

**MONETARY POLICY AND DOMESTIC PRIVATE INVESTMENT IN RWANDA
A CASE STUDY OF NATIONAL BANK OF RWANDA (2000-2012)**

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ABSTRACT

Private sector in any country can be influenced by the implementation of economic policies such as fiscal, commercial and monetary policy. Up to now there is no deep research done to assess the effectiveness of monetary policy instruments on domestic private investment in Rwanda using quantitative method. Applying Ordinary Least Squared (OLS) on time series data, the researcher tests whether domestic private investment in Rwanda reacts to changes in the monetary policy instruments such as lending interest rate, deposit interest rate discount rate, interbank market rate, T-bill rate and change in money supply (M2). The OLS method helps to estimate the model. To measure the validity and significance of the estimated model, the F and t-value (computed by using SPSS as software) were compared to their respective critical values read from statistical tables. The results were accepted at the confidence interval of 95%. Data on both dependent and independent variables were collected from the annual report of National Bank of Rwanda. The estimation of the model predicts that money supply and deposit rate were positively related to domestic private investment; while lending rate, discount rate, T-bill rate and interbank market rate were negatively related to domestic private investment in Rwanda. However; the results show that lending rate and money supply were positively related to domestic private investment; while deposit rate, discount rate, T-bill rate and interbank market rate were negatively related to domestic private investment in Rwanda. Based on the results obtained on deposit rate and lending rate, the researcher found that the main challenge that faces domestic private investment in Rwanda consists on low rate of saving accompanied by a high rate of demand for credit. For that reason; the researcher recommended to the monetary authorities, especially National Bank of Rwanda and the government of Rwanda, to apply all possible ways (including voluntary and forced saving) in order to mobilize local saving. In short, the research examines the length at which monetary policy as a tool of public policy has been successfully applied in Rwanda and showed its relevance and effectiveness in raising aggregate private sector in Rwandan economy.