BANQUE DE LA REPUBLIQUE
DU BURUNDI

2017

FINANCIAL STABILITY
REPORT

FISCAL YEAR 2017 - NUMBER 3

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ACRONYMS

ACH	: Automated Clearing House
ARCA	: Agence de Régulation et de Contrôle des Assurances
ARCT	: Agence de Régulation et de Contrôle des Télécommunications
ATS	: Automated Transfer System
AKI	: Association of Kenya Insurers
FI	: Financial Institutions
BIF	: Burundi Francs
BIS	: Bank for International Settlements
G-SIB	: Global Systemically Important Banks
CET 1	: Common Equity Tier 1
SIB	: Systemically Important Banks
D-SIB	: Domestically Important Banks
BRB	: Banque de la République du Burundi
BCBS	: Basel Comittee on Banking Supervision
ECOWAS	: Economic Community of West African States
EAC	: East African Community
CEMAC	: Communauté Economique et Monétaire d'Afrique Centrale
CISF	: Comité Interne de Stabilité Financière
CNSF	: Comité National de Stabilité Financière
COMESA	: Common Market for Eastern and Southern Africa
CSD	: Central Securities Depositor
CSF	: Conseil de Stabilité Financière
CTST	: Comité Technique de Stabilité Financière
IMF	: International Monetary Funds
E	: Equity
GFSR	: Global Financial Stability Report
MFI	: Microfinance Institutions
ISTEEBU	: Institut de Statistiques et d'Etudes Economiques du Burundi
FMCR	: Fonds de Microcrédit Rurale
Kg	: kilogramme
MBIF	: Millions de francs Burundi
Bn	: Billion
MFBCDE	: Ministère des Finances du Budget et de la Coopération au Développement Economique
MIS	: Management Information System
ICO	: International Coffee Organisation
GDP	: Gross Domestic Product
NBI	: Net Banking Income

NPL	: Non-Performing Loans
ROA	: Return of Assets
ROE	: Return on Equity
RTGS	: Real Time Gross Settlements
SADC	: Southern African Development Community
T	: Tons
Q	: Quarter
USD	: United States Dollar
N°	: number
Vs.	: versus
%	: Percentage
Op.cit	: Opus Citatum
i.e	: Id Est

MISSIONS OF BANQUE DE LA REPUBLIQUE DU BURUNDI

1. Define and implement monetary policy;
2. Define and implement exchange rate regime;
3. Hold and manage official exchange reserves;
4. Regulate and supervise banks, financial institutions and microfinance institutions;
5. Issue banks notes and coins;
6. **Promote a stable and sound financial system;**
7. Promote a reliable, efficient and sound national payment system;
8. Act as a Government cashier;
9. Realize any other task as provided in the statutes;
10. Realize any task that other laws could assign to the Bank, under reserves of its compatibility and its autonomy.

VISION

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

PREFACE

The 2008 financial crisis happened in main advanced countries, that led to the bankruptcy of several financial institutions has demonstrated the need for macro prudential supervision of the financial sector as a whole. A better coordination of macro prudential and monetary policy helps to cushion the adverse effects of systemic risks. Therefore, financial stability has become a key part of the mandate of centrals banks, regulators and supervisors.

The systemic risks prevention is a prerequisite condition for a stable and sound financial system, as its destabilizing effects would affect all economic agents, including households and enterprises, and thus would affect consumption and the level of investment. The financial system instability ultimately leads to economic recession and unemployment as well as other social crises. Sub-Saharan Africa is less connected to the international financial market, which has preserved it from international financial crisis contagion. As a result of the regional integration process, many pan-African and regional banks, insurance companies, electronic cash transfer companies are developing in Burundi, which increases the interconnection of Burundian financial system at the regional level. Even though the risk of contagion remains low, the BRB as a stakeholder in financial stability monitoring has taken the lead by putting in place a legal and regulatory framework to face possible adverse effects that may arise within the financial sector.

This third edition of the financial stability report for 2017 fiscal year is part of the Bank's communication strategy. Through macroeconomic and financial diagnoses and stress tests exercises, the report highlights the main challenges faced by the financial system in 2017 as well as macro-prudential measures taken by the Central Bank to cope with these challenges.

Jean CIZA

Governor

ABSTRACT

Burundi's financial sector remained resilient in 2017 thanks to the economic recovery that began after the difficult macroeconomic situation that the country experienced since 2015. However, certain macroeconomic risks persevere and their adverse effects continue to impact the financial sector. These include the budget deficit, the national currency depreciation, the decline in coffee prices and moderate economic growth of the Burundi's main trading partner countries. These risks have led to loan portfolio quality deterioration and pressures on bank liquidity.

Despite the challenges that prevailed in 2017, the banking sector was resilient to the plausible shocks used in stress tests exercises. Indeed, the banking sector has shown sound financial health in terms of liquidity, profitability and capital adequacy ratios. However, some banks displayed signs of vulnerability linked to the deterioration of their loan portfolio quality and others have adopted a model of investment in Treasury Securities instead of financing sectors of the economy. In addition, some banks faced liquidity pressures and resorted to the Central Bank refinancing.

Given these challenges, the Central Bank continued to take action to safeguard the proper functioning of the banking sector and the economy. Thus, measures taken in previous years to ease the conditions for access to banks' refinancing remained in force. This easing allowed banks to cope with liquidity problems.

Macro-prudential measures aimed at strengthening risk coverage and the banks' financial health were maintained, in particular with regard to provisions constitution and the reinforcement of capital equity. In addition to the new banking law promulgated in August 2017, new regulations have been issued with the aim of strengthening the internal control and risk management system of credit institutions.

The promulgation of the new banking law entails significant updates of the regulatory and prudential guidelines for the banking and the microfinance sectors. Important provisions have been introduced in this new law to improve the financial stability surveillance framework. These include the special prudential treatment of systemically important banks and their management in the event of difficulties. This law also introduced provisions regarding the deposit guarantee and resolution funds establishment, which entrusted the Central Bank with responsibility for the whole process of managing institutions in difficulty.

In terms of outlook, macroeconomic indicators show that the recovery in economic growth that has begun will continue and strengthen. This recovery in economic activity will have positive effects on the financial sector stability.

Table 1: Risks to financial sta bility (2017)

⇧	Risk of an increase of the budget deficit
⇧	Risk of national currency depreciation
⇨	Risk of decrease of coffee prices
⇨	Risk related to a moderate economic growth of main trading partners countries

Legend

	Very high systemic risk
	High systemic risk
	Moderate systemic risk
	Reduced systemic risk

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

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CHAPTER 1: GLOBAL, REGIONAL AND NATIONAL MACROECONOMIC CONTEXT

1.1. International and regional developments

1.1.1. International environment.

The global financial system stability improved in 2017 compared to previous years. The October 2017 Global Financial Stability Report (GFSR) finds that the global financial system continues to strengthen in response to extraordinary policy support, regulatory enhancements, and the cyclical upturn in growth.

The health of banks in many advanced economies continues to improve, as progress has been made in resolving some weaker banks, while a majority of systemic institutions are adjusting business models and restoring profitability. The upswing in global economic activity, discussed in the October 2017 World Economic Outlook (WEO), has boosted market confidence while reducing near-term threats to financial stability.

The health of global systemically important banks (GSIBs) continues to improve. Balance sheets are stronger because of improved capital and liquidity buffers, amid tighter regulation and heightened market scrutiny. The resolution of the problems inherited from the 2008 crisis and the difficulties related to restructuring has progressed considerably. At the same time, while many banks have strengthened their profitability by reorienting business models, several continue to grapple with 2008 crisis issues and business model challenges.

However, the continuation of accommodative monetary policy - necessary to support activity and boost inflation - also results in higher asset values and leverage.

Indeed, the continuous monetary support planned for the major economies could encourage an accumulation of financial excesses. As the search for yield intensifies, vulnerabilities are shifting from the banking sector to the nonbanking sector, and market risks are rising. There is too much money chasing too few yielding assets: less than 5% ($1.8 trillion) of the current stock of global investment-grade fixed-income assets yields over 4%, compared with 80 percent ($15.8 trillion) before the crisis. Asset valuations are becoming stretched in some markets as investors are pushed out of their natural risk habitats, and accept higher credit and liquidity risk to boost returns[1] .

Debt servicing pressures and debt levels in the private nonfinancial sector are already high in several major economies (Australia, Canada, China, Korea), increasing their sensitivity to tighter financial conditions and weaker economic activity.

The steady growth in China and financial policy tightening in recent quarters have eased concerns about a near-term slowdown and negative spillovers to the global economy. However, the size, complexity, and pace of growth in China's financial system point to elevated financial stability risks. Banking sector assets, at 310% of GDP, have risen from 240% of GDP at the end of 2012. Furthermore, the growing use of short-term wholesale funding and "shadow credit" to firms has increased vulnerabilities at banks[2].

[1] IMF, Global Financial Stability Report, April 2018
[2] Op.cit.

In China, the authorities have taken welcome steps to address risks in the financial system, but there is still work to do. Vulnerabilities will be difficult to address without slower credit growth. Recent policies to improve the risk management and transparency of the banking system and reduce the buildup of maturity and liquidity transformation risks in banks' shadow credit activities are essential and must continue.

1.1.2. Regional environment

Financial stability in Sub-Saharan Africa[3] has improved despite several macroeconomic challenges.

Sub-Saharan Africa growth is expected to increase slightly. After an average growth rate of 1.4% in 2016, that of 2017 was 2.8% and should increase to 3.4% in 2018, rising in about two thirds of the countries in the region. This growth spurt is largely due to a stronger external environment characterized by stronger global growth, higher commodity prices and improved access to financial markets.

External conditions have further improved for Sub-Saharan Africa as a result of the strengthening of the global recovery and the easing of financing conditions for pre-emerging countries in the region. Basic commodities prices have also increased, providing some relief space for oil-exporting countries and other resource-rich countries.

However, some challenges remain such as reduced fiscal space, rising indebtedness, low credit to the private sector and increased non-performing loans exacerbate vulnerabilities in many countries.

In the East African Community (EAC) Partner States[4], the financial system has remained resilient despite the difficulties mentioned above. The annual growth rate, according to the IMF's forecasts (April 2018), has slightly decreased (5.2% in 2017 against 5.4% in 2016) and remains above the Sub-Saharan Africa average (2.8%).

Table 2: Growth in the EAC Countries (in %)

	2010	2011	2012	2013	2014	2015	2016	2017
Burundi*	5.1	4.0	4.4	4.9	4.2	-0.4	2.8	2.8
Kenya	8.4	6.1	4.6	5.7	5.3	5.6	6.0	5.0
Uganda	7.7	6.8	2.6	4	5.2	5	4.7	4.4
Rwanda	7.3	7.8	8.8	4.7	7.6	8.9	5.9	6.2
Tanzania	6.4	7.9	5.1	7.3	7.0	7.0	6.6	6.5
EAC-5	7.4	6.9	4.6	5.8	6.0	6.0	5.8	5.4

Source: IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2018
MFBCDE, Cadrage Macroéconomique, March 2018

In 2017, the Ugandan Shilling, Tanzanian Shilling, Burundi Franc and Rwandan Franc depreciated while the Kenyan Shilling slightly appreciated. To reduce the negative effects on the financial sector, most central banks maintained accommodative monetary policies and intervened on the foreign exchange markets.

[3] IMF, Regional Economic outlook, Sub Saharan Africa, April 2018
[4] For the EAC data, figures for South Sudan are not yet available

Box I: Challenges related to Sub-Saharan Countries indebtedness in 2017

In Sub-Saharan African countries, tax revenue mobilization is one of the major challenges in 2017, especially in a context of significant fiscal deficits. Such a situation has the consequence of resorting to public indebtedness (domestic and external) to finance the deficit. Given the low participation of Sub-Saharan African countries in the international market, some of them resort to domestic indebtedness, which also poses significant challenges to the economy.

In general, public debt is a challenge when, on one hand, the public debt growth rate cannot remain indefinitely higher than that of the economy; on the other hand, when the public debt interest rate exceeds the economy growth rate. In this situation, any increase in the deficit will certainly lead to raising tax rates or cutting government expenses with the risk of sacrificing investment in productive areas.

More specifically, some countries in Sub-Saharan Africa that do not have access to international markets will turn to domestic indebtedness, which also has a negative impact on the economy if it is used frequently. Two channels are often used to access the domestic loan, namely the issuance of public securities to which commercial banks, parastatals or individuals can subscribe and the use of indebtedness to the Central Bank in form of advances.
Domestic indebtedness through the issuance of public securities, if used intensively, can dry up the financial market and induce a decline in private investment. It also leads to distortions in the conduct of monetary policy. The Government can also use advances from the Central Bank to finance the deficit which also present risks, because it involves the entire monetary policy given that the set targets will no longer be met.

1.1.3. Challenges for Burundi's Financial Stability resulting from global developments

The Burundi's financial stability faces three main challenges resulting from the global developments: (A) coffee prices have fallen, (B) national currency depreciation, (C) moderate economic growth in the main trading partner countries.

A. Decline of coffee prices

Coffee is one of the main Burundian export products with 21.3% of the total value of exports in 2017[5] .
Although coffee production improved in 2017, export revenues were adversely affected by the decline in prices.
Indeed, coffee production has increased from 17,908 to 21,718 tons from 2016 to 2017 while International Coffee Organization (ICO) prices have dropped to 141.69 cents per pound at the end of December 2017 against 167.36 at the end of December 2016 (1 pound equivalent to 0.453kg).

The critical threshold below which the coffee grower would work at a loss is 28.3 cents / kg (equivalent to 500 BIF). In December 2017, the coffee price at the London market was USD 3.03 / kg.

[5] BANQUE DE LA REPUBLIQUE DU BURUNDI, Bulletin Mensuel, December 2017

The Burundian banking sector has low exposure to the coffee sector (2.2% of total loans volume in December 2017). Exposures in the sector are listed in eight banks that provide loans to this sector. Coffee loans represent 7.0% of the total equity of these eight banks that finance this sector. Nevertheless, the non-performing loans rate in the coffee sector is 10.1% in December 2017.

B. National currency depreciation

The national currency depreciated by 4.5% in 2017. This depreciation was caused inter alia by the low level of foreign exchange reserves which only covered 1.7 months of imports in 2017 against 1.5 months in 2016 and 4.1 months in 2014. This low level of foreign exchange reserves is mainly due to the decline in external support, particularly current and capital donations, which decreased by 35.2% compared to the 2014 level.

Exchange rate pressures are also observed in the EAC Partner States, particularly as a result of the US dollar appreciation. Except Kenya and Uganda, other EAC countries did not meet the convergence criterion (4.5 months of imports).

Table 3: Reserves[6] (in months of imports of goods and services)

	2010	2011	2012	2013	2014	2015	2016	2017
Burundi*	4.0	4.0	4.0	4.2	4.1	2.0	1.5	1.7
Kenya	2.9	2.8	3.7	3.9	5.3	5.1	4.8	5.3
Uganda	3.9	3.7	4.5	4.8	5.1	4.8	4.5	4.8
Rwanda	5.2	6.5	5.6	4.8	3.9	3.5	4.0	3.9
Tanzania	4.1	3.5	3.6	4.0	4.3	4.0	3.7	4.0
EAC-5	3.7	3.5	4.0	4.1	4.8	4.6	4.3	4.7

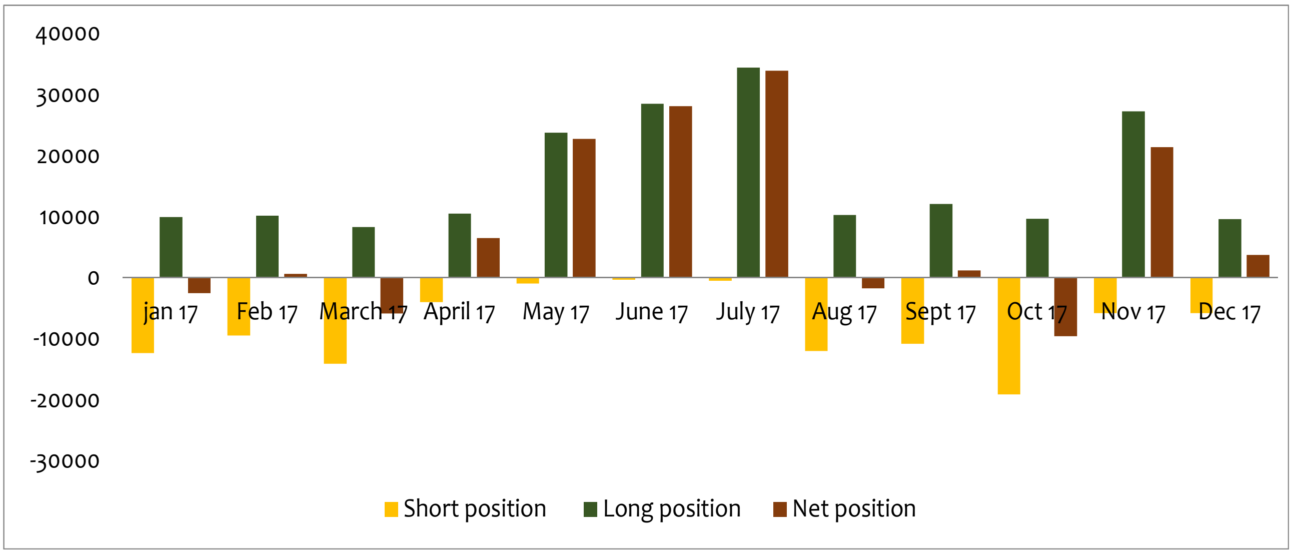
Source: IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2018
**BRB, Monetary Policy Committee Report, December 2017.*

The banking sector has a low exposure to foreign currency loans (2.5% of total loans, December 2017). Nevertheless, the difficulties for banks in the event of a sharp depreciation could be significant and would come from two channels: (i) the loans to the importing companies and (ii) the foreign exchange position. In a severe stress test scenario on the impact of the national currency depreciation on loans to the sectors in which the importing companies operate, the average after shock capital adequacy ratio (23.7%) for the banking sector remains above the minimum threshold (14.5%), but the deterioration would be significant.
Concerning the foreign exchange position of the banking system, it varies a lot among banks. There are banks with short positions and others with long positions (of which a bank has an important long position). At the end of December 2017, the sector's position was long (1.5% of equity); but, banks have experienced asymmetrical positions throughout 2017.

For banks with a short position, it is essential to take additional measures to hedge against the adverse consequences of depreciation by increasing their equity to cope with potential losses.

