BANQUE DE LA REPUBLIQUE
DU BURUNDI

2018

FINANCIAL STABILITY
REPORT

FISCAL YEAR 2018 - NUMBER 4

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ACH	: Automated Clearing House
ARCA	: Agence de Régulation et de Contrôle des Assurances
ARFIC	: Autorité de Régulation de la Filière Café du Burundi
ATS	: Automated Transfer System
BCBS	: Basel Committee on Banking Supervision
BIF	: Burundi Francs
BIS	: Bank for International Settlement
Bn	: Billion
BRB	: Banque de la République du Burundi
CEMAC	: Communauté Economique et Monétaire de l'Afrique Centrale
CNSF	: Comité National de Stabilité Financière
COMESA	: Common Market for Eastern and Southern Africa
CSD	: Central Securities Depository
EAC	: East African Community
EAPS	: East African Payment System
ECB	: European Central Bank
ECOWAS	: Economic Community of West African States
Etc.	: Et Cetera
FI	: Financial Institutions
FISIM	: Financial Intermediation Services Indirectly Measured
FSB	: Financial Stability Board
GDP	: Gross Domestic Product
G-SIB	: Global Systemically Important Banks
IADI	: International Association of Deposit Insurers
IFRS	: International Financial Reporting Standards
IMF	: International Monetary Fund
IMTI	: Instant Money Transfer Institution
ISTEEBU	: Institut de Statistiques et d'Etudes Economiques du Burundi
Kg	: Kilogram
LCR	: Liquidity Coverage Ratio
MBIF	: Millions of Burundi Francs
MFBCDE	: Ministère des Finances, du Budget et de la Coopération au Développement Economique
MFIs	: Microfinance Institutions
MTC	: Mobile Telephone Companies
NPL	: Non-Performing Loans
pp	: Percentage Point
REPSS	: Regional Electronic Payment and Settlement System

ROA	: Return on Assets
ROE	: Return on Equity
RTGS	: Real Time Gross Settlements
SADC	: Southern African Development Community
T	: Tons
USD	: United States Dollar
WB	: World Bank
%	: Percentage

MISSIONS OF THE « 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. Accomplish any task as provided in the statutes;
10. Accomplish 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 capable to impulse innovation and ensure the stability of the financial system for a durable development of the Burundian economy.

PREFACE

In 2018, in accordance with the missions and objectives assigned to BRB by Law No. 1/34 of December 2nd, 2008 on its statutes, the BRB continued to insure the soundness and the stability of the financial system, which forms the basis of macroeconomic stability of the national economy.

The financial crisis of 2008 woke up regulators, in particular, central banks, on their function of financial supervision and the monitoring of the risks which can emerge from the various sectors and their impact on financial stability. Thus, it has been shown that better coordination of these different sectors of the economy would mitigate the harmful effects of systemic risks and that the prevention and management of systemic risks are prerequisites for a stable and resilient financial system. It is very important to maintain such a framework for monitoring the contagion risk because, due to the regional integration process, Pan-African and regional banks, insurance companies, non-bank institutions, in particular money transfer institutions, are developing in Burundi, which increases the interconnection of the Burundian financial system at the regional level.

Through this fourth edition of the financial stability report for the 2018 fiscal year, the BRB aims to provide an overview of the macroeconomic and financial diagnosis highlighting the main challenges and sources of vulnerability of the Burundian financial system during the 2018 fiscal year as well as the prudential measures taken by the BRB to address them.

Jean CIZA

Governor

ABSTRACT

The macroeconomic environment continued to recover during the 2018 fiscal year, which helped the improvement of the main financial stability indicators. However, some macroeconomic risks still persisting and their adverse effects continue to impact the financial sector. These include the increase of domestic public debt to finance the fiscal deficit, the national currency depreciation, the decrease of coffee and tea prices and a moderate economic growth of main trading partner countries of Burundi.

These risks have led to the increase in payment arrears in some business sectors, resulting to the increase in unpaid debts and pressures on bank liquidity.

In 2018, the banking sector was in good financial health in terms of liquidity, profitability and capital adequacy ratios. However, some vulnerabilities related to the deterioration of the credit portfolio quality persist within this sector.

To cope with these vulnerabilities, the Central Bank continued to carry out actions aimed at safeguarding the proper functioning of the banking sector. Indeed, measures taken in previous years to softening the banks' refinancing conditions remained in force.
Stress testing exercises were conducted based on the risks identified in 2018, and the findings showed that in general, the banking sector would remain resilient regarding the plausible shocks.

Prudential measures aimed at strengthening risk coverage and the financial basis of the banking and microfinance sector have been maintained, in particular the constitution of provisions and the strengthening of capital.

In order to implement the Law No. 1/17 of August 22nd, 2017 governing banking activities, on the one hand, and to comply with international best practices and the EAC convergence criteria in terms of bank supervision, on the other hand, new regulations were enacted during 2018 in order to strengthen the internal control, risk management and governance of credit and microfinance institutions.

In terms of prospects, macroeconomic indicators show that the improvement in economic activity will continue in 2019, despite the vulnerabilities related to the increase in public debt and the national currency depreciation. This improvement in the macroeconomic environment may have positive effects on the resilience of the financial sector.

Table 1: Risks on financial stability in 2018

⇧	Risk of an increase in public debt
⇧	Risk of a national currency depreciation
⇨	Risk of a decrease in coffee and tea prices
⇨	Risk related to a moderate global economic growth, particularly the main trading partner countries

Legend

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

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

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CHAPTER 1: GLOBAL, REGIONAL AND NATIONAL MACROECONOMIC CONTEXT

The global economic growth decelerated in 2018 due to the slowdown in the world trade as consequence of tensions between the United States of America and China. Growth has rebounded in Sub-Saharan Africa and at regional level. This deceleration in global economic activity poses medium-term risks to financial stability through tighter global financial conditions and the exchange rate depreciation in Sub-Saharan Africa countries in general and in Burundi in particular.

