BANQUE DE LA REPUBLIQUE
DU BURUNDI

2021

FINANCIAL STABILITY
REPORT

FISCAL YEAR 2021 - NUMBER 7

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LIST OF ACRONYMS

%	: Percentage
ACH	: Automated Clearing House
ARCA	: Agence de Régulation et de Contrôle des Assurances
B&EF	: Bank and Financial Institutions
BIF	: Burundi Francs
BRB	: Banque de la République du Burundi
EAC	: East African Community
CEMAC	: Economic and Monetary Community of Central Africa
CIP	: Centrale des Incidents de Paiement (Payment Incident Center)
COMESA	: Common Market for Eastern and Southern Africa
CSD	: Central Securities Depositor
Etc.	:Et Cetera
Ets	: Etablissements
IMF	: International Monetary Fund
FP	: Equity
MFIs	: Microfinance Institutions
ISTEEBU	: Institut des Statistiques et d' Etudes Economiques du Burundi
Kg	: Kilograms
MBIF	: Millions of Burundi Francs
Bn	: Billions
MFBPE	: Ministère des Finances, du Budget et de la Planification Economique
NB	: Nota Bena
p.p.	: Percentage Point
GDP	: Gross Domestic Product
NBP	: Net Banking Product
NPL	: Non Performing Loans
REPSS	: Regional Electronic Payment and Settlement System
ROA	: Return On Assets
ROE	: Return On Equity
RTGS	: Real Time Payment and Settlement System
SACCOS	: Savings and Credit Cooperative Organizations
SDR	:Special Drawing Right
T	: Tons
Quart.	: Quarter
UEMOA	: Union Economique et Monétaire Ouest Aficaine
USD	: United States Dollar

MISSIONS OF THE « BANQUE DE LA REPUBLIQUE DU BURUNDI »

1. Define and implement the monetary policy;
2. Define and implement the exchange rate regime;
3. Hold and manage the official foreign exchange reserves;
4. Regulate and supervise banks, financial institutions and microfinance institutions;
5. Issue banknotes and coins;
6. Promote a stable and sound financial system;
7. Promote a reliable, efficient and sound national payment system;
8. Act as the Government's Cashier;
9. Accomplish any task as provided in its statutes;
10. Perform any task assigned to the Bank by any other law, subject to its compatibility with its autonomy.

VISION OF THE « BANQUE DE LA REPUBLIQUE DU BURUNDI »

The BRB, a modern Central Bank with technical competence to impulse innovation and ensure the stability of the financial system for a durable development of the Burundian economy.

PREFACE

In 2021, despite the resurgence of the Covid-19 pandemic, there has been a recovery in economic activity leading to increased economic growth at the global and regional levels due to the measures that have been implemented in each country. However, vulnerabilities in the global banking sector and non-bank financial institutions were observed in line with the increase in corporate indebtedness, accompanied by low profitability of banks, with solvency and short-term liquidity risks of companies remaining major concerns on medium-term growth and stability of the global financial system. These vulnerabilities have been contained by expansionary monetary and fiscal policy support for households and businesses, especially in advanced economies.

In Sub-Saharan Africa, the banking sectors of the region's countries have remained resilient due to regulatory exemptions and exceptional measures adopted to support banks and recovery in times of crisis. In the East African Community, the financial system remained sound and resilient despite the Covid-19 pandemic crisis and the persistence of public debt risk, in conjunction with the level of capital and adequate liquidity accumulated in previous years.

In Burundi, vulnerabilities have weighed on the Burundian financial system. These include the increase in public indebtedness, the depreciation of the Burundian currency, the decline in the production of export commodities, and the rise in the prices of the main commodities imported by Burundi.

This seventh Financial Stability Report for fiscal year 2021 presents the situation of Burundi's financial system, highlights the vulnerabilities that have affected the financial system, and presents the results of stress tests and future prospects for strengthening the stability of Burundi's financial system.

Dieudonné MURENGERANTWARI

Governor

EXECUTIVE SUMMARY

In 2021, despite the resurgence of the Covid-19 pandemic causing disruptions in supply chains and the rapid increase in global commodity and energy prices, there has been a recovery in economic activity, resulting in increased economic growth at the global and regional levels as a result of the measures that have been implemented in each country.

This improvement in growth has not, however, reduced the vulnerabilities of the global banking sector and non-bank financial institutions, which continue to face difficulties in the context of low profitability of some banking systems in connection with the persistent low interest rates and the increased volume of non-performing loans. Rising corporate indebtedness accompanied by low bank profitability, solvency risks, and short-term corporate liquidity remain key concerns for medium-term growth and stability of the global financial system.

Risks to the global financial system have been contained by expansionary monetary and fiscal policy support for households and businesses, especially in advanced economies. Continued economic stimulus would increase the level of risk-taking by companies that are already over-leveraged and the level of sovereign debt. Overall financial stability remains supported by regulatory reforms that have allowed banks to maintain sufficient capital and high liquidity buffers.

In Sub-Saharan Africa, the banking sectors of the region's countries remained resilient due to regulatory exemptions and exceptional measures adopted to support banks and recovery in times of crisis.

In the East African Community, the recovery in economic activity was linked to the easing of health restrictions and the reopening of borders. The financial system in East African Community remained sound and resilient despite the covid-19 pandemic, in line with the level of equity and adequate liquidity accumulated in previous years.

In Burundi, there has been an increase in economic growth linked to the increase in agricultural production and productivity in the service sectors linked to improved freight transportation.

However, domestic and external vulnerabilities have affected the Burundian financial system. Domestic risks are mainly due to an increase in public debt, the depreciation of the Burundian currency, and the decline in the production of commodities exported by Burundi, while external risks are due to the rise in prices of some imported commodities.

The outlook is uncertain following the evolution of the Covid-19 pandemic and the geopolitical tensions that are growing with the Russian-Ukrainian war and the resulting sanctions on Russia have led to a surge in commodity and food prices, the disruption of trade and financial links as well as increased humanitarian spending.

The Bank of the Republic of Burundi will continue to strengthen the stability of the financial sector by putting in place crisis management mechanisms and ensuring the refinancing of credit institutions to finance projects that are driving growth sectors including agro-breeding, industry, hotels and tourism, and social housing.

Table 1 : Risks on financial stability in 2021

↑	Risk related to an increase in public debt
↑	Risk related to the foreign exchange reserves damping
→	Risk related to the decline in the production of exported commodities
→	Risk related to rising prices of imported commodities

Legend

Very high systemic risks
High systemic risk
Moderate systemic risk
Low systemic risk

Note: The color indicates the intensity of risk while the arrow indicates the direction of the risk

CHAPTER 1 :
GLOBAL, REGIONAL AND DOMESTIC ECONOMIC SITUATION

CHAPTER 1: GLOBAL, REGIONAL AND DOMESTIC ECONOMIC SITUATION

1.1. Global macroeconomic context

In 2021, despite the pandemic of the COVID-19 pandemic on the global economy, economies have recovered as a result of the immunization progress experienced since the end of 2020, which has helped reopen global economies, rekindled market optimism, and raised the prospects for recovery.

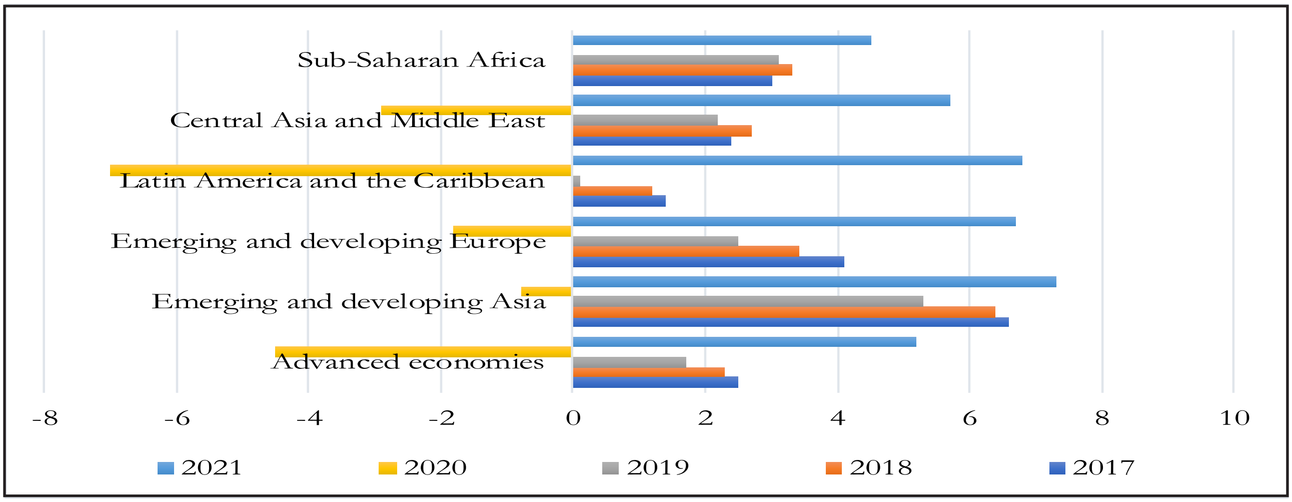
Global growth was estimated at 6.1% in 2021 compared to - 4.5% in 2020 and world trade is expected to recover by 8.0%. But performance differs depending on the effectiveness of the measures that have been implemented in each country.

In the advanced economies, growth reached 5.2% in 2021 against a recession of 3.4% in 2020, in connection with the recovery of economic activity that has been a reality in many countries, especially developed ones. In the Eurozone, growth accelerated to 5.3% in 2021 from -6.4% in 2020. In the United States, growth has risen from -3.4% in 2020 to 5.7% in 2021 as economic activity expands to levels similar to those of the pre-Covid-19 pandemic period. In Japan, growth was 1.6% versus -4.5% in 2020. In the United Kingdom, growth accelerated to 7.4% from -9.3% in 2020.

In other advanced economies, growth reached 5.5% versus -3.9% in 2020. In Canada, economic activity jumped from -5.2% in 2020 to 4.6% in 2021.

In emerging and developing economies, economic activity has also been revived despite the resurgence of the Covid-19 pandemic, supply chain disruptions, and rapid increases in global commodity and energy prices. Emerging and developing Asia saw economic activity rise to 7.3% in 2021 from -0.8% in 2020, mainly in connection with improved output in China (8.1% from 2.2%) and India (8.9% from a 6.6% recession). In emerging Europe, growth accelerated to 6.7% from -1.8%. In the Middle East and Central Asia, economic activity increased by 5.7% in 2021 from -2.9% in 2020. In Latin America and the Caribbean, economic activity expanded by 6.8% in 2021 compared to -7.0% in 2020. In Sub-Saharan Africa, it rose from -1.7% in 2020 to 4.5% in 2021.

Figure 1 : Global growth



Source: Author, based on IMF World Economic Outlook data from April 2022

New surprises including the emergence of new waves and variants of the Covid-19 virus since the summer of 2021, supply disruptions particularly in the US and Europe in the fourth quarter[1] have not missed opportunities to handicap the recovery. China experienced shocks in the second half of the year related to new outbreaks of disease, production line interruptions due to power outages, declines in real estate investment, and a faster than expected withdrawal of government investment.

Uncertainty about the recovery became a market concern, resulting in a significant decline in long-term global nominal yields over the summer as real rates fell[2]. The deterioration in interest rates and the depreciation of financial assets increased, significantly boosting global risk aversion . However, despite the deterioration of markets and increased volatility, share prices rose on net, supported by sound earnings[3] .

The context of supply chain disruptions and labor mobility due to continued movement restrictions pushed up inflation, which was driven in particular by a rise in energy prices.

Risks to the global financial system have been contained by expansionary monetary and fiscal policy support for households and businesses, especially in advanced economies. However, policymakers face difficult choices between maintaining short-term monetary support measures and preserving financial stability. Continuing massive economic stimulus would increase the level of risk-taking by already over-leveraged companies and the level of sovereign debt.

The withdrawal of monetary and fiscal support by advanced countries would certainly have repercussions on their stability, given the already high levels of debt in the non-financial private sector well before the Covid-19 crisis. This could weaken the sector of banking and non-banking financial institutions if economic performance does not improve in the near term.

These economic improvements have not, however, erased the vulnerabilities of the global banking sector and non-bank financial institutions continue to face difficulties in the context of low profitability of some banking systems in line with low persis-

1 World Economic Outlook, January 2021
2 World Economic Outlook, October 2021
3 Ibid.

tent interest rates[4] and increased non-performing loans. Solvency and short-term liquidity risks for nonfinancial enterprises remain high in the sectors hardest hit by the pandemic, as well as among small enterprises in both advanced and emerging market economies[5]. Rising corporate leverage, accompanied by low bank profitability, and short-term corporate solvency and liquidity risks remain key concerns for medium-term growth and the stability of the global financial system.

Global financial stability, supported by regulatory reforms introduced since the global financial crisis of 2007-2008, has allowed banks to maintain sufficient capital and high liquidity buffers.

A number of factors pose additional obstacles to recovery and global financial stability. These include threats from financial market concerns about inflationary pressures due to the adverse effects of the pandemic, including supply disruptions, soaring commodity prices, and shortages of labor and some key components of production cycles. Many emerging and developing countries have experienced price increases above their 2021 inflation control targets[6].

These concerns are compounded by the resurgence of old geopolitical disputes in Eastern Europe and East Asia, undermining energy supply chains, policy cooperation between states, and international trade. Social unrest, which had subsided at the beginning of the pandemic, is again increasing in some countries, particularly due to rising food and energy prices. In addition, trade tensions between the US and countries such as China are still in effect and cross-border friction in the technology sector remains high.

4 Financial stability report, October 2021
5 Ibid.
6 World Economic Outlook, January 2022

The already uncertain outlook following the evolution of the Covid-19 pandemic and the high geopolitical tensions have been amplified by the war in Ukraine and the resulting sanctions against Russia. The fallout from the sanctions against Russia is very bad for the international economy, notably through the surge in commodity and food prices, the disruption of trade and financial ties, the increase in humanitarian spending, especially in Europe, high global inflation, etc.

Other potential global risks are related to the amplification of geopolitical tensions and the climate emergency due to a high probability of major natural disasters. According to IMF forecasts, global growth could decline to 4.2% in 2022 and 3.3% in 2023.

1.2. Macroeconomic context in sub-Saharan Africa

In Sub-Saharan Africa, economic activity has rebounded to 4.5% in 2021 from a 1.7% recession in 2020. This rebound was mainly driven by improved global trade, higher commodity and oil prices, and good harvests due to a good rainy season. However, the region has suffered multiple shocks related to new waves of COVID-19 infections, political and security instability in a number of countries, and declining demand from its main trading partners such as the European Union, China, and the United States.

With the exception of Chad, the Republic of Congo and Equatorial Guinea, which experienced recessions, all the other economies in the region experienced a recovery in economic activity. The two largest economies in the region, South Africa and Nigeria, experienced positive growth of 4.9

percent and 3.6 percent, respectively, after experiencing recessions the previous year. Ethiopia's growth is estimated at 6.3% compared to 6.1%, still low compared to 2019 (9.0%). Chad's growth dropped to 1.1% in 2021 from a plunge of 2.2% in 2020. Botswana and Rwanda posted double-digit growth (12.5 percent and 10.2 percent, respectively) marking a strong recovery from deep recessions in 2020.

The countries of the West African Monetary Union grew by 5.6%, compared to 1.8% in 2020. Those of the CEMAC (Central African Economic and Monetary Community) experienced low growth of 1.4% compared to -1.6%. The oil-exporting countries recorded growth of 2.9% compared with -2.3% in 2020.

Sub-Saharan Africa's debt level has increased significantly as a result of spending on the Covid-19 pandemic and financing needs are still growing, at about US$425 billion[7]. The overall level of public debt has declined slightly in 2021 to 56.9% of GDP from 57.4% in 2020. However, this ratio remains high compared to the 50.0% level recorded in 2019 and the regional average of 35.0% over the past 9 years.

The region's public debt is of such concern that about half of the region's public debt is external, in the form of bilateral, multilateral, Eurobonds and claims on foreign banks. The external debt ratio of 25.1% of GDP is down slightly from the previous year (26.6% of GDP), but exceeds the average of the previous 10 years (19.2% of GDP)[8]. Countries such as Angola, Cameroon, Ethiopia, Kenya, and South Africa owe more than 60% of China's borrowing to the region, while the rest of the region's public debt is often under domestic commercial borrowing[9].

Fiscal balances, while in deficit for most countries in the region, have improved in many of them, due to an increase in tax revenues in the first quarter of 2021. However, tax revenues have not returned to pre-pandemic levels. The fiscal balance including grants is in deficit for almost the entire region, but down slightly from the previous year (5.3 percent versus 6.4 percent of GDP in 2020), reflecting a slight decline in Covid-19-related health spending. South Sudan noted a positive fiscal balance of 10.0 percent of GDP, up from the last two years. Angola had a positive fiscal balance of 2.8 percent while Equatorial Guinea's fiscal balance was 1.7 percent.

The average inflation rate for the region reached 11.0 percent, up from 10.2 percent in 2020, reflecting soaring food and oil prices. Despite rising inflationary pressures, inflation remained low in the CFA franc zone, although it increased over the past 10 years. It rose from 2.2 percent to 3.5 percent in the UEMOA while it fell from 2.7 percent to 1.5 percent in the CEMAC zone. Faced with growing inflationary pressures, some central banks, such as those of Mozambique and Zambia, had to raise their key rates, while others, such as Ghana, Nigeria and Uganda, whose inflation is relatively stable, raised their key rates.

The external current account balance has a deficit of 1.1 percent in 2021, compared with 3.0 percent in 2020. The highest deficit levels were observed in Mozambique (-22.4%), Seychelles (-20.3%), Liberia (-17.8%), Niger (-15.8%), Malawi (-14.5%), Burundi (-13.5%), Sierra Leone (-13.0%), Cameroon (-12.5%), Mauritius (-11.1%), Central African Republic (-10.6%) and Rwanda (-10.5%).

7 Sub-Saharan Africa Regional Economic Outlook, October 2021
8 Average calculated by the author based on external debt data in Regional Economic Outlook, Sub-Saharan Africa, April 2022

9 Sub-Saharan Africa Regional Economic Outlook, October 2021

These deficits indicate the importance of these countries' ability to finance their investment needs.

The average level of foreign exchange reserves in the region has been set at 4.5% in 2021, compared with 5.1% in 2020. Many countries, including Nigeria, have experienced pressure on their exchange rates.

Financial systems have benefited from expansionary monetary and fiscal policy support. The banking sectors of the region's countries have remained resilient due to regulatory exemptions and exceptional measures adopted to support banks and recovery in times of crisis. Some indicators of financial health such as the nonperforming loan ratio remained high, with nonperforming loans accounting for about 8.0 percent of the overall portfolio. Loans to the government (3.0 percent of GDP) were almost twice as high as loans to the private sector (1.5 percent of GDP)[10].

The states' challenges are correlated with the difficulties of their banking systems. The removal of exemptions adopted during the crisis, particularly from prudential requirements, could hamp the solvency of banks and financial stability.

Government recourse to central bank borrowing can undermine the long-term effectiveness of monetary policy and undermine the central bank's independence and commitment to containing inflation by crowding out private initiatives. Nevertheless, during the pandemic crisis, the use of domestic markets has been beneficial to countries, particularly in avoiding excessive recourse to the issuance of foreign currency debt needed to borrow in international financial markets. However, the funds from the domestic markets are of relatively short maturity and at high interest rates.

10 Ibid.

1.3. Economic environment in EAC

There has been a remarkable recovery in economic activity in the EAC in connection with the easing of health restrictions and the reopening of borders. Growth in the region has rebounded to 6.2 percent in 2021 from 0.2 percent in 2020.

Table 2 : GDP growth in EAC countries (in %)

	2017	2018	2019	2020	2021
Burundi*	3.8	5.3	4.5	-0.5	3.1
Kenya	4.9	6.3	5.6	-0.1	7.2
Uganda	5.0	6.3	4.9	-2.1	5.1
Rwanda	6.1	8.6	10.1	-0.2	10.2
Tanzania	6.8	7.0	6.3	1.0	4.9
CEA-5	5.6	6.6	6.5	-0.2	6.2
South Sudan	-6.6	-1.9	0.9	-6.6	5.3

Source: IMF, World Economic Outlook, April 2022
**MPBFE, Macroeconomic Framework Paper, March 2022*

The inflation rate at the EAC level has stabilized at 4.4 percent over the last two years but has increased compared to 2019 when inflation was 3.9 percent. This inflation rate has remained within the EAC macroeconomic convergence criterion (8.0 percent) due to stable food prices and exchange rates. Burundi was an exception in the region, with an inflation rate of 8.3 percent in 2021 compared to 7.5 percent in 2020, as a result of rising non-food prices. In Tanzania, inflation was 3.7 percent compared to 3.3 percent in 2020. In Rwanda, inflation declined to 0.8 percent from 7.7 percent in 2020. Inflation increased in Kenya to 6.1 percent from 5.3 percent. In Uganda, the inflation rate declined to 2.2 percent from 2.8 percent. In South Sudan, inflation declined significantly to 5.3 percent from 24.0 percent in 2020.

Table 3: EAC Inflation rates

	2017	2018	2019	2020	2021
Burundi	16.0	-2.6	-0.7	7.5	8.3
Kenya	8.0	4.7	5.2	5.3	6.1
Ouganda	2.6	2.9	2.3	2.8	2.2
Rwanda	4.8	1.4	2.4	7.7	0.8
Tanzanie	5.3	3.5	3.4	3.3	3.7
South Sudan	74.8	83.5	51.2	24.0	5.3
CEA-5	6.5	3.6	3.9	4.4	4.4

Source: IMF, Regional Economic Outlook for Sub-Saharan Africa, April 2021

The sub-region's average months of import reserves declined slightly by 0.3 percentage points to 4.5 from 4.8 in 2020. However, this average contains disparities between countries, as some countries have an average below the standard of 4.5 months of imports. The external current account deficit has stabilized at -3.7% in 2021.

