Banque Nationale du Rwanda

National Bank of Rwanda

QUARTERLY BULLETIN

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I GENERAL ECONOMIC SITUATION

I.1 INTERNATIONAL ECONOMIC SITUATION

The world economic growth has continued to grow at a steady pace, in spite of a slight decline experienced in some countries. In general, the industrial production slightly slowed down towards the end of last year, but the manufacturing sector remains relatively solid. At the same time, the service sector activities remain strong although they have somewhat declined since the beginning of the year.

The general price trend remains strongly influenced by the fluctuations of energy prices. The rise in consumer prices, excluding foodstuffs and energy, remains at a relatively reasonable level.

In the United States, the GDP growth strongly recovered in the last quarter of 2006 due to the revival of consumption boosted by the fall in energy prices and the labor market. However, the results of the survey indicate that the economic activity should evolve at a more moderate intervals during the coming quarters.

Concerning capital markets, the interests on the American Government loans at 10 years passed from 4.56% to 4.64% between 1st and 30th March 2007, within the context of increasing concern about inflationary risks. As regards monetary policy, the Federal Reserve maintained its reference rate at 5.25 % at the end of the meeting of March 21, which is the same level since June 2006.

In Japan, the available economic figures enable to forecast an overall steady strengthening of the economic activity, although in a less extent, compared to the previous year. The industrial production index fell by 1.5% in January, in adjustment of the sharp increase recorded in December 2006, and in line with the world manufacturing cycle, particularly in the electronic sector.

The Japanese GDP increased to 2.2% during the second quarter, following the expected slight drop in oil prices during the same period, and the progressive upturn in the demand for imports from emergent Asian countries

The firmness of the activity would encourage the Bank of Japan to gradually adjust its monetary policy and increase its reference rate of 0.5% at the end of March 2007 to 1% towards the end of the year.

In the Euro zone, the growth of GDP strongly accelerated during the last quarter of 2006, increasing from 1.4% in 2005 to 2.7% throughout the year 2006. This growth recovery was ascrabable to the good performance of the domestic demand and the increase in exports, particularly in emerging countries. However, the available results of the survey show a slight faltering of the activity during the first quarter of 2007.

Several factors are likely to burden the prospects for growth in the zone, including particularly the impact of the raising of the VAT in Germany, the decline in external demand, in a context of increasing pressure, with the rise of the Euro and the belated effect of the monetary conditions on the economy.

Under these conditions, the growth of GDP should gradually slow down to stabilize at around 2.2% in 2007, in line with its long-term potential.

Concerning budgetary policy, the economic recovery in 2006 caused a general decrease in deficit. As for the year 2007, a part from France, countries with excess deficit are compelled to expend more rigor.

In general, the deficit in the Euro zone is stabilizing at 1.6% of the GDP in 2007. This effort is mainly attributed to Germany and Italy where the deficit was brought back respectively from 2% to 1.3% and from 5.7% to 3.3% of the GDP.

In addition, the ECB raised its reference rate by at least 25 points with the discount rate expected to stabilize at 4% at the end of the year.

In emerging countries, the economic activity is continuing to improve at relatively steady intervals, in particular in the greatest economies of the area. In China, the industrial production increased in February at an annual rate of 12.6 %. The annual rise of the consumer price index rose from 2.2% in January to 2.7% in February.

Taking into account of the excess liquidity in the banking system, the Cooperative Bank of China decided on March 17, 2007 to raise its deposit and lending rates by 27 basic points.

In India, the industrial production increased its annual rate to 10.9 % in January. The rise in the wholesale prices, which is a preferred measurement of inflation of the Reserve Bank of India, was 6.5 % in March. In this context, the Reserve Bank of India raised its reference rate by 25 basic points, bringing it to 7.75% on March 30, 2007.

In Brazil, the industrial production increased by 3% on year to year basis in February 2007, while the annual inflation stabilized at 3%. On March 7, the Central Bank reduced its reference rate by 25 basic points; bring it to 12.75%.

In most African countries, the economic activity is characterized by a deterioration in relation to the difficulties of the major agricultural exports sectors. The growth rate of the GDP of EMUWA

(Economic and Monetary Union of West Africa) countries stabilized at 3.2% in real terms at the beginning of the year 2007.

The rate of price increase was 2.3% on average at the beginning of the year, compared to 4.3% in 2005. The public finance situation indicates a deterioration of the overall budget balance in spite of increasing efforts to mobilize tax revenues.

The prices of raw materials, excluding energy, increased mostly in February as a result of the rise in prices of industrial raw materials and foodstuffs. The aggregate price index of raw materials in dollars, excluding energy, approximately accounted for 25% above the registered level in the previous year, at the end of March.

After a sharp decline at the beginning of the year, the oil prices shoot up and stabilized at USD 68.5 per barrel at the end of March, which is a rise of more than USD 7, compared to the beginning of the month.

The increase in prices was mainly explained by the decline in the stock of petroleum products within developed countries and the increasing geopolitical risks following the exacerbation of the tensions around the Iranian nuclear crisis.

In terms of future prospects, the approach of "driving season" in the United States at the time when gasoline stocks are lower, compared to the same period of the previous year, enables to suggest that oil prices could probably remain high. This development is consolidated by short-term rates, which are currently at USD 70 per barrel in the March 2008 delivery.

The American and European stock exchange markets regained their strength in March. The S&P 500 stock exchange index progressed to 1.3% in relation to market expectations with possible decline in reference rates of the Federal Reserve.

On the other hand, the Eurostoxx 50 index, which is a reference of the Euro zone, shoot up by 3.7% over the same period, benefiting from the improvement of the business climate in the Euro zone and the resumption of the fusion-purchase operations.

In the same way, the"MSI-EM" emerging stock exchange index in dollars increased by 5.3% in March, reflecting a renewal of confidence of the investors in emerging market actions, in particular those of emerging Asia and Europe.

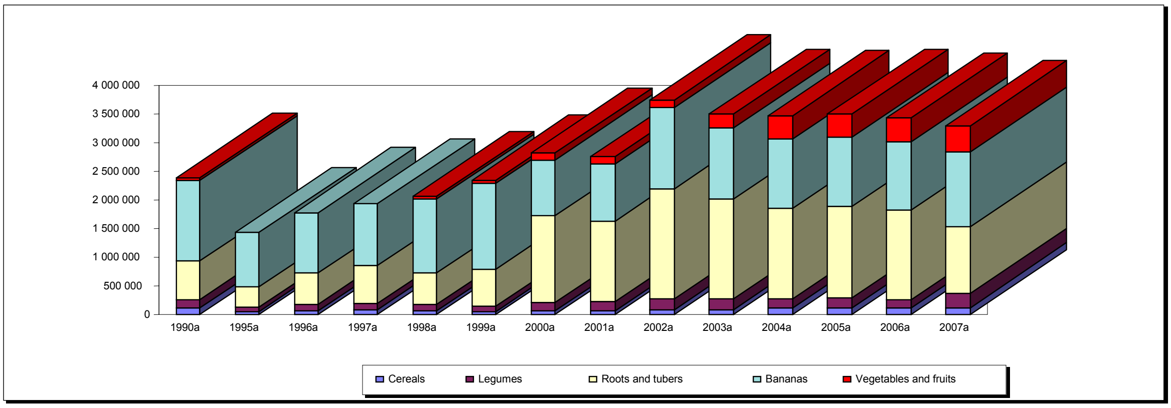
I.2 NATIONAL ECONOMIC SITUATION

I.2.1 SECTORAL PERFORMANCE

A. Agricultural Production

According to the MINAGRI food production statistics, the counter-performances of the agricultural sector kept up during the 2007A season. The total food production is estimated at 3.295 million tons against 3.432 million tons recorded during the same season of the previous year, that is a decrease of 4%. This fall is mainly explained by heavy rains that damaged the crops, especially in the Northern and Western Provinces.

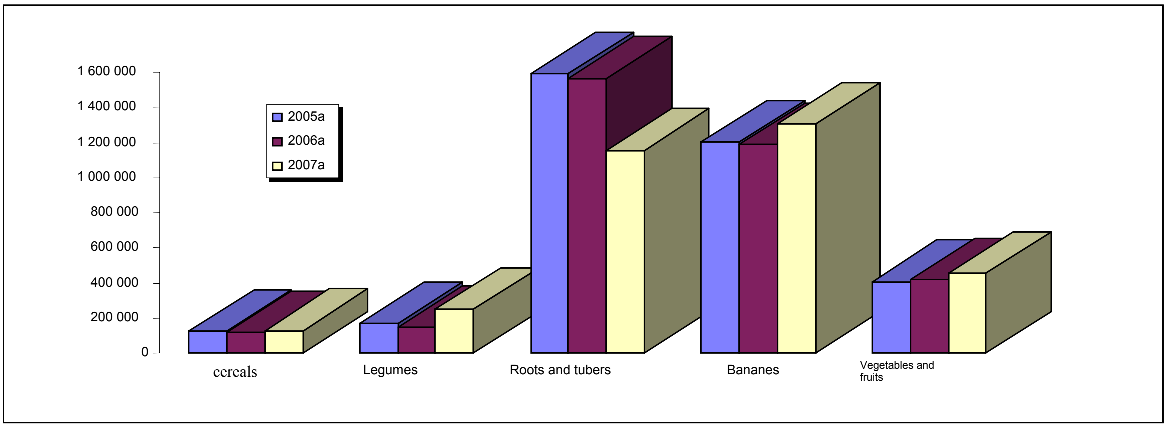
Fig. 1: Agricultural production development, season A (in thousands of tons)



Source: MINAGRI

Tubers, which accounted for 35% of the total food production, were affected by bad weather to the extent that their total production dropped by 26%, compared to the same season of 2006. Nevertheless, the production of other crops improved by about 70% for legumes and 10% for cereals, bananas, and market gardening and fruits respectively.