1.1. International and regional context

1.1.1. International environment.

The financial system remained sound in 2018 and the risks were brought under control, despite the new areas of vulnerability that appeared in the advanced countries. The Global Financial Stability Report[1] found that debt servicing had improved in most advanced economies and that the balance sheets of banking firms appeared strong to endure a possible economic slowdown.

Thus, the short-term risks to financial stability around the world have remained low. However, in the medium term, the risks were still high. By adopting accommodative monetary policies, countries could nonetheless sustain growth while containing the vulnerabilities of the financial sector.

In the outlook, instability risks should more increase due to, in particular, a more general escalation of trade tensions between the United States of America and China, a Brexit without agreement, new concerns relating to the budgetary policy of certain countries of the Eurozone heavily indebted and normalization of monetary policy faster than expected in advanced countries.

In countries where the financial sector plays a global systemic importance role, debt held by the state, enterprises and households rose from around 200% of GDP 10 years ago, to almost 250% in 2018[2] .

Emerging countries are getting more financing from international markets and the risk of not being able to repay a considerable part of their debt in foreign currencies is high due to the tightening of international financial conditions. Banks are exposed to highly indebted borrowers, and some world-class institutions hold large portfolios of less liquid and more opaque assets.

In European banking sector, capital adequacy ratios were higher despite the potential losses on non-performing loans and the depreciation of government bonds at market prices which could negatively affect the capital of some banks.

Insurance companies might be affected by these financial difficulties given the significant investments in government bonds of banks and enterprises.

As a result of these economic and financial vulnerabilities, global growth decelerated to 3.6 from 3.8% in 2017 and is expected to decline to 3.3%[3] in 2019.

[1] IMF, Global Financial Stability Report, April 2019

[2] IMF, Global Financial Stability Report, April 2019

[3] IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2019

1.1.2. Regional and Sub-Saharan African Economic environment

In sub-Saharan Africa, the financial system has remained resilient despite the risk of an increase of public debt. Similarly, the financial system of the East African Community (EAC) has remained significantly resilient even though risks related to the public debt persist. This resilience of the financial sector has had an impact on the macroeconomic environment. Growth in Sub-Saharan Africa has slightly accelerated (3.0 compared to 2.9% in 2017) and could reach 3.5% in 2019.

In overall, this growth improvement has been faster than expected, particularly in economies with abundant natural resources.

At EAC level, economic growth was 6.3 against 5.6% in 2017. This growth is mainly driven by investments in public infrastructures, the recovery of agricultural production due to improved climatic conditions as well as the services sector expansion, particularly transport and information and communication technologies.

Economic growth could decelerate in 2019 (5.3 against to 6.3% in 2018), in line with the slowdown in economic activity in some countries in relation with the decline in public investment. As a result of this situation, the central banks of the region maintained their accommodative monetary policies to further strengthen growth.

Public debt is a main challenge to financial stability for most of EAC countries with the exception of Tanzania, where it has declined. Tanzanian's financial system remained resilient to endogenous and exogenous vulnerabilities due to the stable macroeconomic environment. However, potential risks from trade tensions in advanced countries could lead to the pressure on the exchange rate and external debt. Public debt slightly decreased from 36.6% to 36.0% year-on-year below the threshold agreed in the EAC convergence criteria.

Uganda could face a significant financial risk[4] at the regional level as a result of conflicts in South Sudan which could further affect the financial position of exporting companies.

For Kenya, financial stability involves significant risks linked mainly to credit risk due to the increase in non-performing loans; which could reduce the ability of banks to set adequate capital reserves to cope with shocks.

Activity on the capital markets has been affected by capital outflows from developing economies to advanced economies as a result of higher interest rates.

In the case of Rwanda, the main risk to the financial system is related to the loans concentration in the real estate and commercial sectors.

Finally, in South Sudan, the financial system continues to be challenged by dollarization and inadequate regulation of non-banking sector.

However, the potential risks arising from trade tensions between the United States of America and its main trading partners and international financial conditions can have spillover effects on global economy through exchange rate pressures and external debt service.

[4] Bank of Uganda, Financial Stability Report, June 2018

Table 2: Economic growth in the EAC Countries (in %)

Countries	2014	2015	2016	2017	2018
Burundi*	4.2	-0.4	3.2	3.6	3.8
Kenya	5.3	5.6	5.9	4.9	6.0
Uganda	5.2	5.0	2.3	5.0	6.2
Rwanda	7.6	8.9	6.0	6.2	8.6
Tanzania	7.0	7.0	6.9	6.8	6.6
EAC-5	6.0	6.0	5.4	5.6	6.3

Source: IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2019
MFBCDE, Cadrage Macroéconomique, March 2019

During 2018, most of the local currencies of the EAC countries against the US dollar depreciated except the Kenyan shilling. The Ugandan shilling depreciated by 5.1% above the EAC average (1.9%[5]).

However, in order to reduce the adverse effects on the financial system, most of central banks have intervened in the foreign exchange market to stabilize their currencies.

Box I: De-Risking

Several countries have responded to the loss of bank correspondence relationships by aligning their anti-money laundering and terrorist financing frameworks and other related legal and regulatory frameworks to the standards of the Financial Action Group[6]. The weakening of correspondent banking relationships has impacted the intensification of existing relationships, which may compromise the financial stability if one of the few remaining correspondent banks finds it difficult to honor its obligations. For the future, the reforms undertaken to strengthen financial stability should reduce the risk of further losses of correspondent banking relationships, mainly through the application of international capital standards. In addition, countries are actively collaborating with banking correspondents to understand better the reasons of the loss of relationships.

For EAC in general and Burundi in particular, there is a risk of suspension and limitation of flows between resident and correspondent banks, because during the Monetary Affairs Committee meeting held in 2016, the Governors of the central banks made discussion on this issue.

Thus, each EAC country conducted consultations on possible restrictions. The Burundian banking sector has not exempted from this issue and some correspondent banks have forbidden transactions which should not be carried out with some countries in suspicion.

The BRB is aware of the negative effect on country's financial stability and will call on all the stakeholders to take the necessary measures, given that there is already in place the Law on the fight against money laundering and the terrorism financing enacted in 2008, and a National Financial Intelligence Unit set up to mitigate this risk.