The level of public debt in EAC increased by 1.4 percentage points, reaching 57.1% of the region's GDP in 2021 compared to 55.7% in 2020, as a result of the increase in the level of indebtedness in all countries of the Community.

Table 4 : Public debt in EAC countries (% of GDP)

Criteria	Total public debt (≤50 % of GDP)					External Public Debt					Domestic Public debt				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
Countries	43.2	46.6	52.5	58.4	63.1	13.6	13.8	15.3	15.6	16.6	28.9	32.8	37.3	42.8	46.4
Burundi*	55.2	60.2	62.1	68.7	68.1	27.1	30.5	31.8	34.7	33.3	28.1	29.7	29.5	34.0	34.8
Kenya	33.7	34.9	37.6	46.4	51.6	21.6	23.3	25.5	31.3	32.9	12.1	12.0	13.4	15.1	18.7
Uganda	32.3	45.0	51.0	61.0	68.6	37.3	40.2	43.2	53.9	55.8	-5.0	-6.0	-6.5	7.1	12.8
Rwanda	37.7	38.6	39.0	40.5	40.8	28.6	28.9	28.1	28.9	28.5	9.1	9.8	10.7	11.6	12.3
Tanzania	41.2	46.3	28.1	37.2	58.2	2.1	0.1	0.3	0.4	n.d.	39.1	46.2	27.8	36.8	n.d.
South soudan	44.7	48.4	48.9	55.7	57.1	26.9	29.0	29.4	32.2	32.7	17.8	19.1	19.5	14.2	24.4
CAE-5	44,7	48,4	48,9	55,7	57,1	26,9	29,0	29,4	32,2	32,7	17,8	19,1	19,5	14,2	24,4

*Source : * BRB, Rapport sur la Politique Monétaire, décembre 2021, FMI, Regional Economic Outlook Sub-Saharan Africa, April 2022*

Public debt levels in the region have increased due to declining revenues, increased public spending to mitigate the impact of COVID-19, and infrastructure investments in some countries in the region.

Rwanda's public debt was the highest in the region with a public debt/GDP ratio of 68.6 percent of GDP at end-2021 compared to 61.0 percent in 2020. Kenya has the second highest public debt-to-GDP ratio, at 68.1% of GDP at the end of 2021 compared to 68.7% in 2020. Uganda's public debt ratio reached 51.6% in 2021 compared to 46.4% in 2020. South Sudan's public debt reached 58.2 percent in line with the increase in domestic debt. Tanzania's public debt has varied very moderately from 40.5% to 40.8% of GDP in 2021. For Burundi, it is 63.1% from 59.7% in 2020. The region's debt remains sustainable but has varying degrees of debt distress depending on the macroeconomic situation of each country and the level of additional spending needed to support economic recovery.

The banking sector has remained stable and resilient, with strong capital and liquidity buffers, despite the effects of the Covid-19 pandemic, primarily due to fiscal, monetary, and financial policies to mitigate the impact of the pandemic. Banks continue to hold capital and liquidity ratios above the required regulatory thresholds.

EAC's financial system has remained stable, sound, and resilient despite the pandemic crisis, in line with strong capital and liquidity buffers and fiscal and financial policy measures aimed at mitigating the impact of the covid-19 pandemic, including easing the conditions for access to credit by households and businesses. However, threats to financial stability persist. The regional level of nonperforming loans has not declined. In Tanzania, the level of nonperforming loans is 8.5 percent in 2021 from 9.8 percent in 2020. In Kenya, the level of nonperforming loans increased from 13.6 percent to 13.1 percent. In Rwanda, the level of nonperforming loans was 4.6 percent in 2021 compared to 4.5 percent in 2020. In Burundi, the level of non-performing loans was set at 3.5% in 2021 compared to 5.4% in 2020.

1.4. Macroeconomic conditions in Burundi

Despite the persistence of the covid-19 pandemic in 2021, the Burundian economy has experienced a recovery in line with the improvements in agricultural production and productivity gains in the service sectors linked in particular to improvements in goods transportation. However, the hotel and tourism sector continued to suffer from the consequences of the covid-19 pandemic following the maintenance of health restrictions put in place to contain it. The national macroeconomic environment is analysed through the evolution of growth, the budget deficit and public debt, the financial, monetary and exchange rate situation, and the evolution of inflation and interest rates.

1.4.1. Economic growth

Economic activity increased by 3.1% in 2021 compared with 0.3% in 2020, in connection with the resumption of movements on the country's main borders and the continuation of monetary support measures in favour of growth-enhancing investments. The sectors concerned by this support include agriculture and livestock, industry, social housing, hotels and tourism. Primary sector output increased by 4.7% compared with 0.4% in 2020, driven by improved food crop production. Secondary sector output declined by 9.2 percentage points to 2.1 percent from 11.3 percent in 2020 in line with the fall in manufacturing output. Output in the tertiary sector accelerated by 6.9 percentage points to 2.5 percent from a recession of 3.4 percent in 2020. Growth in this sector is explained by the recovery of services, particularly those related to transport and cross-border trade.

1.4.2. Public finances

Public expenditures fell by 2.8% to BIF 1 686.8 billion in 2021, compared with BIF 1 734.6 billion in 2020, in conjunction with a 9.0% reduction in wage expenditure, which fell from BIF 532 122.9 billion in 2020 to BIF 484 297.8 billion in 2021. Government revenue increased by 6.8% in 2021, reaching BIF 111.4 billion compared to BIF 104.3 billion in 2021. This increase was due to both higher tax revenues (+BIF 3,291.0) and non-tax revenues (+BIF 3,843.4). The deficit declined despite a slight decrease in grants of 4.2%, in conjunction with a decrease in current expenditure (12.1%) and an improvement in revenue collection (15.3%).

Burundi's budget deficit is projected at 7.9 percent of GDP in 2021, down from 8.8 percent in 2020, reflecting lower current expenditures and higher tax revenues due in part to the introduction of a new road tax. This level remains above the minimum standard of 3 percent required by the EAC.

Table 5 : Fiscal Deficit in EAC Countries (% of GDP)

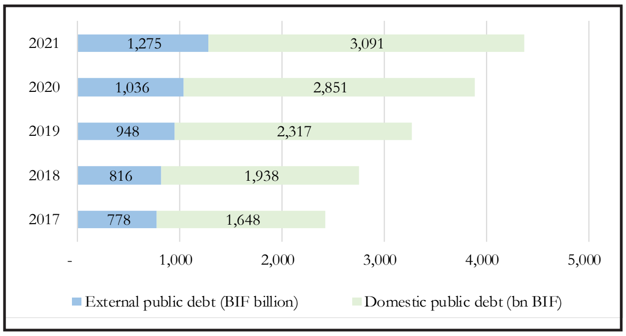
	2017	2018	2019	2020	2021
Burundi*	4.3	4.5	4.3	8.8	7.9
Kenya	7.9	4.7	5.2	5.3	8.1
Uganda	3.2	2.6	4.8	7.5	7.8
Rwanda	2.5	1.4	5.1	9.4	6.9
RDC	-	-	2.0	1.4	0.0
South Soudan	-	-	0.1	6.7	10.0
Tanzania	8.2	3.5	2.0	2.5	3.3
CEA-5	4.7	3.6	2.0	2.5	3.3

Source: IMF, World Economic Outlook, April 2022

1.4.3. Public debt

Public debt increased by 11.6% at the end of 2021, reaching 4,338.3 billion BIF at the end of 2021 compared to 3,886.3 billion BIF at the end of 2020, in connection with the increase in both the domestic debt (+7.5%) and the external debt (+23.1%). Domestic debt rose from BIF 2,851.2 billion at the end of 2020 to BIF 3,091.3 billion at the end of 2021, following the increase in the government's commitments to the banking sector (+BIF 184,897.5) and the non-financial sector (+BIF 37,750.0). The external debt stood at BIF 1,275.3 billion compared with BIF 1,036.0 billion, due to the increase in drawings of BIF 242.0 billion and revaluation gains of BIF 19,521.1 billion, which exceeded the amortization of the debt by BIF 22,281.6 billion. Expressed in US dollars, the external debt increased by 19.4% at the end of 2021, reaching USD 635.7 million compared to USD 532.2 million at the end of 2020.

Figure 2 : Evolution of Burundi's public debt



Source: MFBPE, BRB, public debt data

1.4.4. Monetary and financial situation

Burundi's financial system has remained stable and resilient to the Covid-19 pandemic crisis. The sector's equity improved in line with the incorporation of a large part of the 2020 result into reserves. Solvency ratios have remained stable despite the growing need for financing for private companies. Despite a slight decline in 2021, the profitability of credit institutions has remained positive, stimulating projects of investors in the financial sector.

1.4.4.1. Inflation and interest rates

Inflation rose in 2021 to 8.3 percent from 7.5 percent reflecting rising food prices. Despite a good harvest period in 2021, the increase in food prices could be explained by the increase in fuel prices, which negatively impacts the cost of transporting goods. This level of inflation slightly exceeds the maximum acceptable standard of 8 percent at the EAC level. Inflation could continue to rise in 2022 due to the effects of the Ukrainian crisis, which is increasing the cost of importing raw materials, including petroleum products and certain grains.

Measures to regulate the prices of strategic products, including agricultural products, and the government's initiatives to reduce dependence on imports for main commodities should help to stabilize the price level of food products.

The money market level, the marginal lending rate has stabilized at around 6.9 percent over the past two years. In addition, the average rate of liquidity provision fell by one percentage point to 2.9% in 2021 from 3.9% in 2020, in line with the Central Bank's continued accommodating monetary policy aimed at financing growth sectors. The liquidity offered to credit institutions in support of the above-mentioned projects had an impact on the average level of lending rates, which stood at 13.4% in 2021 compared with 15.2% in 2020. On the other hand, the average interbank market rate increased by 1.4 percentage points in 2021 to 5.78 percent from 4.38 percent in 2020. As a result, the average level of lending rates increased by 0.4 percentage points to 6.1 percent from 5.7 percent.

Table 6 : Inflation* and interest rates**

Libellé	2017	2018	2019	2020	2021
Inflation rate	16.0	-2.6	-0.7	7.5	8.3
Overnight facility rate	7.13	5.48	5.63	6.87	6.88
Interbank rate	4.28	2.36	2.94	4.38	5.78
Liquidity rate	2.79	2.42	2.99	3.93	2.93
Deposit rate	5.96	5.43	5.28	5.66	6.08
Lending rate	16.16	15.47	15.49	15.18	13.36

*Source : * ISTEEBU, Consumer Price Index, December 2021 ** BRB*

1.4.4.2. Evolution of monetary aggregates

The monetary base increased slightly by 1.1 percent year-on-year, reaching 787,639.5 at the end of 2021 compared to 778,976.7 MBIF in 2020, due to a decrease in commercial banks' reserves (-27.5 percent compared to 3.9 percent in 2020) at the Central Bank, offset by a slight increase in bills and coins in circulation (12.7 percent compared to 21.4 percent in 2020).

The money supply (M3) increased by 20.5% in 2021, to BIF 3,293.1 billion compared to BIF 2,733.8 billion, due to an improvement in sight deposits (+14.8%) and cash in circulation outside deposit taking institutions (+10.5%).

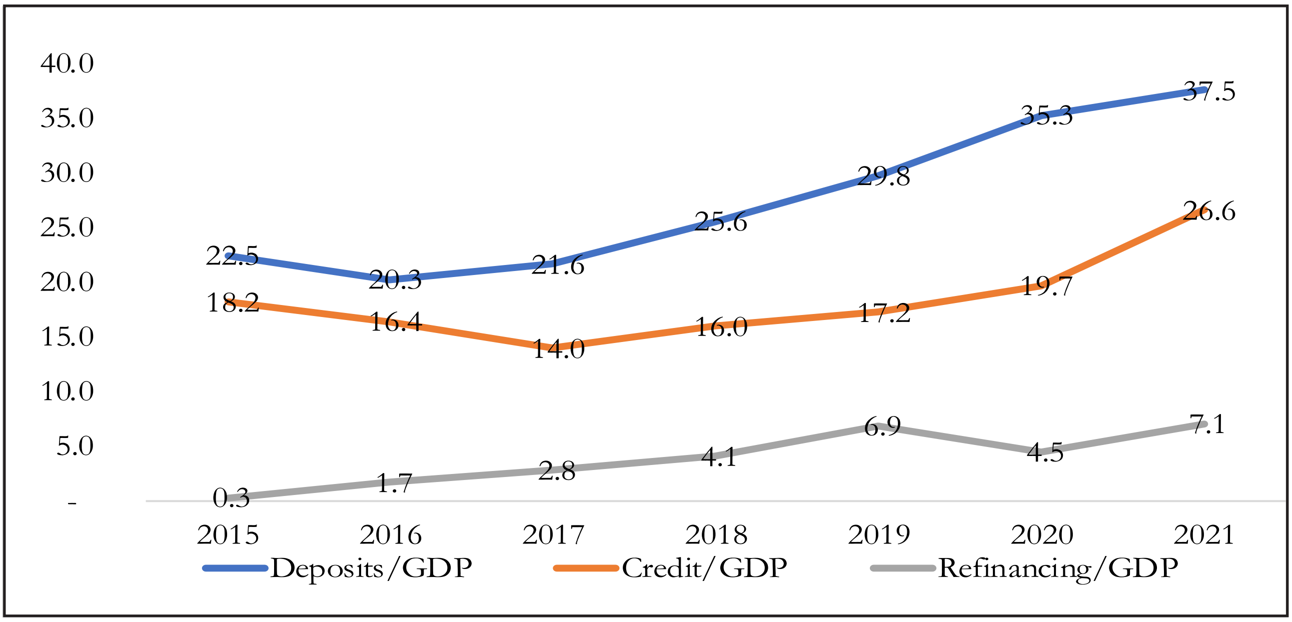
Time and savings deposits grew rapidly in 2021 (+36.4 vs. +23.7% in 2020). Demand deposits in BIF increased slightly compared with the previous year, mainly because of a small increase in the assets of households (+15.3 compared with +42.4 percent in 2020) and other nonfinancial corporations (+9.5 compared with +17.4 percent in 2020), while demand deposits of public nonfinancial corporations increased substantially (88.0 percent compared with 19.7 percent in 2020). Households' BIF time and savings deposits increased in 2021 (39.7 vs. 12.7 percent in 2020) as did other nonfinancial corporations' BIF time and savings deposits (37.4 vs. 46.7 percent in 2020).

However, time and savings deposits of public nonfinancial corporations decreased by 19.3 percent in 2021 compared to a decrease of 42.7 percent in 2021. Foreign currency assets of resident households increased by 33.2 percent in 2021, compared with 15.3 percent in 2020, while foreign currency assets of other nonfinancial corporations increased by 22.0 percent in 2021, compared with 22.6 percent in 2020. On the other hand, foreign currency assets of public non-financial corporations stood at 14.2% against 75.8% in 2020.

1.4.4.3. Loan to the economy

Loan to the economy continues to increase since 2016 and follows the evolution of deposits in the sector. A large part of the credit has been financed through the liquidity channel, which has allowed the banking sector to benefit from refinancing of about 7.1% of GDP by the end of 2021. In addition, since 2016, the Central Bank has introduced a window for refinancing credit institutions through the injection of liquidity. In 2019, another facility has been directed at financing growth sectors including agribusiness, industry, hotels and tourism, and social housing. The amount of special refinancing stood at BIF 530.8 billion at the end of 2021, compared with BIF 299.1 billion at the end of 2020.

Figure 3 : Evolution of the credit to the economy (% of GDP)



1.4.4.4. Debts to enterprises and households

The debt of private companies as a percentage of GDP increased by 5.1 percent and stood at 13.0 percent of GDP in 2021 compared to 7.9 percent in 2020, in connection with the Central Bank's financial support measures for priority sectors. Similarly, household debt increased by 2.8% in 2021, reaching 18.6% compared to 15.8% in 2020. The increase in household debt reflects, in part, the rise in the price level of imported goods caused by the restrictions on border movements that prevailed in 2021 due to the Covid-19 pandemic. The debt of public enterprises has stabilized at 0.3 percent of GDP.

Table 7 : Enterprises and households debt (% of GDP)

Year	Household debt	Private entreprises debt	State-owned entreprises debt
2014	11.0	8.5	1.0
2015	11.8	7.9	0.2
2016	12.7	6.4	0.2
2017	11.3	5.3	0.5
2018	12.3	6.1	0.7
2019	13.8	6.9	0.7
2020	15.8	7.9	0.3
2021	18.6	13.0	0.3

Source : BRB

The net position of households remained in debit at BIF 37.7 billion in 2021, compared with BIF 8.5 billion in 2020, as a result of a higher increase in debt than in household savings. On the other hand, the net position of private enterprises remained in credit despite a slight decrease compared to the previous year. The net debt of private enterprises stood at BIF 191.0 billion in 2021 compared with BIF 451.9 billion in 2020. Similarly, the net position of public enterprises remained in credit with a net debt of BIF 30.6 billion compared to BIF 15.5 billion in 2020.

Table 8 : Net debt of households and enterprises (BIF billion)

Year	2017	2018	2019	2020	2021
Households deposits	569.0	653.1	808.3	1,044.7	1,358.4
Households loans	643.0	725.7	855.8	1,053.2	1,396.0
Households net indebteness	74.0	72.5	47.5	8.5	37.7
Private entreprises deposits	432.0	613.8	776.8	979.4	1,169.1
Private entreprises loans	300.8	363.3	426.3	527.5	978.2
Private entreprises net indebtedness	-131.3	-250.5	-350.5	-451.9	-191.0
State-owned entreprises deposits	62.8	51.7	38.3	37.9	55.6
State-owned entreprises loans	28.6	42.0	42.1	22.3	25.0
State-owned entreprises net indebtedness	-34.1	-9.7	3.8	-15.5	-30.6

Source : BRB

1.5. Challenges to Burundi's financial stability

As in previous editions of the Financial Stability Report, this report reviews domestic and external vulnerabilities. Internal destabilization risks may arise from the increase in public debt, the depreciation of the Burundian currency, and the decline in the production of commodities exported by Burundi, while external risks are due to the rise in the prices of some imported commodities.

1.5.1. Increase in public debt

Burundi's public debt increased by 11.7 percent in 2021, reaching BIF 4,353.3 billion compared to BIF 3,896.9 billion the previous year. This increase was mainly driven by new issues of treasury securities to banks and the Central Bank. The government's liabilities to the banking sector increased by 12.5% in 2021 to BIF 1816.1 billion compared with BIF 1,614.6 billion the previous year. The amount of debt to the banking sector also increased as a result of the increase in the amount of securitized government arrears from BIF 67.3 billion in 2020 to BIF 105.9 billion in 2021. Direct advances from the Central Bank to the government increased by 0.76% to BIF 901.5 billion from BIF 894.7 billion.

1.5.2. Depreciation of the Burundian currency

The average exchange rate of the US dollar against the BIF reached 1975.9 BIF/USD in 2021 compared to 1915.1 BIF/USD in 2020, representing a depreciation of 3.2%. The average level of official foreign exchange reserves rose to 3,2 months of imports in 2021 from 1.1 months of imports in 2020. The level of foreign exchange reserves has been boosted mainly by substantial, low-cost financing from the country's various donors. The country received a US$78 million loan in July 2021 under the Rapid Credit Facility[11], a US$76.2 million loan for budget support, and an IMF allocation of SRD 147.6 million (equivalent to US$211.2 million) in August 2021 to mitigate its public debt vulnerabilities

11 The Rapid Credit Facility (RCF) provides rapid concessional financial assistance with no ex post conditionality to low-income countries with urgent balance-of-payments financing needs, in situations where a full-fledged economic program is not necessary nor feasible.

Table 9 : Evolution of foreign exchange reserves in EAC

	2016	2017	2018	2019	2020	2021
Burundi*	1.5	1.7	1.0	1.5	1.1	3.2
Kenya	4.7	4.2	4.8	6.1	4.6	4.4
Uganda	5.0	4.5	40.0	40.0	4.5	4.0
Rwanda	4.1	4.4	4.2	4.8	4.7	4.6
Tanzania	5.3	6.2	5.9	5.9	5.2	4.9
CEA-5	4.9	4.8	4.2	5.4	4.5	4.5
South Soudan	n.d.	2.1	0.1	0.3	0.4	0.5

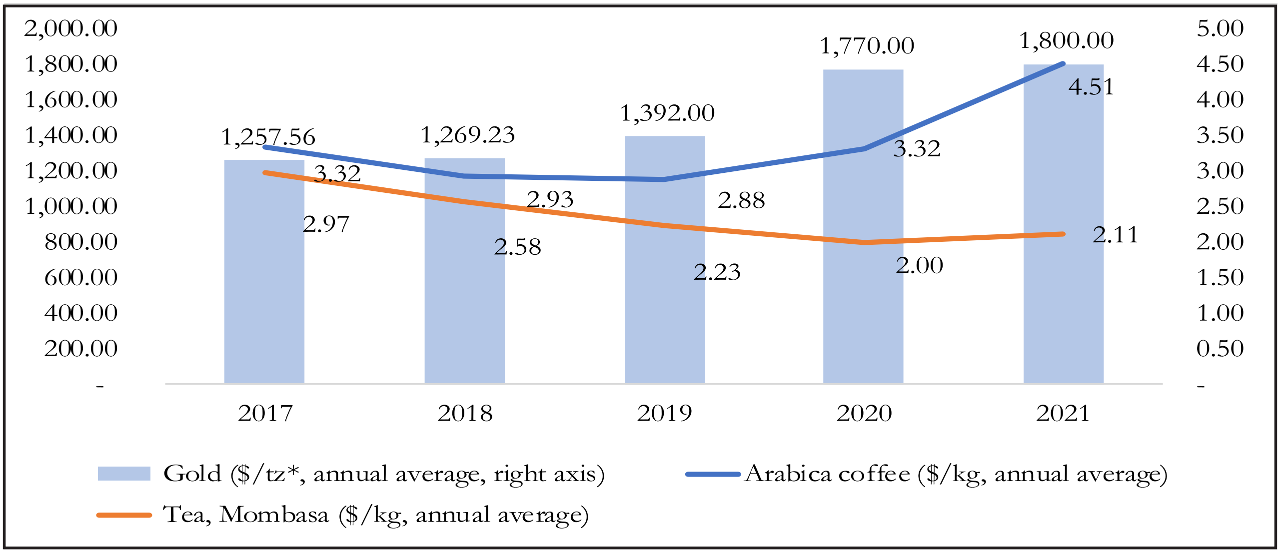
Source: IMF, Regional Economic Outlook for SSA, April 2022 BRB, Annual average*

1.5.3. Evolution of the main export products

Year-on-year production of some export crops such as parchment coffee and green leaf tea declined by the end of 2021. Green leaf tea production decreased slightly by 2.3% in December 2021 to 4,875.4 MT compared to 4,989.5 MT in the same period of 2020, due to poor rainfall. Likewise, cumulative tea production slightly decreased by 2.1% to 53,676.0 T from 54,810.0 T at the end of 2020. Coffee parchment supplies for the 2021/2022 coffee season decreased by 57.2% at the end of 2021 in connection with the cyclicality of the coffee plant. Cumulative coffee production stood at 7,952.0 tons against 18,580.1 tons in the same period of the previous season.