[6] For Burundi, the data are from the BRB till 2017, data for other countries are from the IMF report

Figure 1: Evolution of Banks' Net Foreign Exchange Position (in MBIF)



Source: BRB

C. Moderate economic growth in the main trading partner countries

The economic growth of Burundi's main trading partners remains moderate. In EAC countries, growth stabilized at 5.4% in 2016 and 2017 while growth in emerging and developing countries in Asia is 6.5 versus 6.4% in previous year; mainly driven by China (6.9 vs. 6.7% in 2016) and India (6.7 vs. 7.1% in 2016).

Table 4: Economic Growth of Main Trading Partner Countries

	2015	2016	2017
Euro Zone	2.0	1.7	1.7
USA	2.6	1.6	2.3
EAC	6.1	5.4	5.2
Asia	6.7	6.4	6.4
India	8.0	7.1	6.7
China	6.8	6.4	6.5
Pakistan	4.1	4.5	5.3
Saoudi Arabia	4.1	1.7	-0.7

Source: IMF, World Economic Outlook, April 2018.

Secondly, banks' exposures vis-à-vis of enterprises that export coffee, tea, beer, soap and wheat flour (represent more than 47% of the country's total exports in December 2017). The share of loans given to exporting enterprises that operate in industry, agriculture and coffee represent 15.9% of the banking sector total loans. The stress tests results have shown that banks are generally able to cope with negative developments in case that exporting companies fail to pay back their loans.

1.2. Domestic macroeconomic context

1.2.1. Economic growth

Since the last two years, economic activity has resumed (2.8% in 2017 and in 2016) but this rate remains below the rate recorded in 2014 (4.2%).

This recovery is driven mainly by the tertiary sector, such as Trade (2.0% vs. -1.0% the previous year), Transport (2.0% vs. -21.7% the previous year), telecommunications and internet (7.0% vs. - 13.2%) banking and insurance (7.0% vs. 4.0% in 2016)[7].

However, this recovery remains dependent on underperformance recorded in the primary and secondary sectors, such as export agriculture (- 1.7%), industry (- 1.8%) and construction (- 3.0%).

This moderate growth continues to weigh on the performance of the banking sector through the increase in nonperforming loan ratios at the end of December 2017: Tourism and Hotels (52.0%), Agriculture (7.7%), Trade (14.1%), Construction (31.7%), Industry (18.9%).

The stress test scenarios show that non-repayment in these sectors would lead to a sharp decrease in the banking sector equity. In such a situation, banks' equity would fall by the amount of the provisions made to cover these overdue loans. Similarly, the capital adequacy ratio would drop significantly, but it would remain above the minimum threshold.

Box 2 : Regional Free Trade Area

To increase trade on the African continent, several regional groupings have been formed, among others, the Economic Community of West African States (ECOWAS), the Central African Economic and Monetary Community (CEMAC), the East African Community (EAC), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA). These regional groupings will lead to the creation of an African common market where goods and services will circulate without any restriction. Before reaching this crucial stage, a free trade area that will underpin the common market has been created. The objectives of this free-trade area are (1) to establish a continental customs union (2) to develop intra-African trade; (3) to solve the problems related to the multiple memberships of the regional economic communities; (4) stimulate the competitiveness African economies.

According to the Regional Economic Outlook Sub-Saharan Africa (IMF, April 2018), intra-regional trade is very low in Africa. 18% of total trade occurred within the African continent and was dominated mainly by trade in SADC and in EAC, which accounted high intra-Community trade (20% of the total). Manufactured goods accounted for only 19% of Africa's exports to the rest of the world. The remaining is constituted of raw materials that are subject to price volatility, which drives the financial resources volatility and thus the fragility of the financial sector.

[7] MFBCDE, Cadrage Macroéconomique, March 2018.

In the East African Community, exchanges are weak and remain dominated by weakly processed products. This weak development of regional trade is linked to the low productivity and competitiveness of the EAC economies productive structures. This low level of regional trade reduces the regional financial flows and the regional banks interconnection, which limits the spread of financial risks within the region.

1.2.2. Inflation and interest rates

Inflation rose in 2017 (16.0% vs. 5.6% in 2016). Lending rates fell slightly (16.2% vs. 16.5%), as did interest rates (5.9 vs. 7.7% the previous year). For the money market, interest rates declined. The overnight rate declined (7.1% in 2017 from 8.6% in 2016) as a result of a decline in 13 weeks Treasury bills rate to which it is indexed. The liquidity supply rate also fell (2.8% vs. 3.1% in 2016) and the interbank rate rose from 3.3% to 4.0% in 2017.

Table 5: Inflation and Interest Rates (in %)

	2010	2011	2012	2013	2014	2015	2016	2017
Inflation	6.5	9.6	18.2	7.9	4.4	5.5	5.6	16.0
Overnight Facilty Rate	11.3	14.3	13.8	12.5	8.0	9.8	7.2	7.1
Interbank Rate			12.3	9.5	7.5	7.5	3.3	4.0
Liquidity Supply Rate	-	13.3	-	-	-	3.4	2.4	2.8
Deposit Rate	7.3	7.6	8.8	9.0	8.8	8.7	7.2	5.9
Lending Rate	15.9	15.3	15.7	16.2	16.7	16.9	16.8	16.2

Source: Data on inflation (ISTEEBU), others (BRB, Bulletin Mensuel, December 2017).

1.2.3. Public finances

The budget deficit as a percentage of GDP has alleviated (4.6% in 2017 against 5.9% in 2016) but remains a risk for financial stability. The deficit financing by banks constitutes a threat to financial stability through the crowding out effect of the private sector and the direct and indirect exposure of banks to the Government. Despite fiscal revenues improvement in 2017 from 757,076.5 MBIF in 2016 to 892,655.5 MBIF in 2017, the increase in public expenses combined with the arrears' payments during the same period keeps the budget deficit at a high level and the latter is above the EAC convergence criterion (3.0% of GDP).

Table 6: Budget Deficit in the EAC Countries in 2017 (in %)

Country Criterion	Budget Deficit (≤3.0 % of GDP)			
	2014	2015	2016	2017
Burundi*	4.1	8.0	5.9	4.6
Kenya	7.5	8.4	7.4	8.5
Uganda	3.5	2.9	4.7	3.2
Rwanda	3.5	2.8	3.0	2.5
Tanzania	3.7	3.5	4.0	2.7

*Source: *BRB, Bulletin Mensuel, December 2017; IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2018.*

The deficit financing need has been fully financed by domestic resources. In 2017, the public debt rose to 2,426 against 2,100.1 billion BIF, i.e 45.0% of GDP against 43.5% in 2016. However, the domestic indebtedness increased to 30, 5% of GDP.

Table 7: Public Debt in the EAC Countries 2017

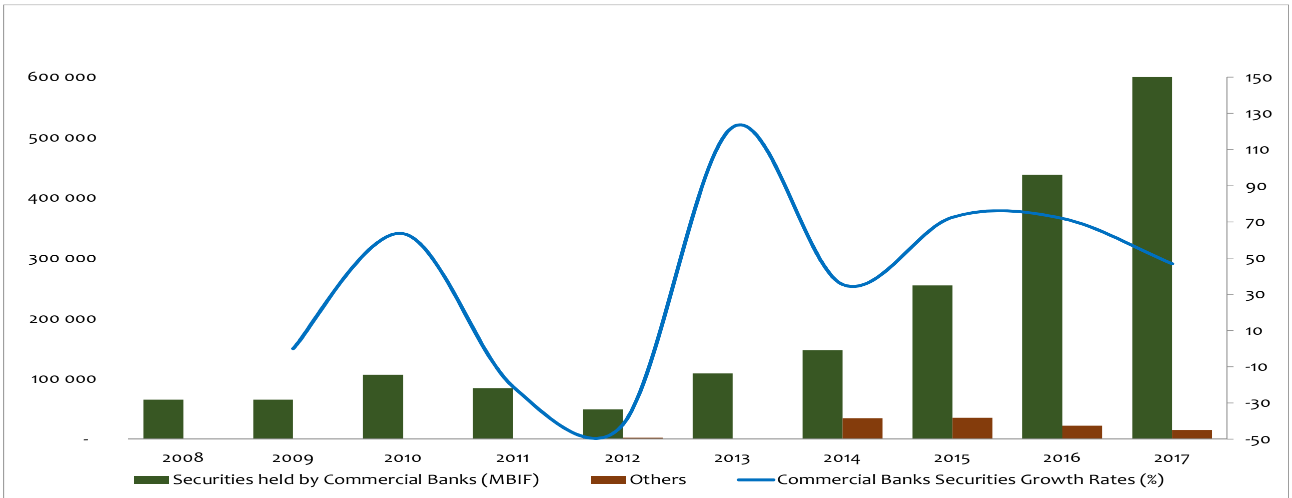
Countries Criterion	Total Public Debt (≤50.0 % of GDP)			External Public Debt			Domestic Public Debt		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Burundi*	39.5	43.5	45.0	15.5	15.2	14.5	24.0	28.9	30.5
Kenya	51.3	53.5	55.6	26.6	26.2	28.3	24.7	27.3	27.3
Uganda	34.4	37.2	39.0	19.9	21.3	24.4	14.5	15.9	14.6
Rwanda	37.3	37.3	40.6	26.9	31.4	37.1	10.4	5.9	3.5
Tanzania	36.5	38.2	38.5	27.1	28.7	28.5	9.4	9.5	10.0
EAC-5	42.7	45.0	47.0	24.5	26.4	28.2	18.2	18.6	18.8

*Source: *BRB, Bulletin Mensuel, December 2017;*
IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2018.

Indebtedness to the banking sector is the largest component of domestic debt (39.1%) and increases from year to another (31.8% in 2016 and 23.7% in 2015). Government indebtedness towards the banking sector is a major risk at the time when the repayment of the debt is made by issuing a new debt; which increases banks' exposure to sovereign debt.

As the outstanding amount of Treasury bills and bonds continues to rise, loans to the economy has declined, reflecting the crowding out effect of the private sector.

Figure 2: Evolution of Public Securities Held by Commercial Banks



Source: BRB, Bulletin Mensuel, December 2017

Increasing exposure to sovereign debts and domestic arrears accumulation could amplify tensions in the financial sector as evidenced by the growth of overdue loans, the slowdown in loans to the private sector progression, and the low level of some banks equity.

Table 8: Treasury securities and loans to the private sector in banks total assets

	2012	2013	2014	2015	2016	2017
Total Assets(MBIF)	1044684.1	1218016.8	1400638.4	1441542.4	1834956.6	2164695.6
Bonds and Treasury Bills(MBIF)	49858.1	109019.9	147702.7	253788.1	438167.9	643490.6
Bonds and Treasury Bills in % of the total assets	4.8%	9.0%	10.5%	17.6%	23.9%	29.7%
Loans to the private sector(MBIF)	607741.7	645360.9	702640.6	673746.6	792831.8	795480.6
Loans to the private sector in % of total assets	58.2%	53.0%	50.2%	46.7%	43.2%	36.7%

Source: BRB

The risk to financial stability linked to the fragility of public finances comes from indirect exposure of companies that provide goods and services to the public sector. Indeed, the increase in the budget deficit is likely to hinder the recovery of the Government debts to these companies and leads to an increase of the non-performing loans rate in construction sector (31.1%), small equipment (16.9%), trade (14.1%), and agriculture (7.7%) sectors. These sectors represent 69.9% of the banks' loans portfolio at the end of 2017.

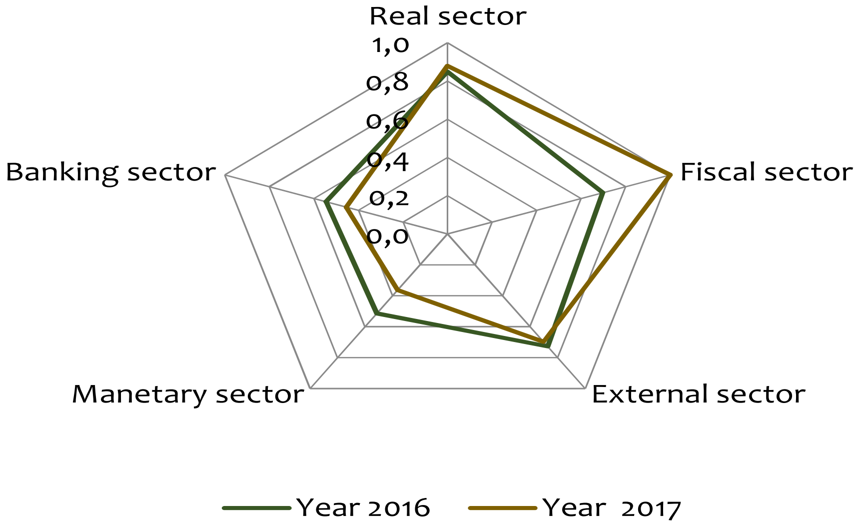
Table 9: Evolution of Non performing loans rates by sector

	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Housing	1.0	0.7	8.5	10.2	10.3
Other constructions	10.1	4.4	34.3	26.3	31.1
Manufacturing	1.5	1.1	15.5	14.1	18.9
Trade	12.9	17.8	19.4	15.3	14.1
Tourism	0.1	0.1	35.4	29.9	52.0
Agriculture	13.1	8.1	27.5	8.9	7.7
Craft	0.0	0.0	23.0	11.2	25.8
Small Equipment	8.7	10.1	27.5	24.7	16.9
Coffee	0.0	4.2	22.6	32.0	10.1
Other products	0.7	0.2	1.8	0.1	0.1
Others	4.8	0.8	7.3	6.5	5.5

Source: BRB

The stress test results showed that severe shocks linked to the fragility of public finances would affect the banking sector through the deterioration of the banks' loan portfolio. Non-repayment in the above mentioned sectors would lead to a significant decrease in the banking sector equity, up to the amount of the provisions made to cover these additional depreciations. However, the banking sector would remain resilient since the after-shock capital adequacy ratio (23.7%) would remain above the regulatory threshold (14.5%).

Figure 3: Burundi Macroeconomic Situation Synthesis



Source: BRB

In 2017, the real, external and fiscal sectors faced more risks that have threatened financial stability. The banking and monetary sector indicators did not display fragility that could lead to systemic risks.

1.2.4. Households and enterprises situation.

The households and enterprises situation, and their reimbursement capacity, are relevant indicators for the financial system stability analysis. In 2017, the private enterprises indebtedness relative to GDP decreased from 6.5% to 5.6%. The private enterprises debt is mainly made up of loans to trade sector, which accounts for 28.3% of the total loans to the economy. The other major components of the private enterprise debt are loans to industry (10.6%), hotels and tourism (6.0%), construction (3.6%) and coffee loans that represent 1.9% of the total loans.

For States-owned enterprises, their indebtedness relative to GDP remains very low (0, 5% in 2017 against 0.2% in 2016).

Table 10: Debt of enterprises and households as a percentage of GDP

Year	Household Debt	Private Enterprises Debt	State-owned Enterprises Debt
2013	11.0	8.2	1.0
2014	11.0	8.5	1.0
2015	11.7	7.9	0.2
2016	12.5	6.5	0.2
2017	11.4	5.6	0.5

Source: BRB, Bulletin Mensuel, December 2017

Household debt as a percentage of GDP slightly decreased to 11.4% against 12.5% in 2016. It is mainly made up of small equipment loans (26.8%), housing loans (13.4%) and agricultural loans (2.3%).

The non-financial companies' indebtedness level has an effect on the quality of the loans portfolio. In 2017, overdue loans in sectors mainly financed by the banking sector were 10.1% in coffee sector, 52.0% in hotels and tourism sector, 31.1% in construction and at 14.1% in trade. Non-performing loans ratio also declined in sectors where households receive more loans. They were 16.9% in small equipment, 7.7% in agriculture, and 10.3% in housing. Regarding net indebtedness, the household position was short in 2017 due to loans contracted which remain higher than deposits. The gap between deposits and loans to households is - 127,582.2 compared to - 171,176.1 MBIF in 2016.

Table 11: Net Debt of Households and Enterprises in MBIF

Year	Households Deposits	Households Loans	Households Net Indebtedness	Private Entreprises Deposits	Private Entreprises Loans	Private Entreprises Net Indebtedness	State-owned Entreprises Deposits	State-owned Entreprises Loans	State-owned Net Indebtedness
2013	347 560.3	419 842.0	-72 281.7	114 941.2	314 338.2	-199 397.0	46 879.4	36 671.5	10 207.9
2014	382 093.3	461 361.9	-79 268.6	150 325.9	357 535.6	-207 209.7	31 773.3	41 347.7	-9 574.4
2015	401 843.7	514 709.6	-112 865.9	183 259.6	348 158.6	-164 899.0	43 966.7	6 928.3	37 038.4
2016	430 975.4	602 151.5	-171 176.1	252 834.7	312 830.6	-59 995.9	40 392.7	7 548.5	32 844.2
2017	487 757.7	615 339.9	-127 582.2	389 694.5	300 766.5	88 928.0	49 504.3	28 633.1	20 871.2

Source: BRB, Bulletin Mensuel, December 2017

For private companies, the net position became long in 2017 following the fall in corporate credit in 2017 after a short position in previous years. Deposits in comparison to the loans display a credit balance of 88,928.0 against -59,995.9 MBIF in 2016. However, the state-owned enterprises keep a surplus of resources, the gap between deposits and loans was 20 871.2 against 32 844.2 MBIF in 2017.

Table 12: Enterprises Indebtedness over equity in MBIF

Year	Households Debts	Private Enterprises Debts	State-owned Enterprises Debts	Equity (E)	Households Debts/ E	Private Enterprises Debts/E	State-owned Enterprises Debts/E
2013	419 842.0	314 338.2	36 671.5	312 991.8	134.1	100.4	11.7
2014	461 361.9	357 535.6	41 347.7	381 583.1	120.9	93.7	10.8
2015	514 709.6	348 158.6	6 928.3	417 704.6	123.2	83.4	1.7
2016	602 151.5	312 830.6	7 548.5	446 078.6	135.0	70.1	1.7
2017	615 339.9	300 766.5	28 633.1	496 670.1	123.9	60.6	5.8

Source: BRB, Bulletin Mensuel, December 2017

Compared to the banking sector total equity, the private enterprises debt decreased to 60.6% against 70.1% in 2016. This is mainly due to the decline of credit to enterprises.

For state-owned enterprises, their indebtedness relative to equity increased from 1.7% to 5.8% in 2017.

2

CHAPTER 2: FINANCIAL SYSTEM

The financial system stability and efficiency require the resilience and smooth functioning of all its components. In 2017, the financial system remained sound even though it faced some challenges.

On the one hand, it has faced exogenous challenges, including the decline in coffee prices, the national currency depreciation and a moderate growth in the partner states. These adverse effects of the economic environment have spread to the financial sphere via the credit risk, liquidity risk and market risk channels to a lesser extent.