Figure 2: Food production for the last three seasons A (in tons)

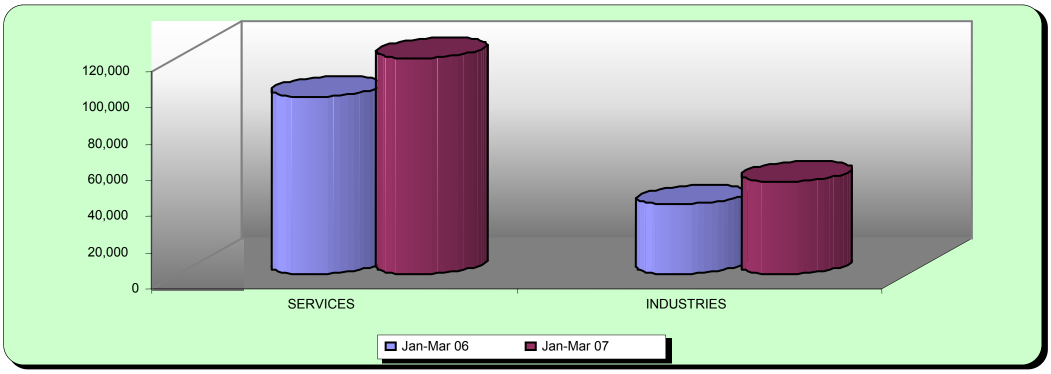


Source: MINAGRI

B. Non agricultural activities

The economic situation remained favorable enough for non agricultural activities during the first quarter of 2007, compared to the same period in 2006. The total turnover achieved by large industrial companies and services during the first three months of 2007 increased by 25.4%, remaining lower than that of the last quarter in 2006. This situation is characteristic of the beginning of the year, when the household consumption declines, after having reached the top at the end of the previous year.

Fig. 3: Turnover for large industrial service companies of the country, January-March 2006/2007 (in millions of RWF)

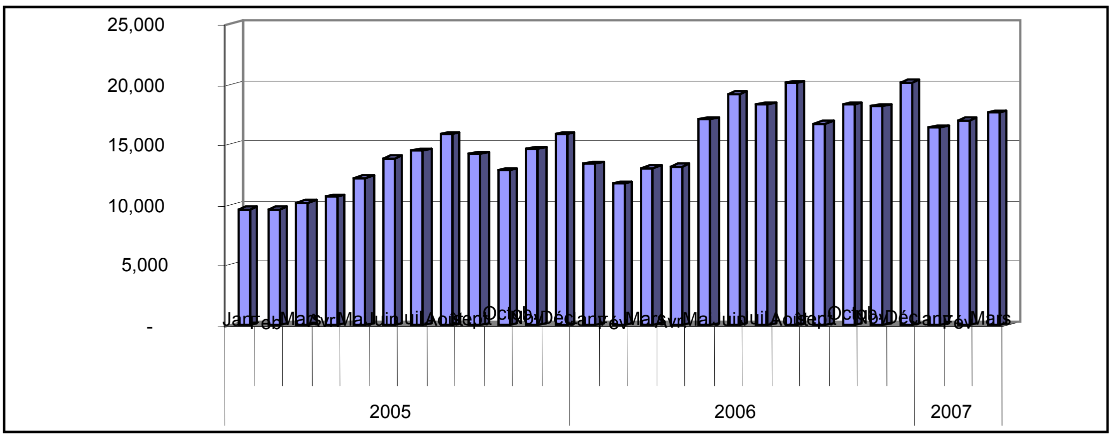


Source: RRA, Department of large Taxpayers

B.1. Industrial sector

The industrial sector dominated by manufacturing industry, large companies recorded an increase in turnover of 33.8% during the first quarter of 2007, compared to the same period in 2006. However, January recorded a decrease of 19% compared to December, followed by the boosting of sales in March and February, with a respective monthly rise of 3.7% and 3.5% in turnover.

Fig. 4: Turnover of large industrial companies (in millions of RWF)



Source: RRA, Department of Big Taxpayers

B.1.1. Manufacturing industry

The manufacturing sector proved to be performing with a rise of 14.2% of large companies' turnover during the first quarter of 2007, compared to the same period in 2006, due to the drink production sector whose large companies' turnover increased by 18.1%. However, compared to December 2006, during the months of January, February and March 2007, the turnovers of these companies decreased respectively by 13%, 25% and 11%.

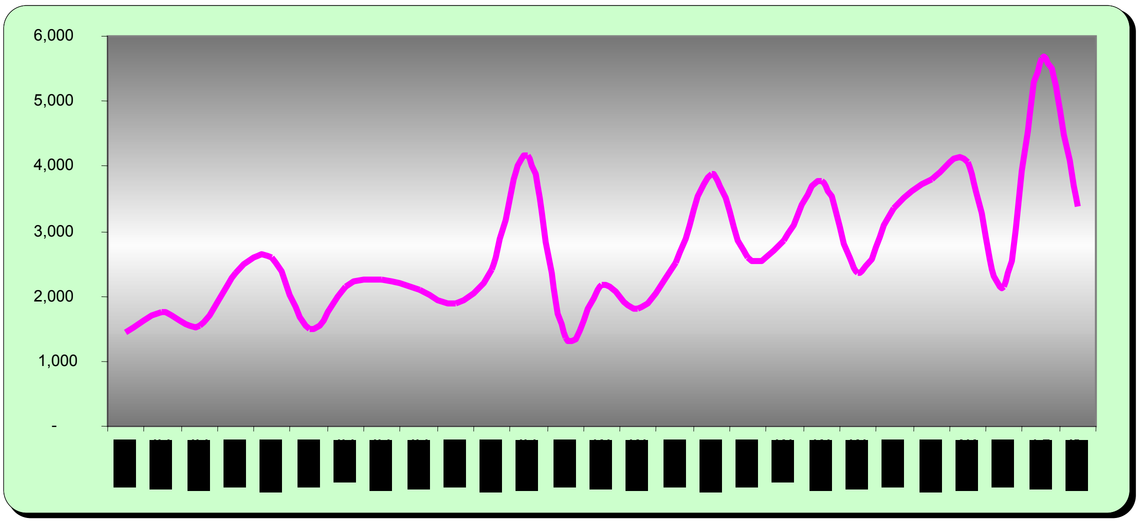
B.1.2. Energy sector

The turnover of large energy sector companies increased by 26.2% during the first three months of 2007, compared to the same period in 2006. Nevertheless, compared to December 2006, this turnover decreased by 6% and 2% respectively in January and February, following the fall in electricity prices for industrial companies, decreasing from RWF 112/KWh to RWF 105/KWh at the beginning of this year. However, in March, an increase in electricity consumption was marked with monthly increase of turnovers of these companies by 25%, and compared to December; an increase of 14% was recorded.

B.1.2. Construction industry and public works

The construction activity continued to progress during the first quarter of 2007 and the turnover of this large enterprise of the sector companies experienced an increase of more than 100%, compared to the same period in 2006, due, inter alia, to the full expansion of the rehabilitation of significant public infrastructures.

Fig. 5: Development of the total turnover of large construction and public works companies (in millions of RWF)

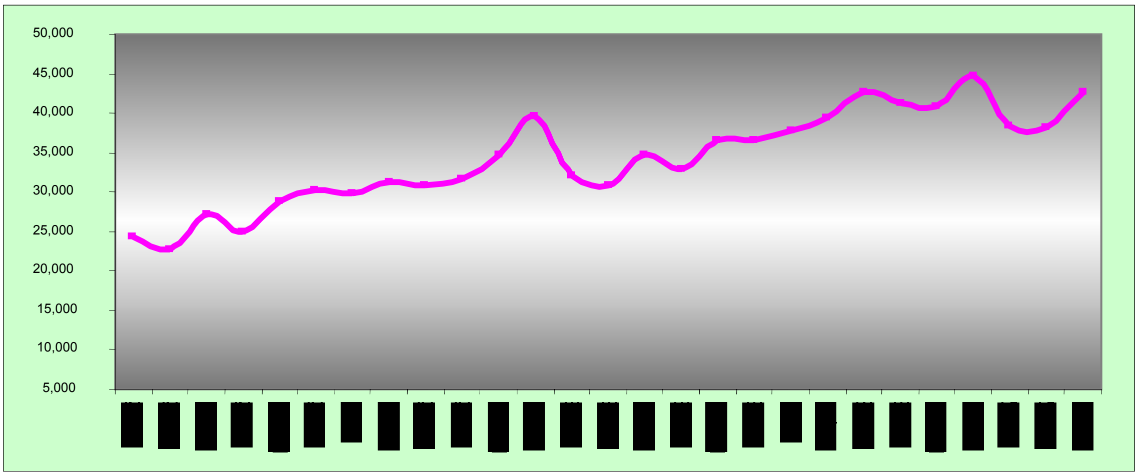


Source : RRA, Department of Large Companies

B.2. Service sector

The service sector was favorable during the first quarter of 2007. Thus, compared to the same period in 2006, the turnover of this sector's large companies rose by 22.2%. The turnover of large business concerns which accounts for 45.9% of the total turnover of large companies of this sector increased by 30.4%, while that of Banks and Insurance Companies increased by 14.7%. However, during January and February, the general turnover of the sector recorded negative monthly variations of 14% and 0.4%. The turnover in March experienced a monthly increase of 29.4%.

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



Source: RRA, Department of Large Taxpayers

I.2.2 INFLATION

A. Overall inflation

During the first quarter of 2007, the general price index of goods and service increased significantly from 137.0 to 146.2 from December 2006 to March 2007, that is an overall inflation of 6.7%.

Overall inflation, in terms of year-to-year basis, was higher than the one in 2006, as it passed from 6.8% to 11.8% from March 2006 to March 2007. This high increase was explained by a big rise in the prices of local products and services, like medical consultation fees and, to a lesser extent, the prices of imported products, such as drugs. The rise in the prices of local products became more significant, reaching 14.8% at the end of the first quarter of 2007 compared to 8.7% in March 2006. The rise in the prices of imported products was 3.8% against 2.3% in March 2006.

