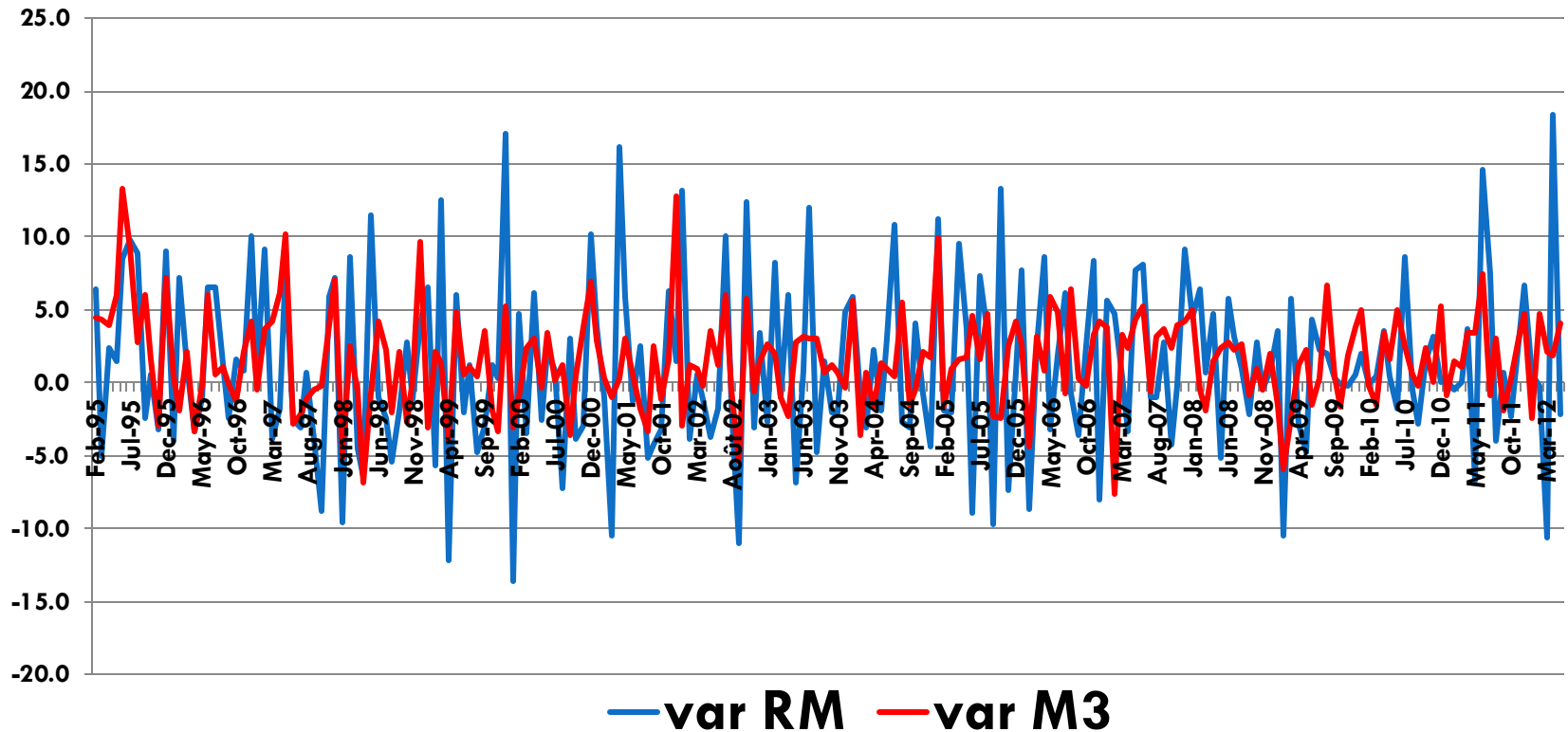
Chart 2: Stability of the money multiplier





VI. ACHIEVEMENTS (END)

Chart 3: M3 and Reserve money, monthly changes





VII. CHALLENGES

- Since recently, there is indication of instability of money demand and money multiplier (in short term);
- Weak monetary transmission mechanism and important lag in the relationship between money supply and prices ;
- Dominance of currency in circulation out of BNR (70.0% in average) in the Reserve Money;
- Financial sector not yet well developed.



VIII. WAY FORWARD

- Introduction of flexibility in the monetary targeting regime, such as a range of targeted aggregate instead of a fixed level.
- Development of the Financial sector to improve the transmission mechanism;
- Development of payment systems to reduce the level of currency in circulation out the banking system;
- Increase the BNR capacity in policy oriented researches.



THANK YOU FOR YOUR KIND ATTENTION