[5] BRB, Monetary Committee Report, December 2018
[6] IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2019

1.1.3. Challenges for Burundi's Financial Stability

There are mainly four challenges for Burundi's financial stability arising from global, regional and national developments: (A) the increase in public debt, (B) the decrease in coffee and tea prices, (C) the national currency depreciation, (D) the moderate global economic growth, particularly in Burundi's main trading partner countries.

A. Increase in public debt

The increase in public debt is a challenge for the majority of African countries. Most of the countries that export oil and other commodities have experienced a decrease in export earnings as a result of the decline in world prices. These countries financed their fiscal deficit using domestic debt.

In Burundi, public debt continues to increase mainly due to the decline in external resources. In fact, public debt relative to GDP rose from 43.6% in 2017 to 45.8% in 2018.

The domestic public debt is growing faster than the external debt, as in 2018, it grew by 17.6% compared to 2017, amounting to 1,937.8 bn of BIF against 1,648.2 bn of BIF the previous year, while the external debt increased by 4.8% in 2018.

The increase in public debt is the main risk for Burundian's banking sector since a large part of the government debt is contracted within the banking sector. Public debt increases from year to year, which constitutes a great financial risk as if the government is facing a repayment risk, this could have repercussions on the banking sector.

B. Decrease in coffee and tea prices

In 2018, minerals, coffee and tea were Burundi's main export products with respectively 38.8%, 22.7% and 14.4% of the total value of exports[7] .

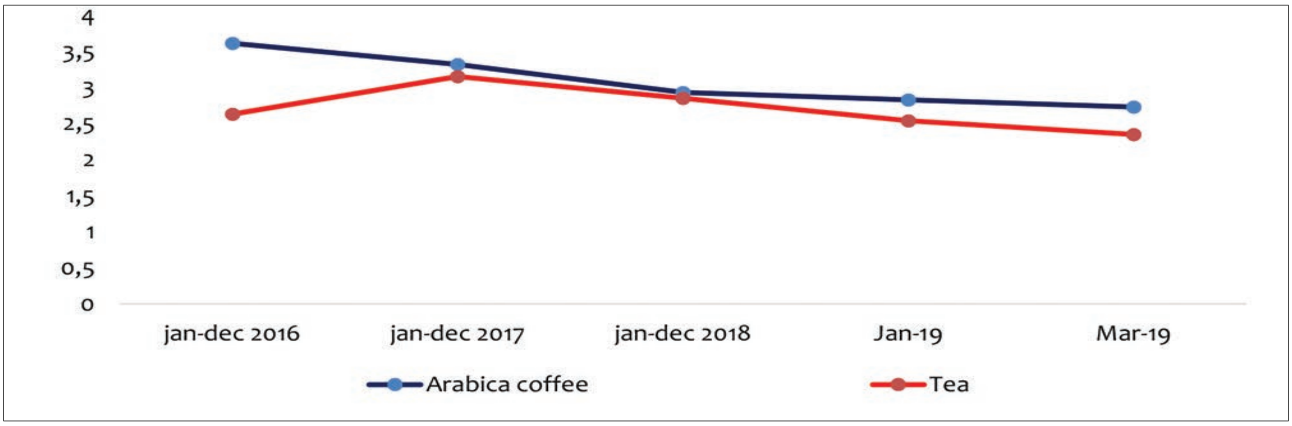
Although coffee and tea prices decreased during 2018, standing at 2.93 against 3.32 USD / kg in 2017 for coffee and 2.85 against 3.15 USD / kg for tea (Figure 1), export revenues from these two products increased, in relation to the increase in production.

In fact, cumulative production of green coffee increased by 31.8% in 2018, reaching 20,074 against 15,229 T in 2017, in relation to the good production of the 2018/2019 campaign.
Similarly, the cumulative production of dry tea increased by 11.0% over the same period, from 9,640 to 10,701 T, as result of the good rainfall that prevailed in Burundi.

This decrease in coffee and tea prices also constitutes for 2018 a persistent risk for the banking sector, given the preponderance of these two products in export revenues.

[7] BRB, Bulletin mensuel, December 2018

Figure 1: Coffee and tea prices (In USD)



Source: WB, Commodity prices, December 2018

The Burundian banking sector has a low exposure vis-à-vis the coffee sector. The share of loans in the coffee and tea sectors represents 4.5% of the total volume of loans in 2018 compared to 2.2% in 2017. The banking sector exposures for the coffee and tea sector are identified in nine banks that provide loans to this sector and largely in the systemically important banks. The coffee loan represents 7.0% of the total capital of these nine banks which finance this sector and the non-performant loans rate in the coffee sector is low (1.1% in 2018 compared to 10.1% in 2017).

With regard to tea, the loans in this sector is very low, as at the end of December 2018, the loans provided represent 1.0% of the total loans, and the deterioration is almost nonexistent, it represents only 0.02% of loans provided in 2018 against 0.08% in 2017.

C. National currency depreciation

The national currency depreciation decreased in 2018, and stood at 1.3% against 4.5% in 2017. This depreciation is mainly due to the low level of foreign exchange reserves which only covered 1.0 month of imports in 2018 against 1.7 in 2017. This low level of foreign exchange reserves is mainly linked to the decrease in external resources, in particular current aids while imports continued their upward trends (7.6%) and exports decreased by 7.4% in 2018. This decline in foreign exchange reserves is a common characteristic of the EAC countries which have not fulfilled the convergence criterion (4.5 months of imports) except Rwanda and Tanzania.