The analysis of the household's basket shows that the increase in inflation in terms of year to year basis in the first quarter of 2007 was mainly due to the rise in the "foodstuffs and non alcoholic beverages" index, that is 21.5% in January, 19.1% in February, and 12.8% in March. With respective changes in vegetable prices of 39.1%, 36.1% and 26.3% in January, February and March. The high increase in vegetable prices was due to the disturbance in climatic conditions.

The monthly inflation was higher in January and March 2007, compared to the same months in 2006, that is 2.3% and 2.3%, compared to 1.8% and 1.5% respectively. In February, the situation was rather reversed with a change of 2% against 3.7% in the previous year.

The table below shows the trend of the prices of goods and services of the household's basket.

Table 1: Development of the consumer price index (in %; base 2003=100)

Item	Weighted	2006						2007		
		Jan	Feb	Mar	Jun	Sept	Dec.	Jan	Feb	Mar
1. Foodstuffs, non alcoholic drinks	**3.709**	**2.1**	**4.4**	**5.4**	**2.9**	**0.0**	**2.0**	**2.5**	**2.4**	**0.3**
- Bread and Cereals	625	2.5	2.9	3.3	2.5	-0.3	2.3	0.6	0.4	-0.2
- Meat	345	5.1	-0.3	-2.0	1.9	-0.4	1.0	4.1	-4.1	0.5
- Fish and Seafood	114	-1.0	1.2	5.5	-0.3	-2.4	-2.3	-0.7	1.5	7.1
- leguminous plants	1,332	2.9	8.3	11.1	5.2	-0.8	2.5	5.2	6.1	-0.2
- non alcoholic drinks	180	0.5	0.4	1.1	0.0	0.1	-0.4	0.4	4.6	-0.9
2. Alcoholic beverages and tobacco	**221**	**0.3**	**0.3**	**-0.1**	**-0.1**	**0.0**	**0.3**	**1.4**	**10.4**	**-3.1**
3. Clothes and footwear	**500**	**0.2**	**0.0**	**0.3**	**0.2**	**-0.6**	**0.2**	**0.2**	**0.5**	**-2.2**
4. Housing, water, gas, electricity and other fuels	**1,579**	**-0.1**	**10.5**	**-3.0**	**-1.9**	**2.3**	**-0.4**	**4.4**	**-0.1**	**13.0**
5. Furniture, household equipment and current house upkeep	**764**	**1.1**	**-0.2**	**0.0**	**-0.9**	**0.0**	**0.4**	**0.1**	**1.0**	**-0.9**
6. Health	**708**	**0.4**	**0.2**	**-0.9**	**0.6**	**-0.8**	**1.6**	**3.8**	**6.4**	**-0.6**
7. Transport	**987**	**0.6**	**0.7**	**0.3**	**0.1**	**6.1**	**-1.0**	**0.6**	**0.3**	**0.2**
8. Communication	**37**	**0.0**	**0.7**	**0.2**	**0.0**	**0.5**	**0.0**	**-0.7**	**0.2**	**0.0**
9. Leisure, culture	**206**	**0.2**	**-0.1**	**0.4**	**-0.1**	**-0.6**	**0.7**	**0.3**	**-0.8**	**0.8**
10. Education	**432**	**21.2**	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**12**	**0.0**
11. Restaurants and hotels	**273**	**-2.7**	**-1.5**	**0.0**	**4.8**	**7.1**	**-0.4**	**2.6**	**0.8**	**0.5**
12. Miscellaneous goods and services	**584**	**0.5**	**-01**	**0.1**	**0.3**	**0.0**	**0.0**	**-0.3**	**-0.5**	**0.4**
Total	**10,000**									
INFLATION										
Monthly		1.8	3.7	1.5	0.9	1.0	0.8	2.3	2.0	2.3
Year-to-year basis		5.2	7.8	6.8	9.4	9.3	12.1	12.6	10.8	11.8

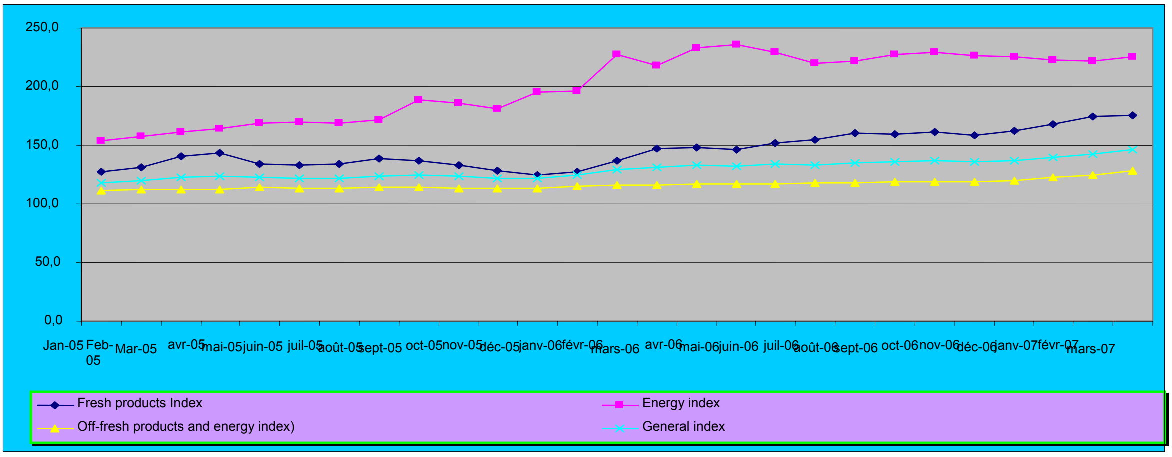
Source : NBR, Research Department

It appears that foodstuffs prices, mainly legumes were the major sources of inflation during the first quarter of 2007, but it should be noted that the increase in school fees, communication charges and the prices of beer and lemonades (soft drinks), which increased significantly due to the upward adjustment of excise duties.

B. Underlying Inflation

The rise in underlying inflation, which had been going on since last December, accelerated in terms of year to year basis throughout the year from January-March 2007, amounting respectively to 6.0%, 7.5% and 10.8% in January, February and March 2007, compared to 3.6% in January and February, and 3.2% in March 2006. This situation is explained by the specific rise in the prices of products and services other than fresh foodstuffs and energy. As stated above, these are school fees, drink prices as well as health drugs and services.

Fig. 7: Overall underlying inflation development for the 2005- 2007 period (CPI, base 2003= 100)



Source: NBR, Research Department

It is should be noted from the table below that the inflation in terms of year to year basis for fresh foodstuffs is far higher than that of 2006 as it passed from 0.4%, 4.2% and 4.7% in 2006 to 31.3%, 27.6% and 18.7% in 2007, respectively in January, February and March.

Table 2: overall underlying inflation development, in %

	-	2006						2007		
	Weighted	Jan	Feb	Mar	Jun	Sept	Dec.	Jan.	Feb.	Mar
FRESH PRODUCTS INDEX	2186	127.8	136.5	147.4	152.2	159.7	162.4	167.7	174.1	175.0
Monthly changes		*2.7*	*6.8*	*8*	*3.9*	*-0.3*	*2.6*	*3.3*	*3.8*	*0.5*
Year- to-year basis		*0.4*	*4.2*	*4.7*	*14.4*	*16.6*	*30.5*	*31.3*	*27.6*	*18.7*
ENERGY INDEX	761	195.8	227.8	218.1	229.3	227.7	225.1	223.0	221.9	225.3
Monthly changes		*0.1*	*16.3*	*-4.3*	*-2.8*	*2.9*	*-0.5*	*-0.9*	*-0.5*	*1.5*
Year- to-year basis		*27*	*44.7*	*35.4*	*35*	*20.5*	*15.1*	*13.9*	*-2.6*	*3.3*
INDEX EXCLUDING FRESH PRODUCTS AND ENERGY (Underlying index)	7053	115.6	115.9	116.2	117.4	119	119.6	122.5	124.6	128.7
Monthly variation		*1.8*	*0.3*	*0.3*	*0.5*	*1.1*	*0.4*	*2.4*	*1.8*	*3.3*
Year- to-year basis		*3.6*	*3.6*	*3.2*	*3.3*	*4.5*	*5.3*	*6.0*	*7.5*	*10.8*
GENERAL INDEX	10000	124.3	128.9	130.8	133.5	136.2	137.0	140.0	142.8	146.2
Monthly changes		*1.8*	*3.7*	*1.5*	*0.9*	*1*	*0.8*	*2.2*	*2.0*	*2.3*
Year-to-year basis		*5.2*	*7.8*	*6.8*	*9.4*	*9.3*	*12.1*	*12.6*	*10.8*	*11.8*

Source: NBR, Research Department

II. EXTERNAL SECTOR

II.1 TRADE BALANCE

The upward trend of imports and exports experienced these last years continued during the first quarter of 2007, with a significant increase in imports and exports. The achievements at the end of March 2007 shows a respective increase of 56.54% and 31.09% in exports and imports value, compared to the same period of the year 2006. In spite of the increase in exports, the import-export coverage remains very weak, about 22.93% for the period under review, compared to only 19.2% in the first quarter of 2006.

For the whole year 2007, a significant increase of about 29% in imports is mainly expected from the importation of equipments and fuel, taking into account the investments also expected from the private sector and many projects. Exports forecasts for this year show an increase of about 14% from traditional exports, including coffee, tea and minerals.