However, the prices of the country's main exports increased on the international market in 2021. The average prices of coffee and tea are respectively placed at 4.51 and 2.11 USD/kg against 3.32 and 2.00 USD/kg in 2020. The average price of gold has increased from 1770 USD/troy at the end of 2020 to 1800 USD/troy at the end of 2021.

Figure 4 : Evolution of world prices for Coffee, Tea and Gold



Source: World Bank Commodities price data, March 2022

1.5.4. Rising prices of major imported commodities

In 2021, commodity prices overall continued the recovery that began in the third quarter of 2020, after the decline recorded in the first half of 2020 that was due to the adverse effects of Covid-19.

The average price of crude oil (Brent) stood at USD 69.1 per Barrel in 2021 compared to USD 41.3 per Barrel in 2020. The average energy, natural gas, and non-energy indices increased significantly from the previous year. The average energy index was 94.5 in 2021 versus 51.9 in 2020. The average index for non-energy commodities increased from 84.1 to 112.0. The average fertilizer index increased from 73.2 in 2020 to 132.2 in 2021.

Box 1 : Climate risk factors and their transmission channels to the real economy and the financial system

Climate change poses a significant risk to financial stability. It has multiple adverse implications for life on earth and is causing global warming, rising sea levels, increased frequency and severity of droughts, floods, cyclones and many other extreme weather events.

In Burundi, for example, flooding in Lake Tanganyika from April to July 2021 displaced an estimated 50,000 people and destroyed crops and homes[12]. Increased global warming may lead to lasting negative economic impacts and could be a significant risk vector for financial stability. The high dependence of the Burundian population on rain-fed agriculture amplifies vulnerability to extreme weather shocks and the heaviest burden is paid by the poorest segments of the population.

The analysis of the effects of climate change distinguishes two main types of climate risks. Physical risks that are associated with losses resulting from impacts on people and property induced by extreme weather events such as floods, hurricanes, cyclones, droughts, etc., and gradual changes in climate over the long term. These events weaken the financial positions of households and businesses through the destruction of lives and physical assets and the disruption of business operations in various ways. Transition risks are related to the financial costs of adjusting the current economy to a lower-carbon economy, including changes in climate policy or technology. This results in changes in the behaviour of economic agents to adapt to the policies and changes adopted, which can have an impact on the wealth of households and their living conditions.

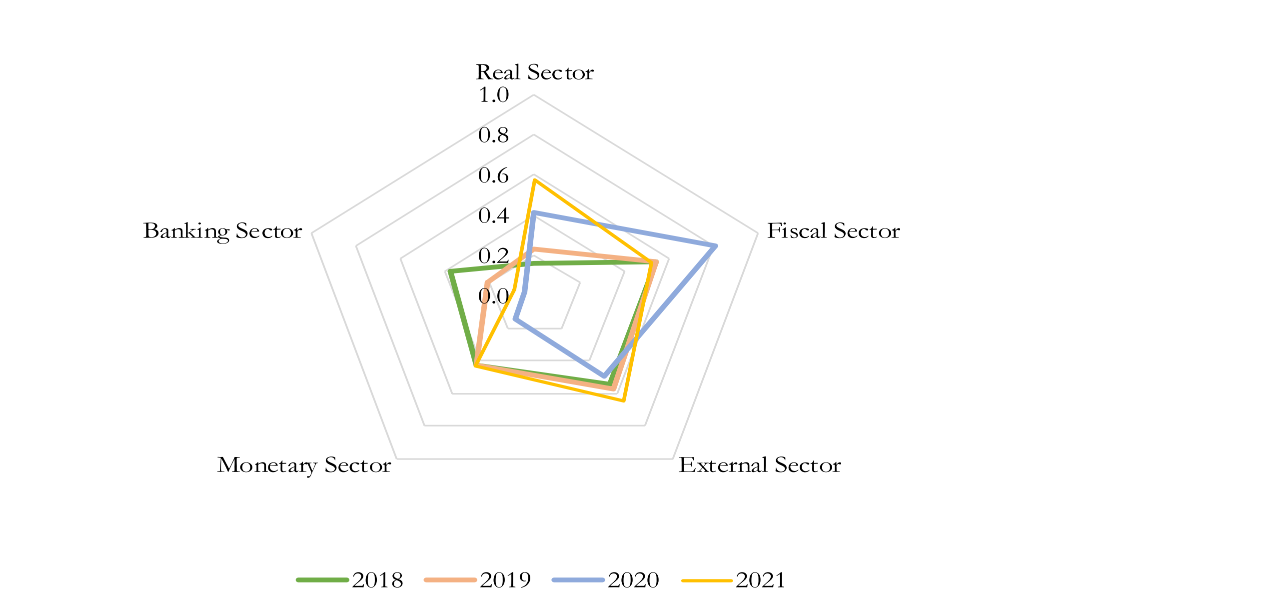
The effects of climate change are transmitted to the credit portfolios of credit institutions as a result of the effects suffered by their counterparts (households, companies, governments), which are rendered less solvent or less in demand of banking services. This is due to the fact that in such situations, households are confronted with decreases in income or in the value of their assets, or companies face, in addition to physical risks, a decrease in their sales, an increase in capital expenditures or operating costs and an unfavourable evolution in the value of their assets.

12 The impact of climate, energy, and environment on children and their families in Burundi

1.6. Summary of macroeconomic situation in Burundi

The main sectors posing a risk to financial stability are the fiscal sector through the increase in public debt and the external sector through the depreciation of the Burundian currency and the decline in external reserves.

Figure 5 : Summary of the macroeconomic situation in Burundi



Source : BRB

For a maximum standard of 50% of GDP at the level of the EAC, public debt reached 58.0% of GDP in 2021 compared to 58.6% of GDP in 2020. The average exchange rate reached 1975.9 BIF/USD in 2021 compared to 1915.1 BIF/USD in 2020. The average level of foreign exchange reserves rose to 3,2 months of imports in 2021 from 1.1 months of imports in 2020.

CHAPTER 2 :
FINANCIAL SYSTEM DEVELOPMENT

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National financial stability also requires stability of the national financial system. Since the latter is essentially a banking system, its stability depends on its compliance with current regulations, its soundness with respect to general financial management standards, and its resilience to potential simulated endogenous and exogenous vulnerabilities.

At the end of 2021, the financial system in overall was compliant with current regulations, sound, and resilient to identified threats that could occur. Thus, regulatory compliance was assessed in terms of solvency, asset quality, and liquidity. Viability was assessed from the perspective of cost control and profitability. Resilience was assessed in relation to risks identified as threats to financial stability.

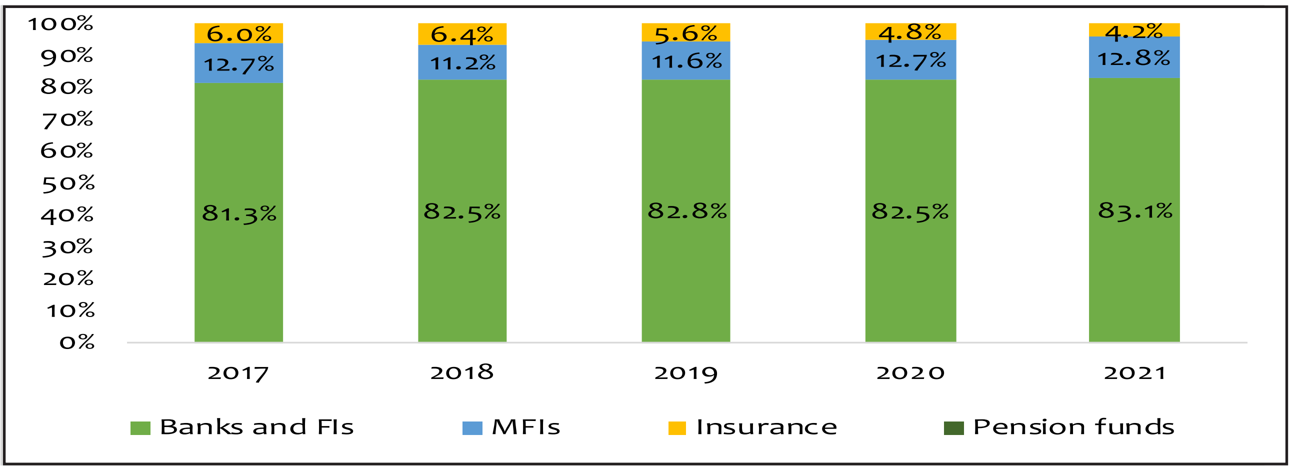
2.1. Financial system structure

At the end of 2021, Burundi's financial system is composed of five types of financial institutions: credit institutions (banking sector), microfinance institutions, insurance companies, payment institutions and social security institutions[13].

At the end of 2021, the banking sector will consist of 15 credit institutions, including 14 banks and 1 financial institution. The microfinance sector includes 20 savings cooperatives, 22 microfinance companies, and 33 community financial groups. Digital financial services are provided by 17 institutions, including 4 electronic money payment institutions, 7 commercial banks and 6 microfinance institutions offering mobile banking services.

At the end of 2021, the banking sector's assets will be the most preponderant in the national financial sector, accounting for 83.1% of total assets, while the microfinance and insurance sectors will account for 12.8% and 4.2% respectively.

Figure 6 : Evolution of the the financial system structure



Source : BRB

13 December 2021 data for the social security institutions sector are not available in this report.

2.2. Banking sector

In 2021, the Burundian banking sector remained in compliance with the regulatory framework, sound and resilient. Indeed, the banking sector is almost near compliance with regulatory standards, has positive profitability, an improvement in the quality of the credit portfolio and resilience to shocks simulated by the BRB.

2.2.1. Banking sector situation

At the end of 2021, the banking sector's activities are generally focused on financing the government and the economy as well as providing payment instruments. The banking sector's credits to the economy represented 26.7% of GDP in 2021, compared with 19.4% in 2020. At the end of 2021, the banking sector includes four Systemically Important Banks and three Medium Systemically Important Banks.

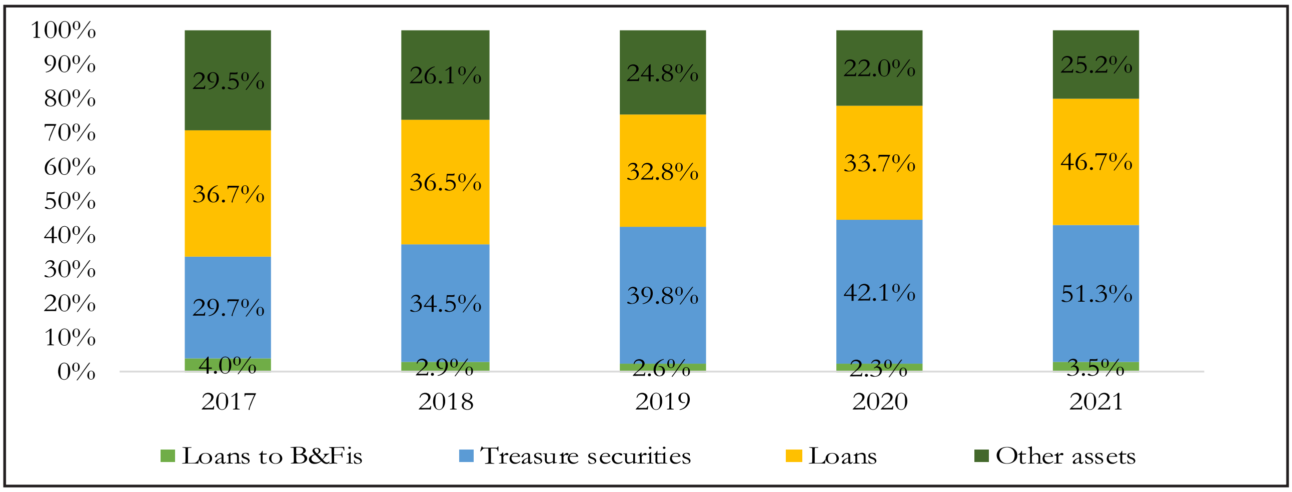
2.2.1.1. Banking sector assets

At the end of 2021, the total assets of the banking sector reached BIF 4 933.6 against BIF 3 894.3 billion in 2020, an increase of 26.7 percent. The banking sector's assets are mainly composed of credit to the economy (40.5%) and financing to the State (36.9%), compared with 33.7% and 42.1% respectively in 2020. Banks of high systemic importance contribute 51.8% of the financing of credit to the economy and 74.4% of the government financing, while Medium Systemically Important Banks[14] contribute 28.5% of the financing of credit to the economy and 18.4% of the financing of the State.

Credit is concentrated in particular in the sectors of trade (30.8%), miscellaneous (29.4%), housing (17.8%), industry (8.5%), agriculture (7,1%) and tourism (1.0%). The loans distributed by the banks are mainly short-term (43.9%) while medium and long-term loans represent respectively 27.0% and 29.1% in 2021 against 27.1% and 27.3% in 2020.

The government is financed through the purchase of Treasury securities (Treasury bills and bonds). Treasury bills have a maturity of between 13 weeks and 26 weeks, while Treasury bonds have a maturity of between 2 years and 10 years. Other" includes fixed assets (4.2%) as well as cash in hand and at the BRB (5.3%).

Figure 7 : Structure of assets (in %)



Source : BRB

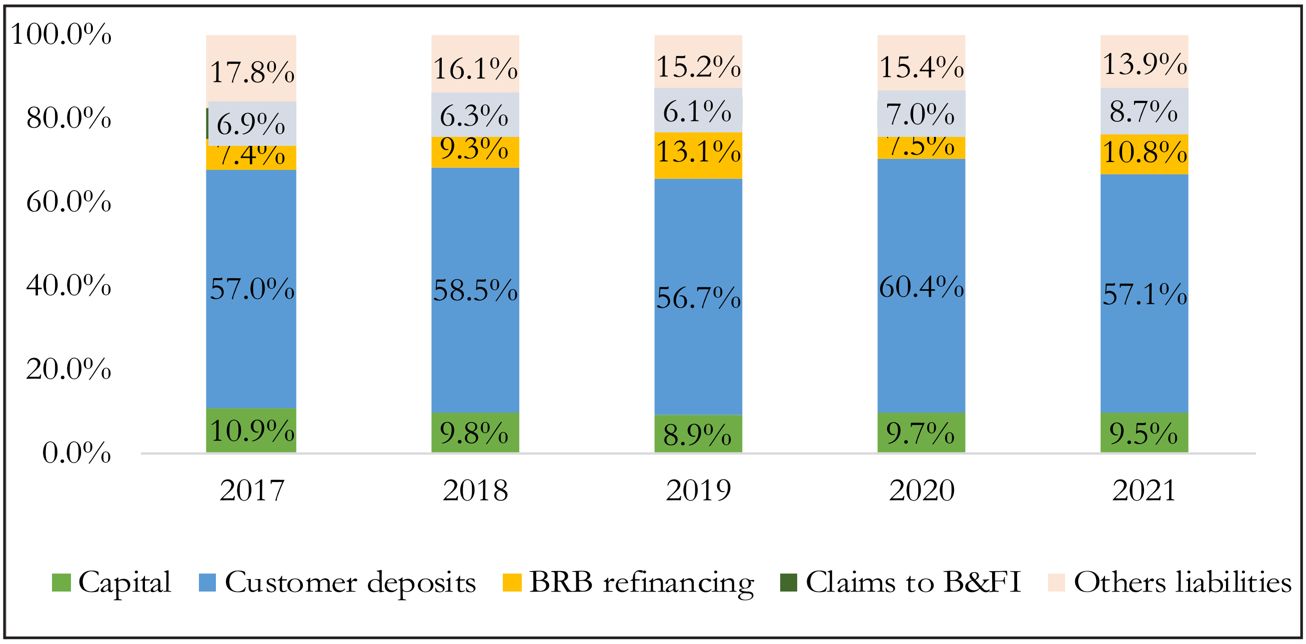
14 The assessment (identification and analysis) of banks of high systemic importance is done among banks only because of the different business model from that of financial institutions.

2.2.1.2. Banking sector liabilities

In 2021, the liabilities of the banking sector are mainly composed of customer deposits (57.1 percent compared to 60.4 percent in 2020), equity (9.5 percent compared to 9.7 percent in 2020) and refinancing from the BRB (10.8 percent compared to 7.5 percent in 2020).

High Systemic Banks hold 61.9% of customer deposits and receive 57.4% of BRB refinancing, while Medium Systemic Banks hold 26.8% of customer deposits and receive 13.0% of refinancing.

Figure 8 : Structure of resources (in %)

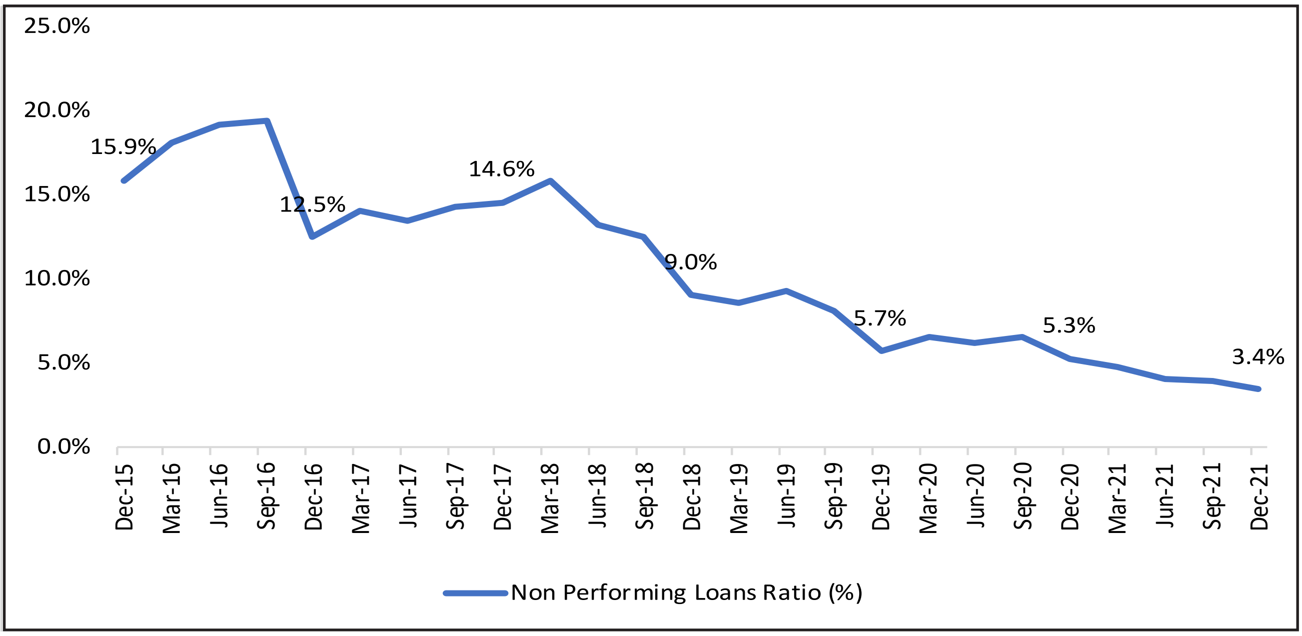


Source : BRB

2.2.2. Loan portfolio quality

The quality of the sector's loan portfolio improved at the end of December 2021, which contributed to the improvement in the stability of the financial system. The overall non performant loan rate fell from 5.3% at end-December 2020 to 3.4% at end-December 2021. This improvement is linked to the write-off of impaired loans aged two years or more on the balance sheets of credit institutions, amounting to BIF 13,967.1 billion. However, non-performing loans without the write-off amount to BIF 82,263.3. The deterioration rate of the loan portfolio without write-off is 4.1% at the end of December 2021.

Figure 9 : Non-performing loans rate trend (in %)



Source : BRB

At the end of 2021, within the non-performing portfolio, the most preponderant sectors of activity were trade, housing and health with 24.5%, 20.2% and 13.6% respectively. For 2020, the trade, housing and transportation sectors were the most preponderant in the non-performing portfolio with 28.7%, 15.7% and 14.0% respectively.