Table 3: Foreign exchange reserves (in months of imports of goods and services)

Country	2014	2015	2016	2017	2018
Burundi*	4.1	2	1.5	1.7	1
Kenya	5.3	5.1	4.7	4.1	4.3
Uganda	5.1	4.8	5	4.8	4.3
Rwanda	3.9	3.5	4.1	4.5	4.6
Tanzania	4.3	4	5.3	6.1	6.1
EAC-5	4.8	4.6	4.9	4.8	4.8

Source: IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2019

**BRB, Monetary Policy Committee Report, December 2018.*

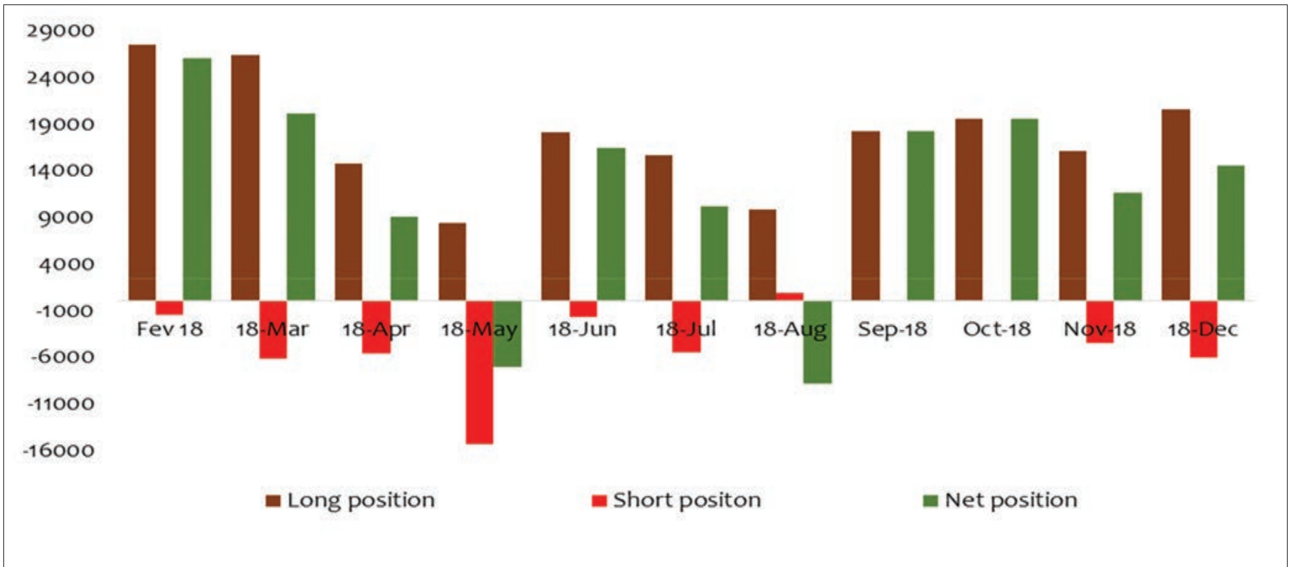
The Burundian banking sector has a low exposure to foreign currency loans (6.8 % of total loans, December 2018). However, the challenges for banks in the significant depreciation could be considerable and would come from two channels: (i) loans provided to import companies and (ii) the exchange position.

In an adverse stress test scenario on the impact of the BIF depreciation on loans provided to the sectors in which import companies operate, the average solvency ratio after the shock (20.0%) would remain above the minimum threshold (14.5%), but, the deterioration would be significant.

At the end of December 2018, the foreign exchange position of the banking sector was significantly long, standing at 5.5% of core capital against 1.5% in the same period of 2017, for a maximum threshold of 25%. Disparities persist between banks, some having asymmetrical positions throughout 2018 fiscal year.

For banks with a short position, it is essential to take additional measures to cover themselves against the unfavorable consequences of depreciation by increasing their capitals to cope with possible losses.

Figure 2 : Evolution of banks' net foreign exchange position (in MBIF)



Source: BRB

D. Moderate economic growth in Burundi's main trading partner countries

Economic growth in Burundi's main trading partners has an impact on export revenues and the cost of imports, and therefore could affect the solvency of export / import companies.

The global economic growth decreased, mainly due to the slowdown in the global trade.

In Eurozone, which is a privileged partner for imports and exports, growth stood at 1.8 against 2.4% in 2017. In the emerging and developing countries of Asia which are also the main sources of imports, economic activity slightly declined , to 6.6% against 6.8% in China and 7.1% against 7.2% in India.

The growth rate of Saudi Arabia, which is the destination of the main export products, increased to 2.2 from -0.7%.

[7] MFBCDE, Cadrage Macroéconomique, March 2018.

Table 4 : Economic growth of main trading partner countries

	2015	2016	2017	2018
Eurozone	2	1.7	2.4	1.8
USA	2.6	1.6	2.2	2.9
EAC-5	6.1	5.4	5.6	6.3
Asia	6.7	6.4	6.4	5.5
India	8	7.1	7.2	7.1
China	6.8	6.4	6.8	6.6
Pakistan	4.1	4.5	5.3	5.2
Saudi Arabia	4.1	1.7	-0.7	2.2

Source: IMF, World Economic Outlook, April 2019.

Banks' exposures vis- à-vis companies that export coffee, tea, beer, soap and wheat flour account for more than 44.6% of the country's total exports, compared to 47.3% in 2017[8]. The share of loans provided to export companies (the industry, agriculture and coffee sectors) represented 15.7% of total loans compared to 15.9% in 2017.

The stress test findings showed that banks would, in general, be able to cope with negative developments in the assumption that export companies would have difficulties in repaying back their loans.

1.2. Domestic macroeconomic context

1.2.1. Economic growth

Economic activity improved in Burundi (3.8% in 2018 compared to 3.6% in 2017) in relation with the good performances of the primary and secondary sectors.

In the primary sector, coffee and tea production increased by 8.2% and 10.3% respectively. In the secondary sector, mining and industries increased by 26.0% and 6.4% respectively. In the tertiary sector, transport and telecommunications increased by 8.1% and 9.2% respectively.

This improvement in growth contributed to the performance of the banking sector through the decrease in non-performing loan ratios in 2018: Tourism (41.6 against 52.0% in 2017), Agriculture (3.0 versus 7.7% in 2017), Commerce (8.0 versus 14.1% in 2017), other constructions (11.3 compared to 31.7 in 2017) and Industry (11.0 against 18.9% in 2017).