Table 3: Trade balance, Quarter. 1, 2006/2007 period (Value in millions of USD, volume in thousands of tons)

	Quar. 1, 2006		Quar.1, 2007		% changes	
	Value	Volume	Value	Volume	Value	Volume
EXPORTS	**20.0**	**11.3**	**31.3**	**15.7**	**56.5**	**38.8**
Coffee	2.6	1.4	2.3	1.3	-12.0	-6.7
Tea	7.7	4.2	7.8	4.4	1.2	4.7
Tin	2.2	0.6	4.9	0.9	124.0	54.7
Coltan (Colombo tantalite)	2.2	0.1	3.	0.2	45.4	34.5
Wolfram	1.7	0.3	6.6	0.9	282.6	215.2
Hides and skins	0.6	0.4	0.9	0.5	53.1	24.4
Pyrethrum	0.0	0.0	0.6	0.0	-	-
Other export products	0.9	1.8	1.6	3.4	84.1	90.4
Re-exports	2.2	2.6	3.6	4.2	60.1	62.6
IMPORTS	**104.2**	**113.3**	**136.6**	**173.8**	**31.1**	**53.5**
FINAL CONSUMER GOODS	**30.3**	**29.0**	**42.7**	**71.7**	**40.9**	**147.2**
Of which: Foodstuffs	7.9	17.9	16.3	58.1	107.4	224.6
- Pharmaceuticals	6.0	0.5	7.3	0.6	21.2	18.5
CAPITAL GOODS	**25.3**	**4.0**	**38.3**	**6.4**	**51.1**	**61.2**
Of which: Transport materials	5.4	1.4	13.6	2.9	151.7	111.7
- Machines, devices and tools	15.4	1.8	18.8	2.3	21.7	27.0
INTERMEDIARY GOODS	**28.0**	**41.8**	**31.9**	**53.9**	**13.7**	**28.8**
Of which: construction materials	9.1	21.5	9.2	24.5	0.6	13.9
- Products of industrial use	15.1	18.3	16.4	20.7	9.0	13.1
- Fertilizers	0.2	0.6	3.5	7.1	**1981.2**	**1152.7**
ENERGY AND LUBRICANTS	**20.**	**3.,4**	**23.8**	**41.8**	**15.7**	**8.8**
Of which: Fuel	19.5	3.5	22.1	40.5	13.4	7.9
TRADE BALANCE	**-84.2**		**-105.3**		**25.0**	
Import-Export rate coverage, in %	**19.2**		**22.9**		**19.4**	

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

II.1.1 EXPORTS

Rwanda's exports are dominated by traditional products, such as coffee, tea and some minerals (Tin, Coltan and Wolfram), which constitute 78.8% of the total exports over the January-March 2007 period.

Coffee exports will reach 28,000 tons this year of which 18,000 tons of ordinary coffee and 10,000 tons of fully washed coffee. The expected earnings will amount to about USD 62 millions according to OCIR Cafe's forecasts. The average price of ordinary coffee for the first three months of the year is USD 1.97/kg, which is almost the same price as the average price in the year 2006, which makes one believe that the price will not experience significant fluctuations during the 2007 season.

However, OCIR Café's forecasts for quality fully washed coffee seem too optimistic given the achievements of the previous years. It is more probable that the amount of fully washed coffee will be about 5,000 tons and 23,000 tons for ordinary coffee. The number of washing stations will pass from 74 at the end of 2006 to 120 this year.

Tea exports forecasts for this year are about 18,786 tons, that is an expected increase of 13.7%, compared to the year 2006. For this first quarter of 2007, the tea price experienced a decline of 3.31% compared to the same period in the previous year. Consequently, the average price of tea passed from USD 1.82/kg in the first quarter 2006 to USD 1.76/kg in the first quarter 2007.

The mining sector exports continue to show good performances. All major minerals (Tin, Coltan and Wolfram) recorded a significant increase in value and volume during the first quarter of the year 2007. This trend could continue throughout the year in accordance with the high level of metal prices (mainly tin and wolfram) on the international market due to an increasing demand.

The volume of Tin exports increased significantly by about 54.7% and the price experienced a rise of 44.82% during the first quarter of this year, compared to the same period of the previous year. Wolfram also recorded good performance with increase of 215% in volume and 282.5% in value. The price of this mineral has also been going up for two years. For the period under review, it experienced an increase of 21.4%. As for Coltan, the exports value and volume increased by 45.35% and 34.5% respectively. The price itself increased by 8.08% during the period under review.

In general, the mining sector starts the year with good prospects which are primarily boosted by the attracting level of metal prices on the international market.

Hides and skins exports also increased in value, following the combined effects of rise in prices and exported volume. Indeed, the average price passed from USD 1.55/Kg in the first quarter of

2006 to USD 1.90/Kg in the first quarter of 2007, which is a rise of 23.01%. Over the same period, the exported volume passed from 365 tons to 454 tons, that is a rise of 24.42%.

Although their volume remains marginal in comparison with the total exports, other export products, particularly flowers, cement, cosmetics and textiles experienced good performances in the first quarter of 2007, compared to the same period in 2006. On the other hand, fresh fruits, passion fruit juice, and handicrafts did not vary significantly over the period considered. For this first quarter of 2007, pyrethrum exports rose to 10 tons at USD 60/Kg, that is an increase in price of 39%, compared to the average price of the previous year which was USD 43.10/Kg.

Re-exports recorded a rise of 60% in value and primarily include benzene (airplane fuel), diesel, drugs, second hand clothes, cars and various apparatuses and machines.

Although structurally low, the country's value of exports nevertheless recorded a significant increase of 56.5%, compared to the first quarter of 2006, rising from USD 20 millions to USD 31 millions.

II.1.2 IMPORTS

During the first quarter 2007, imports increased to about 31.09% in value and to about 53.48% in volume, all categories of imported goods recorded a significant increase.

Intermediary goods increased by 13.65% in value, particularly due to industrial use products whose value passed from USD 15 millions to USD 20.6 millions, that is an increase of 9.03%.

Over the same period, final consumer goods imports increased by 40.9% in value in relation to the fall in local foodstuffs production. Foodstuffs imports showed an increase of 107.36 % in value, compared to the same period of 2006. The most imported goods are cereals, oil and edible fats as well as sugar, constituting altogether nearly 80% of the total value of imported foodstuffs.

In the same way, capital goods imports increased by 51.1%, passing from USD 25.3 millions to USD 38.3 million drawn from machines and apparatuses whose value increased by 21.6% worth USD 18.7 million for the period under review. The major large importers of capital goods (machines and apparatuses) are, among others, ELECTROGAZ (electrical transformers), MINADEF (communication devices), Modern Technologies Service (power generators), MTN and TERRACOM (electrical and telecommunication devices), PEMBE FLOUR MILLS (cleaning machines), and SECAM (automatic information processing machines)

As for energy and lubricants which constitute more than 90% of fuel, their imports increased by 15.69% in value and 8.75% in volume. They were worth USD 23.76 millions in the first quarter of 2007 compared to USD 19.49 millions in the first quarter 2006. Fuel imports increased by 7.92% in volume, compared to the first quarter of 2006, due to the increase in fuel consumption by supplementary power generators used by ELECTROGAZ.

III. PUBLIC FINANCE AND PUBLIC DEBT

III.1 PUBLIC FINANCE

According to provisional data, financial operations of the central government at the end of the first quarter 2007, showed a deficit, on cash basis of 32.0 billions of RWF compared to a surplus of 37.6 billions of RWF achieved during the corresponding period in 2006. The overall deficit, on payment order basis rose to 30.5 billions of RWF, including grants, and 54.6 billions of RWF, excluding grants. At the end of the first quarter 2006, a significant level of grants had, nevertheless, made it possible to achieve a surplus of almost RWF 40 billion with, however, a deficit of RWF 13.5 billions, excluding grants. The deterioration in the budget deficit reflects the increase in public expenditure incurred during the first quarter of the current year, during the time when there is a delay in external disbursements expected within the framework of budgetary support.

Table 4 : Financial Operations of the Central Government (in *billions of RWF*)

	2006					2007	Absolute value
	Quarter 1	Quarter 2	Quarter 3	Quarter 3	Total	Quarter 1	Quarter 1, 06-07
Total Revenues and Grants	**101.0**	**87.4**	**63.0**	**125.9**	**377.3**	**80.8**	**-20.2**
Total Revenues	**47.9**	**51.0**	**52.6**	**56.6**	**208.2**	**56.7**	**8.8**
Tax revenues	43.6	48.4	49.5	52.1	193.6	53.6	10.0
Non tax revenues	4.3	2.6	3.1	4.5	14.6	3.1	-1.2
Grants	**53.0**	**36.4**	**10.4**	**69.3**	**169.1**	**24.1**	**-28.9**
Total expenditure and net lending	**61.4**	**78.9**	**83.5**	**155.1**	**378.9**	**111.3**	**49.9**
Total expenditure	61.3	77.3	78.0	152.7	369.3	107.7	46.4
Current expenditure	55.2	68.0	67.8	60.3	251.3	67.3	12.1
Current deficit	**-7.3**	**-17.0**	**-15.1**	**-3.7**	**-43.1**	**-13.7**	**-6.4**
Capital expenditure	6.1	9.3	10.3	92.4	118.0	40.4	34.3
Net lending	0.1	1.7	5.5	2.4	9.6	3.6	3.5
Overall deficit (payment order basis)							
excluding grants	**39.6**	**8.5**	**-20.5**	**-29.2**	**-1.6**	**-30.5**	**-70.1**
Including grants	**-13.5**	**-27.9**	**-30.9**	**-98.5**	**-170.7**	**-54.6**	**-41.1**
Change in arrears	**-1.9**	**-2.5**	**-0.9**	**-2.2**	**-7.5**	**-1.6**	**0.3**
Overall deficit (cash basis)	**37.6**	**6.0**	**-21.4**	**-31.4**	**-9.2**	**-32.0**	**-69.6**
Net financing	**-53.9**	**-0.5**	**22.4**	**49.8**	**17.8**	**25.8**	**79.7**
External (net)	-0.4	-1.1	2.8	33.6	34.9	9.8	10.2
Domestic	-53.5	0.6	19.6	16.2	-17.2	16.0	69.5
Errors and omissions	**-16.2**	**5.5**	**1.0**	**18.4**	**8.6**	**6.2**	**22.4**

Source: Ministry of Finance and Economic Planning

III.1.1 REVENUES

Total government revenues and grants reached RWF 80.8 billions at the end of the first quarter 2007 compared to RWF 101.0 billions achieved at the end of the first quarter 2006. Domestic revenues were RWF 56.7 billions at the end of March 2007 compared to RWF 47.9 billions in the first quarter 2006, and an objective of the current economic reform programme of RWF 45.6 billions.