From an intra-sector perspective, the best performing sectors were mining and quarrying (0.005%), industry (1.0%), and education (0.20%), while the worst performers were health (55.4%), tea (66.8%), handicrafts (68.8%), and hotels (26.4%). Year-on-year, the tourism (30.3%) and hotel (19.8%) sectors improved in terms of intra-sector performance.

In comparison with EAC member countries, according to the standard accepted in the banking profession (≤ 5%) as regards the quality of the credit portfolio, the situation in Burundi is acceptable.

Table 10 : Non-performing loans rate trends at the EAC level

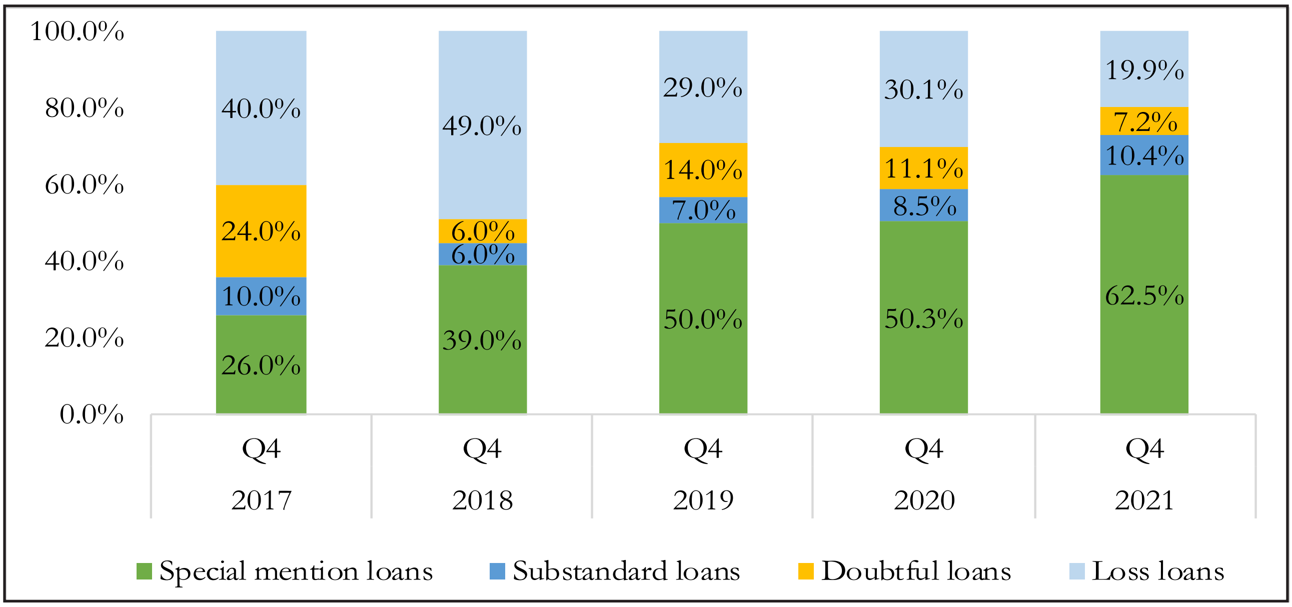
	2016	2017	2018	2019	2020	2021
Burundi	12.9	14.5	9.0	5.7	5.3	3.4
Kenya	9.1	10.6	9.1	10.0	14.1	13.1
Uganda	10.5	5.6	3.3	3.8	5.3	5.3
Rwanda	7.6	7.6	5.0	4.9	4.5	4.6
Tanzania	9.1	12.5	6.9	9.8	9.4	8.4
South Soudan	N/A	48.0	4.1	2.1	3.1	3.1

Source: EAC Country Risk Assessment Scorecard, June 2022

The evolution of loans to be monitored as a precursor of future deterioration in the loan portfolio remained high from one year to the next, at 61.8%.

Thus, in order to cope with this deterioration in the portfolio, the banks have made provisions with a coverage rate of 54.2%.

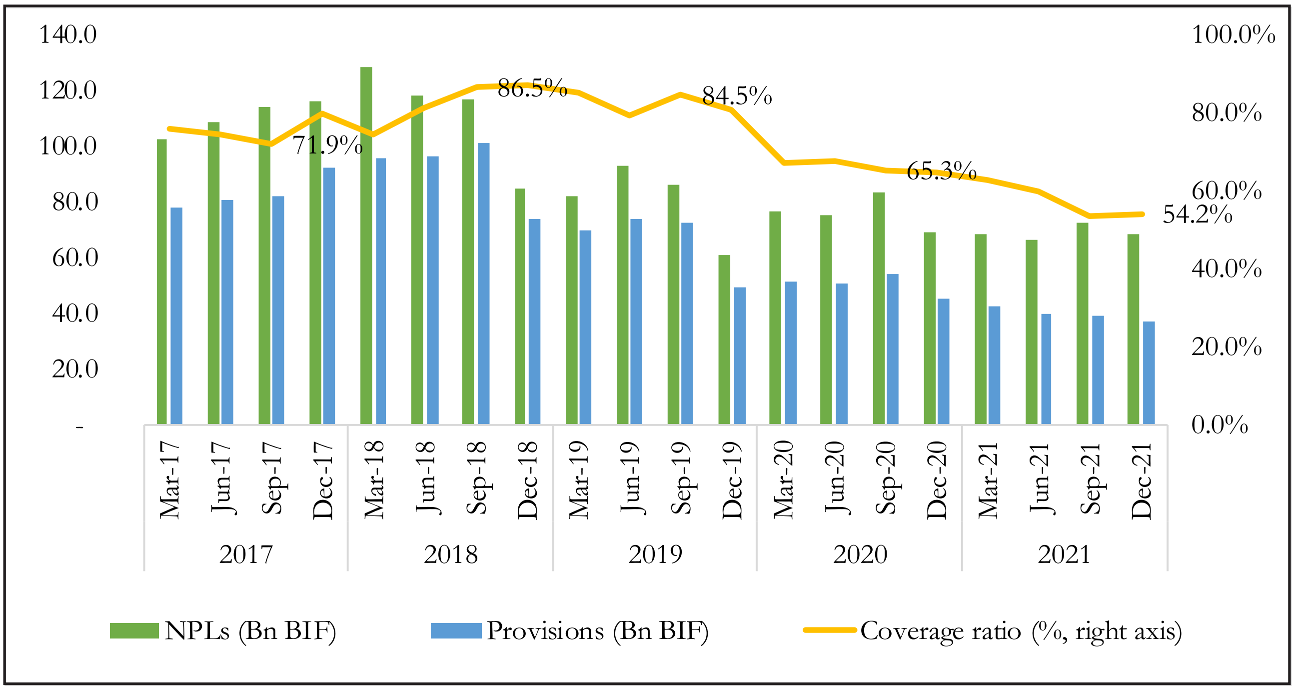
Figure 10: Structure of unpaid loans in Burundi (in %)



Source : BRB

The coverage rate for non-performing loans fell slightly from 64.9% in 2020 to 54.2% in 2021. Year-on-year, the amount of non-performing loans decreased from BIF 69.4 billion in 2020 to BIF 68.3 billion in 2021. Thus, coverage for non-performing loans are BIF 37.0 billion in 2021 compared to BIF 45.0 billion in 2020.

Figure 11 : Coverage rate for non-performing loans

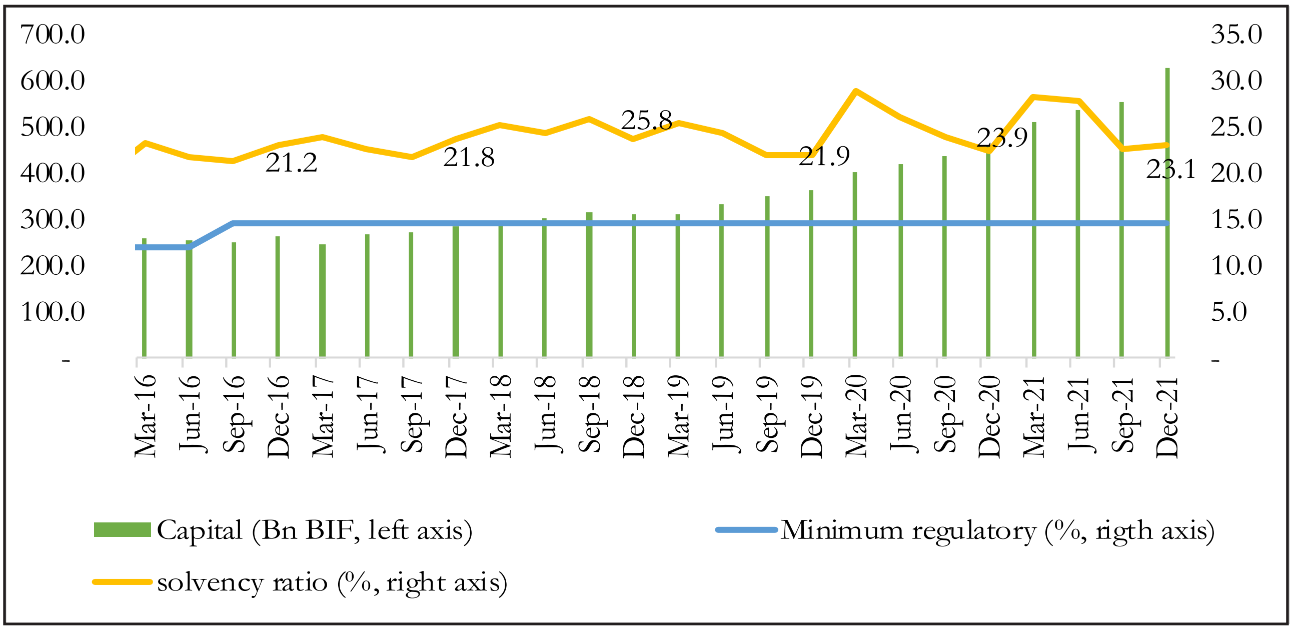


Source : BRB

2.2.3. Capital adequacy

In 2021, the banking sector had sufficient capital compared to the threshold standard. It increased by 29.1 percent, reaching BIF 594,578.7 at the end of December 2021, compared with BIF 460,427.1 at the end of December 2020. This improvement was due to the incorporation of part of the benefit into equity. The core and overall solvency ratios improved slightly from 20.8 and 22.4% respectively at the end of December 2020 to 21.5 and 23.0% at the end of December 2021. Similarly, the leverage ratio stood at 11.3% compared to 11.0% given the minimum threshold of 5.0%.

Figure 12 : Capital adequacy



Source : BRB

2.2.4. Liquidity

At the end of 2021, the overall short-term liquidity ratio deteriorated from 210.4 to 187.5%. Although it declined, the ratio remained above the minimum regulatory threshold of 100%.

The overall compliance of the banking sector with the liquidity ratio contains some disparities. Indeed, from the point of view of local currency liquidity, two banks are not compliant, while from the point of view of foreign currency liquidity, one Systemically Important Bank is not compliant.

Table 11 : Evolution of the liquidity ratio

Evolution of the liquidity ratio	Q4 2014	Q4 2015	Q4 2016	Q4 2017	Q4 2018	Q4 2019	Q4 2020	Q4 2021
Liquidity Ratio in BIF (in %)	35.4	38.0	55.0	58.3	225.5	226.1	213.5	192.8
Liquidity Ratio in foreign currency (in %)	84.9	122.0	128.0	113.5	138.9	133.4	172.4	135.5
Overall Liquidity Ratio (in %)	52.0	53.0	64.0	64.2	218.5	220.0	210.4	187.5
Standard (in %)	≥20	≥20	≥20	≥20	≥100	≥100	≥100	≥100

Source : BRB

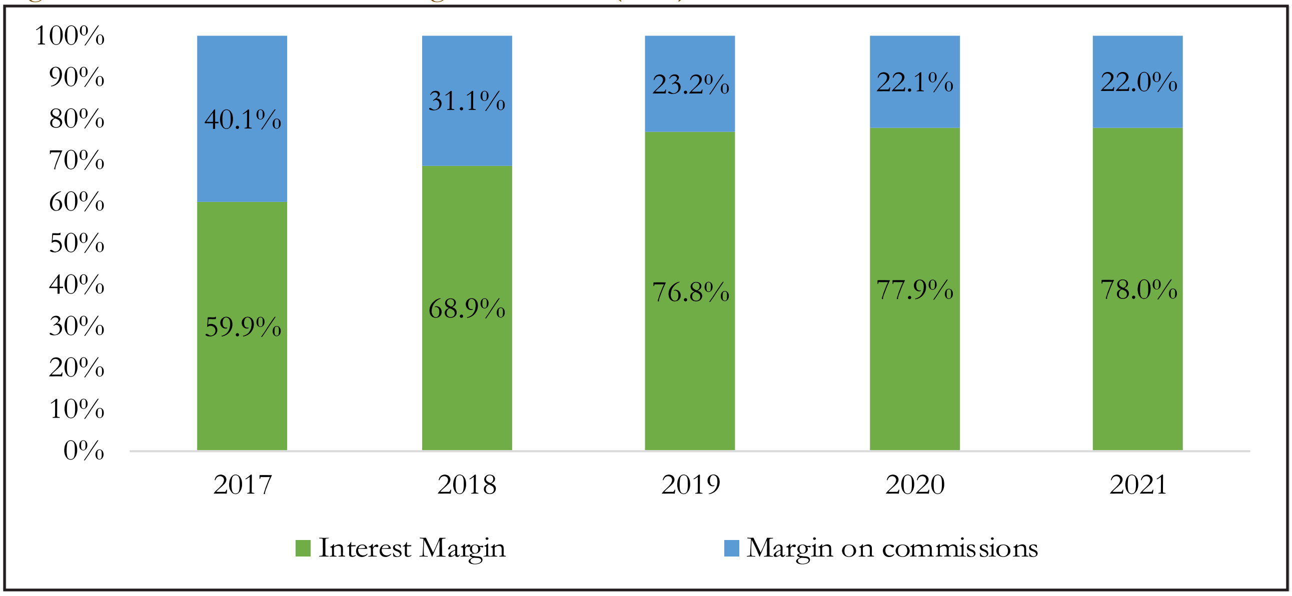
2.2.5. Market risk

The Burundian financial market is not sufficiently developed, as the financial system is virtually dominated by the banking sector, which is lowly interconnected with international markets. The secondary market is still in its low stage and the financial assets traded on it often reach maturity, which means that they are not subject to any price fluctuations.

2.2.6. Profitability of the banking sector

At the end of 2021, the banking sector remained profitable. Net banking income increased by 12.8% from 293,546.0 to 331,106.3 MBIF. Compared to the year 2020, the net income of credit institutions increased by 18.1 percent from BIF 141,069.1 to BIF 166,615.3 at end-2021.

Figure 13 : Distribution of Banking Net Income (in %)

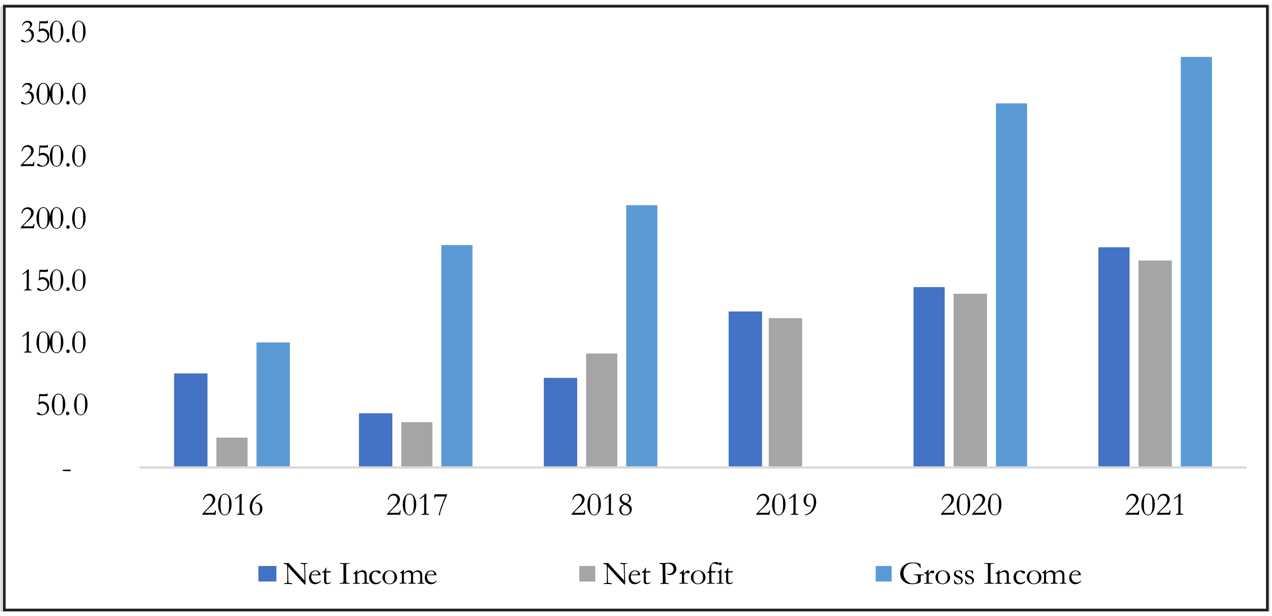


Source : BRB

The income generated by banks is derived from transactions with banks and similar entities, transactions with customers, transactions in financial instruments, commissions on services, activities ancillary to banking, operating activities, credit risk and fixed assets.

The sector's overall profitability comes mainly from investment operations in Treasury securities and operations with customers. It is driven by six banks. The return on assets was 3.4% and the return on equity was 28.0%.

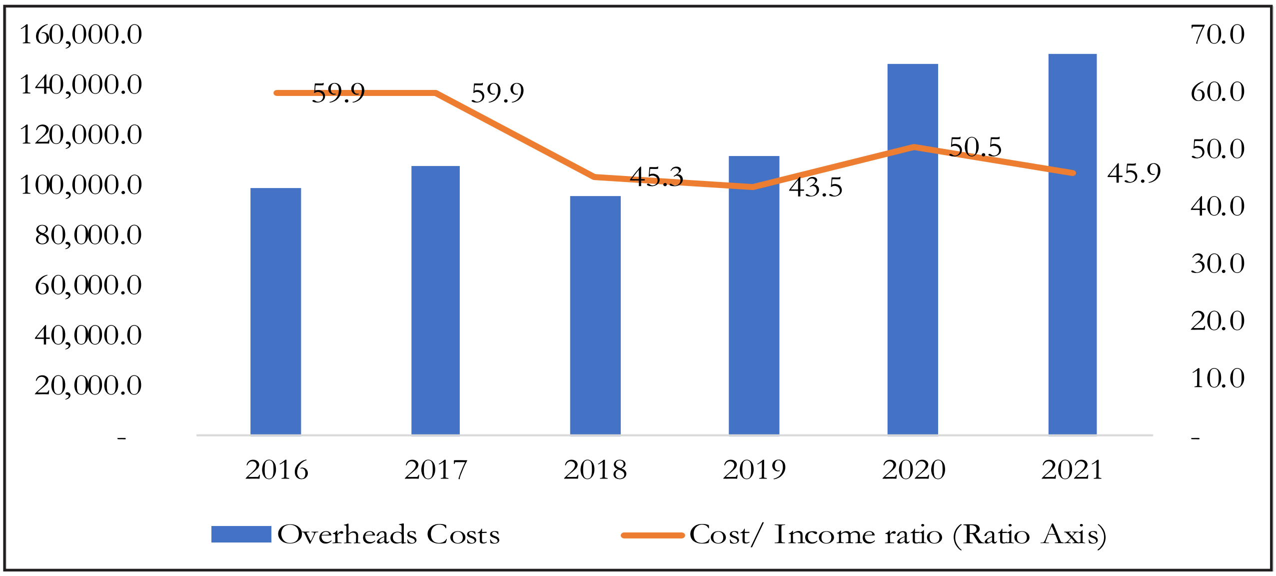
Figure 14 : Intermediate operating balances (in BIF billion)



Source : BRB

At the end of 2021, overheads costs increased by 2.7%, while net banking income rose by 12.8%, while the cost/income ratio fell by 5%.

Figure 15 : Overheads costs (in BIF million) and cost/income ratio (in %)



Source : BRB

2.2.7. Stress testing

Assessing the financial system resilience is part of the risk management process. Indeed, after an assessment of the soundness of the banking system according to the existing regulations, it is common to assess its resilience under hypothetical adverse conditions. There are two main categories of stress tests. Microprudential tests assess the resilience of each institution on its own and macroprudential tests assess the resilience of the financial system as a whole, thereby capturing the impact of previously identified systemic risks. The former can be conducted in a bottom-up manner (by banks) or in a top-down manner (by the regulatory authority).

From a microprudential perspective, the stress test was conducted to assess the resilience of 14 Burundian credit institutions to credit and liquidity risk based on their financial statements as of end December 2021.

On credit risk, 4 types of shocks were simulated. These are the under-provisioning shock, the proportional increase in non-performing loans shock, the sectoral deterioration shock and the large debtor deterioration shock.

The under-provisioning shock was assessed in two scenarios. The first scenario, known as the reference scenario, assesses whether the existing provisioning complies with current regulations, taking into account a discount of 10 % on deductible guarantees. The second scenario, known as the severe scenario, assumes a higher level of provisioning (1.5 times higher than the existing one) and a 75% haircut on deductible guarantees. Twelve credit institutions remain adequately capitalized under the first scenario while eleven credit institutions remain adequately capitalized under the second scenario.

The shock of a proportional increase in non-performing loans was assessed in two scenarios. The first scenario, known as the reference scenario, assesses whether the additional provisioning in the event of a 25% migration of performing loans to non-performing loans would produce an acceptable or unacceptable negative impact. The second scenario, known as the severe scenario, assesses whether the additional provisioning in the event of a 50% migration of performing loans to non-performing loans would produce an acceptable or unacceptable negative impact. Twelve credit institutions remain adequately capitalized after these tests.