1.2.2. Inflation and interest rate

Inflation rate decrease in 2018, standing at -2.6 against 16.0% in 2017. This decline is mainly explained by the decrease in food prices (-18.0 against 18.8%) due to good weather conditions that prevailed in 2018.

The average lending interest rate decreased slightly (15.9 from 16.2% in 2017), as the deposit interest rate (5.6 from 5.9% in 2017).

At the money market level, the overnight rate decreased (5.8 against 7.1% in 2017) due to the decrease in the rate on the 13-week Treasury bills to which it is denominated.

[8] BRB, Bulletin mensuel, December 2018

In addition, the liquidity supply rate increased (2.9 against 2.8% in 2017) while the interbank rate decreased from 4.0% in 2017 to 2.4% in 2018, in relation with the accommodative monetary policy implemented by the Central Bank.

Table 5: Inflation rate * and interest rates ** (in %)

	2014	2015	2016	2017	2018
Inflation	4.4	5.5	5.6	16	-2.6
Overnight Facility Rate	8	9.8	7.2	7.1	5.8
Interbank Rate	7.5	7.5	3.3	4	2.4
Liquidity Supply Rate	-	3.4	2.4	2.8	2.9
Deposit Rate	8.8	8.7	7.2	5.9	5.6
Lending Rate	16.7	16.9	16.8	16.2	15.9

*Source: *Data on inflation (ISTEEBU), **BRB, Bulletin Mensuel, December 2018.*

1.2.3. Public finances

The fiscal deficit as a percentage of GDP decreased (4.2 compared to 4.6% in 2017) mainly due to the significant increase in current revenues compared to current expenditures, but remains a risk for financial stability.

The bank financing of this deficit constitutes a major risk for financial stability, in particular through the crowding out of the private sector and the direct and indirect banks' exposure to the government.

Table 6: Fiscal deficit in the EAC Countries (in % of GDP)

Country	2014	2015	2016	2017	2018
Burundi*	4.2	8.0	5.9	4.6	4.2
Kenya	7.9	8.6	8.3	7.8	7.3
Uganda	5.8	5.9	4.8	3.8	4.8
Rwanda	11.7	9.0	2.3	2.5	2.6
Tanzania	4.7	4.1	2.1	1.2	1.8
EAC-5	6.8	6.9	5.4	4.8	5.0

*Source: *BRB, Bulletin Mensuel, December 2018;*
IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2019.

This deficit was mainly financed by domestic resources. In 2018, public debt grew to 2,753.5 against 2,426.4 bn of BIF, that represents 45.8% of GDP against 43.6% in 2017 (the threshold required by EAC is ≤50% of GDP).

Table 7: Public debt in EAC countries (in% of GDP)

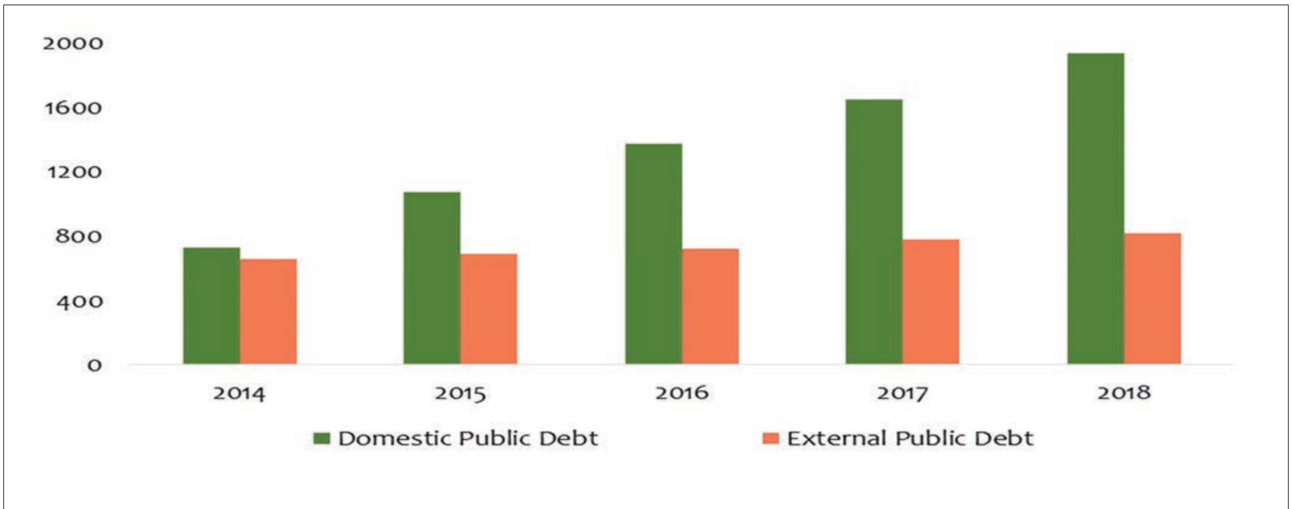
Criteria	Total Public Debt (≤50.0 % of GDP)				External Public Debt				Domestic Public Debt			
Countries	2015	2016	2017	2018	2015	2016	2017	2018	2015	2016	2017	2018
Burundi*	39.8	43.2	43.6	45.8	15.6	14.9	14	13.6	24.2	28.3	29.6	32.2
Kenya	45.9	53.2	54.8	57.2	21.9	26.1	26.9	28.4	24	27.1	27.9	28.8
Uganda	27.2	37.1	39.7	42.2	16.0	21.8	25.4	27.3	11.2	15.3	14.3	14.9
Rwanda	22.0	32.9	36.5	40.7	18.9	33.6	36.9	40.1	3.1	-0.7	-0.4	0.6
Tanzania	30.4	36.4	36.6	36.0	22.2	27.6	27.5	27	8.2	8.8	9.1	9.0
EAC-5	35.9	44.2	45.8	47.6	20.7	26.1	27.2	28.2	15.2	18.1	18.6	19.4

*Source: *BRB, Bulletin Mensuel, December 2018;*
IMF, Regional Economic Outlook, Sub-Saharan Africa, April 2019.