The performance in the total revenues collection is certainly linked with the reforms started since 2005 to extend the tax base and economic expansion (in the industry and service sectors). Thus, taxes on goods and service accounted for RWF 27.8 billions compared to RWF 21.5 billions in the first quarter 2006, that is an increase of 29.3%.

The stagnation of the level of foreign trade earnings in the context of an increase in imports is explained by some tax measures, in particular exemption from taxes on imports from COMESA area, as well as appreciation of the RWF against the American Dollar, and abolishment of MAGERWA tax.

III.1.2 PUBLIC EXPENDITURE AND NET LENDING

The total public expenditure and net lending reached RWF 111.3 billions at the end of the first quarter 2007 compared to 61.4 billions of RWF during the corresponding period in 2006, which is an increase of 81.3%. They were financed at 51% by the total domestic revenues.

Current expenditure accounted for 62.5% of the total expenditures compared to 89.9% in the first quarter 2006 and the capital expenditure represented the difference, which is 37.5%.

Composed of wages and salaries, expenditure on goods and services, exceptional expenditure, interest payments and subsidies and transfers, current expenditure amounted to RWF 67.3 billions at the end of March 2007, that is a variation of 21.9% compared to their level at the end of March 2006.

In order of importance, current expenditures were distributed as subsidies and transfers (30.2%), wages and salaries (26.2%), expenditure on goods and services (25.7%), exceptional expenditure (16.2%) and interest payments (1.6%). Mainly composed of loans to public companies, net lending reached RWF 3.6 billions compared to RWF 0.1 billions in the first quarter 2006. This increase is explained primarily by the purchase of Belgolaise shares by the Government in the Bank of Kigali (BK)

III.1.3 BUDGET DEFICIT AND ITS FINANCING

As talked about before, financial operations of the central government, at the end of the first quarter 2007, showed an overall deficit, on payment order basis (excluding grants) of RWF 30.5 billions, and a deficit, on cash basis of RWF 32.1 billions.

The deficit, on cash basis was externally financed with RWF 9.80 billions for net reimbursements, and domestically financed with RWF 16 billions (both banks and non-banks).

III.2 DOMESTIC PUBLIC DEBT

The domestic public debt stock decreased from RWF 150.3 billions to RWF 144.1 billions between December 2006 and March 2007, that is a decrease of 1.9%.

Table 5: Domestic public debt development *(in billions of RWF)*

Description	2003	2004	2005	2006	Mars 2007
NBR	**43.9**	**42.1**	**42.1**	**41.8**	**43.1**
Consolidated debt	42.4	42.1	42.1	41.8	41.8
Overdraft and advances	1.5	0	0	0	1.3
Revaluation	0	0	0	0	0
Others	0	0	0	0	0
Banking Sector	**16**	**20.4**	**13.1**	**26.3**	**15.4**
Treasury bills	11.8	11.5	6.4	21.0	10.1
Reconverted development bills	4.2	3.9	2.7	2.3	2.3
Recapitalisation	-	5.0	4.0	3.0	3.0
Non Banking sector	**32.2**	**44.8**	**59.2**	**82.2**	**89.0**
Treasury Bill	7.5	20.5	12.1	14.4	17.8
Reconverted Development Bills	2.9	2.5	1.5	1.2	1.2
Development bills	0.1	0.1	0.2	0.2	0.2
Others	21.7	21.7	45.4	66.4	69.8
TOTAL OUTSTANDING DEBT	**92.1**	**107.3**	**114.3**	**150.3**	**147.5**
Interest arrears	0.5	0.6	0.6	0.7	0.7
TOTAL STOCK	**92.6**	**107.9**	**114.9**	**151.0**	**148.2**

Source: NBR, Research Department

As shown in the table above, Government decreased its borrowings from commercial banks to increase its debt to non-banks.

Thus, the public debt in treasury bills subscribed by commercial banks decreased from RWF 21.0 to 10.0 billion, that is a decrease of about 52.4%, while that to non-banks increased from 14.4 to 17.8 billions of RWF, which is an increase of 22.9%.

Other outstanding debts contracted from non-banks increased by 3.4 billions of RWF corresponding to the debt contracted from parastatals to purchase the Balgolaise shares in the Bank of Kigali.

IV. MONETARY DEVELOPMENT

During the first quarter of the financial year, monetary developments were marked by a decrease of broad money by 3.1% between end December 2006 and end March 2007, following a decrease in net foreign assets of RWF 24 billion (-8,4%) partially compensated by the increase in domestic assets of RWF 15.1 billions.

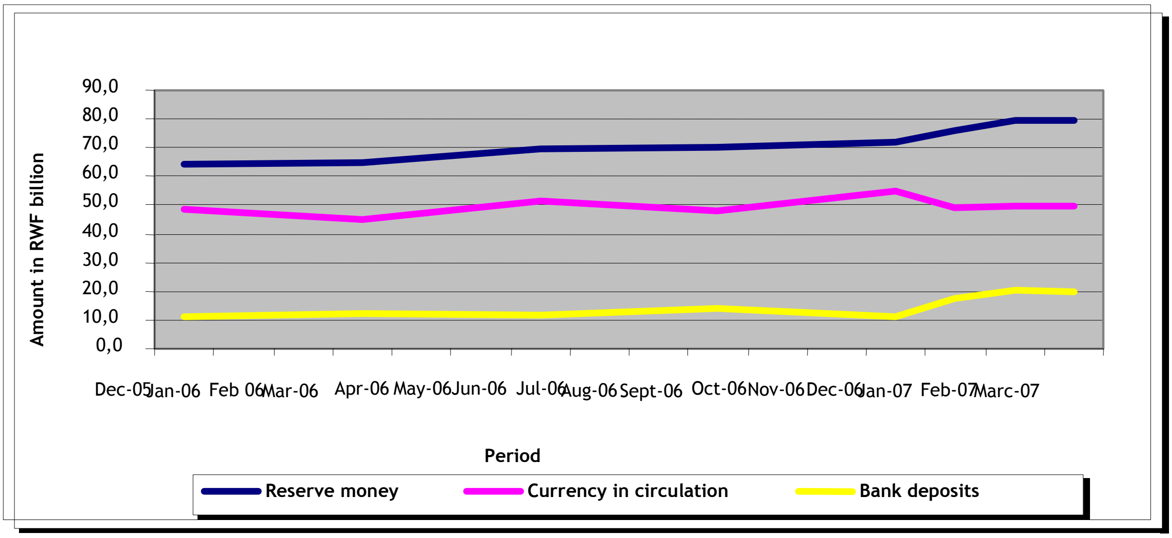
IV.1 RESERVE MONEY DEVELOPMENTS

Reserve money, which is the operational objective of the NBR monetary policy, increased from RWF 71.9 to RWF 79.7 billions between December 2006 and March 2007, that is a considerable increase of 11.1% compared to only 0.8% between December 2005 and March 2006.

This abrupt change in the development of reserve money reflects the pressure exerted by excess liquidity in the banking system but also the adjustment made in the economic and financial programme of the year to allow for a higher reference level for this operational aggregate.

The adjustment of the year 2007 Programme has addressed the NBR's concern expressed since long ago about having a realistic monetary program, compatible with the dynamics of the national economy. This will make it possible to maintain the evolution of the reserve money around its reference level and will prevent "emergency landings" at the end of quarters, as it has been the case for some time.

Fig. 8: Reserve money development (in billions of RWF)



Source: NBR, Research Department

The raising of the reference level of reserve money enabled the monetary authority to reduce the level of its interventions on the money market, while subscribing to monetary discipline prescribed in the monetary programme, in spite of the pressure of public expenditures, which particularly turned out to be high during this period. Thus, the net credit to banks passed from RWF –49.3 billions to RWF –39.0 billions from December 2006 to Mars 2007, that is an increase of 20.9%.

IV.2 BROAD MONEY DEVELOPMENTS

As previously talked, broad money decreased by 3.1% between December 2006 and March 2007 from RWF 286 billions to RWF 277.1 billions. This trend is explained by the decrease in net foreign assets (-24 billion) not completely compensated by the increase in net domestic assets (RWF+ 15.1 billion)

Table 6: Monetary survey developments (in billions of RWF)

	2006				2007			% change
	March	June	Sept	Dec.	Jan.	Feb	March	Dec-06- Mar. 07
Net Foreign assets	**264.4**	**278.8**	**280.1**	**285.1**	**274.3**	269.8	**261.1**	**-8.4**
Net domestic assets	**-44.3**	**-41.1**	**-26.0**	**0,9**	**-9.9**	**-0,2**	**16,0**	**1680,4**
Domestic credit	31.1	43.4	70.8	93.2	85.1	96.8	113.6	21.9
Net credit to Government	-110.9	-108.1	-87.5	-69.4	-77.7	-70.2	-59.8	-13.8
Autonomous Agencies	-0.5	-0.5	-0.9	-2.0	-2.0	-0.3	-0.5	-76.7
Public companies	2.8	2.3	1.4	2.4	2.4	2.0	2.0	-15.6
Private Sector	139.7	149.6	157.8	162.2	162.3	165.3	171.8	5.9
Other net items	-75.4	-84.5	-96.8	-92.3	-95.0	-97.0	-97.6	5.7
Broad money	**220.1**	**237.6**	**254.2**	**286.0**	**264.4**	**269.6**	**277.1**	**-3.1**
Currency in circulation	**45.2**	**51.2**	**48.0**	**54.6**	**49.0**	**49.4**	**50.0**	**-8.5**
Deposits	**174.9**	**186.4**	**206.1**	**231.3**	**215.4**	**220.2**	**227.2**	**-1.8**
Of which: Demand deposits	83.4	88.1	87.1	103.1	98.9	107.9	106.2	3.0
Time deposits	45.6	52.3	62.8	69.0	57.9	54.5	64.4	-6.7
Foreign currency deposits	45.9	46.1	56.3	59.2	58.7	57.7	56.6	-4.4

Source: NBR, Research Department

IV.2.1.1 Net Foreign Assets

Decreasing from 285.1 to 261.1 billions of RWF (-8.4%), net foreign assets of the banking sector had a restrictive effect on monetary developments from December 2006 to March 2007. Thus, the net foreign assets of commercial banks decreased by RWF 6.1 billion from RWF 60.1 to RWF 54 billion, while those of the NBR decreased by 17.8 billions of RWF, from RWF 224.9 to RWF 207.1 billions. The decrease in the foreign assets of commercial banks from the very start of the year 2007 can be explained by the rebuilding of their reserves in RWF, following the transfer done in December 2006 to allow the NBR to implement its end of the year monetary criteria.