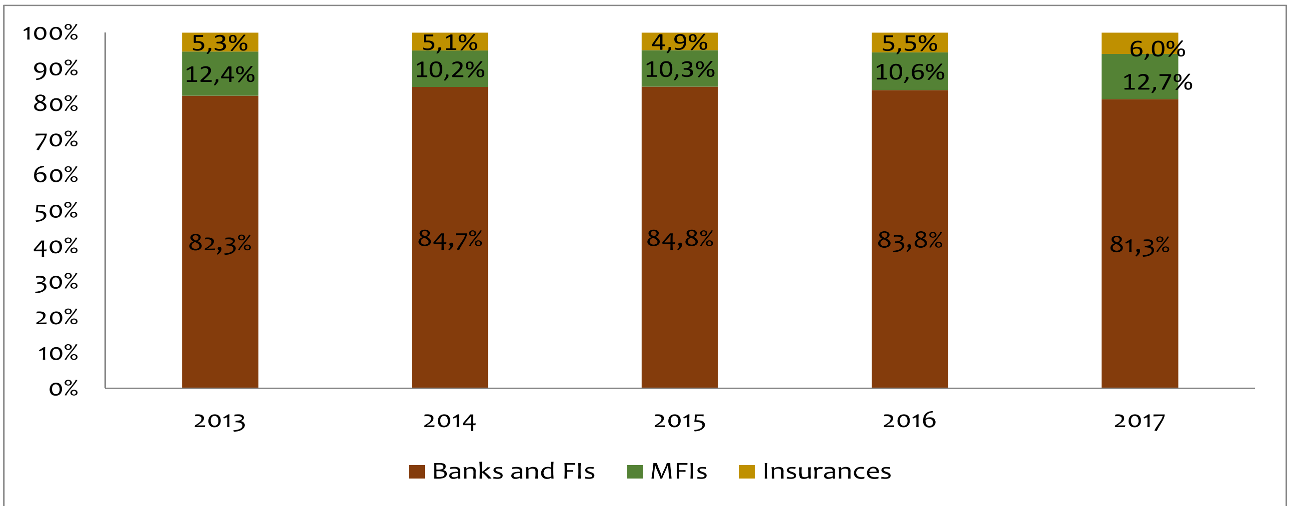
On the other hand, the financial system is exposed to deterioration in the banks› portfolio quality. Despite the write-off of loss loans older than 2 years, the financial sector has not yet recovered from the shocks of previous years and the level of overdue loans remains a concern (19.7%). The banks vulnerabilities could increase with regard to the shift observed from performing loans to non-performing loans.

2.1. Financial System Structure

Burundi's financial system is made up of four types of financial institutions: microfinance institutions, insurance companies, social security institutions, banks and financial institutions (banking sector). Financial intermediation continues to improve, the ratio of the total financial sector assets to GDP being 49.3% in 2017 compared to 45.2% in 2016.

The banking sector is the main component of the financial system with an average share of 84.4% over the last 5 years (as a percentage of assets) compared to microfinance (11.4%) and insurance companies (4.3%)[8] . In 2017, the banking sector includes 12 institutions including 10 commercial banks and 2 financial institutions. Microfinance institutions are 35 and insurance companies are 13 against 7 in 2016 following the separation in most institutions of life and non-life insurance products and the arrival of two new companies on the market.

Figure 4: Financial System Structure (Asset)



Source: BRB

[8] Data for social security institutions are missing

2.2. Banking sector

In 2017, the banking sector was resilient and preserved financial soundness thanks to the prudential measures taken by the Central Bank. Indeed, the banking sector continues to display profitability, a satisfactory level of prudential liquidity and a sufficient capital adequacy ratio. However, the level of non-performing loans is relatively high (14.5%) compared to other EAC countries and the 5% benchmark in the region.

Table 13: Non-performing loans within the region

	2016	2017
Burundi	12.9	14.5
Kenya	9.1	10.6
Uganda	10.5	5.6
Rwanda	7.6	7.6
Tanzania	9.1	12.5

Source: EAC Central Banks Websites.

The banking sector loans to the economy represents 14.7% of GDP in 2017 against 16.7% in 2016, a decrease of 2 percentage points. Loans are concentrated in the trade and equipment sectors with more than 61.1% of total loans. Banks' loans are generally short-term (53.5%) of total loans while medium-term and long-term loans accounted for 27.3% and 19.2% respectively in 2017.

2.2.1. Banking Sector Situation

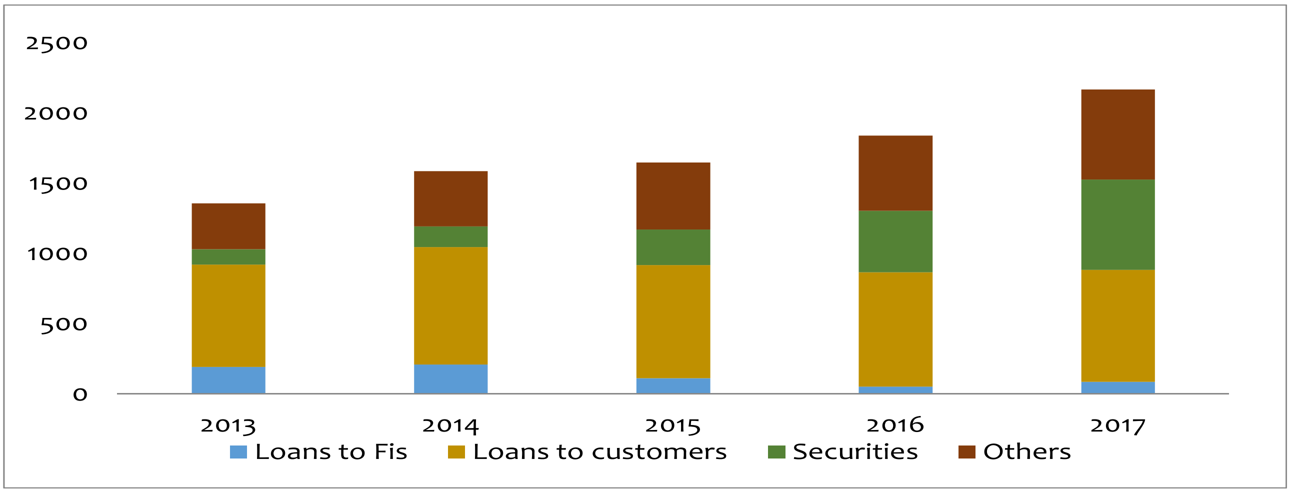
The banks' total asset amounted to 2,164.7 in 2017, compared to 1,834.9 billion BIF in 2016. The share of private domestic banks in total assets is 26.7% (i.e. 10.7% of GDP) against 43.3% for foreign banks (17.4% of GDP) and 30% (12.0% of GDP) for public banks.

The banking market is dominated by three systemically important banks that have 63.7% of assets; 60.7% of loans portfolio and 66.2% of deposits of the sector. These banks are exposed to the risk of budget deficit increase in relation to the loans allocated to enterprises supplying goods and services to the Government as well as the risk of concentration on large debtors. However, the December 2017 stress test showed that two out of three systemic banks remain sound and resilient to shocks.

A. The assets

The outstanding loans amounted to BIF 795.5 billion in 2017, compared to 736.1 billion in 2016. Over the past five years, customer loans constituted the bulk of the assets, amounting to 36.7% compared to 44.0% in 2016. This decrease is related to the rise in credit risk that has pushed banks to favor investments in Treasury securities.

Figure 5: Banking sector assets structure (in Billion BIF)

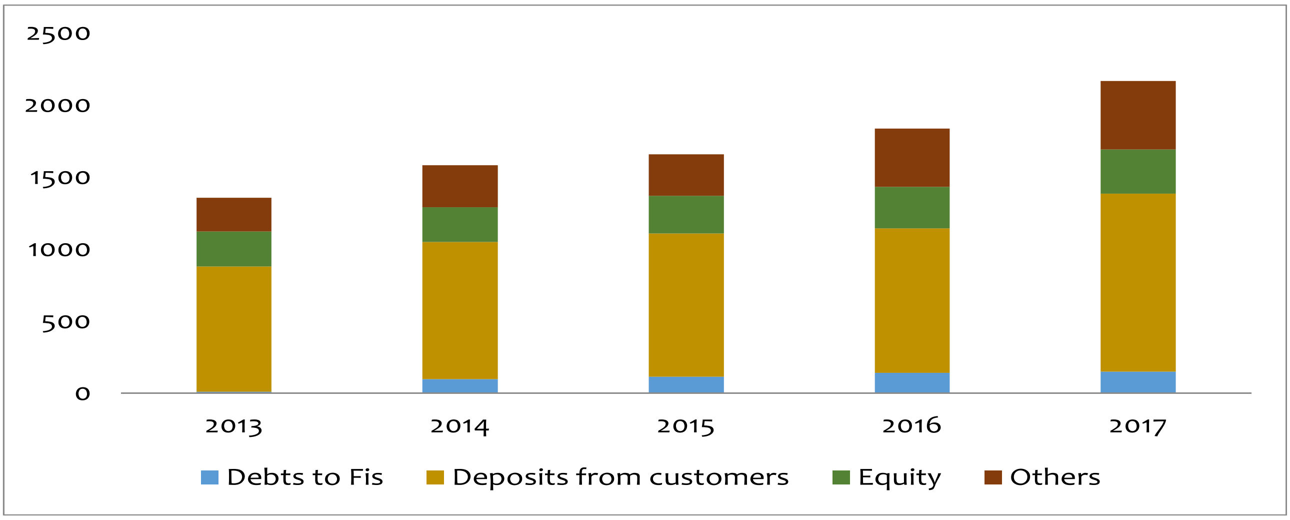


Source: BRB

B. The Liabilities

Customer deposits reached BIF 1,234.1 billion in 2017, compared with 954.5 billion in 2016. Indeed, they were the main component of banks' resources and represented 57.0% in 2017, compared to 54.6% in 2016. Demand deposits accounted for 67.6% compared with 32.4% for term deposits.

Figure 6: Liabilities structure (in Billion BIF)



Source: BRB

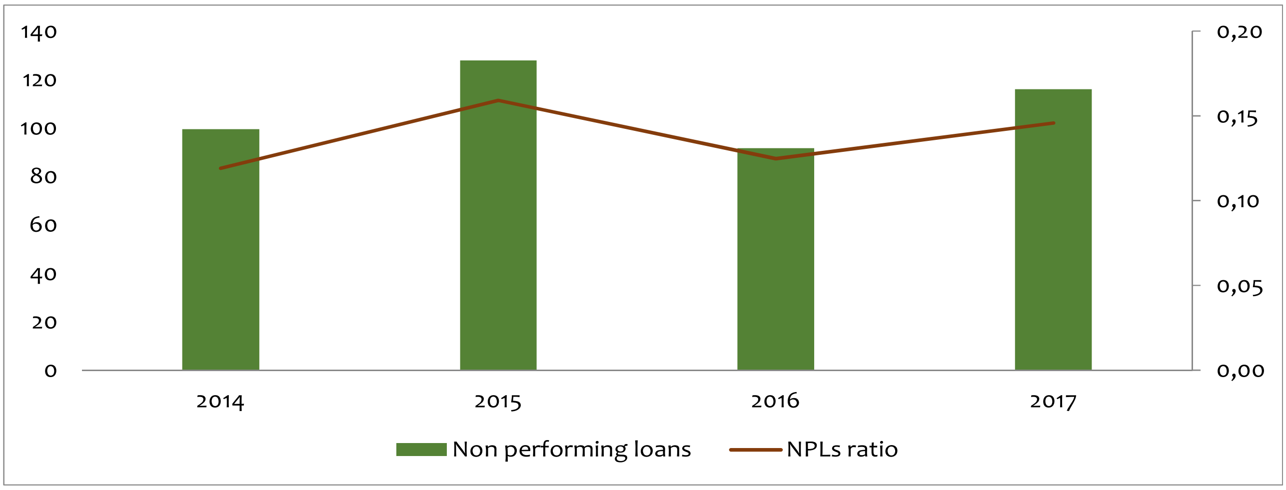
2.2.2. Loan portfolio quality

The loan portfolio quality deteriorated further in 2017, posing a challenge to the financial system stability. On a year-to-year basis, the non-performing loans ratio was 14.6% to 12.5%, an increase of about 2 percentage points. The default rate increased from 16.9% to 19.7%. To cope with this portfolio deterioration, the banks have made sufficient provisions with a provisioning rate of 80.0%.

In terms of volume, non-performing loans amounted to 115.9 billion in 2017, compared to 91.7 billion in 2016.

Overdue loans amounted to 157.0 billion in 2017, compared to 123.8 billion in the previous year.

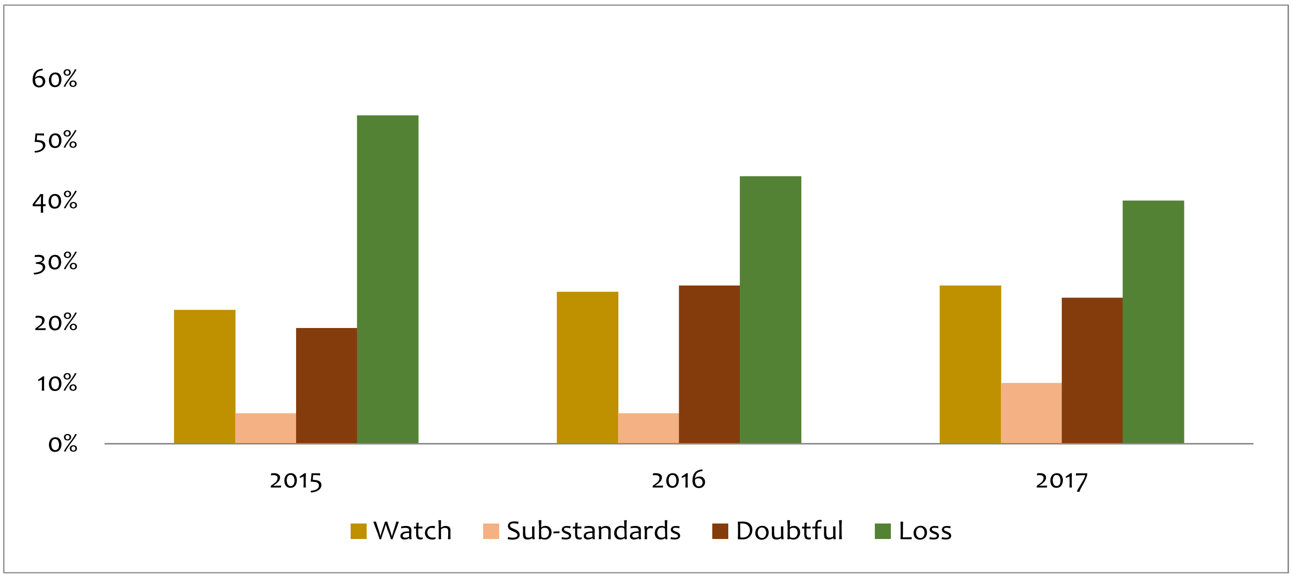
Figure 7: Evolution of non-performing loans



Source: BRB

Sectors with high non-performing loan rates are: hotels and tourism (52.0%); constructions (31.3%); industry (18.9%) small equipment (16.9%); trade (14.1%).

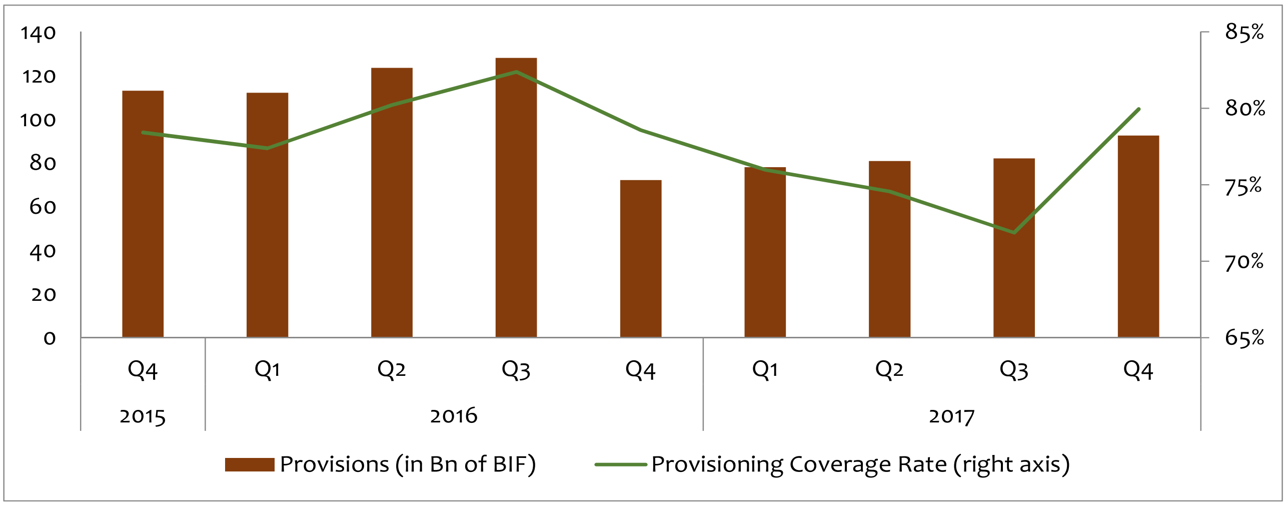
Figure 8: Overdue loans structure in %



Source: BRB

The analysis of overdue loans structure reveals that the level of watch loans, which is a key indicator of the future deterioration of the loan portfolio, remains high and increases from one year to another, amounting to 41 649,6 in 2017 against 32 132 MBIF in 2016.