The stock of public debt increased by 11.6% year on year, from 2,426.1 to 2,707.7 bn of BIF, mainly due to the significant increase in domestic debt which increased by 17.6%, from 1,648.2 bn in 2017 to 1,937.8 bn of BIF in 2018.

Public debt to the banking sector is the largest component of domestic debt (50.1 against 39.1% in 2017) and increases from year to year. This level of debt constitutes a major risk when the delay in debt repaying raises the banks' exposure to sovereign debt.

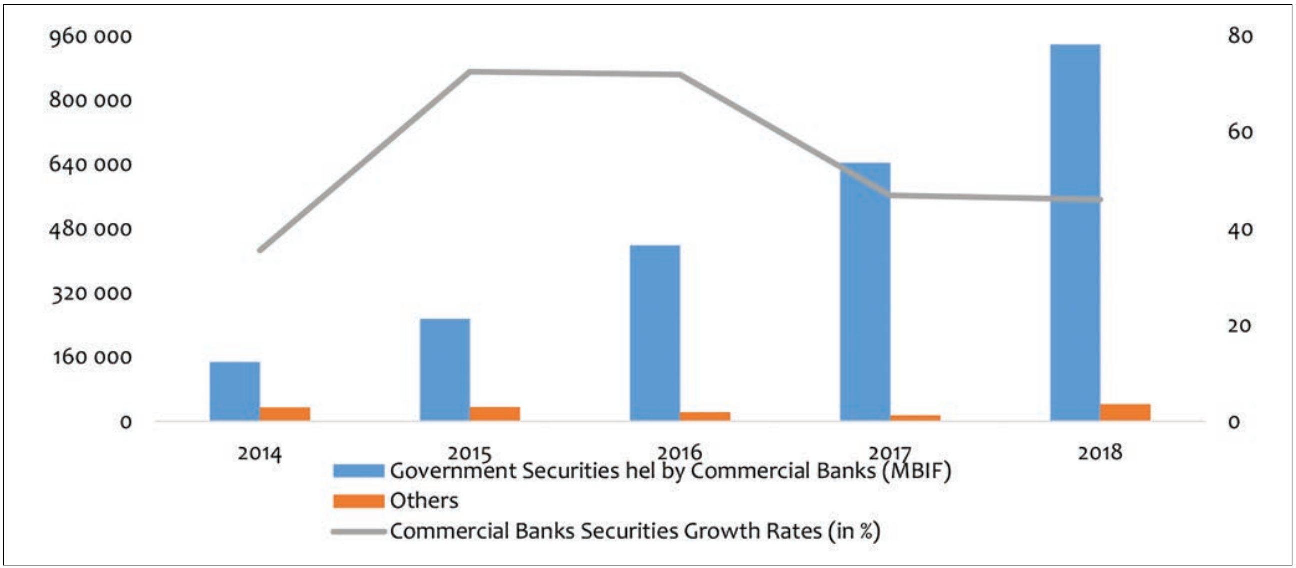
Figure 3: Domestic and external public debts (bn of BIF)



Source: BRB

As the stock of Treasury Bills and Bonds continues to increase, loans to the economy has declined, reflecting the crowding-out effect. Regarding external debt, it remained almost stable, standing at 815,659.1 against 778,292.4 MBIF in 2017.

Figure 4: Evolution of public securities held by banks



Source : BRB

The increasing exposure to sovereign debt and the arrears accumulation could intensify risks in the financial system.

Table 8: Treasury securities and loans to the private sector

	2014	2015	2016	2017	2018
Total Assets (Bn BIF)	1, 400.60	1,441.50	1,835.00	2,164.70	2,580.7
Bonds and Treasury Bills(Bn BIF)	147.7	253.8	438.2	643.5	938.0
Bonds and Treasury Bills in % of the total assets	10.5	17.6	23.9	29.7	36.3
Loans to the private sector(Bn BIF)	702.6	673.7	792.8	795.5	939.2
Loans to the private sector in % of total assets	50.2	46.7	43.2	36.7	36.4

Source: BRB

The risk to financial stability arising from the fragility of public finances is resulting from indirect exposure to companies that supply goods and services to the public sector. The increase in the fiscal deficit is making more difficult for these companies to recover their debts.

This leads to an increase in non-performing loans rate, especially in the trade (11.5%), small scale equipment (15.0%) and agriculture (5.6%)[9] sectors. These sectors represent 35.6% of the banks' loans portfolio at the end of 2018.