As regards the decrease in the NBR foreign assets, it is explained in particular by the external payments effected but not compensated by the expected external disbursements. Thus, during the first quarter, the NBR withdrew USD 108.99 millions compared to the receipts of USD 78.92 millions.

With a total of USD 47.95 millions (43,9%), the auction sales of foreign currencies in commercial banks comes in the first place in the NBR expenditures in foreign currencies, followed by the Government current expenditure and withdrawals from accounts by commercial banks, with proportions of 26.6% and 17.9% respectively.

Concerning external revenues, the first place comes to the provisioning of the accounts of commercial banks in foreign currencies with 24%, followed by project support and other revenues totalling 19.3% and 17.4% respectively, while budgetary support totalled only 11.3% of the total revenues in foreign currency of the quarter.

In addition, the decrease in the foreign assets of the banking system is justified by the increase in imports, whose CIF value rose to USD 136.5 millions compared to USD 104.18 million during the corresponding period in 2006, which is an increase of 31.09%.

IV.2.1.2. Net Domestic Assets

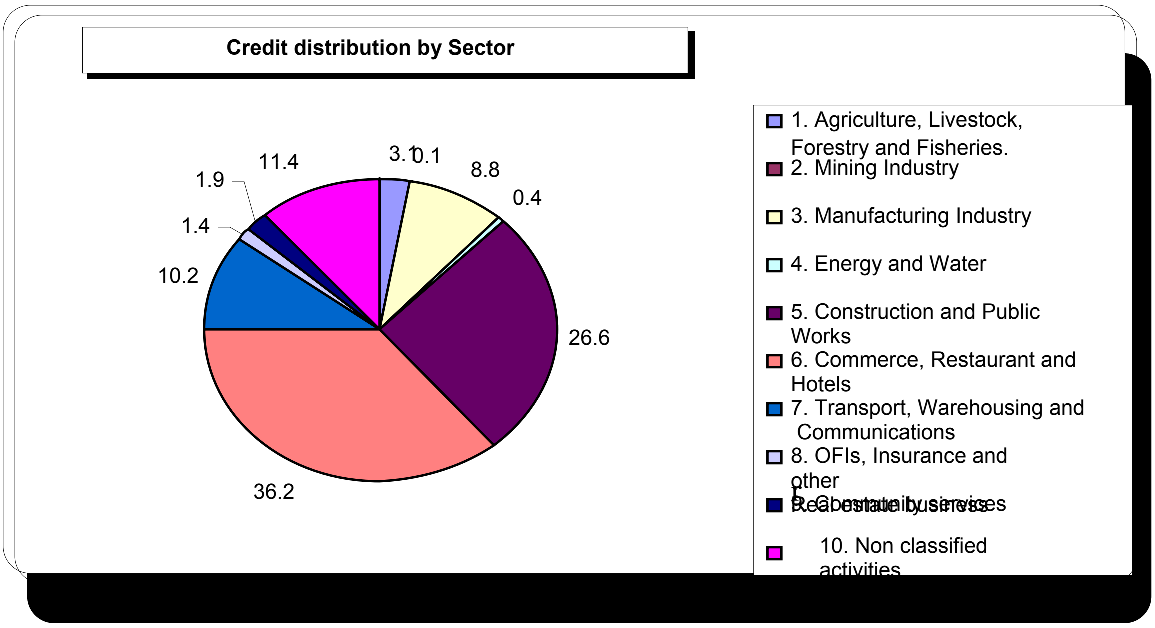
The net domestic assets of the banking sector increased from RWF 0.9 billions to RWF 16 billions between December 2006 and March 2007. This increase in the net domestic assets is explained by the simultaneous increase in the net credit to Government and credit to the economy

Thus during the period under review, net credit to government increased from RWF -69.4 billions to RWF -59.8 billions, which is an increase of 13.8%, following the decrease in the Government deposits in the banking system, from RWF 140.4 billions to RWF 119.2 billions (-15.1%), resulting from Government expenditure which continued, and the foreign disbursements delay within the framework of budgetary support.

As regards credit to the economy (credit to public companies and Private Sector), it passed from RWF 164.6 billions to 173.8 billions, that is an increase of RWF 9.3 billion, which is the same variation registered in the first quarter 2006.

Concerning the breakdown of the outstanding credit to economy, “Commerce, Restaurants and Hotels” sector always comes in the first position with 36.2%, followed by "Construction and Public Works" with 26.6%. The sectors of "non classified activities" and "Transport, Warehousing and Communication" are almost equal with 11.4% and 10.2% respectively of the total disbursed credits, while agriculture totalled 3.1%.

Fig. 9: Credit breakdown by sector (in %)

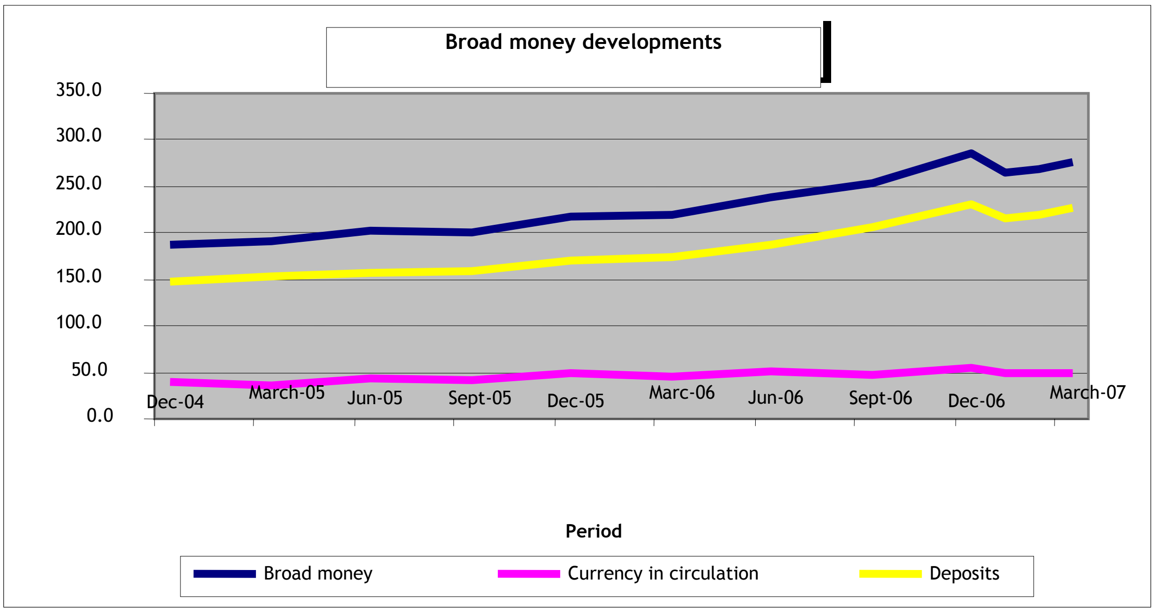


Source: Research Department

IV.2.2 BROAD MONEY

From RWF 286.0 billions in December 2006, currency demand reached RWF 277.1 billions at the end of March 2007.

Fig 10: Broad money (M2) developments (in billions of RWF)



Source: NBR, Research Department

The decrease in currency demand in the first quarter 2007 was distributed between currency in circulation (8.5%) and deposits (1.8%).

IV.2.2.1 Currency in circulation

The decrease in currency in circulation observed since the beginning of year 2007 is explained by the normalization of currency in circulation demand after a December seasonal increase due to end of year festivities. Between December 2006 and March 2007, it decreased by 10.4%, from RWF 52.7 to 47.2 billion, compared to a decrease of 8.3% during the same period in 2006.

IV.2.2.2 Deposits

Concerning deposits in the banking system, their level slightly decreased by approximately 1% between the end of December 2006 and end of March 2007, following, on the one hand, the transfers to the NBR of local government deposits which were placed in Banques Populaires and commercial banks, and, on the other hand, increased external payments, while foreign disbursements were much lower.

It should be noted that, unlike other categories of deposits, sight deposits increased from RWF 103.1 to RWF 106.billions (+5.1%) between December 2006 and March 2007. Time deposits decreased by 6.6%, from RWF 69.0 billions to RWF 64.4 billions, while foreign currency deposits decreased by 4.4%, from RWF 59.2 to 56.6 billion, over the period under review.

IV.3 BROAD MONEY EXTENDED TO THE UBPR

Broad money, including the UBPR and its network, fell from RWF 320.9 billions to RWF 313 billions, that is a decrease of 2.5% compared to that of 0.7% from December 2005 to March 2006.

Table 7: Extended monetary survey (in billions of RWF)

	2006				2007		
	March	June	Sept.	Dec.	Jan.	Feb.	March
Net foreign assets	**264.4**	**278.9**	**280.1**	**285.1**	**274.4**	**269.8**	**261.2**
Net domestic assets	**-19.9**	**-9.1**	**7.2**	**35.7**	**21.9**	**37.1**	**51.8**
Domestic credit	69.4	85.7	115.8	142.2	127.4	145.7	164.1
Credit to Government	-108.6	-105.8	-87.4	-69.5	-77.8	-70.2	-59.9
Autonomous agencies	-0.5	-0.5	-0.9	-2.0	-2.0	-0.3	-0.5
Public companies	2.8	2.3	1.4	2.4	2.4	2.0	2.0
Private Sector	175.6	189.6	202.8	211.3	204.8	214.3	222.5
Other items net	-89.3	-94.8	-108.6	-106.5	-105.5	-108.6	-112.3
Broad Money	**244.8**	**269.8**	**287.3**	**320.9**	**296.3**	**307.0**	**313.0**
Currency in circulation	**43.1**	**49.1**	**45.4**	**52.7**	**46.6**	**45.8**	**47.2**
Deposits	**201.7**	**220.7**	**241.9**	**268.1**	**249.7**	**261.1**	**265.7**
Of which: Demand deposits	83.0	88.1	86.8	103.2	98.4	106.7	104.5
Time deposits	74.8	86.5	98.8	105.8	92.7	96.8	104.7
Foreign currency deposits	43.8	46.1	56.3	59.2	58.6	57.7	56.6

Source: NBR, Research Department

The decrease in broad money during the first quarter is a seasonal phenomenon generally observed during this period, with a decrease in cash demand, high in December, due to end of year festivities. But during the first quarter 2007, this decrease was exacerbated by the transfer of local government deposits from the Union des Banques Populaires and commercial banks to the Central Bank, with effect from the beginning of the year on the Government's decision.