Figure 9: Evolution of provisioning rate



Source: BRB

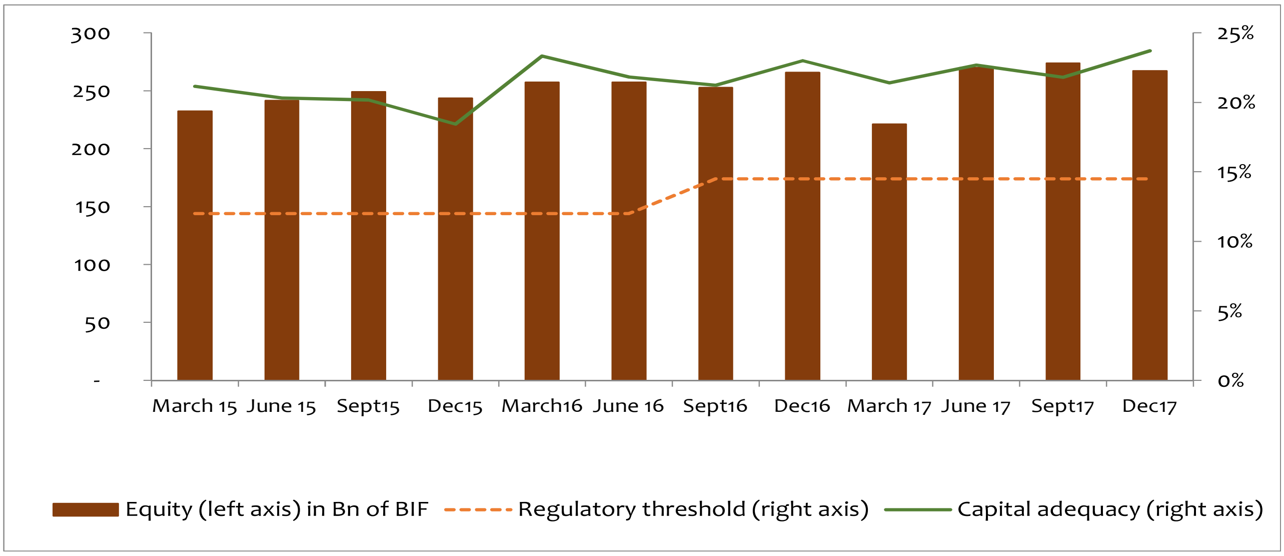
The provisioning rate for non-performing loans improved slightly from 78.6% to 80.8% in 2017. The amount of provisions for non-performing loans was 82.1 billion compared with 72.3 billion.

2.2.3. Capital Adequacy

The banking sector remains well capitalized and has sufficient equity in relation to the regulatory standards. The total capital adequacy ratio stood at 23.7% at the end of December 2017, well above the regulatory threshold of 14.5%.

On a year-to-year basis, equity increased from 265,744 to 267,074 MBIF, an increase of 0.5%. In accordance with the instructions of the Central Bank and on their own decision, some banks increased their own equity by reinvesting their profit.

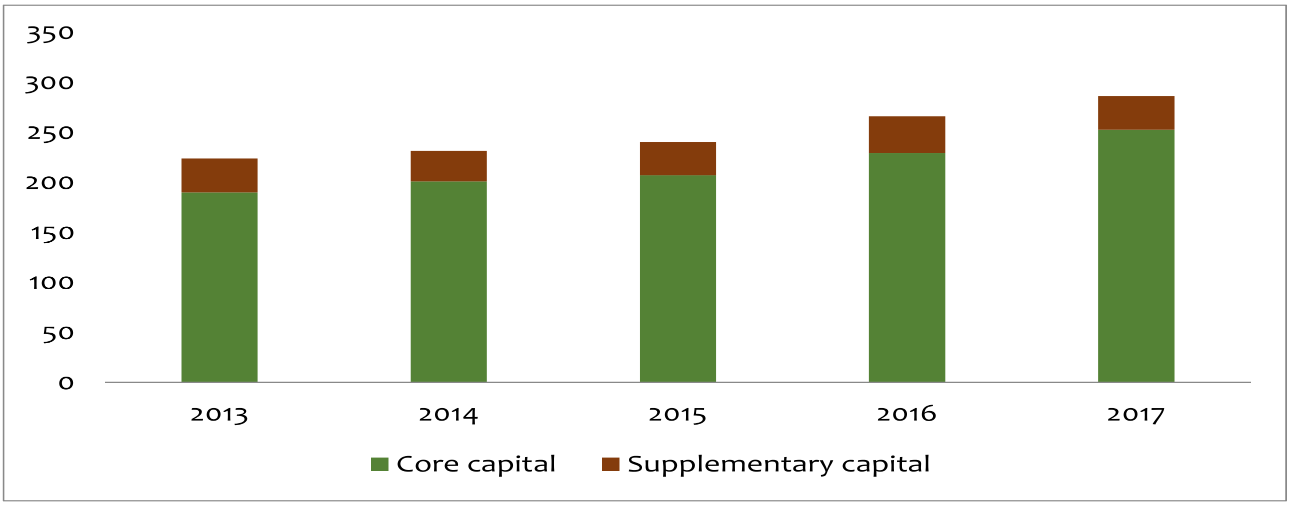
Figure 10: Equity Evolution



Source: BRB

Following the regulation of the Central Bank of July 1, 2016, the standard of total capital adequacy ratio has increased from 12.0% to 14.5% including a capital buffer of 2.5%. The strengthening of equity also enabled the leverage ratio to remain at a satisfactory level (12.3%) compared to the minimum of 3.0% recommended by the Basel Committee on Banking Supervision(BCBS) and the standard of 7.0% set by the BRB. The composition of the banks› equity is of a high quality and consists largely of paid-up capital and reserves. These have improved since 2014 to move towards Basel III components.

Figure 11: Composition of equity (MBIF)



Source: BRB

The increase of total equity should permit banks to resist any possible assets quality deterioration.

2.2.4. Liquidity

Globally, the banking sector displayed throughout the year 2017 sufficient liquidity[9] ratios vis-à-vis the regulatory standard of 20%. The overall liquidity ratio reached 64.2% in 2017.

Table 14: Evolution of banks liquidity ratios

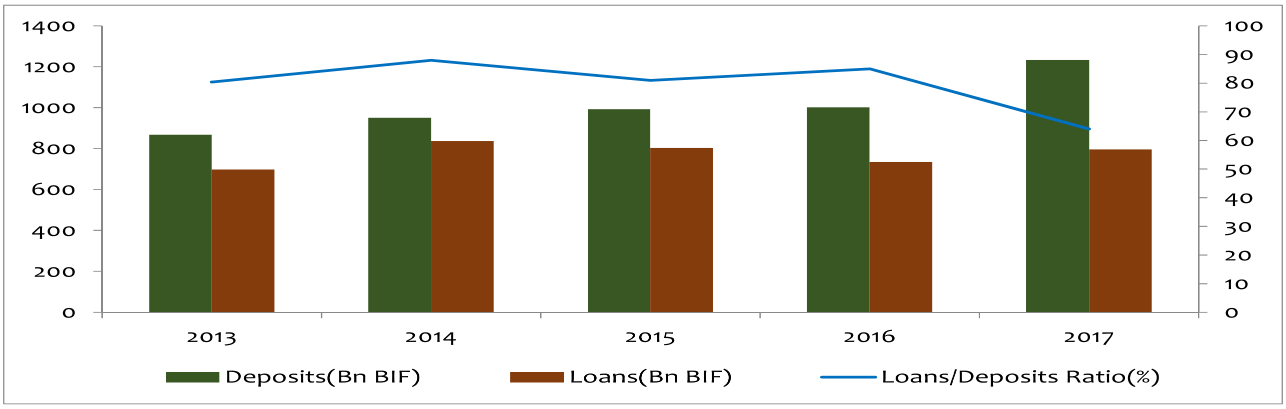
	Q4 2013	Q4 2014	Q4 2015	Q4 2016	Q4 2017
Liquidity ratio in BIF	26.2%	35.4%	38.0%	55.0%	58.3%
Liquidity ratio in foreign currency	92.7%	84.9%	122.0%	128.0%	113.5%
Global liquidity ratio	42.9%	52.0%	53.0%	64.0%	64.2%

Source: BRB

For the lending activity, banks still maintain a comfortable margin compared to deposits, with a loans-to-deposits ratio of 64.5% at the end of 2017.

[9] From prudential point of view, the liquidity ratio is given by liquid assets over total deposits while from the monetary point of view, the banking liquidity corresponds to commercial banks reserves at the Central Bank net of its interventions on the money market

Figure 12: Evolution of Loans and Deposits



Source: BRB

Despite this high global liquidity ratio, some banks had to use interbank market resources and refinancing from the Central Bank. The latter has maintained the easing of refinancing conditions to enable the banking sector to finance the economy.

2.2.5. Market risk

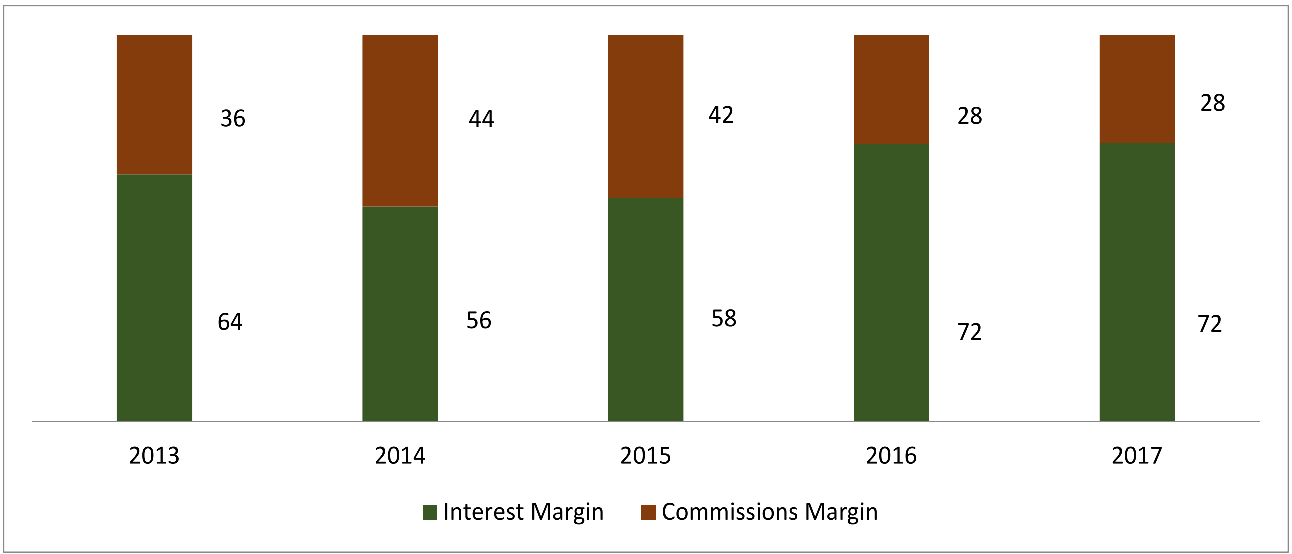
The financial sector is weakly exposed to market risk given the moderate development of the Burundian financial market.

Treasury securities in the banks› portfolio are held-to-maturity and are therefore not subject to price changes.

2.2.6. Banking sector profitability

In 2017, the banking sector remained profitable. Net banking income (NBI) increased by 16.4% from 154,710.1 to 180,111.1 MBIF.

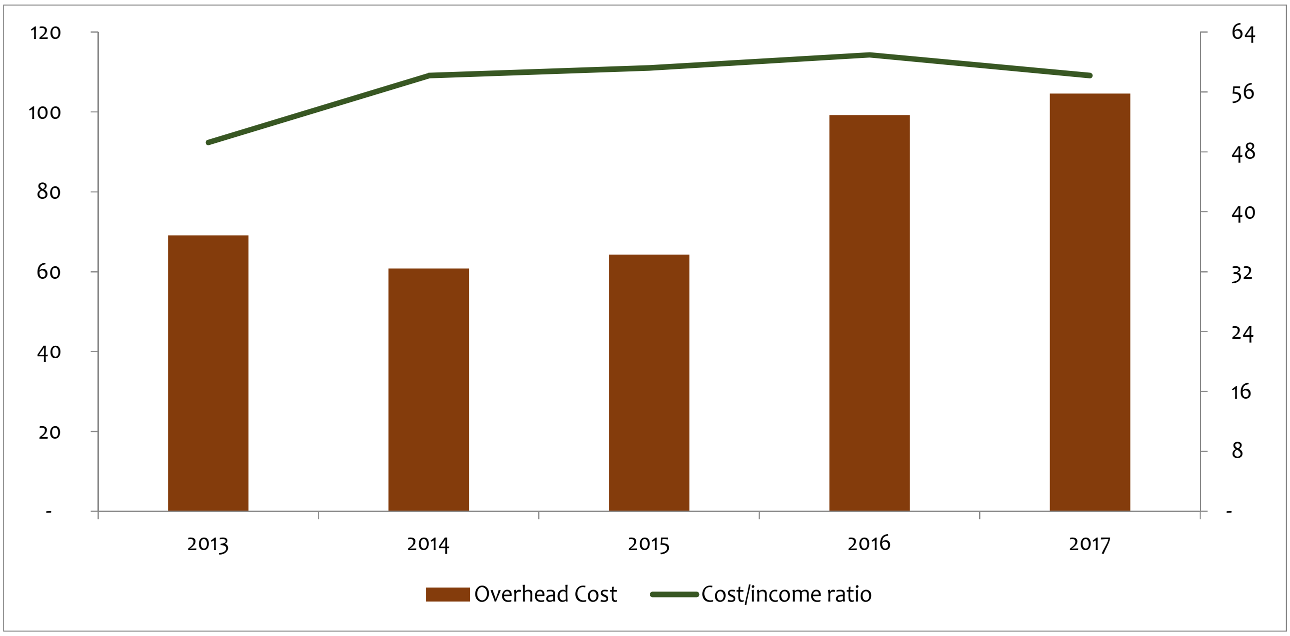
Figure 13: Net banking Income Structure (in %)



Source: BRB

In the banking sector, overhead costs have been on an upward trend since 2014. However, the cost / income ratio decreased from 64.6% to 58.2% due to the increase in income less proportionally than the overhead cost increase.

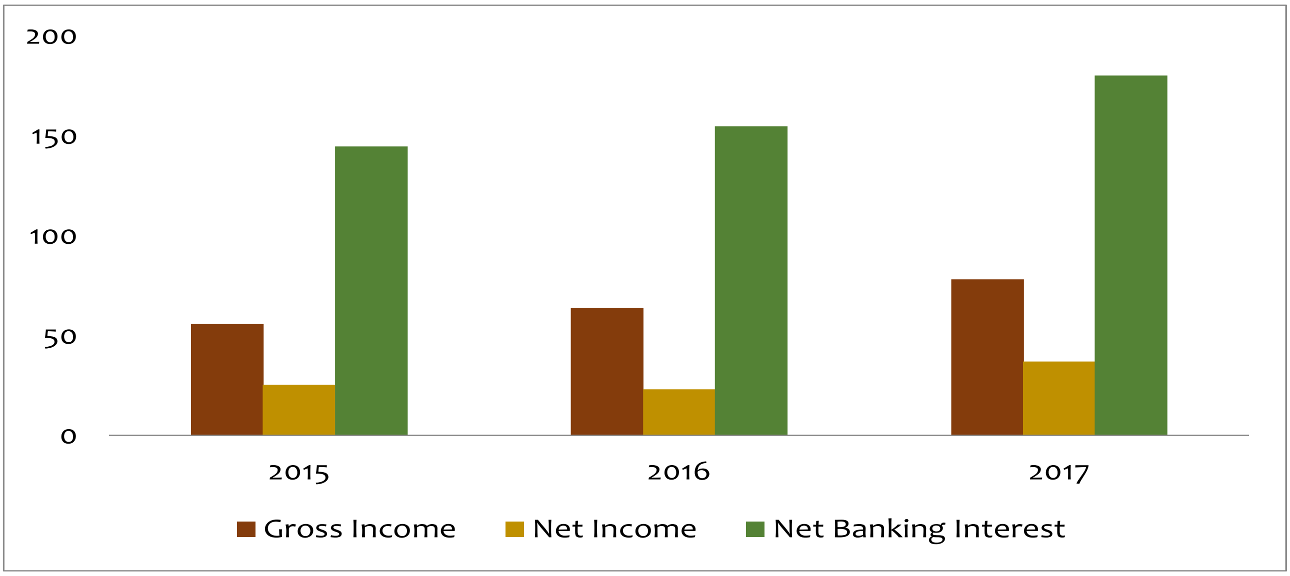
Figure 14: Change in Overhead cost and Cost/income ratio



Source: BRB

Compared to the previous year, banks' net income increased by 59.5% from 23,215.9 to 37,018.3 Billion of BIF at the end of December 2017. The return on assets (ROA) was 1.7% and the return on equity (ROE) was 13.8%.

Figure 15: Evolution of Banks intermediate operating balances



Source: BRB

2.2.7. Stress tests

Stress tests were conducted to assess the banking sector resilience to identified systemic risks. Severe but plausible shock scenarios were applied to the selected indicators to test banks› ability to withstand these shocks using December 2017 data.

Several assumptions have been made based of the current macroeconomic and financial environment analysis and growth prospects. Considering the systemic risks linked to the deterioration of macroeconomic indicators (increase of the fiscal deficit, national currency depreciation, coffee price decline), the simulations assessed the effect of further deteriorations on banks› equity.

The after-shock total capital adequacy ratio is considered as the primary measure of bank resilience, while the change in non-performing loans is the primary measure of credit risk. The stress test conducted in December 2017 focused on the two main potential sources of vulnerability for the banking sector; namely credit and liquidity risk.

For credit risk stress test, two scenarios were used:

(A) In the first scenario, a further loan portfolio deterioration was simulated in six sectors exposed to the three risks mentioned above. These are the trade, equipment, agriculture, construction, coffee and industry sector.

The results showed that banks remain resilient to severe shocks except one that would be undercapitalized and another close to the regulatory threshold.

(B) The second scenario focused on concentration risk by assessing their resilience following the failure of their five largest debtors. This scenario assumed that 50% of the outstanding loans of the five major debtors of each bank were reclassified as non-performing loans and assessed the impact on equity.

The results showed that banks remain resilient to severe shocks except two that would be undercapitalized and another close to the regulatory threshold.

B. Liquidity risk stress test

The liquidity stress test consisted of determining the impact of a sudden and massive withdrawal of customer deposits over a five days period at a uniform pace. Banks› resilience to liquidity risk is judged by their ability to withstand this shock without recourse to external liquidity, especially the Central Bank refinancing during this period.

Compared to December 2016, the results showed that, at the end of December 2017, banks were more sensitive to liquidity risk since the liquidity of two banks would crumble during the stress period.

2.3. Microfinance sector

The microfinance sector accounts for 12.7%[10] of the financial system total assets. The sector is sufficiently capitalized and the portfolio quality has improved in 2017. It is a profitable sector although it has faced challenges related to the economic context. The microfinance sector has a positive impact from the financial inclusion point of view.

2.3.1. The Sector Structure

At the end of June 2017, the microfinance sector comprises 35 licensed MFIs, including 16 savings and credit cooperatives (first category), 18 microfinance companies (second category) and one micro credit program (third category). Of the 35 MFIs, 32 are functional and operational.

Three cooperatives dominate the market and account for 73% of loans, 78% of deposits and 74% of the sector›s equity. Of the three, one is an umbrella structure and is located throughout the country. The microfinance institutions agencies number and service points authorized by the Central Bank increased from 265 in 2016 to 270 at the end of December 2017, which facilitates access to financial services by the population, particularly in rural areas.