The sectoral deterioration shock was assessed in two scenarios. The first scenario, known as the reference scenario, assesses whether additional provisioning would be required in the event of a 20% migration of performing loans to non-performing loans in each sector of activity and a provisioning of new non-performing loans of 25%. Eleven credit institutions remain adequately capitalized after this test. The second scenario, known as the severe scenario, assesses whether additional provisioning would be required in the event of a 30% migration of performing loans to non-performing loans in each business line and a 25% provisioning of new non-performing loans. Ten credit institutions remain adequately capitalized after this test.

The deterioration shock to large debtors[15] was assessed in three scenarios. The first scenario, known as the reference scenario, assesses the resilience of credit institutions to additional provisioning of 100% in the event of default by the largest debtor. Ten credit institutions remain sufficiently capitalized after this test. The second scenario, known as the severe scenario, assesses the resilience of credit institutions to additional provisioning of 100% in the event of default of the three largest debtors. Seven credit institutions remain adequately capitalized after this test. The third scenario, known as the very severe scenario, assesses the resilience of credit institutions to additional provisioning of 100% in the event of default by the five largest debtors. Seven credit institutions remain sufficiently capitalized after this test. This risk is largely related to the level of concentration of each credit institution's portfolio. Mitigating it involves monitoring the default risk of the Burundian banking sector's largest debtors.

15 Loans to the Government of Burundi have not been taken into account.

With regard to liquidity risk, a sustained withdrawal for five consecutive days was simulated at a rate of:

- 15% per day for current deposits in local currency;
- 10% per day for current deposits in foreign currency;
- 3% per day for term deposits in local currency;
- 1% per day for foreign currency term deposits.

The results are such that from day two onwards, one bank is not resilient, while on day three two more banks are not resilient.

From a macroprudential perspective, the stress test was conducted to assess the resilience of Burundian credit institutions to the risk of the systemic risks identified in Chapter 1.

The hypothetical calibration of systemic risks was increased to twice or half (depending on the direction of the risk) the average observed from 2015 to 2021. The impact is measured in terms of the reaction of the quality of the banking sector's credit portfolio to the simulated occurrence of each of these risks taken in isolation, as well as the related impact on the solvency of the banking sector. The results are such that the solvency of the banking sector is vulnerable to the decline in returns from exported commodities and the weakening of the level of domestic economic activity.

2.3. Microfinance Sector

The microfinance sector participates in providing of financial services to low-income people and is considered an essential tool to facilitate financial inclusion. Thus, microfinance has become a fashionable tool in the credit markets and for socio-economic development.

2.3.1. Microfinance sector structure

In Burundi, the institutions carrying out microfinance activities are divided into four categories, namely:

- First category: Microfinance companies, financial cooperatives and other types of microfinance institutions with the legal form of a limited company, public company or mixed company that collect and grant loans and offer other financial services to their clients;
- Second category: Financing and/or guarantee funds carrying out microfinance activities, microcredit programs affiliated with non-governmental organizations (NGOs) and non-profit associations (NPOs) that grant loans but are not authorized to collect deposits from the public;
- Third category: Savings and Credit Cooperatives in the legal form of Cooperative Societies that collect deposits from their members and grant them loans and other financial services;
- Fourth category: Community Financial Groups such as cooperative societies, pre-cooperative groups, village savings and loan associations that collect their members' contributions and grant them loans according to the agreed approach.

As for the 4th category, the exercise of the activities of the latter does not require approval but a simple registration with the BRB.

By the end of 2021, the Burundian microfinance sector had 20 savings cooperatives and 22 microfinance enterprises, plus 33 community financial groups. To improve access to financial products and services, the number of service points (headquarters, branches and counters) authorized by the BRB increased from 348 in 2020 to 387 in 2021.

Four cooperatives dominate the sector's market, accounting for 78.2% of assets, 78.7% of loans, 75.3% of deposits and 78.1% of equity in the sector. In 2021, the total assets of MFIs were 757,788.1 compared to 600,599.4 MBIF in 2020, an increase of 26.2% in line with the increase in the amount allocated to financing the economy to 25.9% year-on-year.

Table 12 : Concentration of MFI Assets (in BIF million)

	2017	2018	2019	2020	2021
Cooperatives (3rd category)	247 595,3	299 206,8	391 580,7	511 123,7	632 641,3
Microfinance companies (1st Category)	40 624,5	50 311,7	64 902,3	89 475,6	125 146,8
Total Assets	288 219,7	349 518,5	456 482,9	600 599,4	757 788,1
Cooperatives' share	85,9	85,6	85,8	85,1	83,5
Microfinance companies share	14,1	14,4	14,2	14,9	16,5

Source : BRB

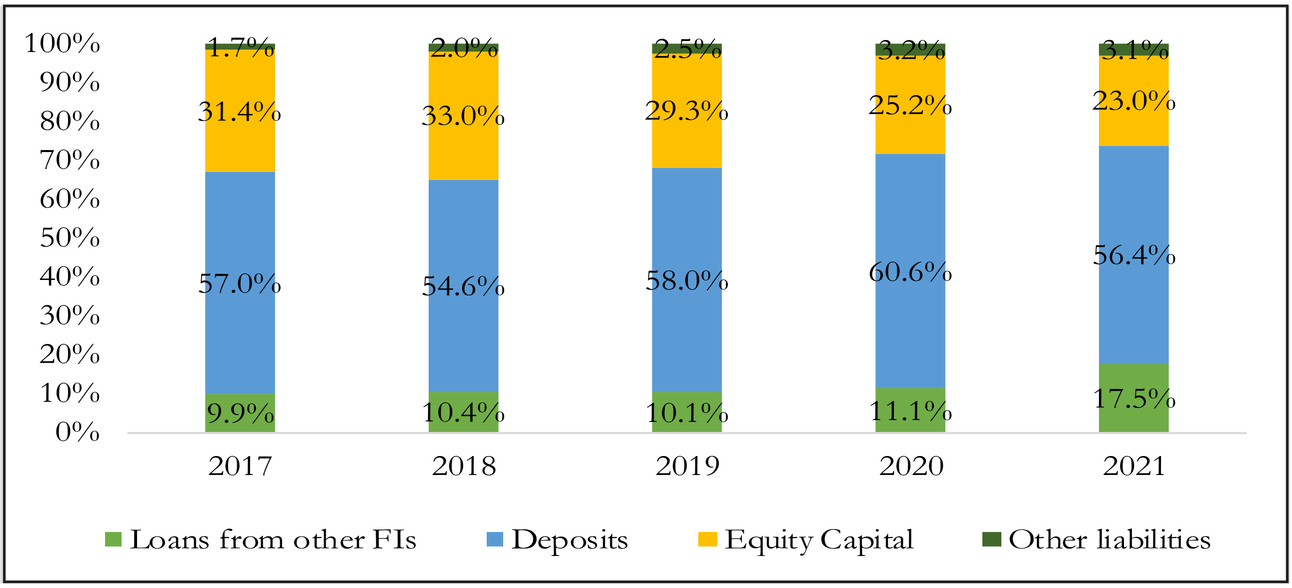
The assets of MFIs are highly concentrated in cooperatives (3rd category) with 83.5% of total assets while microfinance enterprises (1st category) occupy 16.5%.

2.3.2. Microfinance Sector liabilities

MFIs find resources in deposits, loans, equity and miscellaneous operations. The resources of MFIs increased by 26.2% to reach 757,788.1 MBIF in 2021 compared to 600,599.4 MBIF in 2020.

This change is mainly due to the 17.4% increase in deposits, which will reach 427,074.4 MBIF in 2021 compared to 363,843.7 MBIF in 2020. Resources also changed as a result of the increase in borrowings from the banking sector to 99.3%, amounting to BIF 132,966.5 compared to BIF 66,700.0 in 2020. At the end of December 2021, equity increased by 15.4% to BIF 174,350.4 compared to BIF 151,092.8 at the end of December 2020.

Figure 16 : Distribution of MFIs' resources in MBIF

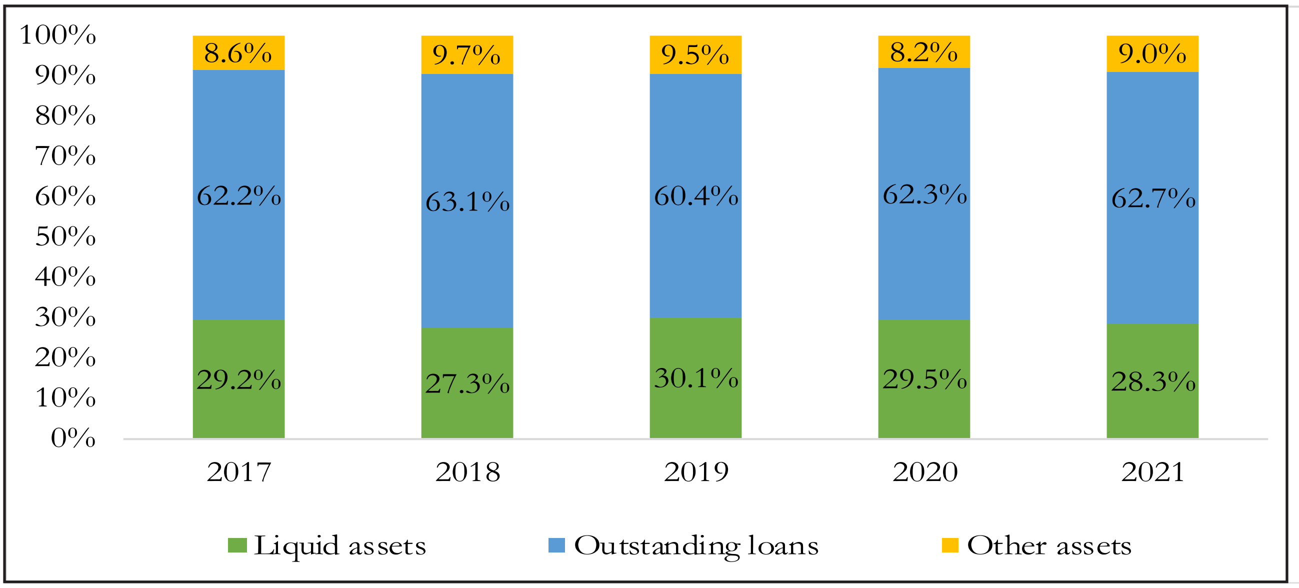


Source : BRB

2.3.3. Microfinance Sector assets

The gross outstanding loans of MFIs reached 475,275.4 MBIF in 2021 against 374,151.6 MBIF in 2020, i.e. an increase of 27.0%. However, the share of loans in total MFI employment increased by 0.4 percent, from 62.3 percent in 2020 to 62.7 percent in 2021.

Figure 17 : Evolution of MFI assets in MBIF



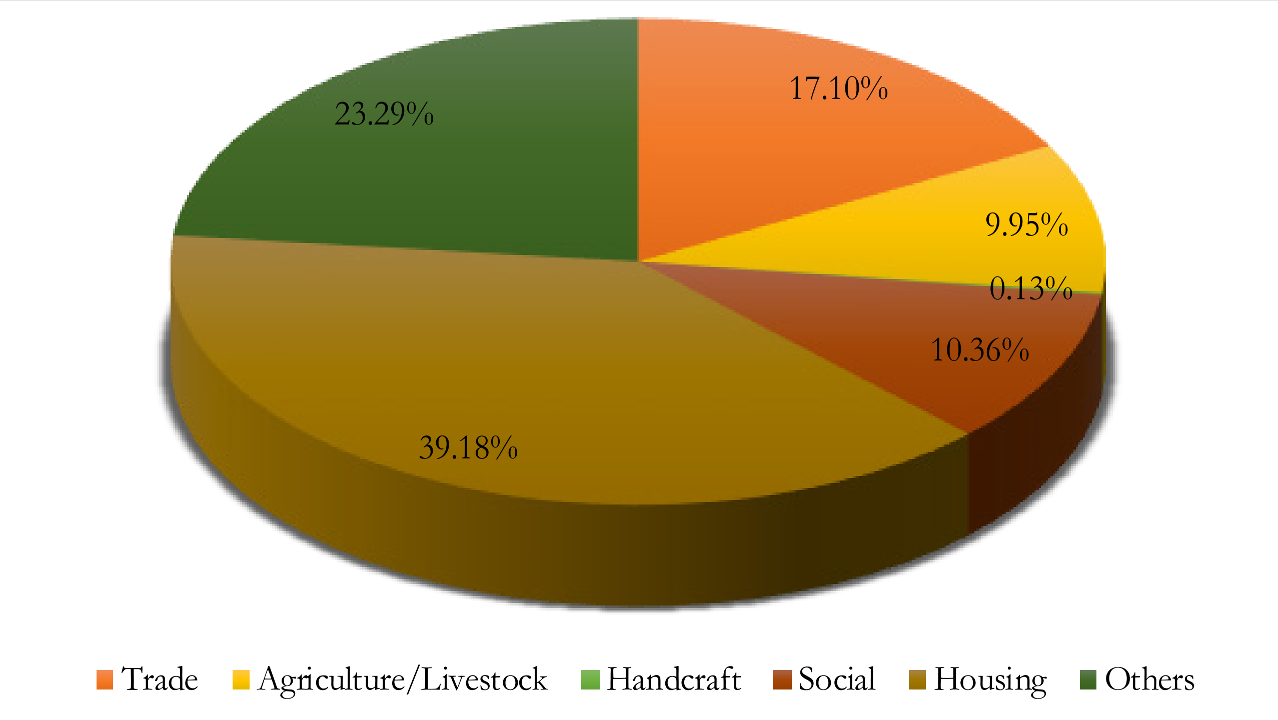
Source : BRB

2.3.4. Structure of financing by sector

The housing sector is the most favoured by MFIs compared to other sectors with 39.2% of loans. Being one of the growth sectors, the agriculture sector is the least financed by MFIs with only 10.0% at the end of 2021.

The figure below provides details on the distribution of credit by sector of activity at the end of December 2021.

Figure 18 : Distribution of credit by sector of activity



Source : BRB

2.3.5. Loan portfolio's quality

The deterioration rate of the credit portfolio increased by 1.4 p.p. from one year to the next, from 4.9% to 6.3%; while remaining at the maximum acceptable limit for the sector of 5%.

Table 13 : Loan Portfolio's Quality

	2018	2019	2020	2021	Annual variation in %
Loans(in MBIF)	225,468.8	283,950.6	374,151.7	474,882.2	26.9
Healthy credit	211,787.9	268,135.4	355,899.7	445,008.2	25.0
Outstanding credits	13,680.8	15,815.2	18,252.0	29,874.0	63.7
Loan Provisions	5,042.8	8,194.6	8,413.9	11,917.7	41.6
Net credits	220,426.0	275,755.9	365,737.8	462,964.5	26.6
Gross credits	225,468.8	283,950.6	374,151.7	474,882.2	26.9
Provisioning rate	36.9%	51.8%	46.1%	39.9%	
Deterioration rate	6.1%	5.6%	4.9%	6.3%	

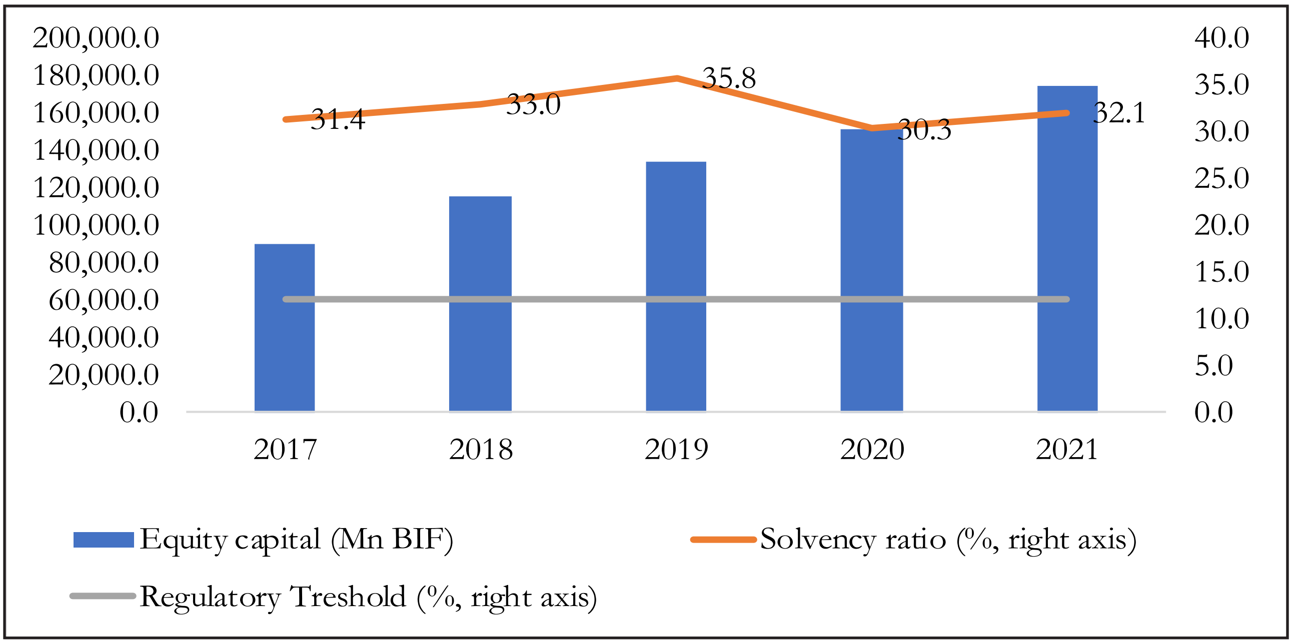
Source : BRB

2.3.6. Capital adequacy of the Microfinance sector

The microfinance sector remains adequately capitalized and equity increases from one year to the next, rising from MBIF 151,092.8 in 2020 to MBIF 174,350.4 in 2021, an increase of 15.4 percent.

On the other hand, the sector's overall solvency ratio fell by 7.1 p.p. to 23.2% from 30.3% in 2020, but remains above the regulatory threshold of 12%. However, this ratio contains disparities as some MFIs need to strengthen their core capital.

Figure 19 : Evolution of capital adequacy



Source : BRB

2.3.7. Liquidity of the Microfinance Sector

At the end of 2021, the microfinance sector was sufficiently liquid at 39.8%, for the minimum regulatory threshold of 20%. However, some MFIs remain below this threshold. The loan to deposit ratio is 111.3%, effectively above the maximum acceptable standard of 100%, in relation to borrowing from the banking sector.

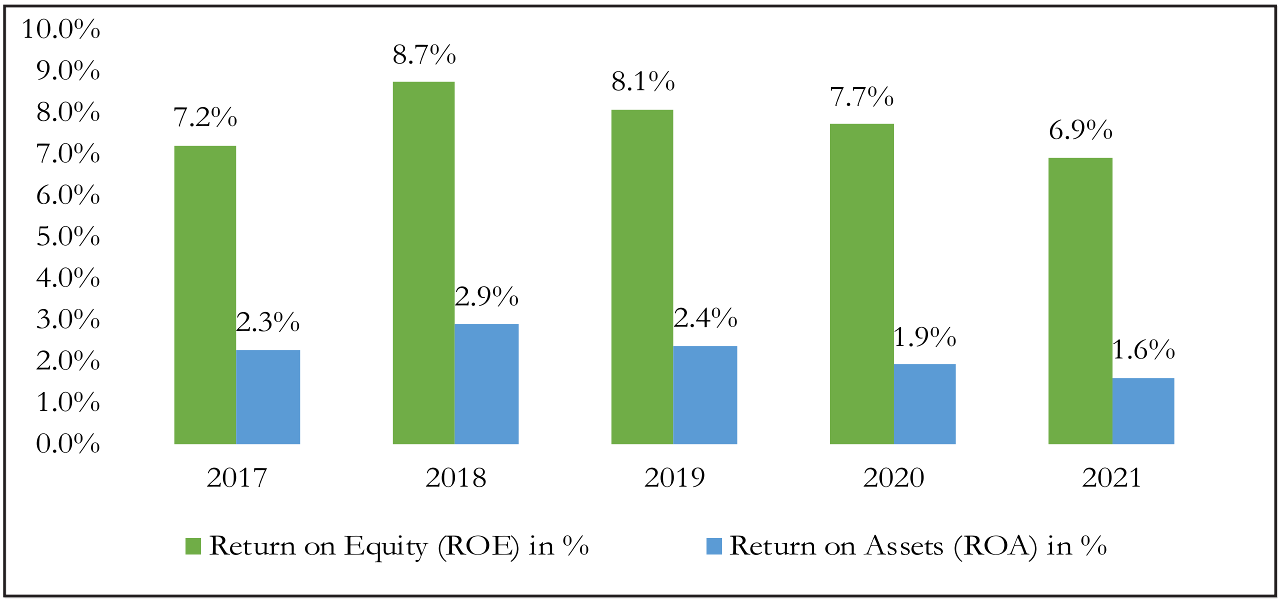
2.3.8. Microfinance Sector profitability

The microfinance sector remained profitable at the end of 2021. Net Banking Income increased by 17.8 percent from BIF 46,491.7 to BIF 54,775.4.

The sector's net income varied by 4.6% compared to the year 2020, rising from BIF 11,563.4 to BIF 12,095.4 from 2020 to 2021. Nevertheless, this benefit is largely concentrated in 4 MFIs that hold 86.7% of the sector's net income.

Return on equity (ROE) declined by 0.8 p.p. to 6.9 from 7.7% in 2020. Similarly, the return on assets (ROA) is set at 1.6% in 2021 compared to 1.9% in 2020.

Figure 20 : Evolution of MFIs profitability indicators



Source : BRB

2.3.9. Banking sector exposure from MFIs

The MFIs' operations with the banking sector are mainly focused on the investment of cash surpluses and loans. The investments made are identified through term deposits with 82,268.4 MBIF in 2021, i.e. 10.8% of total assets while borrowings are 132,966.5 MBIF in 2021, i.e. 17.5% of total liabilities.