[9] Non-performance of individual business sectors

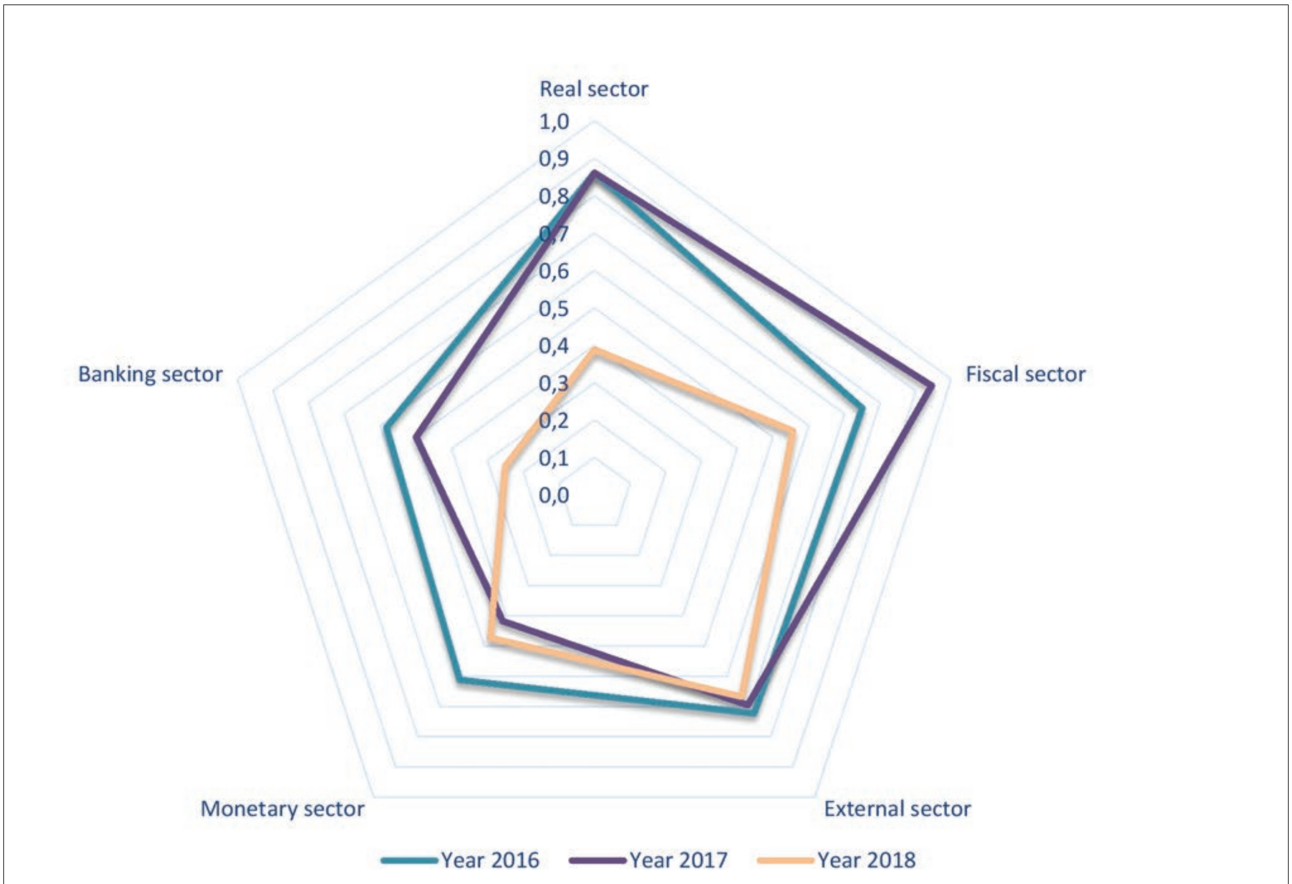
Table 9: Evolution of Non-performing loans rates by sector

	Dec-14	Dec-15	Dec-16	Dec- 17	Dec-18
Housing	0.7	8.5	10.2	10.3	6.9
Other constructions	4.4	34.3	26.3	31.1	14.1
Manufacturing	1.1	15.5	14.1	18.9	11
Trade	17.8	19.4	15.3	14.1	11.5
Tourism	0.1	35.4	29.9	52	41.6
Agriculture	8.1	27.5	8.9	7.7	5.6
Craft	0	23	11.2	25.8	28.2
Small scale equipment	10.1	27.5	24.7	16.9	15
Coffee	4.2	22.6	32	10.1	1.1
Other products	0.4	8.6	6.4	5.5	2.9

Source: BRB

The non-reimbursement in the above-mentioned sectors, due to the deterioration of public finances, would lead to a significant decrease in the banking sector's capital, up to the amount of the provisions made to cover these additional impairments. However, the banking sector would remain generally resilient since the level of solvency ratio (21.7%) after the shock would remain above the regulatory threshold (14.5%).

Figure 5 : Burundi Macroeconomic situation synthesis



Source: BRB

The sectors that have experienced more risks for financial stability are the public finance sector through increase in public debt and the external sector via the decline in foreign exchange reserves and the national currency depreciation.

1.2.4. Households and enterprises situation

The households and enterprises situation and their repayment capacity are relevant indicators for analyzing the stability of the financial system. During 2018, the debt of private companies as a percentage of GDP increased slightly, from 5.6 in 2017 to 5.8% in 2018.

The debt of private companies is largely made up of loans to trade which represents 26.4 against 28.3% in 2017 of the overall volume of loans to the economy.

The other major components of the private enterprises debt are loans to industry (7.8 against 10.6% in 2017), hotels and tourism (4.1 versus 6.0% in 2017), others constructions (2.7 compared to 3.6% in 2017) and coffee (4.6 compared to 1.9% in 2017).
The debt level of public enterprises relative to GDP remains very low (0.7 against 0.5% in 2017).

Table 10: Debt of households and enterprises (in percentage of GDP)

Year	Household Debt	Private Enterprises Debt	State-owned Enterprises Debt
2014	11	8.5	1
2015	11.7	7.9	0.2
2016	12.5	6.5	0.2
2017	11.4	5.6	0.5
2018	11.2	5.8	0.7

Source: BRB, Bulletin Mensuel, December 2018

Household's debt as percentage of GDP decreased slightly in 2018, to 11.2 compared to 11.4% in 2017. It is largely made up of loans for small scale equipment (36.6%), trade (26.7%) and agriculture (8.0%).

Non-performing loan ratios also declined to 15.0% in small scale equipment, 5.6% in agriculture, 6.9% in housing. In terms of net debt, the household's position was in deficit in 2018 as a result of loans contracted, which remain higher than deposits. The gap between deposits and loans provided to households is -154,409 MBIF against to -145,753.5 MBIF in 2017.

The debt level of private companies has an effect on loan portfolio quality. In 2018, non-performing loans were established at 1.1% in the coffee sector, 41.6% in the hotel and tourism sector, 14.1% in other constructions and 11.5% in trade. In contrast of the households' situation, the private companies' position is in positive balance at the end of 2018. Thus, the gap between deposits and loans granted to private companies is 193,620.4 against 89,027.5 MBIF in 2017.