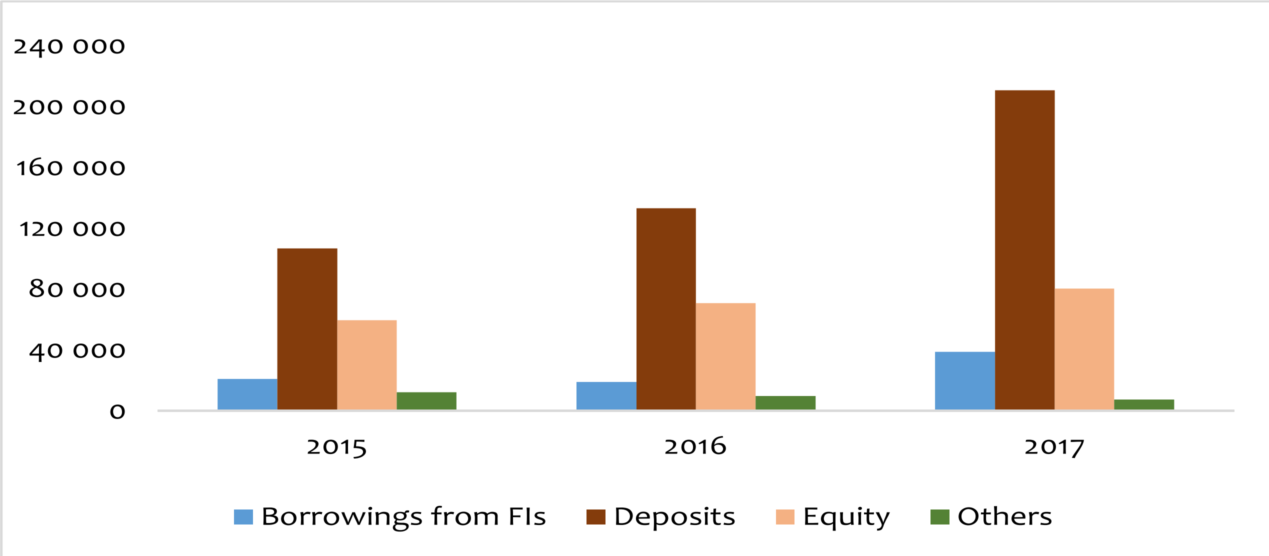
The microfinance sector total assets at the end of June 2017 amounted to 337,156.3 compared to 232,770.5 MBIF in 2016, of which 299,000.4 MBIF (89%) are MFIs in the first category and 38,155.9 MBIF (11%) for the second category.

2.3.2. Resources

The MFIs resources stood at 337 156.3 in 2017 against 232 770 MBIF in 2016, an increase of 44.8% following a 58.1% increase in deposits, amounting to 210, 487.8 against 133,159.60 MBIF in 2016. This increase in resources is also linked to borrowings from the banking sector, which has more than doubled to 38,703.2 from 18,886.8 MBIF in June 2016. Equity increased by 13% in 2017, amounting 80,390.8 against 70,919 MBIF in 2016.

[10] Data for microfinance are reported bi-annually. Data used relate to the period ended in June 2017

Figure 16: Distribution of MFIs resources



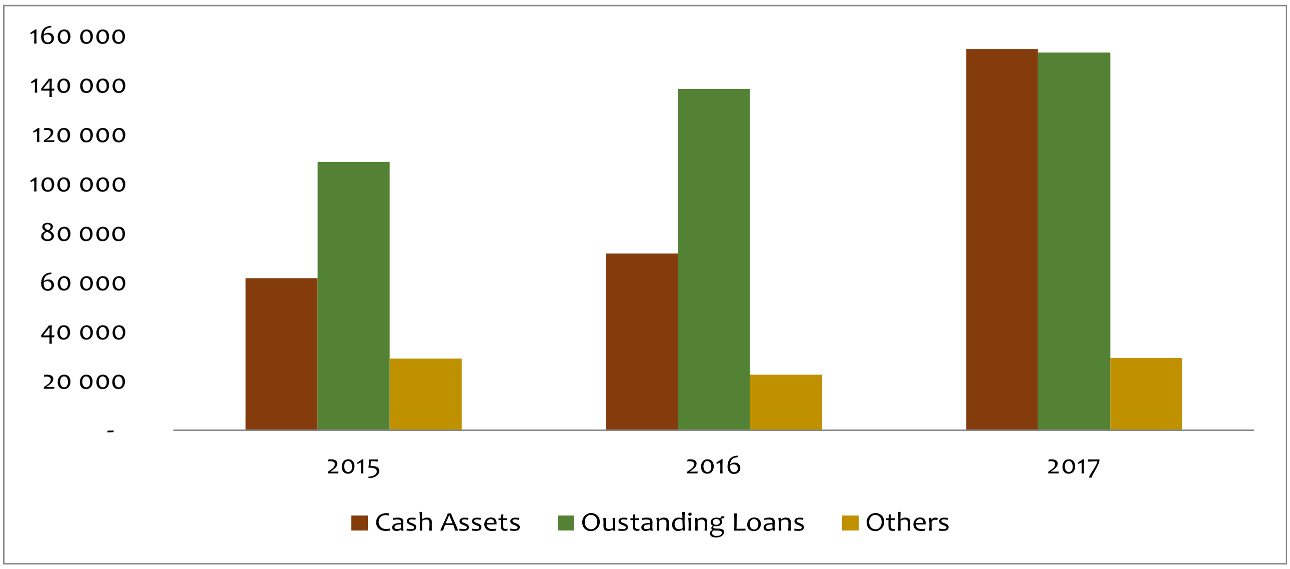
Source: BRB

Deposits collected by MFIs do not allow them to satisfy all loans demand. To supplement these resources, MFIs resort to borrowing from the banking sector at a high-cost. According to the regulation[11] of microfinance activities in Burundi, MFIs are required to keep reserves of 20% from the net income, to be reinvested without any limitation of duration and amount. In this regard, MFIs comply with this regulatory requirement.

2.3.3. Assets

Assets increased by 45% year-to-year, as a result of the 11% increase in loans, from 138,515.4 to 153,239.4 MBIF in 2017. The loans share in MFIs total assets declined from 59% to 45% due to the very significant increase in liquid assets.

Figure 17: Evolution of MFIs Assets

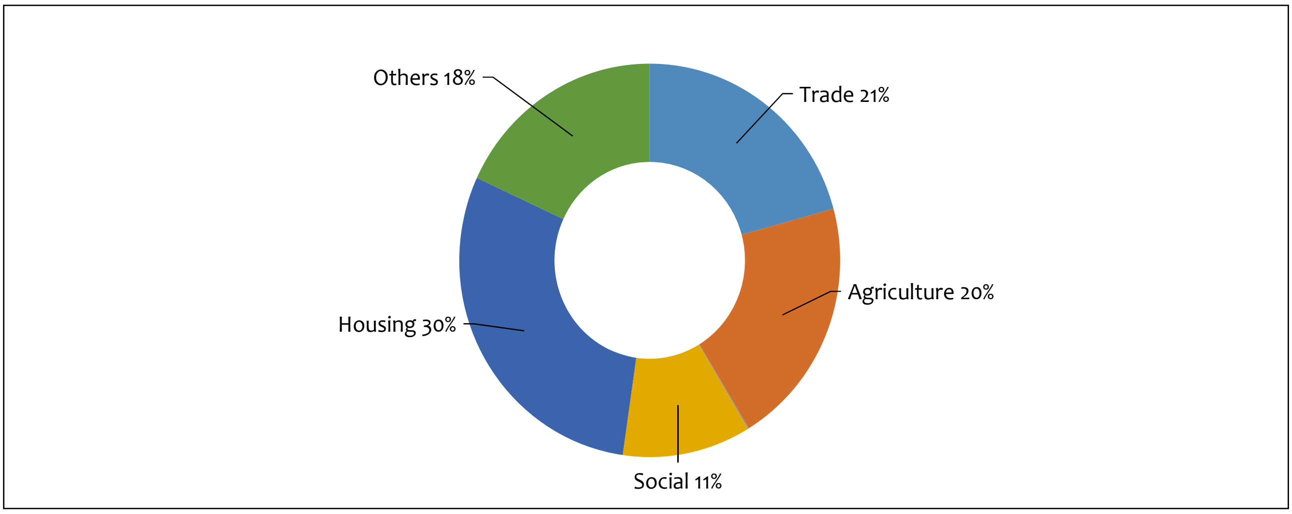


Source: BRB

[11] Décret n° 100/203 du 22/07/2006, portant réglementation des activités des microfinances au BURUNDI.

The loans distribution by sector of activity shows that the housing (30%), trade (21%), agriculture (20%) sectors are the most financed by MFIs.

Figure 18: Distribution of Loans by sectors



Source: BRB

2.3.4. Portfolio Quality

The microfinance sector›s loan portfolio quality slightly improved in 2017. Indeed, the default rate was 7.4% at the end of June 2017, compared with 8.5% in 2016, while the global standard is 5%. The provisioning rate for unpaid loans stood at 50% at the end of June 2017 compared to 36% in the same period of 2016.

Table 15: Microfinance sector›s loan portfolio quality

In MBIF	2015	2016	2017	change in %
Outstanding Loans	108,899	138 ,515	153 ,239	10.6%
Unpaid loans	10,431	11, 761	11, 303	-3.9%
Provisions	4 ,579	4 ,246	5 ,628	32.6%
Provisioning rate	44%	36%	50%	
Default rate	9.6%	8.5%	7.4%	

Source: BRB

2.3.5. Capital Adequacy

In 2017, equity amounted to 80,390.28 compared to 64,654.3 MBIF in 2016, an increase of 24.3%. For a regulatory standard of 10%, the sector›s capital adequacy ratio was 24 versus 27% the previous year.

2.3.6. Liquidity of the sector

The microfinance sector has a very comfortable liquidity ratio above the regulatory standard of 15%. However, five MFIs remain below this standard. The loan/deposit ratio is 75.5% for a standard of 100%.

2.3.7. Profitability of the sector

The sector's consolidated net income increased by 1.8%, amounting to 5,423.6 at the end of June 2017 against 5,326 MBIF during the same period of 2016. The return on equity decreased, and was at 6.7% compared to 8.2% in the same period of 2016. At the same time, the return on assets decreased from 2.3% in June 2016 to 1.6% at the end of June 2017.

2.3.8. Operational risk

The microfinance sector operational risk is mainly related to the insufficient Management Information Systems (MIS) and the weakness of internal control and governance. Indeed, some MFIs do not have a powerful MISs; some still handle their operations manually. In addition to the insufficient MISs, the internal control system within these institutions is incomplete.

2.3.9. Exposure to the banking sector

Relationships between MFIs and the banking sector have developed and constitute a potential risk of contagion.

Transactions with the banking sector include deposits and investments within banks as well as borrowing from the banking sector. Indeed, borrowings from banks and financial institutions in 2017 amounted to 38,703.2 MBIF against 18,886.8 MBIF in 2016. In addition, the MFIs deposits and investments in the banking sector amounted to 68,321 MBIF in 2017 against 71,707 MBIF in 2016.

The main risk inherent to decentralized finance specific to the microfinance sector is that, in the event of the bankruptcy of an MFI, there is a loss of confidence in the financial system.

2.4. Insurance sector

The insurance sector is one of the financial system sectors with 6.2% of the total assets of the financial system. Indeed, it is an important sector that interacts with all sectors of the national economy and more specifically with the financial system via deposits, investments, loans and even shareholding.

2.4.1. Structure of the sector

Eight insurance companies operate in the Burundi, six of which have domestic shareholders and two are owned by foreign shareholders. Following the Insurance Act[12] requirements, five companies have already adopted the separation of the life and non-life insurance bringing the number of insurance companies to thirteen.

Table 16: Penetration rate

	2011	2012	2013	2014	2015	2016	2017
GDP(in Bn BIF)	2,989	3,366	3,813	4,185	4,423	4,759	5,39
Turnover (Bn BIF)	26	29	34	36	37	37	40.2
Penetration rate (%)	0.86	0.86	0.88	0.86	0.83	0.78	0.74

Source: ARCA

[12] Loi n° 1/02 du 07 Janvier 2014 portant code des assurances du Burundi.

Compared with 2016, the penetration rate decreased by 0.04 percentage points in 2017, from 0.78% to 0.74%. It remains low compared to the African (2.8%) and global (6.1%)[13] average. This rate is mainly driven by non-life insurance products, which accounts for 67% of the sector's overall turnover.

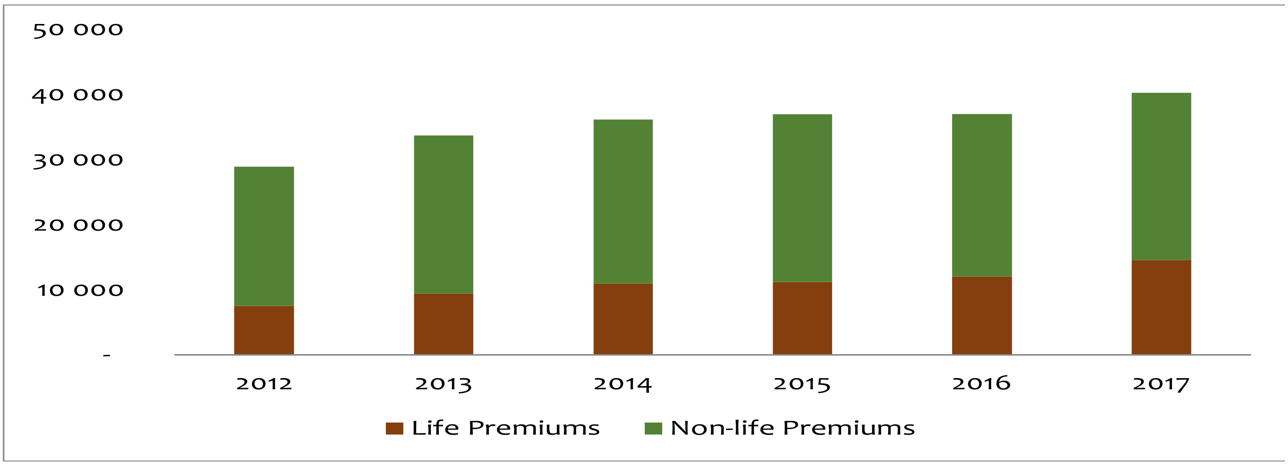
2.4.2. Sector Performance

The insurance sector assets increased from 120,976 in 2016 to 160,547.3 MBIF in 2017, an increase of 33% against 12.1% the previous year. This increase is essentially driven by the licensing of another company, as well as the separation of life and non-life insurance which has increased the number of companies.

A. Evolution of premiums

The premiums collected amounted to 40.2 billion BIF in 2017 against 36.9 billion BIF in 2016, an increase of 9%. They are respectively split between life insurance (36% versus 33% in 2016) and non-life insurance (64% versus 67% in 2016).

Figure 19: Evolution of Premiums by type of insurance (in MBIF)



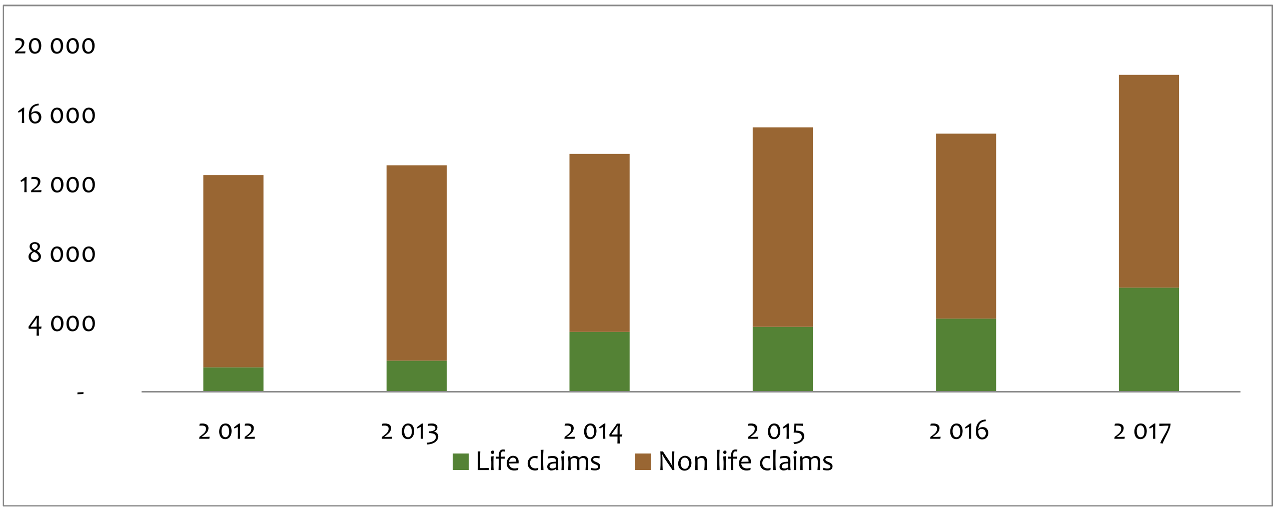
Source: ARCA

B. Claims

Life insurance claims in 2017 amounted to 6 billion BIF against 4 billion in 2016, representing a growth of 42%, while non-life claims amounted to 12.3 billion vs. 10.7 billion, an increase of 15 %. Indeed, the share of life insurance is increasing significantly as it went from 28% to 33% from 2016 to 20017, while that of non-life insurance is declining from 72% at 67% over the same period.