2.3.10. MFIs' Main Risks

The main risks related to the activities of MFIs concern, in particular, solvency and liquidity. Also, the context of organizational and management deficiencies persists, namely operational risk and governance risk.

2.3.10.1. Operational risk

Most MFIs do not have an efficient Management Information System, while others still process their data manually. In addition, MFIs have difficulties in managing risks, controlling expenses and producing financial information in accordance with the deadlines and schedules set by the BRB. At the level of internal control, the main observations made during the various audit missions of the MFIs are:

- Problems with the interconnection of the information and management systems between the MFIs' headquarters and their branches and counters;
- Lack of internal control tools (procedure manuals, audit charter, etc.);
- Lack of adequate tools and/or equipment to measure risks;
- High rate of deterioration of the loan portfolio;
- Lack of sufficiently secure space for the loading and unloading of funds in the branches;
- Failure to comply with some prudential ratios.

2.3.10.2. MFIs governance challenges

- The governance of MFIs is still marred by a number of shortcomings, the main ones being:

- irregularity in the holding of meetings of management bodies;
- the interference of the deliberative bodies, including the Chairman of the Board of Directors, in the daily management of the MFIs;
- the non-appropriation of organic and regulatory texts by the members of the institutions' management bodies;
- the non-involvement of the Board of Directors in monitoring the quality of the loan portfolio;
- poor implementation of previous recommendations; and
- the low level of communication between members of the Boards of Directors.

2.4. Insurance Sector

The insurance sector is one of the components of the Burundian financial system, accounting for 4.2 percent of assets, and the sector's activities are constantly expanding as new players enter the market. It plays an indispensable role in protecting policyholders against life and physical risks.

2.4.1. Structure of the insurance sector

The insurance sector includes both life and non-life insurance. There are sixteen (16) insurance companies, six (6) of which specialize in life insurance and ten (10) in non-life insurance. Adding to these, there is one composite insurance company. There are 32 insurance brokerage companies.

The penetration rate indicates the extent to which the insurance sector contributes to the national economy. It is calculated as the percentage ratio between the total insurance premiums collected in a given country and its GDP. Compared to 2020, Burundi's insurance sector penetration ratio increased by 0.08 percent in 2021, to 1.01 percent from 0.93 percent in 2020. This rate remains low compared to the African average of 3.0%.

Insurance density is the calculation of the volume of premiums per capita in a given country. It indicates how much each inhabitant spends on average on insurance. Insurance density is often expressed in dollars, but in this case it was expressed in BIF. It increased by 18.9 percent, from BIF 5,053.3 in 2020 to BIF 6006.0 in 2021.

Table 14 : Penetration rate and insurance density

	2015	2016	2017	2018	2019	2020	2021
GDP (Bn BIF)	4417.9	4938.2	5702.1	5914.4	6216.9	6655.6	7506.4
Turnover (Bn BIF)	36.9	36.9	40.6	46.4	54.3	62.2	75.5
penetration rate(%)	0.84	0.75	0.71	0.78	0.87	0.93	1.01
Burundi Population (in Mds)	9.82	10.12	11.50	11.80	12.00	12.30	12.60
Density of insurance (BIF)	3756.8	3651.5	3532.8	3933.1	4527.8	5053.3	6006.0

Source : ARCA

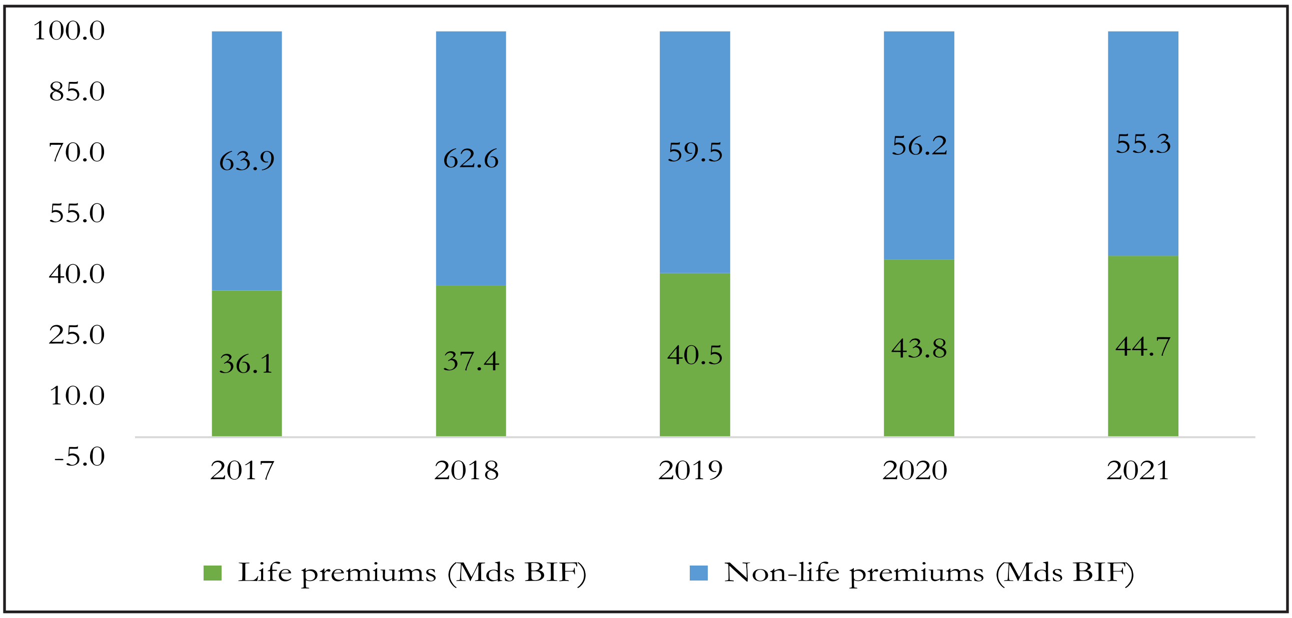
2.4.2. Insurance Sector Performance

Insurance sector assets increased by 9.8 percent in 2021, reaching BIF 248,803.9 compared to BIF 226,5267.0 in 2020. Life insurance is in a growth phase although its activity remains low compared to non-life insurance.

2.4.2.1. Evolution of insurance premiums

Year-on-year, premiums collected by insurance companies increased by 21.5% in 2021, to 75 524.8 compared to 62 155.0 MBIF in 2021. Non-life insurance is in a growth phase, with premiums reaching 44.7% in the life sector compared to 55.3% in the non-life sector.

Figure 21 : Premiums by type of insurance



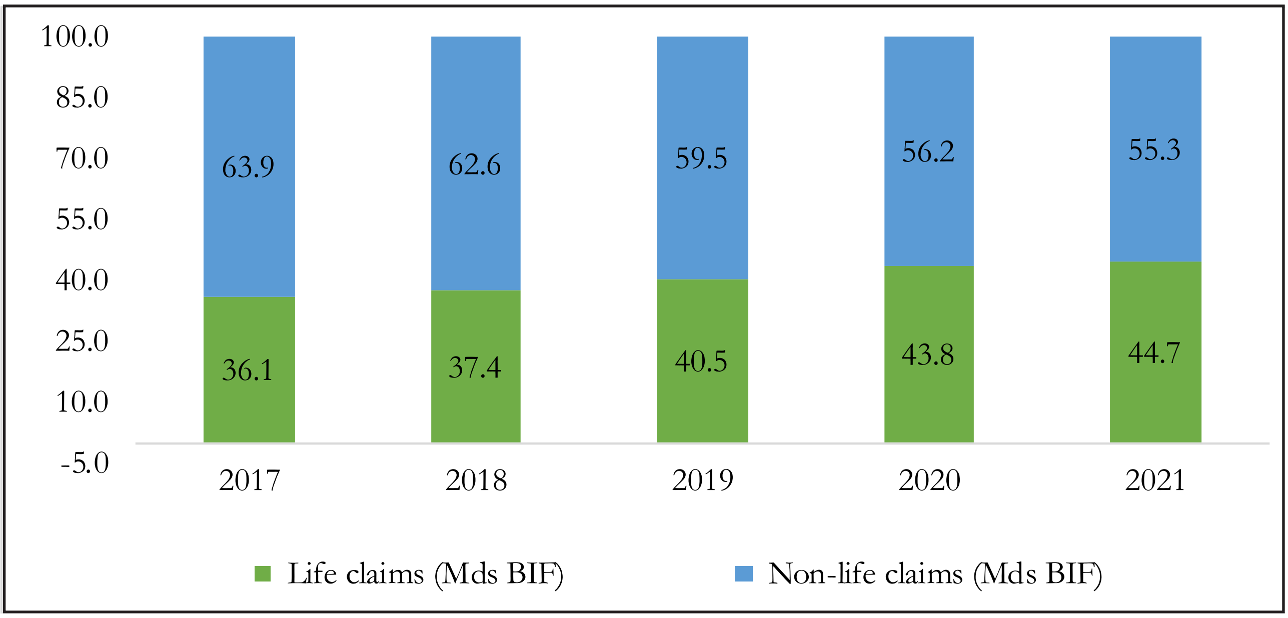
Source : ARCA

2.4.2.2. Evolution of claims

The sector's expenses related to claims coverage fell by 2.9% in 2021, to 30,403.7 against 31,323.5 MBIF in 2020. They are divided between the life (38.3%) and non-life (61.7%) branches. Claims in the life branch decreased by 5.7% from 12,342.5 in 2020 to 11,639.9 MBIF in 2021. Similarly, claims in non-life insurance have decreased by 1.1% from 18,980.9 to 18,763.8 MBIF. The loss ratio in the life insurance[16] sector fell by 10.9 p.p. in 2021, to 34.5% in 2021 compared to 45.4% in 2020, while the loss ratio in the non-life insurance sector fell by 9.4 p.p. to 44.9% compared to 54.3% the previous year.

16 The loss ratio is the ratio between claims and premiums collected.

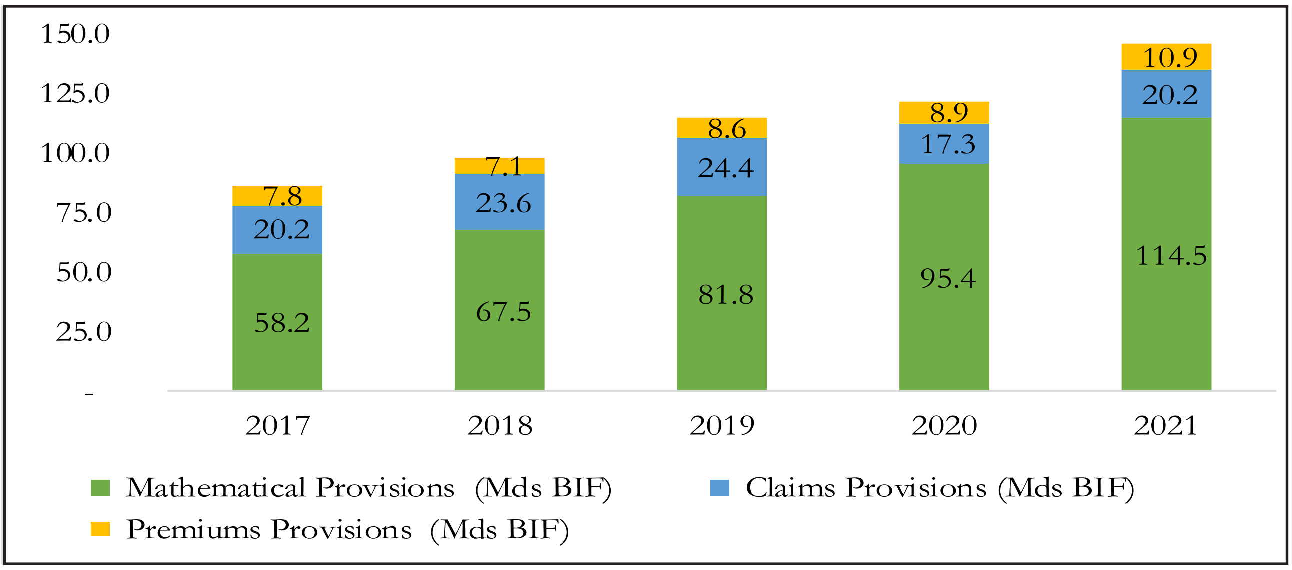
Figure 22 : Sector claims



Source : ARCA

Technical reserves increased by 19.8% year-on-year, from BIF 121,634.3 billion at the end of 2020 to BIF 145,706.2 billion at the end of 2021, as a result of the increase in premium reserves (22.1%), mathematical reserves (20.1%) and claims reserves (16.9%).

Figure 23 : Insurance technical reserves



Source : ARCA

2.4.2.3. Profitability of the insurance sector

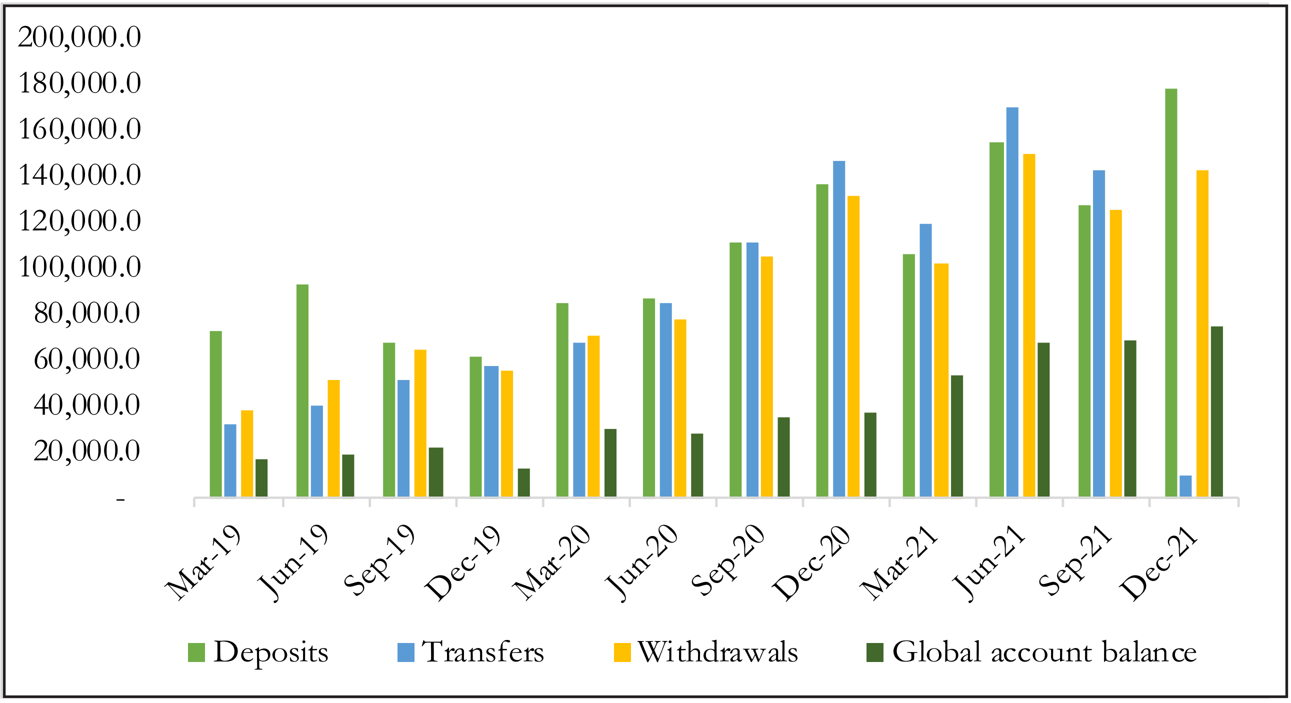
The net income of the insurance sector increased by 70.2% at the end of 2021, reaching MBIF 8,901.6 against MBIF 5,228.9 at the end of 2020. Return on assets (ROA) and return on equity (ROE) increased from 2.3 and 7.6% at end-2020 to 3.6 and 13.2% at end-2021, respectively.

2.5. Digital financial services

In 2021, digital financial services were provided by eleven institutions, including three e-money payment institutions, five banks and three microfinance institutions offering mobile banking services.

The Burundian e-money market continues to grow significantly. By the end of 2021, the digital financial services distribution network was composed of 2,094 primary agents and 143,857 secondary agents.

Figure 24 : Evolution of transactions carried out by payment institutions

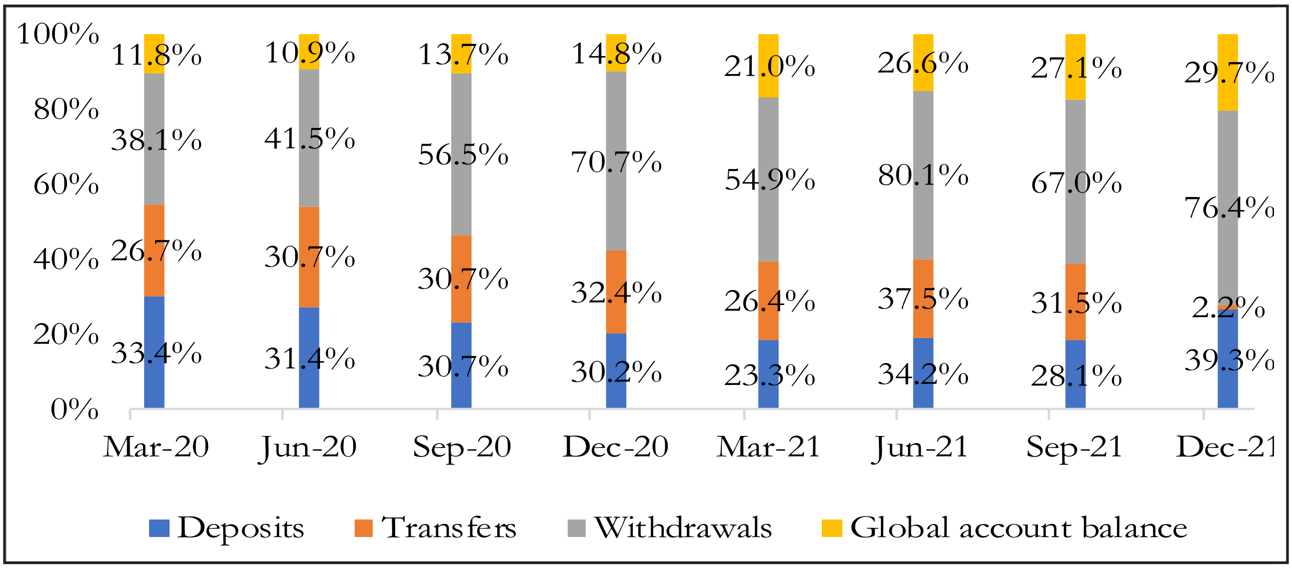


Source : BRB

Digital financial services grew in terms of transactions in 2021 compared to the same period in 2020. Cumulative deposits at payment institutions increased to 177,472 MBIF at end-December 2021 from 136,292 MBIF at end-December 2020. This is a net increase of 30%.

The balance of the global account (Trust Account) increased sharply by 101% to BIF 75,027 at the end of December 2021 compared to BIF 37,406 at the end of December 2020.

Figure 25 : Number of payment institutions' accounts



Source : BRB

The number of customers of payment institutions also increased significantly, reaching 6.6 million customers at the end of December 2021 compared to 5.8 million at the end of December 2020. This represents a net increase of 12%. The number of inactive customers has decreased but remains very high at 52%, down 8% compared to the same period in 2020.

CHAPTER 3 : DEVELOPMENTS IN THE MONEY MARKET AND MARKET INFRASTRUCTURE

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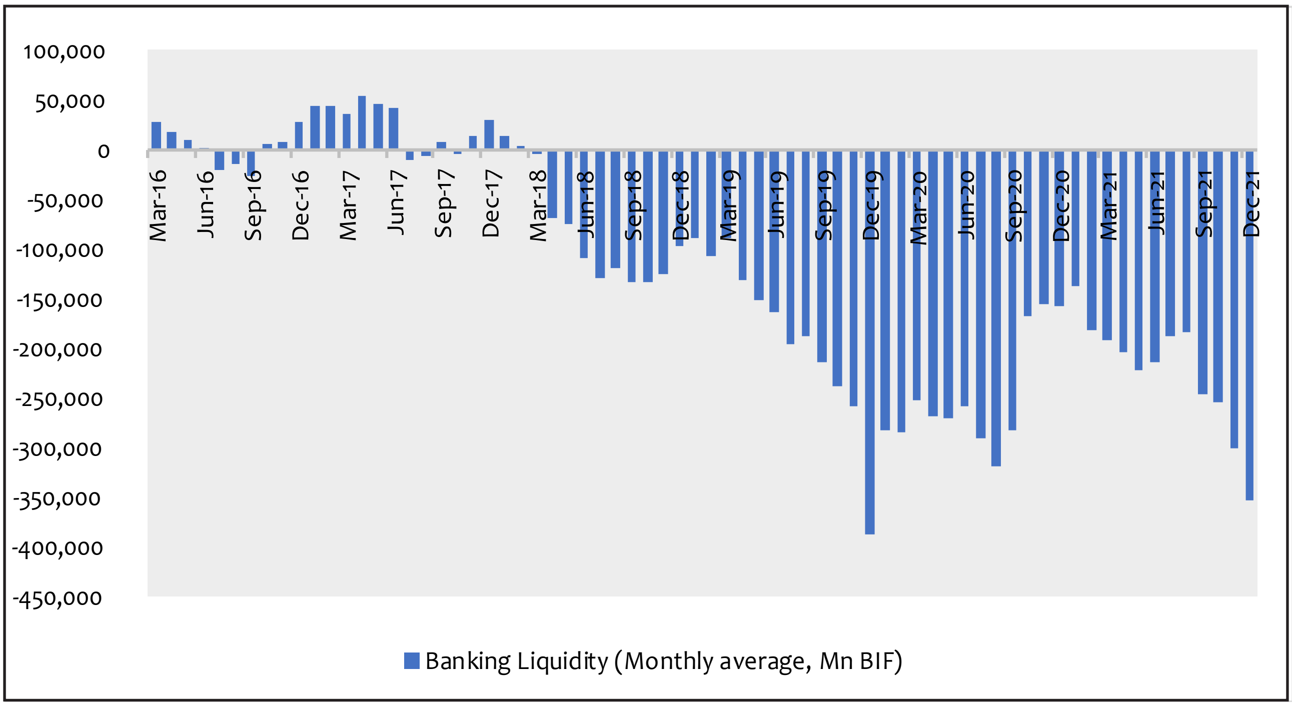
The level of bank liquidity has remained in deficit since the end of the first quarter of 2018 and continues to decline year-on-year. In 2021, it fell by 55.4 percent year-on-year to -MBIF 353,284, without BRB interventions and as a daily average, from -MBIF 157,660.