V. MONEY MARKET AND INTEREST RATES

V.1 MONEY MARKET OPERATIONS

Within the framework of the regulation of the banking system liquidity, the National Bank of Rwanda continued to intervene on the money market to absorb excess liquidity in the economy. These interventions consisted in liquidity carry forward through negative invitations to tender, overnight operations and issue of treasury bills.

Table 8: Operations on the money market (in billions of RWF)

	2006		2007				Change	
Items	Quart.1	Quart.4	Jan.	Feb.	March	Quart.1	Quart. 1 06/07	Quart.1, 0 7/ Quart.4, 06
Interbank market	8.45	0.00	1.50	5.80	0.00	7.30	-1.15	7.30
Liquidity loan	55.50	141.10	22.70	13.05	36.40	72.15	16.65	-68.95
Overnight	220.00	585.22	93.50	84.55	157.20	335.25	115.25	-249.97
Treasury bills	42.67	72.61	5.51	6.22	19.22	30.95	-11.73	-41.66
Government	5.70	26.95	1.12	4.30	11.43	16.85	11.15	-10.10
Monetary policy	36.97	45.66	4.38	1.92	7.79	14.09	-22.88	-31.56

Source*:* NBR, Money and Capital Markets Department

During the first three months of the year 2007, the exchange of liquidities on the interbank market totalled RWF 7.3 billions compared to RWF 8.45 billions in 2006 over the same period. It should be noted that during the fourth quarter 2006, no operation of this kind took place because, in general, banks had excess liquidity.

Concerning liquidity loans, it is important to note that negative invitations to tender totalled RWF 72.15 billion compared to RWF 55.5 billion in the 1st quarter of the year 2006, which is an increase of RWF 16.65 billions.

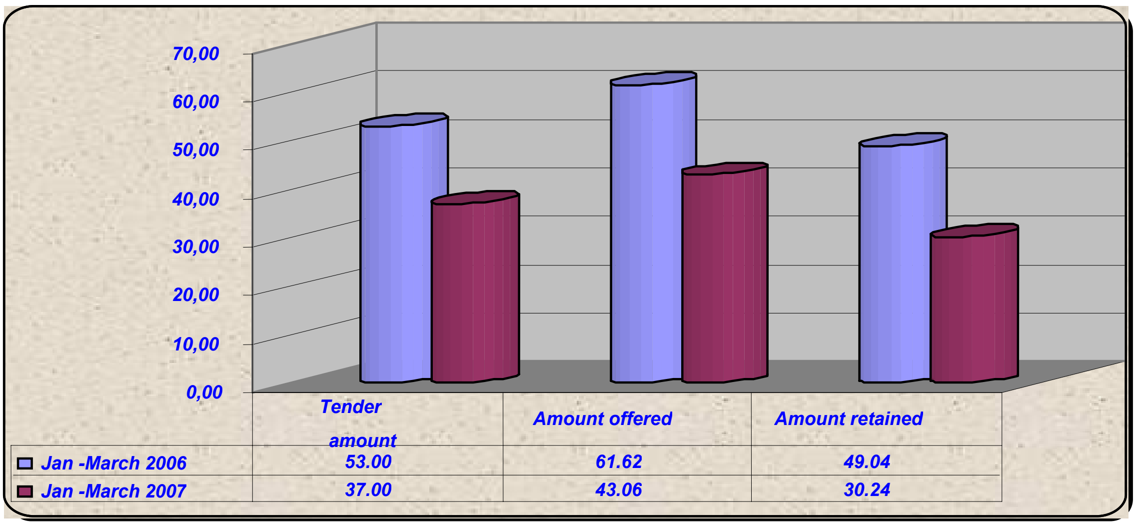
In the continuation of the same trend, the 24 hours investments totalled RWF 335.25 billions in the first quarter 2007 compared to RWF 220 billions in the previous year for the same period, which is an increase of 52.39%. The increase in the overnight operations is the corollary of the banks' preference for very short-term investment to avoid temporary treasury shortages due to customers' unexpected withdrawals.

When compared with the with the previous quarter, it is worth pointing out the change in the trend because the overnight operations totalled RWF 585.2 billion during the last quarter of 2006 compared to RWF 335.25 billions, which is a variation decrease of 42.7%. This phenomenon is explained by the transfer of about RWF 9 billions from the central and local governments accounts in commercial banks to the Central Bank which reduced in the same proportion the treasury of commercial banks.

Concerning repurchase, it should be recalled that there has not been any request for refinancing recorded since August 2004.

As regards the issuing of treasury bills, the total amount of the advertisements rose to RWF 37 billion in the 1st quarter 2007 compared to 53 billions in 2006 over the same period, which is a decrease of approximately 30.18%. Compared to the first quarter of the last year, the volume of tenders was RWF 61.62 billion in 2006 compared to RWF 43.06 billion in 2007. In general, volume of these tenders exceeded the advertisements with a cash ratio of 116.26% and 116.37% in 2006 and 2007 respectively. With regards to the offers selected, they totalled RWF 30.24 billion in 2007 compared to RWF 49.04 billion in 2006.

Fig. 11: Treasury bills announcements, tenders and retained offers:
From January to March /2006-2007 (in billions of RWF)



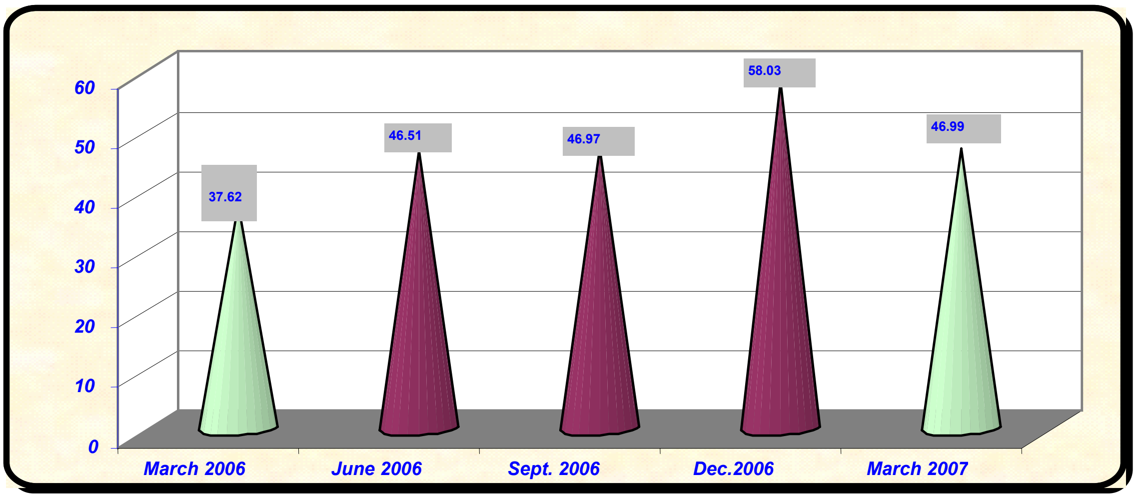
Source: NBR, Money and Capital Markets Department

Concerning the allocation of resources mobilized through the issuing of treasury bills, those for monetary policy purposes represent RWF 14.096 billion compared to RWF 16.85 billions for the Public accountant (Government treasurer). During the first quarter 2006, treasury bills for Government account amounted RWF 5.7 billions compared to RWF 36.97 billion for monetary policy purposes. It should be noted that in the first quarter 2007, the breakdown of the resources from the issuing of Treasury bills shows a difference of only RWF 2.76 billion (that is RWF 16.85 billions for the Government and RWF 14.09 billion for monetary policy purposes). In terms of stock, treasury bills are worth RWF 46.99 billions end March 2007 compared to RWF 37.62 in March 2006, which is an increase of 24.9%.

Compared to the previous quarter (4th quarter 2006), the stock decreased from RWF 58.03 billions at the end of December 2006; the highest level ever reached, to RWF 46.99 billion in March 2007, that is a decrease of 19.02%.

This decline is explained by moderately resorting to this kind of financing by the Treasury, the dwindling of the treasury of banks following the transfer of the central and local governments funds from commercial banks to the Central Bank and the suspension of the 4 week maturity preferred by commercial banks which held the largest part of the stock at the end of 2006.

Fig. 12: Treasury bills stock (in billions of RWF)



Source : NBR, Money and Capital Market Department

V.2 DEVELOPMENT OF INTEREST RATE

Apart from discount rate and overnight operations rate fixed by the Central Bank, the rates applied by banks showed a slight downward trend while those of the money market tended to increase.