[13] AKI Insurance Industry Annual Report 2015

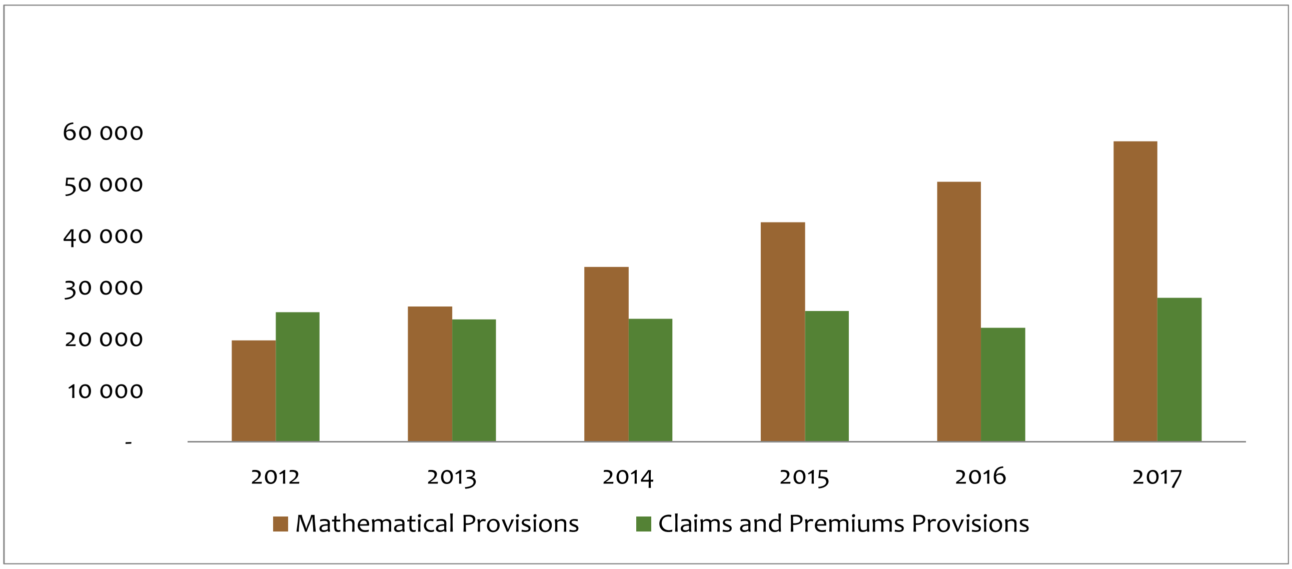
Figure 20: Evolution of the sector claims by types of insurances (MBIF)



Source: ARCA

Regarding profitability, the return on assets and the return on equity significantly decrease from from 2.1% in 2016 to 1.5% in 2017 and from 11.7% in 2016 to 4.7% in 2017, respectively, due to the disproportionate increase of assets and equity in relation to the sector›s income. This is due to the entry of a new company, as well as the licensing of new life and non life insurance companies.

Figure 21: Evolution of technical provisions by types of insurances



Source: ARCA

The sector technical provisions increased by 19.8% in 2017 compared to 7% in 2016 in connection with the significant increase in life insurance provisions which rose from 50.4 to 58.2 billion, an increase of 15.6%; whereas non-life insurance claims and premiums increased from 22.1 to 27.9 billion BIF. The sector makes more provisions in life insurance than in non-life insurance to cover claims reimbursement.

3

CHAPTER 3: MONEY MARKET AND MARKET INFRASTRUCTURE

The year 2017 was characterized by a slight improvement in bank liquidity following the recovery in economic activity mainly driven by the tertiary sector. Indeed, the economic growth rate remained at 2.8% in 2016 and 2017. Despite this improvement in bank liquidity, the Central Bank's interventions increased from 89,000 to 159,990 MBIF from 2016 to 2017. In the same year, foreign exchange reserves held by the banks increased by 18.4% from 291,920.8 MBIF to 345,522.8 MBIF.

Regarding market infrastructures, their operation during the year 2017 did not cause any disruption to financial stability. Thus, the clearing system worked smoothly as evidenced by the weak rejection of payment orders. In addition, the default rate on reimbursement of advances and marginal loan facilities granted to participants was low.

However, the functioning of the money market and market infrastructures continues to be exposed to concentration risks in view of the limited number of participants. Indeed, liquidity in this market is concentrated in two large banks. The failure of any of these banks would have severe effects on financial stability and the risk of spread on the real economy is high.

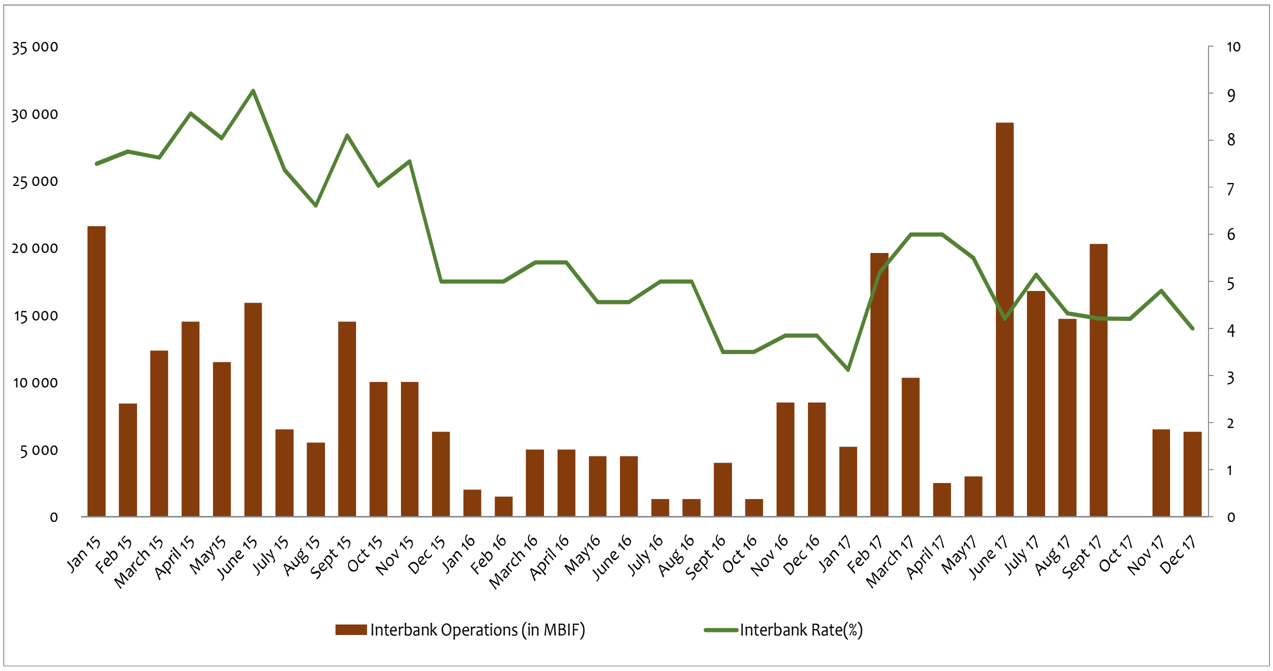
The money market is dominated by Treasury securities whereby the main investors are banks and pension funds.

3.1. Money Market

The refinancing of banks from the Central Bank increased in 2017 to 159,990 against 89,000 MBIF at the end of 2016. The volume of amounts traded on the interbank market increased from 28,100 to 2016 at 115,450 MBIF.

The easing of the refinancing conditions allowed the banks to increase their subscription to Treasury securities whose outstanding amount increased from 438,079.6 to 643,490.6 MBIF between December 2016 and December 2017, i.e. an increase of 46, 9%.

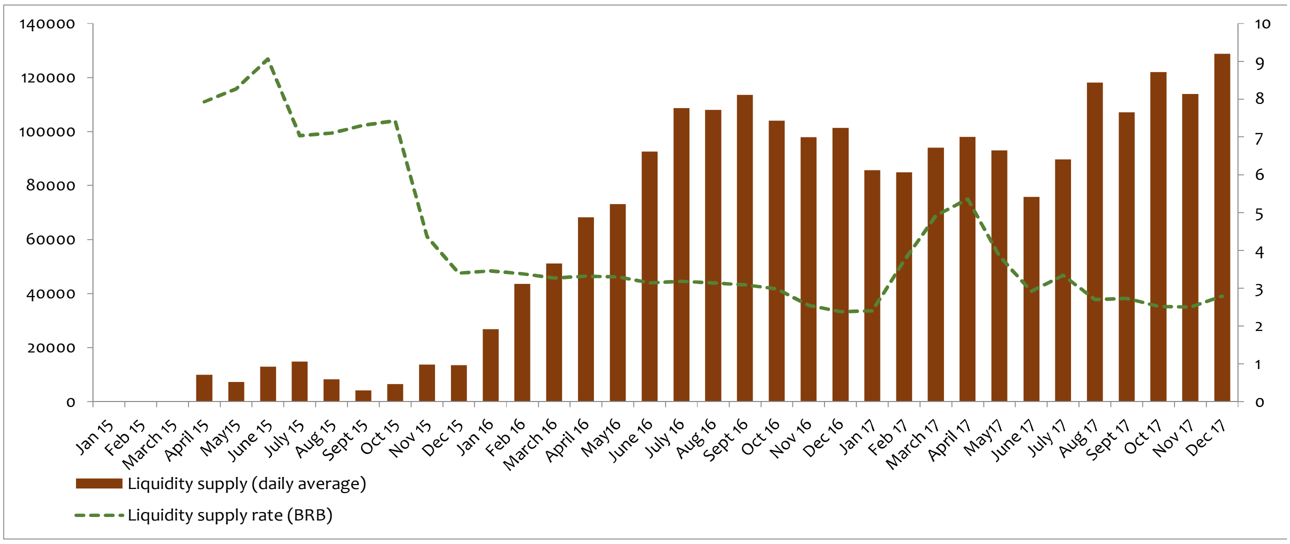
Figure 22: Interbank market operations



Source: BRB

Due to the moderate market development, bank liquidity remains unequally distributed. In 2017, the liquidity supply recorded a higher concentration compared to the other money market sections and remains exclusively dominated by few banks.

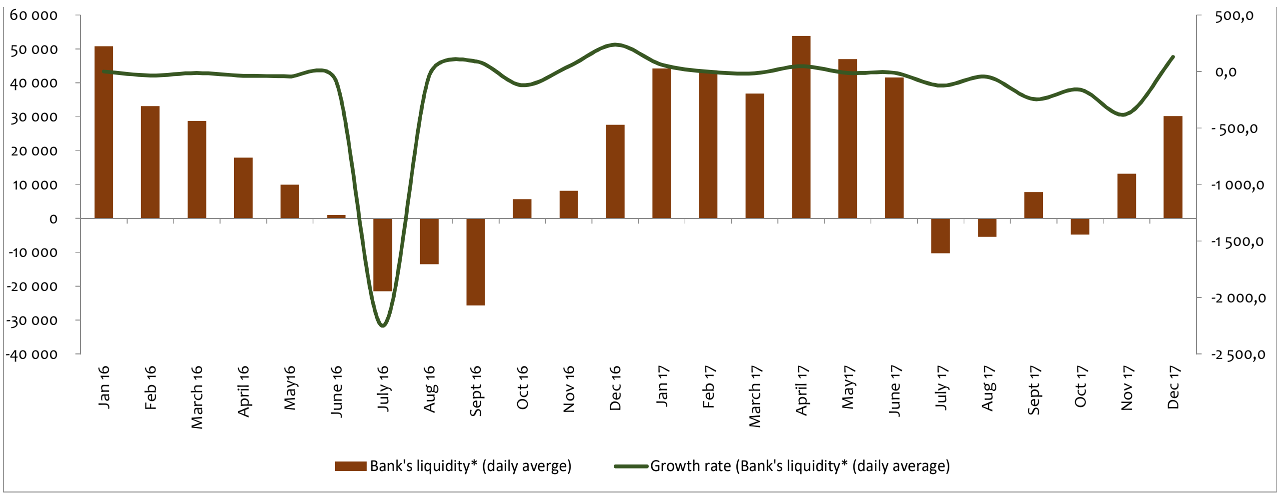
Figure 23: BRB refinancing



Source: BRB

Collaterals for refinancing increased in 2017. Indeed, the share of collateral raised by banks in relation to their eligible assets increased, with a monthly average of 26 compared to 24 per cent in 2016. The liquidity improved slightly in 2017 compared to 2016.

Figure 24: Evolution of Bank's liquidity (daily average)

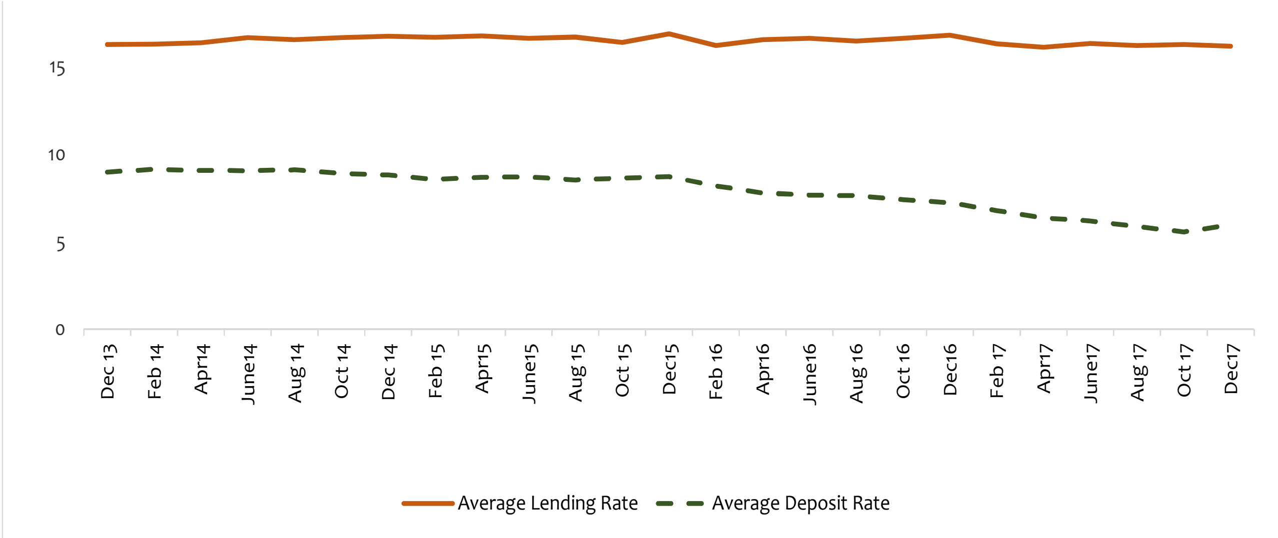


Source: BRB

In 2017, the average interest rate of loans distributed decreased by 0.61 percentage points to 16.16% from 16.77% at the end of the previous year. Although there was a decline in interest rates on term deposits (6.94 vs. 7.60%) and demand deposits (3.18 vs. 4.55%), the average deposit rate also declined year-to-year, at 5.96 vs. 7.21% in 2016. On year-to-year basis, this decrease was through all categories of deposits.

In addition, the gap between lending and deposit rates remains high and continues to widen, hovering around an annual average of 10.2 percentage points.

Figure 25: Average Lending and Deposit Rates



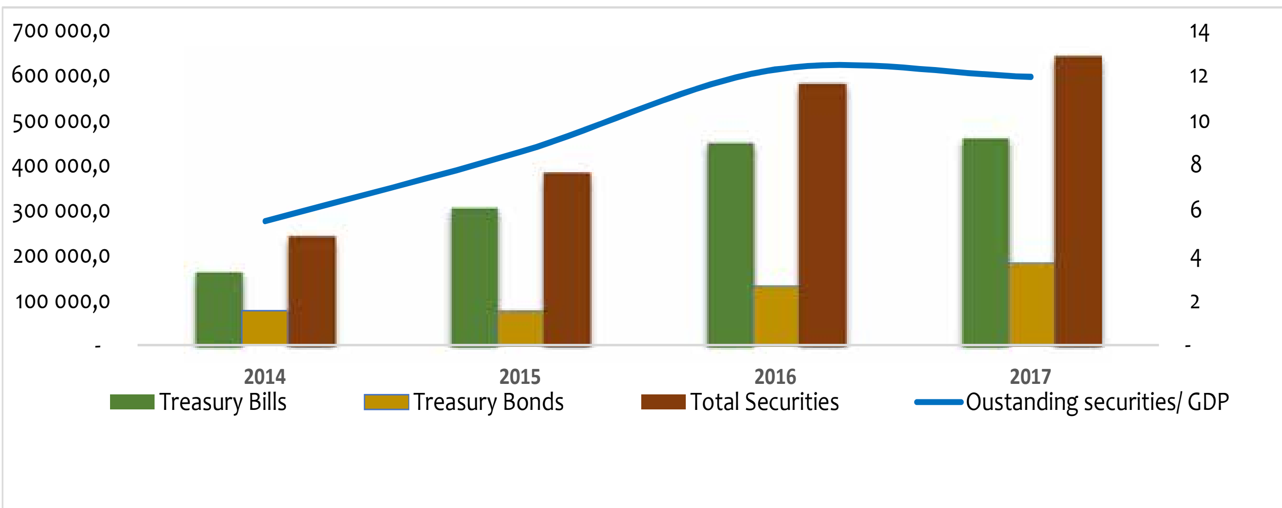
Source: BRB

Lending and deposit interest rates vary slightly over time. Nevertheless, in 2017, deposits interest rates have a downward trend while lending rates have kept the previous year trend.

- **Treasury securities market**

The outstanding amount of Treasury securities (Treasury bonds and bills) reached 643,490.6 against 438,079.6 MBIF at the end of 2016, i.e. an increase of 46.9%. The share of treasury securities held by the banking sector as a percentage of GDP is 12.4% in 2017 compared to 9.2% in 2016. Banks have experienced an exponential increase in shares of Treasury securities in their balance sheets since the last two years.

Figure 26: Evolution of outstanding securities



Source: BRB

A strong interconnection is observed between the financial sector and the Treasury securities market. Thus, the share of treasury securities held by banks and financial institutions account for 77.6%, i.e. nearly 643,490, 6 MBIF. Retirement and social security institutions, insurance companies and individuals account for 22.4%, i.e. nearly 146,665.7 MBIF. In the absence of a secondary securities market, the primary market remains the only alternative investment for banks, due to its safety and risk aversion.