Figure 26 : Bank liquidity (in BIF million)



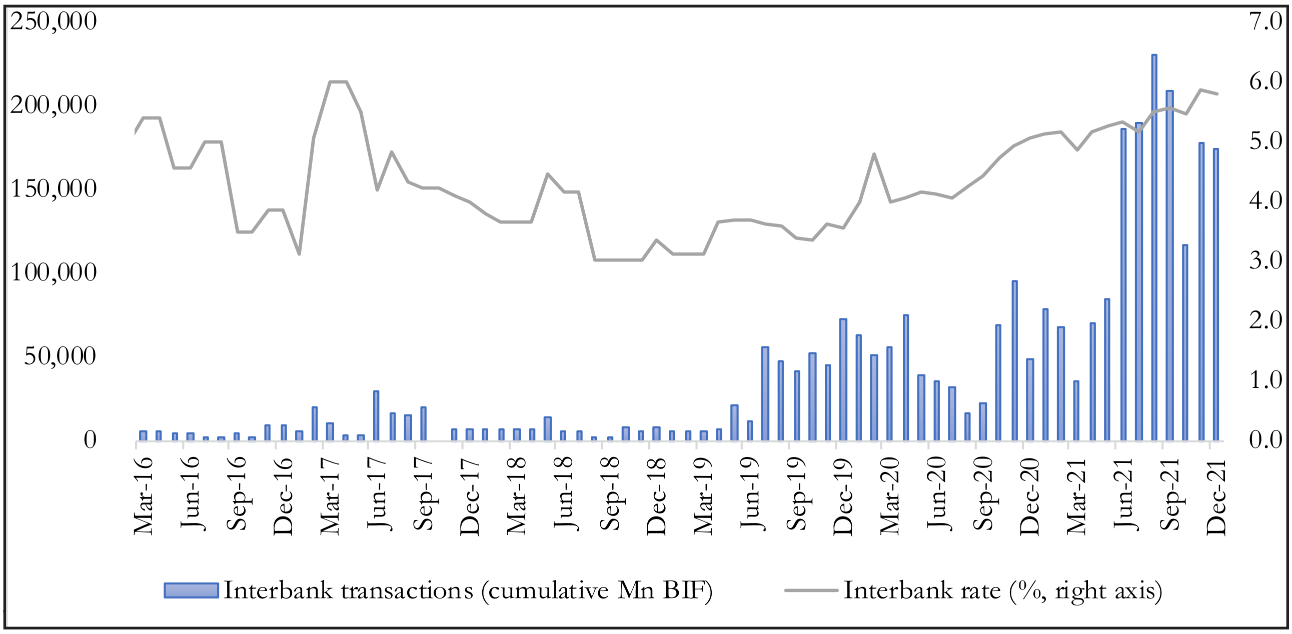
Source : BRB

3.1. Money market

3.1.1. Interbank market

In 2021, the volume of interbank transactions increased compared to 2020. Indeed, the cumulative volume of liquidity exchanges through the interbank market increased from 48,500 to 173,770 MBIF from one year to the next. Over the same period, the interbank interest rate increased to 5.71 percent at the end of 2021 from 5.06 percent at the end of 2020.

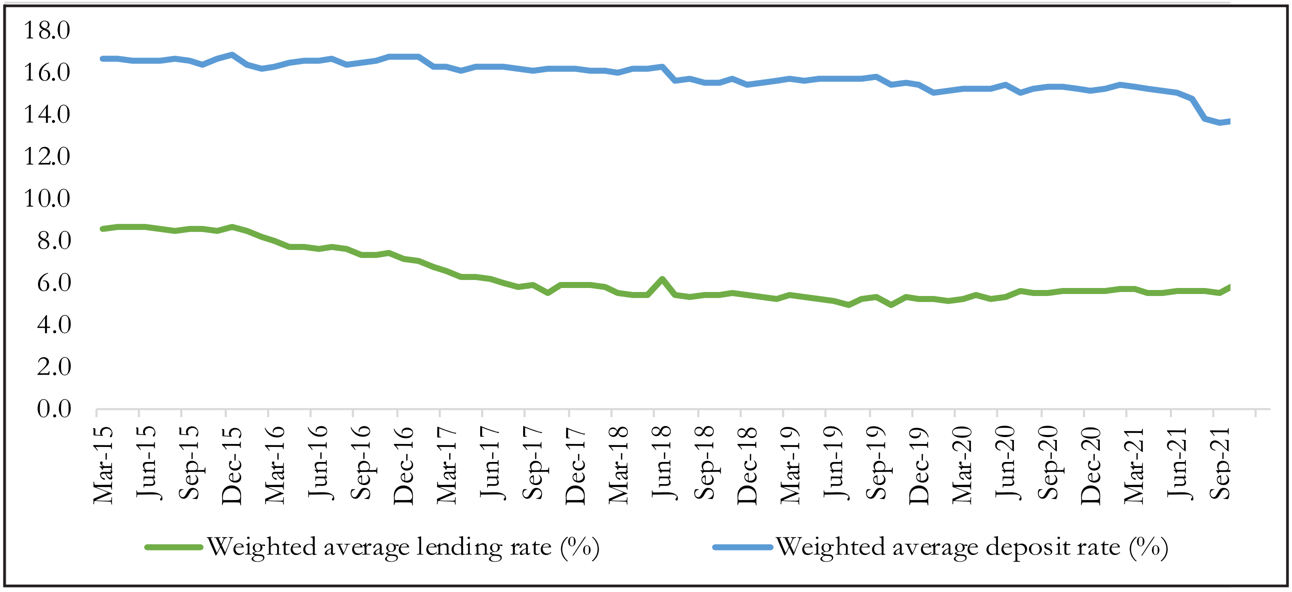
Figure 27 : Interbank market transactions



3.1.2. Interest rates on loans and deposits

The average interest rate on loans distributed by credit institutions fell by 1.8 percent in 2021, to 13.4 percent against 15.2 percent in the same period of 2020. This decrease is linked to the measures adopted by the Central Bank refinancing banks that finance driving growth sectors. On the other hand, interest rates on deposits also increased by 0.4 percentage points to 6.1 percent at the end of 2021, compared to 5.7 percent in the same period of 2020.

Figure 28 : Average lending and deposit rates



Source : BRB

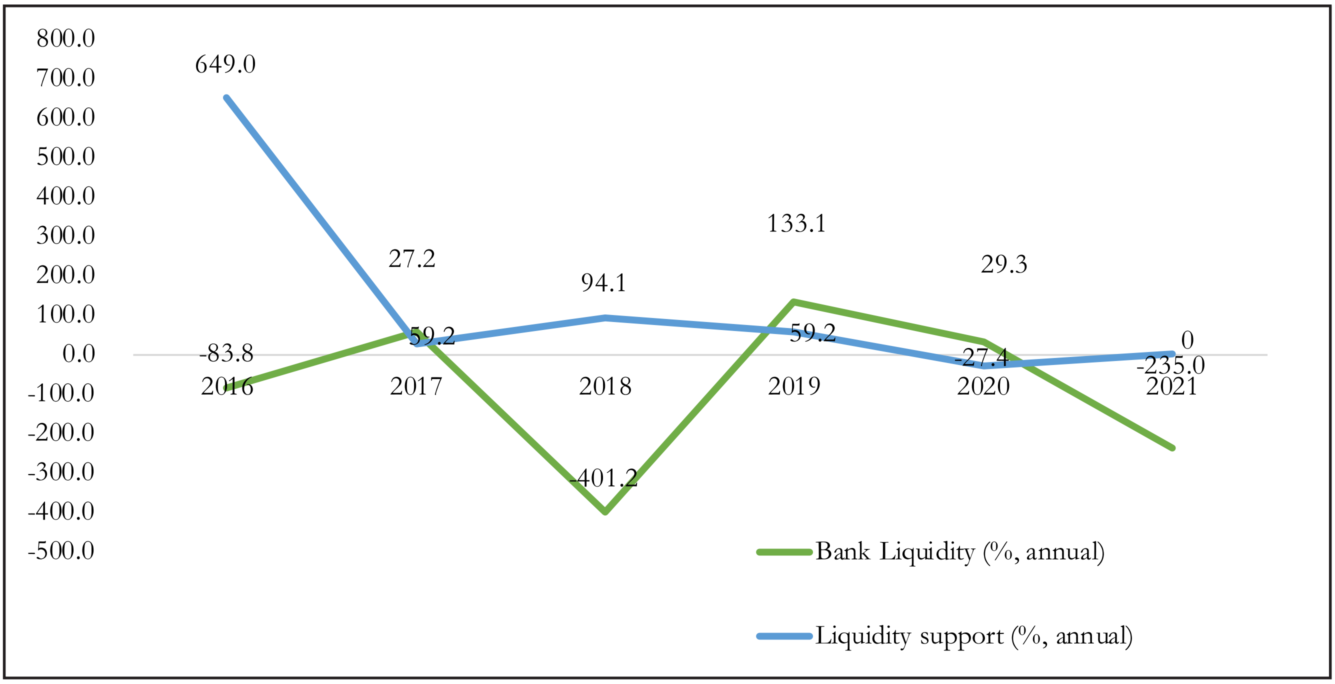
3.1.3. BRB liquidity-providing operations

As part of the implementation of monetary policy, the BRB has carried out liquidity injection operations in the banking sector. The amount of liquidity provided amounted to MBIF 440,169 at the end of 2021 compared to MBIF 320,235 at the end of 2020, i.e. an annual increase of 37.45%. As a result, the interest rate for liquidity provision decreased to 2.93% at the end of 2021 from 3.93% at the end of 2020.

The increase in Central Bank interventions was a consequence of the decline in liquidity in the sector. In 2021, liquid reserves deteriorated by 124.1% on an annual average basis to BIF -353.3 billion compared with BIF -157.7 billion in 2020.

The vulnerability of the sector to the liquidity problem can be seen in the fact that the level of reserves of credit institutions has remained low for almost four years. However, this state of affairs has not had a negative impact on the stability of the financial sector, given that a large part of the banks' reserves have been used to accumulate public debt securities in the form of risk-free Treasury bills and bonds.

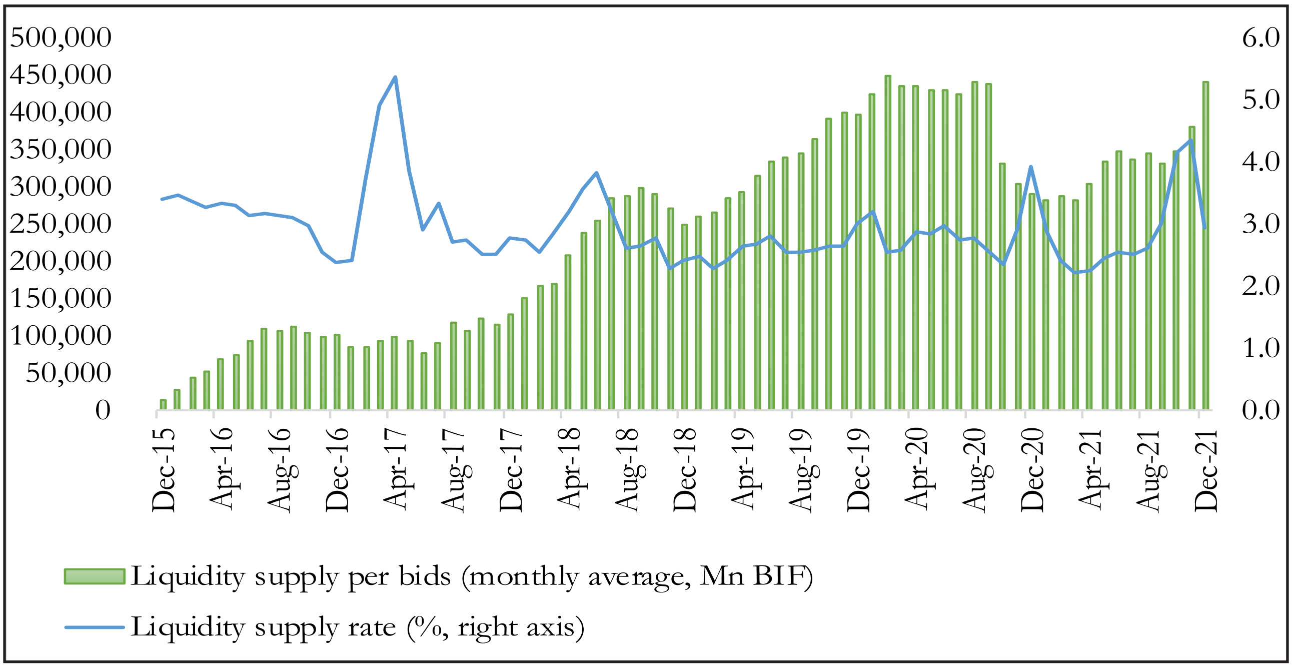
Figure 29 : Bank liquidity vs. refinancing



Source : BRB

It is clear that when the sector's liquidity is low, Central Bank refinancing increases, especially over the period 2016-2021. Refinancing follows the trend of reserves, which indicates a certain easing of the sector's dependence on Central Bank intervention.

Figure 30 : Liquidity provisioning by liquidity tender



Source : BRB

3.1.4. Treasury securities market

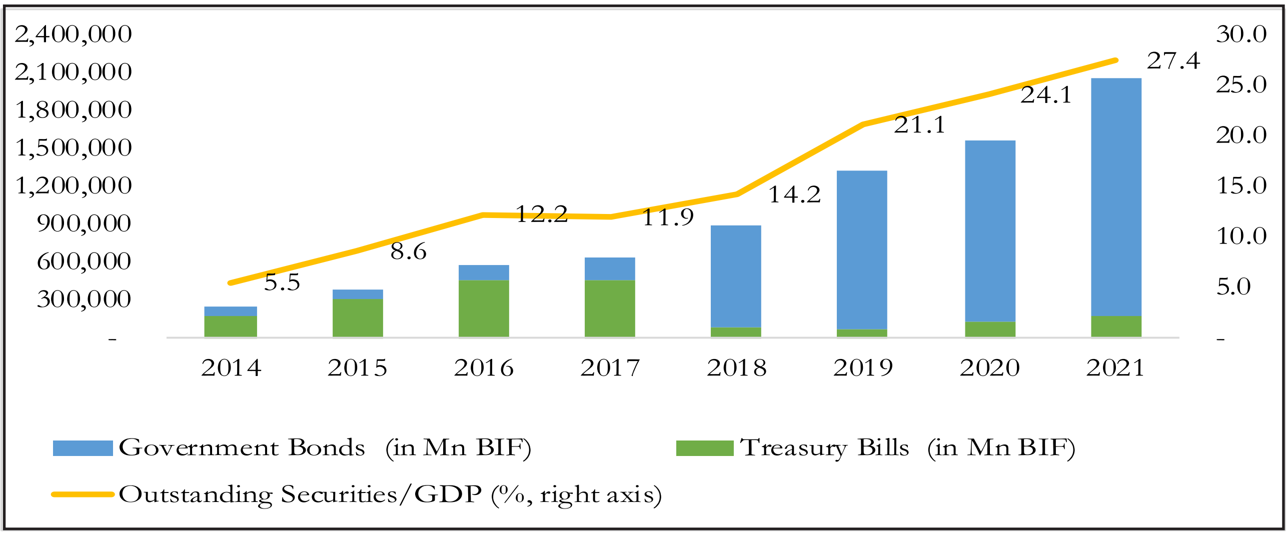
In 2021, the BRB continued to issue Treasury securities by auction and to allocate Treasury bonds resulting from the securitization of the government's arrears to its suppliers. The total outstanding amount of Treasury securities increased by 12.6%, reaching BIF 2,060.4 billion at the end of 2021, compared with BIF 1,829.8 billion at the end of 2020. The amount of Treasury bonds stood at BIF 37.6 billion in 2021 compared with BIF 37.7 billion in 2020.

The increase in government financing through the market and the purchase of bonds resulting from securitization has led to an increase in the portfolio of Treasury securities held by the banking sector (Treasury bills and bonds). The outstanding amount rose by 16.5% in 2021, from BIF 1,585.9 billion at the end of 2020 to BIF 1,848.1 billion at the end of 2021. The share of Treasury securities stood at 27.4% of GDP compared with 28.1% of GDP at end-2020.

The sale of Treasury bonds resulting from the securitization of government arrears was facilitated by the secondary market for Treasury securities operationalized by the Central Bank since 2018, which allowed the beneficiaries of securitization to have liquidity to maintain their economic activities. In addition to the lower risk involved in investing in Treasury securities, the secondary market for these securities has contributed to the broadening of the base of investors other than banks, and to the increase in the volume of investments by the latter.

By way of illustration, the number of individuals investing in Treasury securities increased from 158 at the end of 2020 to 270 at the end of 2021, and the outstanding amount invested increased from BIF 26,716.6 million at the end of 2020 to BIF 32,800.6 million at the end of 2021, while the amount invested by insurance companies increased from BIF 98,241.0 million at the end of 2020 to BIF 117,790.0 million at the end of 2021.

Figure 31 : Outstanding Treasury securities held by the banking sector



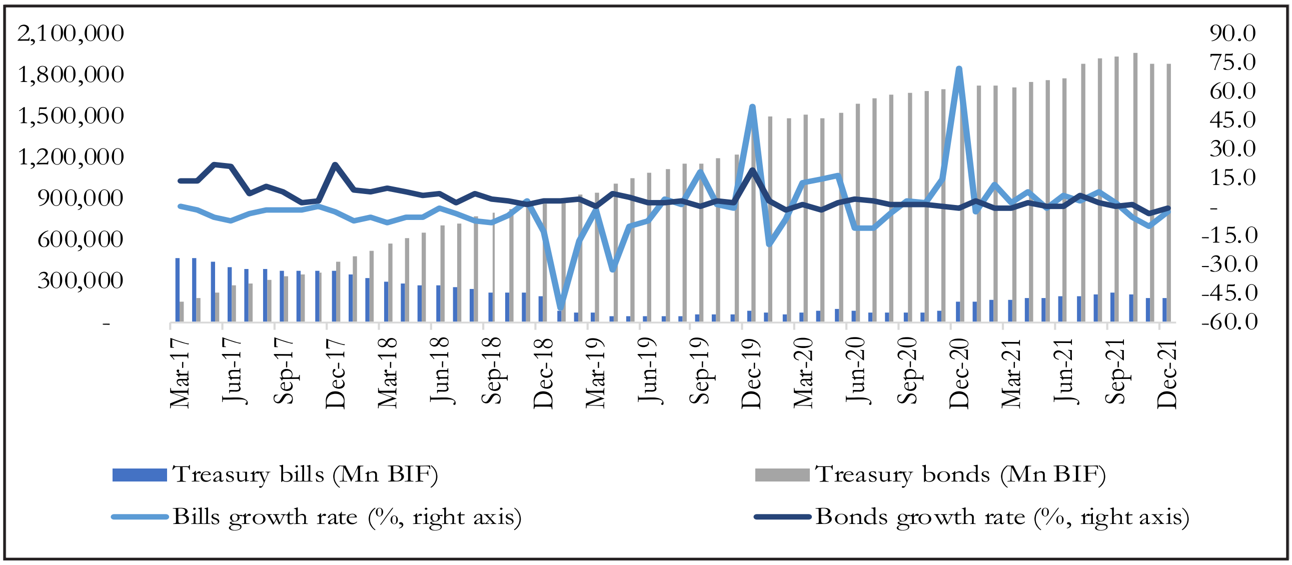
Source : BRB

3.2. Securities settlement system

For the proper functioning of the primary and secondary market for Treasury securities (Treasury bills and bonds), the BRB performs the central functions for the smooth operation of transactions on these markets through the Central Securities Depository (CSD). Thus, the BRB keeps the securities registered in the securities accounts in the CSD and manages the settlement/delivery system for all transactions carried out on the securities. The performance and reliability of this system is the fundamental basis for the proper functioning of the financial system and the assessment of systemic risks due to the volume of financial assets and flows processed through this system.

The outstanding amount of Treasury securities processed in the CSD stood at BIF 2,060.4 billion at the end of 2021 against BIF 1,829.8 billion at the end of 2020, an increase of 12.6%. The rate of increase in the volume of Treasury securities processed in the CSD was greater for Treasury bills than for Treasury bonds, i.e. 19.9% and 12.0% respectively.

Figure 32 : Evolution of government securities traded via CSD



Source : BRB

CHAPTER 4 :
LEGAL AND REGULATORY FRAMEWORKS DEVELOPMENT

CHAPTER 4: LEGAL AND REGULATORY FRAMEWORKS DEVELOPMENT

The various financial sector regulatory authorities have strengthened the regulatory framework to ensure supervision of the financial system.

4.1. Banking sector regulation

For the banking sector, the Central Bank has taken measures to enable credit institutions to finance the economy and strengthen their core capital.