Table 9: Development of interest rates, in %

	2006			2007		
Items	October	November	December	January	February	March
Deposit rate	8.34	8.09	8.29	7.97	7.88	7.86
Lending rate	16.46	16.06	16.07	15.76	16.2	15.87
Mopping up excess liquidity	8.77	7.29	7.39	8.24	8.27	8.71
Discount rate	12.50	12.50	12.50	12.5	12.5	12.5
Interbank rate	7.43	7.43	7.43	7.83	7.98	7.98
Treasury bills rate	9.51	8.50	8.08	8.8	8.09	9.32

Source : NBR, Money and Capital Markets Department

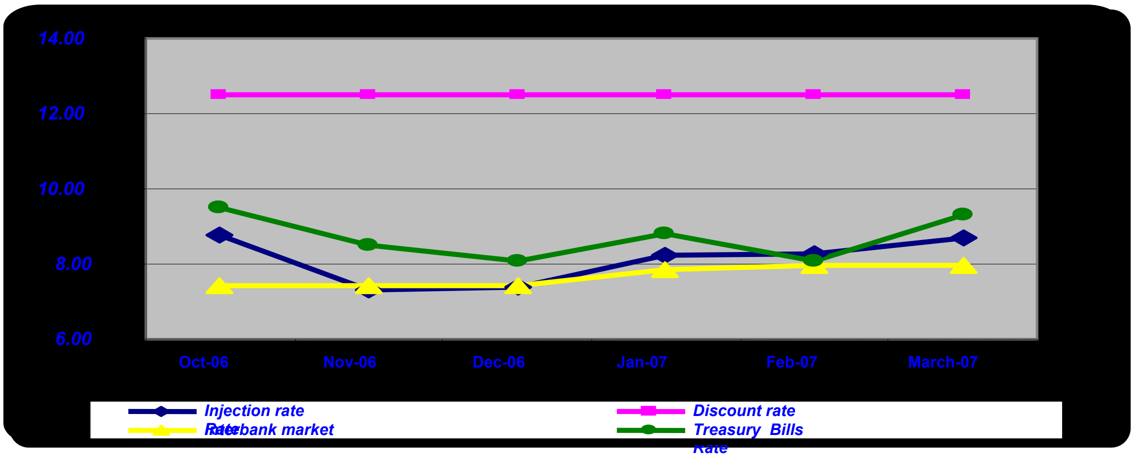
In the first quarter 2007, the interbank market rate slightly increased from 7.43% in December 2006 to 7.98% in March 2007, which suggests a tightening of the resources of banks.

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

The money market rate applied to the liquidity carry forward operations, from January to March 2007, increased from 7.39 in December 2006 to 8.71% in March 2007. As is the case for the interbank rate, this trend is also explained by the overall dwindling of the treasury of the banks.

Concerning the treasury bills weighted average rate, like other money market interest rates, it increased from 8.08% in December 2006 to 9.32% in March 2007.

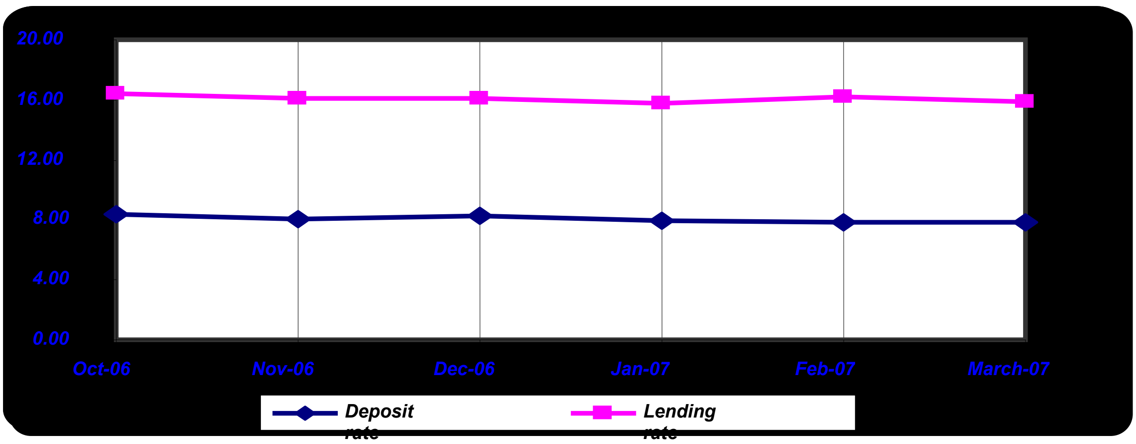
Fig. 13: Money market rates status



Source : NBR : Money and Capital Markets Department

During the period under review, the average deposit rate was relatively stable. It fluctuated around 8% while the lending rate slightly decreased to 15.87% in March 2007. This trend observed in March 2007 results from a significant loan granted by a certain bank at a rate of 13%, which led to a decrease in the average lending rates.

Fig. 14: Status of interest rates applied by banks



Source : NBR : Money and Capital Markets Department

VI. FINANCIAL SYSTEM SOUNDNESS

VI.1 SOUNDNESS OF THE BANKING SECTOR

The global analysis of the financial status of commercial banks as on 31/03/2007 remains stable except for only one bank which is in the reorganization process.

The net equity capital increased from 25,826,776 thousands of RWF as on 31/12/2006 to 27,418,078 thousands of RWF as on 31/03/2007. With the weighted credits of 193,970,063 thousands of RWF, the solvency of the banking system reached 14.1%, compared to 13.4% in December 2006.

The business which was assessed through the total balance of commercial banks, slightly decreased by 1%, following particularly the decrease in business in several banks. This decrease is certainly related to the Government's decision to taken to transfer all the districts' accounts from the Union des Banques Populaires of Rwanda to the Central Bank. This decision obliged them to withhold a big portion of its deposits in commercial banks. Thus, the consolidated balance-sheet of commercial banks decreased from 293,645,640 thousands of RWF in December 2006 to 290,330,662 thousands of RWF as on 31 March 2007.

For the whole business, as on 31/03/2007, gross liabilities of commercial banks' debtors rose to 11,302,084 thousands of RWF, that is an increase of 5%. The proportion of bank charges net outstanding debts of commercial banks in the total net outstanding credit is 18.1%, with a slight decrease of 0.9% compared to the previous quarter.

The amount of outstanding provisions deducted from the net credit is 29,563,954 thousands of RWF, with an increase of 21.6% compared to December 2006. The cash ratio of 64% of outstanding credits experienced a quarterly growth rate of 4.5% through reserve assets.

Table 10: Indicators of consolidated credit on 31 March 2007 (*in thousands of RWF, unless otherwise indicated)*

Gross credit	182,612,834
Reserved bank charges	45,521,859
Net outstanding debts	46,067,613
Bank charge net outstanding debts	30,402,462
Total loss rate, in %	25
Bank charge total net loss in %	18,1
Provisions and bank charges built	29,563,954

__Source__: NBR, Banking Supervision Department

On a consolidated basis, the results of commercial banks reveal a significant improvement in the profitability of banks compared to the same quarter in 2006. The profitability of commercial banks on 31/03/2007 was positive with 1,543,240 thousands of RWF compared to 1,298,835 thousands of RWF as on 31 March 2006, that is an improvement of 18.8%.

The main challenge faced in the banking supervision in 2007 particularly relates to the evaluation of risks, the strengthening of the banks' financial base, the revision of the banking law and its implementation regulations. To face this challenge, the NBR required all banks to set up a risk management system and decided to raise each bank's share capital to RWF 5 billions not later than 31/12/2007. Within this framework, the central bank shifted from the traditional supervision approach to a risk-based supervision approach, which enables to focus on bank risk areas. All commercial banks will therefore be inspected according to this approach during this financial year.

VI. 2 CURRENT STATUS OF MICRO FINANCE INSTITUTIONS

Compared to the situation on 31/12/2006, there were not major changes in the status of the micro finance sector during the 1st quarter of 2007. For the moment, the financial soundness of micro finance institutions as on 31/03/2007 cannot be evaluated in a consolidated way because the majority of them have not yet submitted their financial statements so far nor on the preceeding date, that is 31/12/2006. Regular submission of these statements will make it possible to build a database from which a certain number of performance indicators will be calculated with a view to evaluating MFI financial soundness on a consolidated and regular basis.

On 31 March 2007, apart from UBPR, the approved MFIs still amounted to 79. With UBPR, the number of approved MFI was 223 on this date.

It should be noted that some of these MFIs are no longer operational although they have not yet been officially closed. These are COOPEC ABIZERANYE, UBUMWE BY' INYARUREMA, Union des COOPECs INZIRA with COOPEC INZIRA of Kigali City. Among these approved MFIs, GASABO SA fell in a situation of suspension from payment and the reorganization plan proposed by its leaders is far from being implemented.

Moreover, the Union des Caisses des Travailleurs (UCT), one of the greatest micro finance institutions, has not yet been able to meet approval conditions. However the National Bank of Rwanda, in collaboration with the Ministry of Commerce, Tourism and Cooperative Promotion, has just set up a reorganization plan for this institution. This plan will enable to restructure the Management of UCT by setting up a reduced structure headed by a Technical Commission charged with conducting the transition towards establishing autonomous Coopératives des Travailleurs (CT) before the end of this year.

The closed MFI liquidation process that started on 16 June 2006 continued, and, on 31 March 2007, the decision for liquidation had been made for all these MFIs. All the liquidators had already made at least the first confidential report establishing the responsibilities of the leaders and major managers in the mismanagement of these MFIs. The process of compensation of the customers which had started towards the end of 2006 also continues.

It should be recalled that the closed MFIs were put under the provisional administration of the UBPR, with the charge, among others, of making an inventory of the deposits and credits of these MFIs on 16 June 2006, which was the closing date. The UBPR had also to receive statements made by the customers concerning their deposits and credits in order to allow for the start of the compensation of net depositors of the liquidated MFIs.

On 31 March 2007, out of the deposits of about RWF 3 billion inventoried by the UBPR, 38,423 customers had received 50% of RWF 1,642 billion of net deposits of declared credits, that is about RWF 821 million. This amount accounts for about 27% of the total deposits in the inventory. It should be noted that 31 March 2007 was the deadline for all the customers of closed MFIs who had not made statements on their deposits and credits contracted from these MFIs to complete their statements. The report on these statements will be exploited later.

The recovery of credits contracted from closed MFIs is subjected to the elaboration of the statements on the risks of each MFI, which had not been completed yet on 31 March 2007. This list will be distributed to the Commission put in place at District level to start the recovery process.

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.

I.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 nets 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 nets 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 it's 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.2. STATISTICAL APPENDICES