3.2. Market Infrastructure: Payment and Settlement System

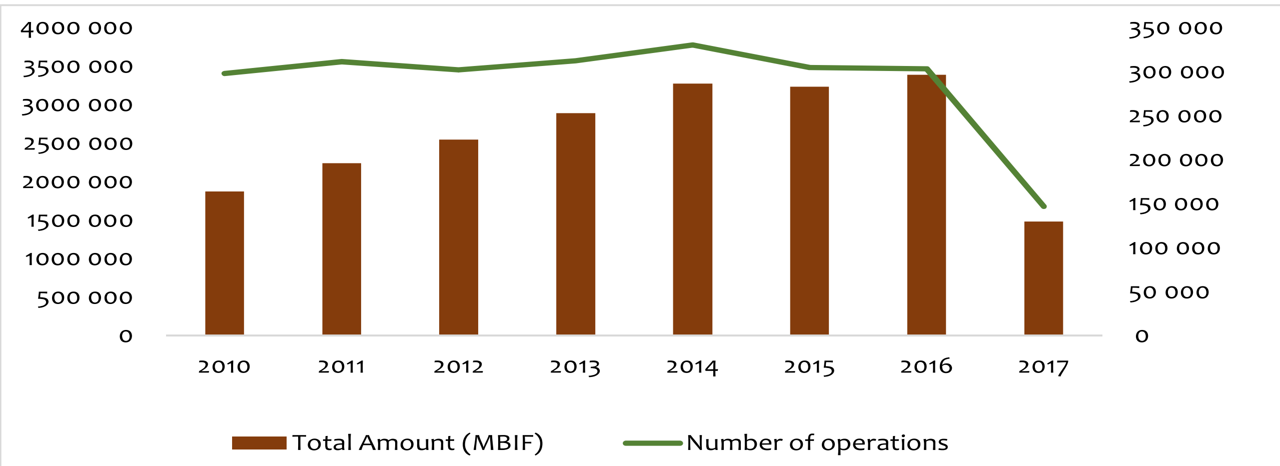
A well-functioning payment infrastructure is a pillar for the financial system stability and it is for this reason that close monitoring is necessary to mitigate any malfunction. These infrastructures are therefore essential for maintaining financial stability because of the systemic risks they may cause when they fail. Currently, three components of the payment system exist. These include the Automated Clearing House (ACH) component, the RTGS (Real Time Gross Settlement) and the Central Securities Depository (CSD). These are the main key functions of the financial system through which financial transactions of payment, settlement and delivery are processed. In 2017, the first two were fully operational while the third was not yet operational. A financial component is also ongoing for the interoperability and clearing of credit card transactions.

Indeed, these infrastructures concentrate significant financial and / or operational risks. The interdependencies among stakeholders in the different components must be scrutinized to avoid potential disruptions that may create suspense and / or delays in the execution of operations in the system.

3.2.1. Clearing House Activities

At the end of 2017, manually processed transactions in the clearing house decreased by 51.6% compared to the previous year. The aggregate value of these orders also decreased by 56.3%, from 3,387.8 in 2016 to 1,479.6 billion BIF. The reason being that some of the clearing operations are now done automatically in the ACH and RTGS systems.

Figure 27: Clearing House operations



Source: BRB

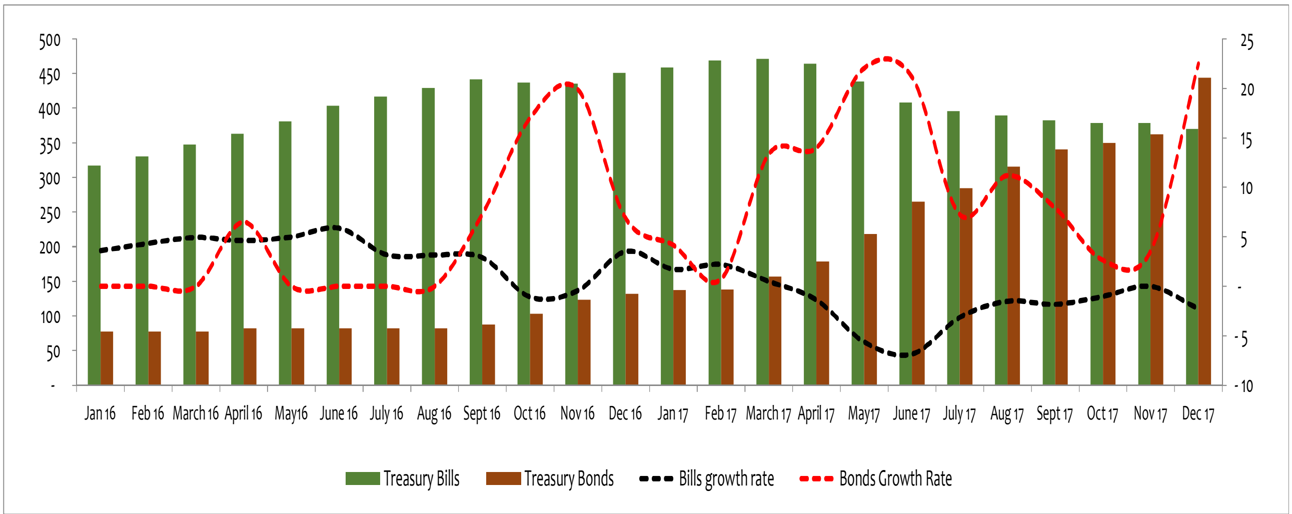
The efficiency of the ACH infrastructure is evidenced through the overnight facilities granted by the Central Bank to banks to avoid the cessation of payments and blockages in order to ensure the proper functioning of the system.

The Central Bank's overnight facilities for 2017 amounted to a daily average of 5,614.8 compared with 489.8 MBIF in 2016 following the increase in banks' liquidity needs.

3.2.2. Delivery and Settlement Securities System

In the absence of an operational secondary securities market, the BRB provides the central functions for the smooth running of transactions on the Treasury securities market (Treasury bills and bonds) through the CSD. Indeed, the BRB is the sole central securities depository and keeps the securities registered in the account and manages the settlement / delivery system for all transactions made. The performance and reliability of this system is a fundamental element for the proper functioning of the financial system and in the assessment of systemic risks because of the volume of financial assets and flows processed through this system.

Figure 28: Evolution of Treasury Securities in CSD



Source: BRB

3.3. Currency Circulation

Non-bank currency circulation increased by 15.2% in 2017, from 267,512.5 to 308,146.5 MBIF.

The cash circulation consists of 99.47% of bank notes and 0.53% of coins.

4

CHAPTER 4 : PRUDENTIAL REGULATION FRAMEWORK

Following the recent macroeconomic and financial developments, the BRB has strengthened the legal and regulatory framework. It has a new banking law that meets the standards and requirements of international best practices. This law lays the basis for the development of regulations to strengthen the supervision of the financial system on a legal basis in line with international best practices.

It is in this perspective that the BRB undertook a vast project of reforms aimed at complementing the traditional microprudential regulation centered on individual risks, through macroprudential regulation that takes into account the risks as a whole, centered on systemic risks.

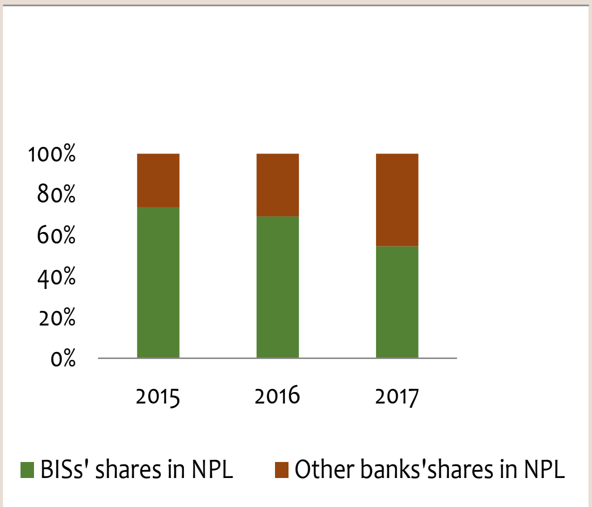
Innovations to strengthen the financial stability supervision and the Central Bank mandate in decision-making have been introduced in the new banking law. For instance, provisions on the depositors' protection, the establishment of a deposit guarantee fund, the management and resolution of banking crises, the treatment of systemically important banks and banks in difficulty have been incorporated.

With these innovations, the BRB Directorate of Supervision, Financial Stability and Financial Inclusion undertook a review of all the regulations to be issued in 2018.

Box 3: Management of systemically important banks.

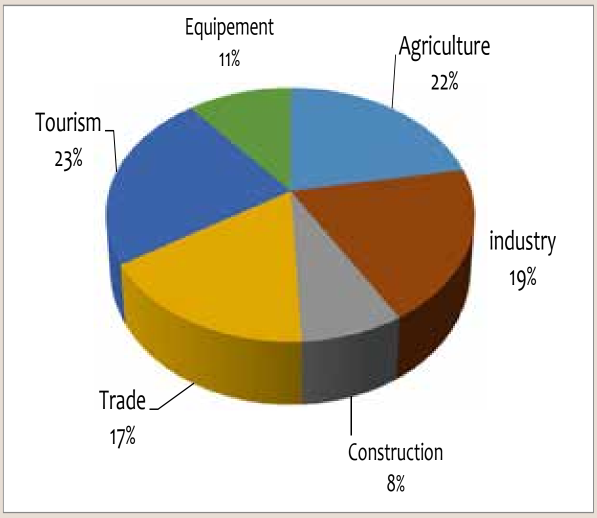
The Basel Committee on Banking Supervision (BCBS) has issued twelve principles that constitute global systemically important banks (G-SIBs) assessment methodology.
Given their size and their weight in the economy, systemically important banks require close prudential surveillance since their difficulties are likely not only to disrupt the financial system but also to harm the real economy.

Figure 29: SIBs Non-performing Loans



Source : BRB

Figure 30: Share of SIBs par sector



Source : BRB

The principles developed by the Committee for SIB give national authorities the power to take into account the structural features of their financial system and to impose stronger requirements according to the specificities of the country and the banking sector.

Assessment Methodoly

Principle 1: National authorities should establish a methodology for assessing the degree to which banks are systemically important in a domestic context.

Principle 2: The assessment methodology for a D-SIB should reflect the potential impact of, or externality imposed by, a bank's failure.

Principle 3: The reference system for assessing the impact of failure of a D-SIB should be the domestic economy.

Principle 4: Home authorities should assess banks for their degree of systemic importance at the consolidated group level, while host authorities should assess subsidiaries in their jurisdictions, consolidated to include any of their own downstream subsidiaries, for their degree of systemic importance.

Principle 5: The impact of a D-SIB's failure on the domestic economy should, in principle, be assessed having regard to bank-specific factors: Size; Interconnectedness; Substitutability/financial institution infrastructure (including considerations related to the concentrated nature of the banking sector); and Complexity (including the additional complexities from cross-border activity).

Principle 6: National authorities should undertake regular assessments of the systemic importance of the banks in their jurisdictions.

Principle 7: National authorities should publicly disclose information that provides an outline of the methodology employed to assess the systemic importance of banks in their domestic economy.

Higher loss absorbency

Principle 8: National authorities should document the methodologies and considerations used to calibrate the level of high loss absorbency.

Principle 9: The high loss absorbency requirement imposed on a bank should be commensurate with the degree of systemic importance.

Principle 10: National authorities should ensure that the application of the G-SIB and D-SIB frameworks is compatible within their jurisdictions.

Principle 11: In cases where the subsidiary of a bank is considered to be a D-SIB by a host authority, home and host authorities should make arrangements to coordinate and cooperate on the appropriate high loss absorbency requirement, within the constraints imposed by relevant laws in the host jurisdiction.

Principle 12: The high loss absorbency requirement should be met fully by Common Equity Tier 1 (CET1).

4.1. Financial Stability Institutional Framework

The financial system soundness is one of the key mandates of the Central Bank. The macroeconomic environment is regularly analyzed in order to early identify the systemic risks likely to disrupt the functioning of the financial system by taking into account these as a whole.

In addition to the Financial Stability Department, a Technical Committee on Financial Stability (Comité Technique de Stabilité Financière: CTSF) and an Internal Financial Stability Committee (Comité Interne de Stabilité Financière: CISF) are functional and the latter is the decision-making body for macroprudential policy.

Based on the macroeconomic and financial diagnosis produced by the Technical Committee on Financial Stability, the Internal Committee makes the necessary decisions to avoid the realization of identified systemic risks. Steps have been taken to set up a National Financial Stability Committee (Comité National de Stabilité Financière: CNSF) and a Memorandum of Understanding draft has already been elaborated and shared with the other regulators.

4.2. Prudential measures

In order to allow the functioning of the financial system and to reinforce its soundness, the Central Bank to adopt consequent measures taking into account the economic context, the equity decrease of some banks and the liquidity needs of the banking sector. Therefore, several measures to ease the refinancing conditions have been taken since 2015 and the BRB has maintained them in 2017. These include:

1. Intensification of liquidity supply open-market operations to provide banks with liquidity at low interest rates, increasing both the volume and the frequency of interventions;

2. The introduction of new maturities of 14 and 28 days for liquidity supply, which has helped to inject more stable liquidity;

3. The exemption from Article 10 of the Instruction on the Establishment and Management of Collateral for Loans to Banks and Financial Institutions, under which medium and long-term claims on non-financial enterprises, presented in refinancing, are now analyzed on the basis of their amortization schedules in comparison with outstanding loans on the risks statement, instead of the debtor companies' financial statements;

4. The mobilization of assets-backed to the unpaid loans on hotels, industries, hospitals, schools, universities and coffee companies, with a maximum number of default payment of twelve (12) months for loans with outstanding amounts of at least 100 million BIF;

5. The requirement for some banks not to distribute the profit and to strengthen the equity.

4.3. Bank's regulation and supervision framework

4.3.1. New banking law

The banking activities are ruled by the new law n ° 1/17 of August 22, 2017. This new banking law contains relevant provisions allowing a follow-up of the macroprudential supervision in order to contribute to the maintenance of the financial system stability.

Thus, the Central Bank detains the latitude to impose tighter prudential standards to an institution with a particular risk profile. By such a provision, institutions with particular risk profiles, including systemically important banks, will have to comply with prudential standards designed to encourage them to be more cautious as provided for by the Basel Committee. The latter requires an additional capital buffer for systemically important banks in order to strengthen their financial base because their bankruptcy generates costly adverse effects for the economy of a country. This presupposes upstream work of clear identification of systemically important banks with an appropriate methodology.

The same law introduces mechanisms for monitoring and strengthening financial stability through the creation of a deposit guarantee and resolution fund. Its implementation is necessary not only for the depositors protection in the event of bankruptcy of any licensed institution; avoiding panic at the announcement of the difficulties of an institution affiliated to the said fund but also to strengthen public confidence in financial institutions.

The key reform in the new law is the management of institutions in difficulty, with the assignment to the Central Bank, powers that were reserved to the trade court in terms of recovery, forced liquidation and debt recovery of the subject institution whose leaders are guilty of serious misconduct are indebted to him.

The abandon of court proceedings in the management of financial institutions in difficulty is justified in particular by the desire to give these specific operations the efficiency and speed required, to protect the depositors and third parties interests and thus to ensure the financial system stability by avoiding systemic risk.

In the case of a systemically important institution in difficulty, the new banking law allows the Central Bank itself to initiate the restructuring process to limit the negative contagion effects that such an institution would cause on the financial system stability and the economy. This is part of crisis management and resolution to avoid a systemic crisis.

4.3.2. New regulations on internal control and risk management

Two important regulations were signed in 2017, the regulation n ° 7/2017 on internal control and the regulation n ° 23/2017 on the management of risks in financial institutions. These two regulations, by mitigating the risks at the micro prudential level, contribute significantly to the safeguarding of financial stability through their relevance in the conduct of operations and risk management in banks.

The risk management regulation reinforces the risk management system, in particular by increasing the Board of Directors' accountability in the determination of the nature and the level of risk to the activities and the policy implemented. It set up risk management strategies but it also assesses crisis situations and appropriate measures to be taken.

The circular on internal control reinforces the internal control system by indicating the responsibilities in its implementation. Internal control is a very important function in banks as it avoids or mitigates risks in daily operations.

Box 4: Towards the implementation of a regional financial stability framework.

Through East African Community Monetary Affairs Committee, the Subcommittee on Banking Supervision and Financial Stability has put in place two technical working groups to work on the key aspects of financial stability. Those are:

- Technical working group on Banking Crisis Management with the task of proposing and thinking on the development of a regional banking crisis management framework
- Technical working group on macroprudential analysis, stress tests and statistics at regional level.

In 2017, the Central Bank of Burundi took part in the work of the two technical working groups.

In pursuit of the financial stability surveillance mandate, important recommendations emerged from this regional work. In addition to the signature of memorandums of understandings between the all regulators in the region and the creation of a Financial Stability Committee at national level, each country will have to have a contingency plan to deal with institutions in difficulty. Regional risk reports, stress testing exercises and macro-prudential policies at the regional level will be developed.

Crisis management plans must make it possible to intervene and manage the institutions in difficulty in consideration of the financial system components (financial institutions, payment institutions, microfinance institutions, insurance companies, social security institutions, capital market etc.) and a timely coordination is required.

Mechanisms to promote financial stability such as deposit guarantee funds need to be put in place with harmonized operating rules at regional level.

Stress test exercises are conducted on a regional level to ensure the resilience of cross-border banks to avoid or minimize the contagion risk. All these projects involve a synergistic work of various actors first at the national level and then at the regional level.

4.4. Microfinance Institutions Regulation

In 2017, following the new banking law promulgation that also covers microfinance institutions (Article 1 & 3), the BRB undertook a project of reviewing the existing microfinance sector regulatory framework. This review affects the current decree and regulations governing microfinance institutions.

The Bank has also prepared draft regulations on the governance of microfinance institutions and consumer protection. In order to improve the monitoring of the microfinance sector situation, the BRB has introduced a new monthly prudential reporting format that focuses on the liquidity ratio and the breakdown of loans and deposits to enable better risk prevention inherent to the financial intermediation activities of microfinance institutions.

According to Article 1 of the same law, the Bank set the foundations for a new and adequate regulatory framework for the two new institutions subject to the new banking law, namely the Régie Nationale des Postes and the Fonds de Microcrédit Rural (FMCR).

4.5. Regulation of Payment and Cash Transfer Institutions

In 2017, with a view of improving the payment institutions regulation, Regulation No. 001/2017 on payment services and the activities of payment institutions with the Regulation No. 002 / 2017 relating to commercial agents in banking and payment services were signed. These two texts set the rules for commercial agents and instant cash transfer transactions.

In terms of operational activities, the BRB has authorized three telecommunication companies to offer digital financial services. For joint control of these companies, a Memorandum of Understanding between the Agence de Régulation de Contrôle des Telecomunications ARCT) and the BRB was signed in 2017.

In addition, two (2) Instant Money Transfer Institutions have been approved by the Bank during 2017 to provide money transfer services.

Finally, the Bank has licensed two microfinance institutions for providing digital financial services.

4.6. Insurance companies regulation

The Insurance Sector is supervised by the Insurance Regulation and Control Agency (Agence de Régulation et de Contrôle des Assurances: ARCA). Since its creation in 2013, several regulations have been initiated to strengthen prudential supervision. Thus, the supervisory authority focused on various decisions related the temporary and final licensing of companies after the separation of life and non-life insurance, as well as two draft regulations in perspective, namely the one related to the appointment of the insurance companies managers, a draft regulation on the insurance market conduct and a strategic plan which guidelines the future of the sector.

4.6.1. Insurance companies temporary and final licensing

According to the law n ° 1/02 of January 7th, 2014 concerning the insurance code in Burundi, all the insurance companies must adopt the separation between the life and non-life products. Thus, after assessing whether the insurance companies complied with the separation provisions, the supervisory authority granted them the final licenses except for the new companies. Thus, these decisions will make it possible to apprehend the risks related to each product, in order to be able to take the strategies related to each type of risks.