Thus, the Bank of the Republic of Burundi has instructed credit institutions to allocate at least 65 percent of the distributable profit for the year 2020 to reserves and, if necessary, to cap the amount to be distributed at BIF 10 billion for credit institutions that have recorded results that allow them to do so.

4.2. Capital Market Regulation

In 2021, there was Decree No. 100/198 of August 20, 2021 appointing certain members of the board of directors of the Capital Market Regulatory Authority of Burundi. This is in view of the implementation of Law n° 1/08 of October 29, 2020 governing the Capital Market Regulatory Authority of Burundi.

4.3. Insurance companies regulation

In 2021, with a view to strengthening the supervision of the insurance sector, new regulations have been enacted. These include the following regulatory texts:

- Regulation n°540/93/004 of 11/10/2021 governing bancassurance activities in Burundi;
- Regulation n°540/93/003 of October 11, 2021 fixing the amount of the administrative fine in case of violation of the payment deadlines by the insurance companies;
- Regulation n°540/002 of 03/08/2021 on the rules applicable to the conduct of the market and the protection of consumers of insurance services;
- Regulation n°540/001 of 03/08/2021 on the institution of the amicable report system and the implementation of the liability scale within the framework of the settlement of automobile claims in Burundi;
- Ministerial Order n°540/1459 of 07/12/2021 amending Ministerial Order n°540/1152 of 27/12/2014 determining the basis for calculating the compensation of victims of traffic accidents who do not have any income;
- Ordinance n°540/1524/2021 of 20/12/2021 setting the conditions of application of the provisions relating to the control of the insurance obligation, the conditions of establishment and validity of the insurance certificate in terms of professional civil liability of doctors.

4.4. Macroprudential supervision framework

The Bank of the Republic of Burundi, with technical assistance of Bank Al-Maghrib, is in the process of setting up a Deposit Guarantee and Resolution Fund whose members will be credit institutions and microfinance institutions. Inspired by regional and international best practices in this field, and taking into account the national context, the BRB has elaborated draft regulatory texts that will govern the Deposit Guarantee and Resolution Fund at the BRB, namely:

- Regulation on the creation, mission, organization and operation of the Deposit Guarantee and Resolution Fund; and
- Circular relating to the modalities of payment of premiums, compensation and other expenses.

With this in mind, in 2021, the BRB organized a workshop for managers of credit institutions and microfinance institutions to discuss the Deposit Guarantee and Resolution Fund project and the draft regulations.

Within the framework of crisis management, the BRB has launched the project of setting up an Electronic Financial Identification Center, aiming at providing a unique identifier to each client of the banking and microfinance sectors and producing the solvency report of the clients of these two sectors.

The BRB has also worked on the draft Memorandum of Understanding between the different regulatory authorities of the financial system of Burundi in order to set up a National Committee for Financial Stability.

OUTLOOK

OUTLOOK

In order to ensure the stability of the Burundian financial system, the BRB will continue to strengthen the macroprudential supervision framework. Thus, the BRB will continue the project to set up a Deposit Guarantee and Resolution Fund. It will also continue the project to set up an Electronic Financial Identification Centre to enable the institutions subject to the law to identify their customers and the BRB to have reliable data for monitoring the financial system.

The Central Bank will continue to pursue an accommodating monetary policy aimed at refinancing credit institutions to support the financing of growth sectors, namely the agro-pastoral and industrial sectors aimed at developing exports, import substitution and the development of value chains, the infrastructure, hotel and tourism and social housing sectors.

As part of the coordination of the supervision of the financial system, the Bank of the Republic will coordinate the process of setting up a National Financial Stability Committee including all the Regulatory Authorities of the financial system of Burundi.

APPENDICES

Appendix 1 : EAC, Financial Soundness Indicators

Indicators	Countries	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Capital/Risk Weighted Assets	Burundi	18.1	22.7	23.2	23.6	22	22.4	23.0
	Kenya	21.7	18.9	18.5	17.2	18.8	19.2	19.6
	Tanzania	18.9	19.1	19.7	14.2	17.9	17.9	19.5
	Uganda	21	19.8	23.2	18.7	21.8	22.2	23.7
	Rwanda	22.2	23.1	21.4	19.8	24.1	21.5	21.5
	South Sudan	N/A	N/A	N/A	13.9	11.6	14.8	14.8
Non performing Loans/ Total loans	Burundi	17.9	14.7	14.7	9.0	5.7	5.3	3.4
	Kenya	6.0	11.7	10.6	12.0	12.0	14.4	13.1
	Tanzania	8.6	9.6	12.5	10.2	9.8	11.8	8.4
	Uganda	5.1	10.4	5.6	3.4	4.9	5.3	5.3
	Rwanda	6.2	7.1	7.6	5.0	9.8	4.5	4.6
	South Sudan	N/A	N/A	48.0	44.4	N/A	3.1	3.1
Return on Equity (ROE)	Burundi	11.5	8.5	16.5	20.6	32,6	32.3	28.0
	Kenya	23.8	24.8	20.8	22.5	21.23	13.8	21.6
	Tanzania	13	8.9	6.9	5.9	8.1	1.9	2.8
	Uganda	16	8.3	16.4	14.4	16.7	14.2	15.6
	Rwanda	11.8	9.1	6.3	11.7	NA	11.8	15.0
	South Sudan	30.7	21.6	16	24.8	NA	19.7	19.7
Return on Assets (ROA)	Burundi	1.9	1.3	2.2	2.4	3,7	3.8	3.4
	Kenya	2.9	3.1	2.7	2.7	2.5	1.6	2.6
	Tanzania	2.7	2.1	1.7	1.5	1.9	53.6	49.8
	Uganda	2.6	1.3	2.7	2.5	2.9	2.4	2.7
	Rwanda	2.9	2.5	2.1	3	NA	2.0	3.7
	South Sudan	3.4	2.3	2.3	3.4	NA	2.6	2.6

Source : BRB

Appendix 2 : Financial sector Soundness Indicators for credit institutions

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
APITAL ADEQUACY											
Core capital (tier1)	136,188.5	162,524.4	189,541.4	200,630.6	210,323.5	229,217.6	224,608.6	286,587.8	335,858.9	398,124.5	536,753.6
Total capital	157,829.8	185,430.9	223,415.7	231,350.9	243,523.4	265,744.0	247,559.8	312,326.5	364,790.7	421,913.6	570,998.5
ASSET QUALITY											
NPLs Ratio	6.9	7.7	9.4	11.1	16.9	12.1	14.7	8.9	5.7	5.3	3.4
Performing Loans											
Pass loans	533,927.0	506,820.0	592,607.0	528,871.0	300,915.0	611,508.0	638,481.0	804,866.6	923,173.5	1,000,051.0	1,735,293.2
Special mention loans	4,350.0	6,278.0	7,189.0	8,768.0	37,364.0	32,131.0	41,098.7	54,517.3	61,324.9	46,936.4	113,418.9
Non-Performing Loans											
Substandard loans	3,703.0	7,137.0	4,821.0	8,625.0	32,811.0	33,734.0	14,031.8	8,144.4	8,776.1	7,392.5	18626.8
Doubtful loans	4,730.0	4,056.0	7,591.0	6,583.0	8,472.0	6,925.0	21,644.0	8,371.8	16,658.4	13,055.5	12,864.7
Loss loans	31,329.0	39,044.0	53,400.0	75,763.0	94,149.0	50,918.0	80,237.7	68,407.8	35,774.0	39,718.2	36,145.5
Total NPLs	39,762.0	50,238.0	65,812.0	90,971.0	135,433.0	91,577.0	115,913.0	84,924.2	61,208.4	60,166.2	67,636.9
PROFITABILITY											
Net income	33,984.3	20,705.9	18,855.1	14,066.1	22,579.7	21,863.2	35,731.7	61,662.7	119,359.3	130,881.6	160,537.5
ROA (%)	6.9	4.2	4.5	1.9	1.9	1.3	2.2	2.4	3.7	3.8	3.3
ROE (%)	34.9	18.6	18.7	9.4	11.5	8.5	16.5	19.7	32.6	32.3	28.1
Interest Margin	61,814.6	71,955.9	80,686.8	81,335.0	112,289.5	90,834.4	107,678.0	147,155.0	196,645.4	210,102.4	251,289.5
Margin on commission	33,378.2	18,070.1	35,969.6	44,373.9	32,766.9	103,534.5	71,994.6	40,956.0	43,869.7	45,510.8	56,184.9
Average lending rate	15.3	15.7	16.2	16.71	16.85	16.77	16,16	15.37	15.5	15.2	13.4
Average deposit rate	7.6	8.8	9.0	8.80	8.70	7.21	5,96	5.42	5.3	5.7	6.1
LIQUIDITY											
Liquid asset	312,317.5	317,691.7	420,546.1	514,743.3	493,719.2	758,972.1	285,645.0	233,363.4	293,874.1	318,411.3	273,589.4
Liquid Asset/ Deposit ratio	47.0	47.0	48.0	54.0	50.0	80.0	24.0	20.0	28.3	14.5	9.8
Loans/Deposit ratio (%)	87.0	95.0	84.0	88.0	81.0	68.0	59.0	56.0	57.9	50.3	68.8
MARKET											
Loans in foreign currency	3,141.0	81.2	2,315.8	36,394.6	34,634.1	23,163.7	16,958.3	55,526.8	68,955.0	165,178.2	187,600.4
Deposit in foreign currency	155,089.7	185,108.5	199,349.5	225,790.8	154,231.8	180,504.9	119,675.0	159,047.0	165,465.9	231,875.6	260,532.2
Assets in foreign currency	157,129.0	210,111.3	218,810.2	219,025.9	260,502.6	167,374.0	187,039.8	218,519.9	293,874.1	413,037.0	452,383.4
Liabilities in foreign currency	157,869.0	203,792.6	222,629.7	252,723.5	248,580.5	180,504.9	201,694.8	236,643.7	257,797.7	399,795.7	484,073.7
Loans in foreign currency / Core capital	2.3	0.0	1.2	18.1	16.5	10.1	7.6	19.4	20.5	41.5	35.0
Loans in foreign currency/Deposits in foreign currency	2.0	0.0	1.2	16.1	22.5	12.8	14.2	34.9	41.7	71.2	72.0
Assets in foreign currency/Liabilities foreign currency	99.5	103.1	98.3	86.7	104.8	92.7	92.7	92.3	114.0	103.3	93.5

Source : BRB

Appendix 3 : GDP per Branch (BIF Bn)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Primary Sector	**472.8**	**466.3**	**476.3**	**516.4**	**497.9**	**488.0**	**497.1**	**498.2**	**535.2**	**550.3**	**552.3**	**578.5**
- Food Crops	387.1	398.9	404.2	465.7	442.2	427.4	431.8	431.5	462.8	486.2	490.1	515.8
- Agriculture exports	**32.8**	**14.3**	**19.3**	**16.6**	**18.4**	**21.3**	**17.6**	**20.4**	**21.9**	**17.9**	**21.2**	**18.2**
- Coffee	23.7	5.7	9.8	2.6	3.2	4.9	4.2	6.5	7.1	2.8	5.5	2.1
- Tea	8.3	7.5	7.7	13.0	14.2	15.4	12.3	12.1	12.5	13.6	13.6	13.8
- Others agricultural exports	0.8	1.1	1.8	1.0	1.0	1.0	1.1	1.8	2.4	1.5	2.1	2.3
- - Forest	10.7	11.3	10.2	11.2	11.9	13.4	12.2	13.7	14.3	14.0	14.9	15.0
- Livestock	38.5	38.6	39.0	20.2	22.4	22.5	31.6	28.5	31.9	28.1	21.7	25.0
- Fishing	3.7	3.2	3.6	2.6	3.0	3.4	3.8	4.1	4.2	4.1	4.4	4.5
Secondary Sector	270.6	275.7	290.2	297.3	315.7	290.2	322.6	347.2	355.9	360.0	400.6	408.9
- Extraction	7.3	8.3	9.0	9.5	8.4	7.9	7.7	10.7	11.0	11.3	11.2	11.3
- Industries	**173.9**	**178.0**	**183.5**	**187.5**	**211.9**	**192.3**	**220.8**	**238.6**	**242.4**	**243.7**	**255.8**	**255.5**
- Agro food Industries	128.3	129.3	131.6	134.5	155.7	143.1	168.4	186.7	191.4	192.5	200.7	201.8
- Manufacturing Industry	45.6	48.7	51.9	53.0	56.2	49.2	52.4	51.9	51.1	51.3	55.1	53.7
- Textile industry	4.5	4.6	4.7	5.8	4.3	3.9	9.5	9.2	8.8	8.0	8.9	9.0
- Other manufacturing industry	41.1	44.0	47.2	47.3	51.9	45.3	42.9	42.7	42.3	43.2	46.1	44.7
- Power, gas and water	8.1	6.3	7.3	7.7	7.9	7.5	7.7	9.1	9.5	9.2	8.7	9.7
- Construction	81.3	83.0	90.4	92.5	87.5	82.5	86.3	88.8	93.0	95.8	124.9	132.4
Tertiary Sector	612.8	655.6	701.3	721.1	784.3	828.9	821.4	853.9	881.4	945.1	913.3	935.8
- Trade	79.9	82.7	85.9	71.2	79.4	68.5	62.0	65.5	71.3	74.2	70.1	71.6
- Transport et communication	49.1	49.8	54.4	51.4	67.6	73.4	66.7	70.2	73.4	80.8	61.8	72.2
- Transports	24.0	17.5	17.7	14.4	15.6	16.8	17.6	18.5	19.2	21.0	16.1	20.7
- Postal, Telecom, Internet Services	25.2	32.4	36.7	36.9	52.0	56.6	49.2	51.7	54.2	59.8	45.7	51.5
- Banks and Insurances	69.4	78.7	85.1	85.9	98.2	100.0	102.8	111.6	122.7	156.6	156.0	187.7
- Hotels, Restaurant and other merchant services	131.2	133.9	136.2	138.0	124.9	114.0	108.7	111.9	114.1	119.3	69.7	74.4
- Public Administration	160.3	180.5	200.9	228.2	272.9	298.9	316.7	334.0	344.0	353.7	370.7	382.5
- Education	133.4	162.8	187.2	188.1	195.6	209.1	211.7	219.7	226.3	233.7	244.9	246.1
- Health and Social Actions	7.5	10.8	12.3	12.8	13.4	14.0	14.4	15.1	15.5	16.0	17.6	18.8
- Collective or Individual Activities	58.2	47.9	26.7	33.0	47.1	54.4	45.6	45.9	59.4	61.6	61.9	56.9
- Household services	5.3	5.4	5.1	4.8	4.7	5.4	4.6	4.6	4.6	4.8	4.8	4.9
- SIFIM	-81.7	-97.1	-92.5	-92.4	-119.5	-108.9	-111.8	-124.7	-149.9	-155.6	-144.1	-179.3
GDP at Factor Cost	1356.2	1397.6	1467.8	1534.7	1597.9	1607.1	1641.1	1699.3	1772.5	1855.4	1866.2	1923.2
Taxes	151.6	171.1	170.7	184.4	194.0	177.5	200.6	213.1	240.6	247.9	243.7	252.1
GDP at Market Price	1507.9	1568.7	1638.4	1719.1	1791.9	1784.6	1841.7	1912.4	2013.1	2103.3	2109.9	2175.3

Source : MFBPE, cadrage macroéconomique 2022

Appendix 4: Key macroeconomic indicators

	2015	2016	2017	2018	2019	2020	2021
GROSS DOMESTIC PRODUCT AND PRICES							
Real GDP Growth (in %)	-0.4	3.2	3.8	4.2	4.1	-0.5	3.1
Inflation Rate (annual average)	5.5	5.6	16.1	-2.6	-0.7	7.5	8.3
EXTERNAL SECTOR							
Exports, f.o.b. (in millions of dollar)	120.8	124.7	172.6	180.2	176.1	162.4	165.1
Imports, CIF (in millions of dollar)	721.4	616.2	756.0	793.5	871.0	909.6	1,030.0
Volume of exports (in tons)	85,758.0	84,614.0	93,125.0	103,218.0	102,721.0	105,858.0	102,500.0
Volume of imports (in tons)	632,337.0	708,203.0	822,514.0	976 694	1,143,866.0	1,175,731.0	1,331,987.4
Current Account Balance (in millions of dollar)	-373.2	-339.7	-360.0	-348.9	-342.3	-315.8	-421.9
Exchange Rate BIF/USD (period average)	1,571.9	1,654.6	1,729.1	1,782.9	1,881.1	1,915.1	1,976.0
Exchange Rate BIF/USD (end of period)	1,617.1	1,688.6	1,766.7	1,808.3	1,878.6	1,946.4	2,006.1
Gross Foreign Reserves (in millions of USD, end of period)	137.2	98.6	109.8	80.5	128.7	94.3	266.6
Gross Foreign Reserves(in months of imports of the following year)	2.0	1.4	1.7	1.0	1.5	1.1	3.2
MONETARY SECTOR							
Net Foreign Assets (MBIF)	-75,870.1	-176,523.1	-154,400.0	-203,201.0	-206,330.5	-205,016.1	-322,390.5
Domestic Loans (MBIF)	1,410,604.3	1,767,122.4	2,004,966.2	2,369,485.6	2,829,229.0	3,475.3	4,311.2
Net Claims on the Government	687,259.5	905,857.4	1,112,214.4	1,337,534.0	1,619,626.9	2,025.8	1,930.7
Loans to private sector	723,344.8	861,265.0	892,941.6	1,038,614.2	1,209,602.1	1,449.5	2,380.5
Money supply (M3)	1,060,791.0	1,187,101.8	1,499,512.9	1,797,468.9	2,203,107.7	2,728.0	3,293.3
Money supply (M2)	923,271.7	1,093,131.8	1,340,926.6	1,325,958.7	2,015,018.8	2,520.7	3,038.5
Money velocity (GDP/M2, end of period	4.8	4.4	4.3	4.4	3.1	2.6	2.5
Monetary base (Gross Rate)	-8.6	29.2	39.0	-3.3	23.6	11.6	1.1
Liquidity supply interest rate (in%)	3.4	3.1	2.8	2.9	2.7	2.9	3.0
Overnight facility rate (in %)	9.8	8.6	7.1	5.8	5.4	6.2	6.8
Average Deposit Rates (in %)	8.7	7.7	6.0	5.6	5.3	5.5	5.8
Rate on Treasury bonds of 5 years and over	-	-	14.0	13.2	12.5	12.5	11.7
Average lending rate (in %)	16.9	16.5	16.2	15.9	15.7	15.2	14.5
PUBLIC FINANCE							
Revenue and grants (in % of GDP))	16.7	15.6	15.7	18.0	19.7	20.0	19.9
Dépenses (en p.c. du PIB)	24.7	21.5	20.0	22.6	24.0	26.1	22.7
Primary Balance (in % of GDP, basis accruals)							
Overall fiscal balance (in % of GDP, basis accruals)	-8.9	-8.4	-6.8	-8.2	-8.2	-9.9	-6.2
- Grants excluded	-5.8	-5.9	-4.3	-4.5	-4.3	-6.1	-2.9
- Grants included	1,070,685.9	1,374,178.2	1,648,219.7	1,937,821.9	2,314,985.5	2,851.2	3,063.2
Domestic Debts (MBIF)	427.4	429.1	440.5	451.1	502.3	532.2	638.1
External Debts (in MUSD, end of period)	5.6	6.3	8.0	5.3	8.3	5.4	5.3
External debts service ratio (in % of exports)	15.6	14.9	13.6	14.0	15.1	15.6	17.0
External Debts (in % of GDP)							
	4,417.9	4,938.2	5,702.1	5,914.4	6,216.9	6,655.6	7,506.4

Source : BRB

Appendix 5: Burundi compliance to EAC convergence criteria

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1. Annual Inflation rate (ceiling= 8%)	9.6	18.2	8.0	4.4	5.5	5.6	16.1	(2.6)	-0,7	7.5	8.3
2. Budgetary Deficit Grants included in% of GDP (ceiling = 3%)	3.0	3.6	2.9	4.1	8.0	6.0	4.3	4.5	4,3	8.8	7.9
3. Public Debt in % of GDP (ceiling = 50%)	33.7	34.1	31.8	31.0	39.8	42.5	43.2	46.6	52.5	58.4	63.1
4. Foreign Exchange Reserves in Months of Imports (min= 4,5 months)	4.0	4.0	4.2	4.1	2.0	1.5	1.7	1.0	1,5	1.1	3.2

Source : BRB

Appendix 6: Public debt structure

	2016	2017	2018	2019	2020	2021
Domestic debt (Bn BIF)	1,376.3	1,647.9	1,937.8	2,317.5	2,851.2	3,063.2
1. Treasure securities	584.7	829.8	1,106.8	1,497.6	1,817.3	2,046.0
2. B.R.B. liabilities	752.3	787.2	772.1	746.5	894.7	907.5
3. Other liabilities	39.3	30.9	58.9	73.4	139.3	109.7
External debt (Bn BIF)	723.8	778.3	815.7	948.4	1,036.0	1,275.3
1. Direct debt	721.7	776.3	813.8	946.8	1,034.5	1,274.6
2. Indirect debt	2,148.1	2,008.0	1,867.6	1,597.6	1,441.4	1,280.4
Global Public Debt (Bn BIF)	2,100.2	2,426.1	2,753.5	3,265.9	3,887.2	4,339.3
Public Debt (% of GDP)						
Domestic debt (% of GDP)	28.4	28.9	33.3	37.1	42.8	46.4
External debt (% of GDP)	14.9	13.6	14.0	15.2	15.6	16.6
Public debt (% of GDP)	43.3	42.5	47.3	52.2	58.4	63.1
GDP (In BIF)	4,938.2	5,702.1	5,914.4	6,216.9	6,655.6	7,506.4

Source : BRB