4.6.2. Managers Appointment Regulation

This regulation is part the insurance sector governance in accordance with the Insurance Code provisions in Article 288. Thus, the insurance companies managers must fulfill conditions related to their training and also, to integrity to strengthen governance.

4.6.3. Analytical tools and Institutional capacity building

In order to strengthen the insurance sector supervision, the regulatory authority has set up a strategic plan from 2017 to 2022. This strategic plan includes the guidelines for risk management, the audit, internal control, as well as capacity building.

OUTLOOK

In 2017, the risks to financial stability remained moderate and the results of the stress test showed that the banking sector has a sufficient capital buffer to withstand potential shocks. Financial stability outlook continue to improve thanks to the progressive recovery of economic activity. This recovery helped to improve the performance of the banking sector and net banking income (NBI) increased by 16.4%.

For the year 2018, the banking sector performance should improve, stimulated by the recovery in economic activity (GDP growth of 4.0% in 2018 compared to 2.8% in 2017). Nevertheless, two main risks continue to weigh on this outlook. First, almost half of banks have average non-performing loans above 14.0% and weak loans growth could affect banks' profitability. Secondly, the volume watch classified loans remains high and this could migrate to the lower classes; leading to an increase in provisions and a decrease in banks' equity.

Another challenge that could be faced by the financial system in the short term is related to the progressive rise in oil prices that could further affect foreign exchange reserves.

In addition, with a view to strengthening the financial system supervision, the Central Bank has adopted a new banking law in line with international standards. Thanks to which its mandates in depositor protection, crisis management and resolution of banking crises, management of systemically important banks as well as troubled banks have been strengthened. This will lead to the updating and adoption of new regulations that may lead to more efforts to comply with them.

5 APPENDIXES

Table 1: Financial Soundness Indicators (EAC)

		Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Capital/Risk weighted assets	BURUNDI	22.3	21.9	21.3	18.1	17.3	20.5	19.5	19.2	18.1	22.3	20.8	20.2	22.7	23.3	21.9	21.1	23.2
	KENYA	23.2	18.2	17.6	17.8	19.2	19.2	18.9	18.7	21.7	18.8	18.1	18.3	18.9	18.9	18.0	18.8	18.5
	TANZANIA	18.1	19.3	17.5	17.6	17	18.6	17.3	18	18.9	19.5	18.6	18.6	19.1	20.2	19.7	20.2	19.7
	UGANDA	22.1	23.6	22.8	22.5	22.2	23.2	21.2	20.1	21	21.8	21.7	22.5	19.8	22.9	23.6	23.8	23.2
	RWANDA	23.1	22.6	23.6	24.8	24.2	25.9	24.3	24.2	22.2	24.9	23.3	22.2	23.1	21.2	20.8	22.3	21.4
Non performing loans/ Total loans	BURUNDI	9.9	10.1	11.3	11.2	10.9	12.1	13.1	14.1	17.9	18.3	18.5	19	14.7	13.2	11.5	14.1	14.7
	KENYA	5	5.7	5.8	5.5	5.5	5.8	5.7	5.4	6	7.8	10.5	8.2	11.7	9.5	9.9	10.4	10.6
	TANZANIA	5.1	8	6.6	7	6.6	5.9	6.5	6.3	8.6	9.5	9	8.2	9.6	10.3	11.0	10.6	12.5
	UGANDA	5.8	5.9	5.6	5.1	4	4.1	3.8	3.7	5.1	6.6	8.2	7.6	10.4	6.3	6.2	7.2	5.6
	RWANDA	5.9	5.8	5.3	5.3	5.2	5.7	5.5	5.8	6.2	6	7	7.4	7.1	8.1	8.2	7.7	7.6
Return on Equity (ROE)	BURUNDI	14.1	14.5	9.8	10.4	7.8	14.4	16.2	16.1	11.5	15.4	10.7	7.3	8.5	0.7	8.4	14.9	16.5
	KENYA	30.9	31.7	32.5	27.9	26.9	42.6	28.8	28.2	26.4	27.7	28	28.1	25.9	22.2	22.3	20.6	52.1
	TANZANIA	20.9	23.6	23.2	22.8	22.8	24.5	16	22.2	22.2	24.3	22.3	12.2	22.3	11.2	10.3	8.7	5.9
	UGANDA	18.5	20.2	17.8	19.9	22.2	20.1	22.3	23	22.6	25.2	19.4	22.5	14.7	8.3	10.2	8.7	16.4
	RWANDA	11.2	16.5	16.1	15.3	15.4	17.6	17.7	16.2	15.7	14.7	14	14.4	13.6	23.4	23.6	22.7	20.4
Return on assets (ROA)	BURUNDI	2.2	2.3	1.6	1.6	1.2	2.3	2.6	2.6	1.9	2.5	1.7	1.1	1.3	0.1	1.2	2.0	2.2
	KENYA	4.7	4.9	5	4.3	4.2	6.6	4.4	4.3	4	1.4	1.4	1.4	1.4	2.8	2.8	2.6	8.5
	TANZANIE	2.7	3.1	3	3	3	3.2	2.1	2.9	2.9	3.4	2.2	1.7	3.1	2.4	2.2	2.0	1.4
	UGANDA	3.1	3.3	2.9	3.2	3.6	3.3	3.6	3.7	3.6	4.2	3.2	3.8	2.4	1.4	1.7	1.5	2.7
		2.6	3.2	2.9	2.8	2.8	3.3	3.1	2.8	2.7	2.8	2.6	2.8	2.5	4.4	4.2	4.2	3.6

Source : FMI / FSI

Table 2: Financial Soundness Indicators for Banks

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CAPITAL ADEQUACY												
Core capital	26 462.9	40300.7	55722.8	78181.9	106404.4	136188.5	162524.4	189541.4	200630.6	210323.5	229217.6	224608.6
Total capital	44676.7	51304.3	67882.4	97880.4	126767	157829.8	185430.9	223415.7	231350.9	243523.4	265744	247559.8
ASSET QUALITY												
Non Performing loans ratio	17.41	16.95	22.56	11.34	8.96	6.91	7.71	9.4	11.11	16.91	12.1	14.7
Performing loans												
Normal	177151	190092	220436	233058	380854	533927	506820	592607	528871	300915	611508	638481
Watch	1426	1755	1837	5550	3072	4350	6278	7189	8768	37364	32131	41098.7
Non performants loans												
Doubtful	1680	1230	1589	698	2361	3703	7137	4821	8625	32811	33734	14031.8
Sub standards	2036	2093	2308	2165	2429	4730	4056	7591	6583	8472	6925	21644
Loss	33929	35837	60871	34931	34029	31329	39044	53400	75763	94149	50918	80237.7
Total NPL	37645	39160	64768	37795	38819	39762	50238	65812	90971	135433	91577	115913
PROFITABILITY												
Net Income	6616.7	11328.2	17538.7	20964.8	22550.7	33984.3	20705.9	18855.1	14066.1	22579.7	21863.2	35731.7
ROA	1.979	2.33	2.83	6.38	4.08	6.91	4.18	4.49	1.85	1.9	1.3	2.2
ROE	14.81	22.08	25.84	33.99	25.16	34.94	18.61	18.72	9.43	11.5	8.5	16.5
	32883.7	40999.4	52649.3	35170	51769	61814.6	71955.9	80686.8	81335	112289.5	90834.4	107678
Margin interest	N/A	N/A	N/A	23190.6	26424.2	33378.2	18070.1	35969.6	44373.9	32766.9	103534.5	71994.6
Margin on commission	18	17.5	16.7	16.5	15.85	15.29	15.67	16.24	16.71	16.85	16.77	16,16
Average lending rates	8.9	8.3	8.1	7.6	7.31	7.59	8.75	8.97	8.8	8.7	7.21	5,96
LIQUIDITY												
Liquid Assets	129064.9	173487.3	243276.5	310295.9	354622.8	312317.5	317691.7	420546.1	514743.3	493719.2	758972.1	285645
Liquid assets / Deposits	0.51	0.55	0.6	0.6	0.6	0.47	0.47	0.48	0.54	0.5	0.80	0.24
Loans/deposits ratio	0.81	0.74	0.75	0.65	0.76	0.87	0.95	0.84	0.88	0.81	0.68	0.59
MARKET												
Foreign currency loans	2424,8	458,9	2483	474.2	3025.2	3141	81.2	2315.8	36394.64	34634.1	23163.7	16958.3
Foreign currency deposits	49545.1	72865.2	106564.3	136350.7	145126.5	155089.7	185108.5	199349.5	225790.8	154231.8	180504.9	119675
Foreign currency assets	78191.5	103879.5	134577.5	160028.1	169608	157129	210111.3	218810.2	219025.9	260502.6	167374	187039.8
Foreign currency liabilities	46538.1	72865.2	78770.1	140381.3	150062.2	157869	203792.6	222629.7	252723.5	248580.5	180504.9	201694.8
Foreign currency loans/ Tier I	9.0	1.0	4.0	1.0	3.0	2.0	0.00	1.0	1.0	2.0	10.0	7.6
Foreign currency loans / Foreign currency deposits	0.05	0.01	0.02	0.003	0.02	0.02	0.69	0.01	0.01	0.03	0.13	0.14
Foreign currency assets/ Foreign currency liabilities	1.68	1.43	1.71	1.14	1.13	1	1.03	0.98	0.87	1.05	0.93	0.93

Source : BRB

Table3: GDP 2005 constant prices (in Bn BIF)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Primary Sector	493.5	509.3	461.7	470.8	465.3	472.8	466.3	476.3	516.4	497.9	488.0	495.5	489.8
- Food Crops	429.9	418.9	398.7	408.8	408.6	387.1	398.9	404.2	465.7	442.2	427.4	435.0	424.1
- Agricultural exports	17.0	40.9	19.3	29.3	13.9	32.8	14.3	19.3	16.6	18.4	21.3	18.0	17.7
- Coffee	8.7	36.0	13.9	22.5	4.8	23.7	5.7	9.8	2.6	3.2	4.9	4.0	5.5
- Tea	7.0	4.2	4.6	5.2	6.8	8.3	7.5	7.7	13.0	14.2	15.4	13.2	11.4
- Other agricultural exports	1.2	0.8	0.8	1.5	2.3	0.8	1.1	1.8	1.0	1.0	1.0	0.8	0.8
- Forest	9.3	8.9	9.2	7.2	6.2	10.7	11.3	10.2	11.2	11.9	13.4	15.1	16.7
- Livestock	34.1	35.3	32.1	22.4	33.7	38.5	38.6	39.0	20.2	22.4	22.5	23.4	26.9
- Fishing	3.3	5.2	2.5	3.1	3.0	3.7	3.2	3.6	2.6	3.0	3.4	3.9	4.3
Secondary Sector	204.6	215.6	233.5	244.9	267.0	270.6	275.7	290.2	297.3	315.7	290.2	295.5	290.0
- Extraction	10.4	10.2	9.6	6.9	7.4	7.3	8.3	9.0	9.5	8.4	7.9	7.8	8.5
- Industries	143.6	152.8	157.8	165.7	168.4	173.9	178.0	183.5	187.5	211.9	192.3	191.6	188.1
- agro-food industry	100.0	105.9	110.2	119.9	125.4	128.3	129.3	131.6	134.5	155.7	143.1	141.4	142.8
- manufacturing industry	43.6	46.9	47.6	45.8	43.0	45.6	48.7	51.9	53.0	56.2	49.2	50.2	45.3
- textiles industry	3.0	3.9	3.6	5.1	3.9	4.5	4.6	4.7	5.8	4.3	3.9	3.7	3.5
- Other manufacturing industry	40.6	43.0	44.0	40.7	39.1	41.1	44.0	47.2	47.3	51.9	45.3	46.5	41.8
- Electricity, gas and water	10.5	8.6	12.4	12.7	11.1	8.1	6.3	7.3	7.7	7.9	7.5	7.3	7.1
- Construction	40.2	44.0	53.8	59.6	80.2	81.3	83.0	90.4	92.5	87.5	82.5	88.9	86.3
Tertiary sector	411.0	441.7	515.8	549.9	579.4	612.8	655.6	701.3	721.1	784.4	829.2	867.1	899.8
- Trade	83.4	92.7	97.7	76.8	75.8	79.9	82.7	85.9	71.2	79.4	68.5	67.8	69.2
- Transport and communication	35.5	38.8	59.5	39.8	52.8	49.1	49.8	54.4	51.4	67.6	73.4	62.3	66.0
- Transports	30.8	34.1	42.7	23.4	29.5	24.0	17.5	17.7	14.4	15.6	16.8	13.1	13.4
- Postal services, Telecommunication, Internet	4.8	4.7	16.8	16.4	23.3	25.2	32.4	36.7	36.9	52.0	56.6	49.2	52.6
- Banks and Insurances	22.3	24.8	38.9	55.0	65.1	69.4	78.7	85.1	85.9	98.2	100.0	104.0	111.2
- Hotels, Restaurant and other services	190.6	180.0	151.7	160.3	130.6	131.2	133.9	136.2	138.0	124.9	114.0	117.5	118.3
- Public administration	59.8	69.8	111.6	140.8	168.7	160.3	180.5	200.9	228.2	272.9	298.9	346.2	372.2
- Education	32.4	44.5	53.5	67.7	77.0	133.4	162.8	187.2	188.1	195.6	209.1	219.5	230.4
- Health and social actions	8.1	5.7	4.5	4.3	5.6	7.5	10.8	12.3	12.8	13.4	14.0	17.8	21.0
- Group or individual activities	7.5	11.5	36.5	53.1	55.0	58.2	47.9	26.7	33.0	47.1	54.4	56.4	58.4
- domestic services	9.3	9.3	8.5	7.7	7.1	5.3	5.4	5.1	4.8	4.7	5.4	6.2	7.1
- SIFIM	-37.9	-35.5	-46.6	-55.7	-58.3	-81.7	-97.1	-92.5	-92.4	-119.4	-108.7	-130.5	-154.0
GDP at factor cost	1,109.1	1,166.6	1,211.1	1,265.5	1,311.6	1,356.2	1,397.6	1,467.8	1,534.7	1,598.0	1,607.4	1,658.1	1,679.6
Taxes	99.1	107.1	106.5	116.2	122.7	151.6	171.1	170.7	184.4	194.0	177.5	176.4	205.4
GDP at market price	1,208.2	1,273.7	1,317.6	1,381.7	1,434.4	1,507.9	1,568.7	1,638.4	1,719.1	1,792.0	1,784.9	1,834.5	1,885.0

Source : Ministère de la Bonne Gouvernance et de la Planification, Cadrage Macroéconomique du Burundi, June 2017

Table 4: Evolution of key macroeconomic indicators

	2013	2014	2015	2016	2017
GROSS DOMESTIC PRODUCTS AND PRICES					
Real GDP growth (in %)	4.9	4.2	-0.4	2.8	2.8
Inflation rate (Annual average)	7.9	4.4	5.5	5.6	16.1
EXTERNAL SECTOR					
Exports, f.o.b. (in millions of dollars)	94.0	131.8	120.1	109.4	147.5
Imports, C.I.F(in millions of dollars)	811.0	768.7	716.4	734.8	743.8
Exports volume (in tons)	57,207	79,580	85,499	84,613	93,124
Imports volumes (in tons)	809,077	798,246	629,916	880,458	822,520
Current account balance (in millions of dollars)	-250.2	-384.5	-373.3	-354.8	351.7
Exchange rate BIF/USD (period average)	1,555.1	1,546.7	1,571.9	1,654.6	1,765.1
Exchange rate BIF/USD (end of period)	1,542.0	1,553.1	1,617.1	1,688.6	1,766.7
Gross foreign reserves (in millions of USD, end of period)	321.2	317.3	136.4	95.4	112.9
Gross foreign reserves (months of imports of the following year)	4.2	4.2	2.3	1.5	1.7
MONEY					
Net foreign assets (MBIF)					
Domestic loans (in MBIF)	229,756.1	180,525.3	-75,870.1	-176,523.1	-149,085.4
Net claims on the Government	972,302.3	1,135,873.8	1,410,604.3	1,643,372.6	2,007,213.7
Loans to private sector	274,749.0	384,697.0	687,259.5	910,311.1	1,115,726.9
Money Supply (M3)	697,553.3	751,176.8	723,344.8	724,923.0	891,486.8
Money Supply (M2)	939,527.9	1,045,336.7	1,060,791.0	1,129,690.2	1,321,620.8
Money velocity (GDP/M2 ; end of period)	801,728.3	880,206.6	923,271.7	1,034,732.2	1,482,130.5
Monetary Base (Growth rate)	4.9	5.1	4.8	4.6	3.6
Liquidity supply interest rate (in %)	23.6	15.8	-8.6	29.2	39.0
Overnight facility rate (in %)	-	-	3.4	3.1	2.8
Average commercial banks deposit rates (end of period, in %)	12.5	8	9.82	8.6	7.1
Average commercial banks' lending rates (end of period, in %)	8.97	8.8	8.7	7.7	6.0
PUBLIC FINANCE	**16.24**	**16.7**	**16.9**	**16.5**	**16.2**
Revenues and grants (in % of GDP)	22.1	21.0	16.7	15.7	16.5
Expenses (in % of GDP)	25.0	25.3	24.7	21.6	21.1
Primary balance (in % of GDP, basis accruals)	-2.4	-0.5	-6.0	-2.3	-1.5
Overall balance (in % of GDP, basis accruals)					
- grants excluded	-10.1	-9.5	-11.2	-8.4	-7.1
- grants included	-2.9	-4.4	-8.0	-5.9	-4.6
Domestic debt (in MBIF)	597,962	727,264.4	1,069,551.8	1,376,307.8	1,649,286.6
External debt (in MUSD, end of period)	413	429.6	420	429.6	440.0
External debt service ratio (in % of exports)	3.5	4.1	5.8	6.6	9.1
External Debt (in % of the GDP)	16.1	15.7	15.6	15.2	14.4
GDP at market price (in billion of BIF)	3812.5	4,185.0	4417.88	4,824.2	5,397.2

Source : BRB

Table 5: Evolution convergence criterions in Burundi

	2012	2013	2014	2015	2016
1. Annual inflation rate (ceiling = 8%)	18.2	8	4.4	5.5	5.6
2. Budgetary deficit grants included in % of GDP (ceiling = 3%)	3.6	2.9	4.1	8	6
3. Public debt in % of GDP (ceiling = 8%)	34.1	31.8	31.4	39.8	44.2
4. Foreign exchange reserves in months of import (minimum = 4.5 months)	4	4.2	4.1	2	1.5

Source : BRB

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