Table 11: Net Debt of Households and Enterprises (in MBIF)

Indicators	2 014	2 015	2 016	2 017	2 018
Households Deposits	382,093.3	401, 843.7	430, 975.4	487, 757.7	570, 114.5
Households Loans	461, 361.9	514, 709.6	602, 151.5	615, 339.9	724, 523.5
Households Net Indebtedness	-79 268.6	-112 865.9	-171 176.1	-127 582.2	-154 409.0
Private Entreprises Deposits	150, 325.9	183, 259.6	252, 834.7	389, 694.5	566, 180.9
Private Entreprises Loans	357, 535.6	348, 158.6	312, 830.6	300, 766.5	372, 560.5
Private Entreprises Net Indebtedness	-207, 209.7	-164, 899.0	-59, 995.9	88, 928.0	193, 620.4
State-owned Entreprises Deposits	31, 773.3	43, 966.7	40, 392.7	49, 504.3	48, 324.8
State-owned Entreprises Loans	41, 347.7	6, 928.3	7, 548.5	28, 633.1	41, 963.0
State-owned Net Indebtedness	-9, 574.4	37, 038.4	32, 844.2	20, 871.2	6, 361.8

Source: BRB, Bulletin Mensuel, December 2018

2

CHAPTER 2: FINANCIAL SYSTEM

A stable financial system requires a well-functioning and resilience of all and each of its components. In 2018, Burundi›s financial system, dominated by the banking sector, remained resilient despite some remaining vulnerabilities.

On the one hand, the financial system faced exogenous challenges, particularly the decline in coffee and tea prices and a moderate global economic growth, especially for Burundi›s main trading partners. On the other hand, it has faced some endogenous challenges, in particular the increase in domestic public debt and the national currency depreciation.

The loan growth has been moderate, the loan portfolio quality has greatly improved and credit risk has been reduced from moderate to low.

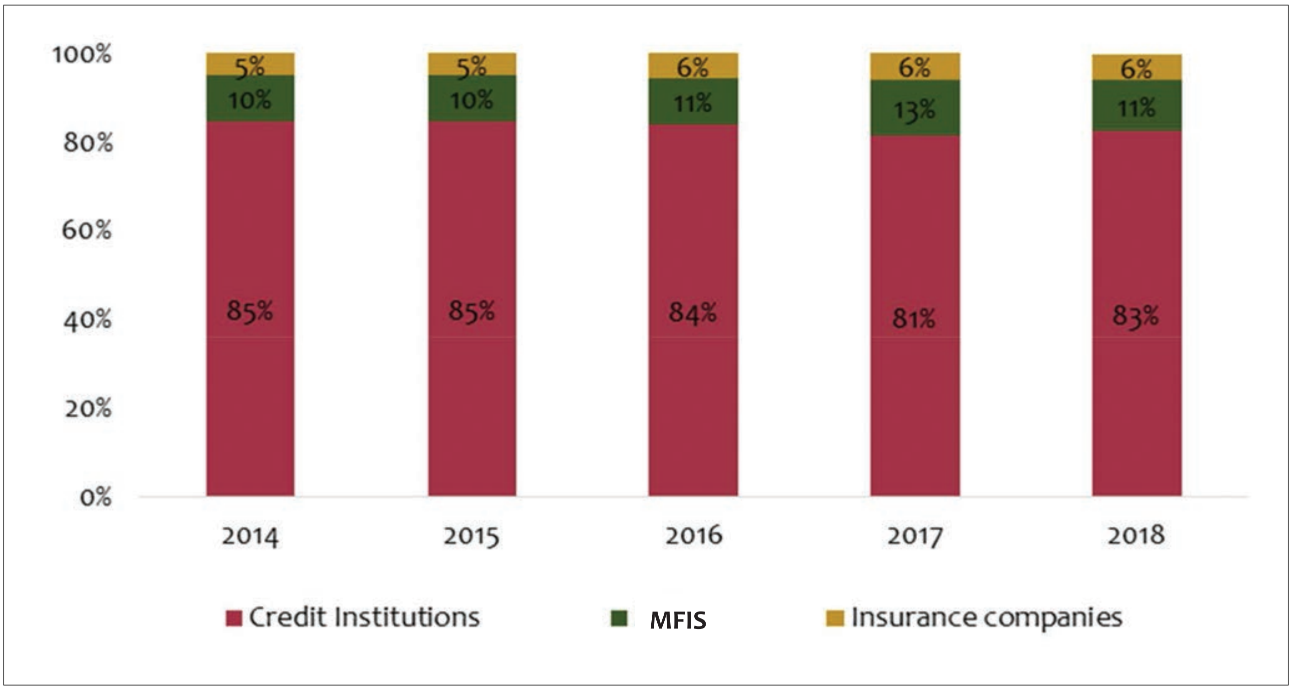
2.1. Financial System Structure

Burundi›s financial system is made up of five types of financial institutions: Credit institutions (banking sector), microfinance institutions, insurance companies, payment institutions[10] and social security institutions[11].

In fact, at the end of 2018, the financial sector includes 12 credit institutions, 37 microfinance institutions, 15 insurance companies, 3 social security institutions and 3 payment institutions[12]. The banking sector remains predominant with 82.5% of total assets while microfinance institutions and insurance companies represent 11.2% and 6.4% respectively.

Financial intermediation continues to increase, with the total financial sector assets as percentage of GDP is 52.1% in 2018 against 49.3% in 2017.

Figure 6: Financial System Structure



Source: BRB

[10] The balance sheet data of this type of institution are not yet available to the BRB.
[11] Social security institutions and the Régie Nationale des Postes are not taken into account in this report.
[12] One of which with an agreement in principle

2.2. Banking sector

In 2018, the banking sector has remained profitable, sound and resilient. In fact, the banking sector shows a positive profitability, a quasi-compliance with regulatory threshold, an improvement in the loan portfolio quality and resilience to stress tests carried out by the Central bank.

Table 12: Rates of non-performing loans of the EAC

Countries	2016	2017	2018
BURUNDI	12.9	14.5	9
KENYA	9.1	10.6	12
OUGANDA	10.5	5.6	3.4
RWANDA	7.6	7.6	5
TANZANIE	9.1	12.5	10.2
SOUDAN DU SUD	N/A	48	44.4

Source: EAC Central Banks Websites

The banking sector’s loans to the economy represent 15.6% of GDP in 2018 against 14.7% in 2017. Loan is concentrated particularly in trade (26.4%) and housing (14.3%) sectors. The loans provided by banks are generally short-term (48.0%) while medium and long-term loans represent respectively 31.0% and 19.0% in 2018.

2.2.1. Banking sector situation

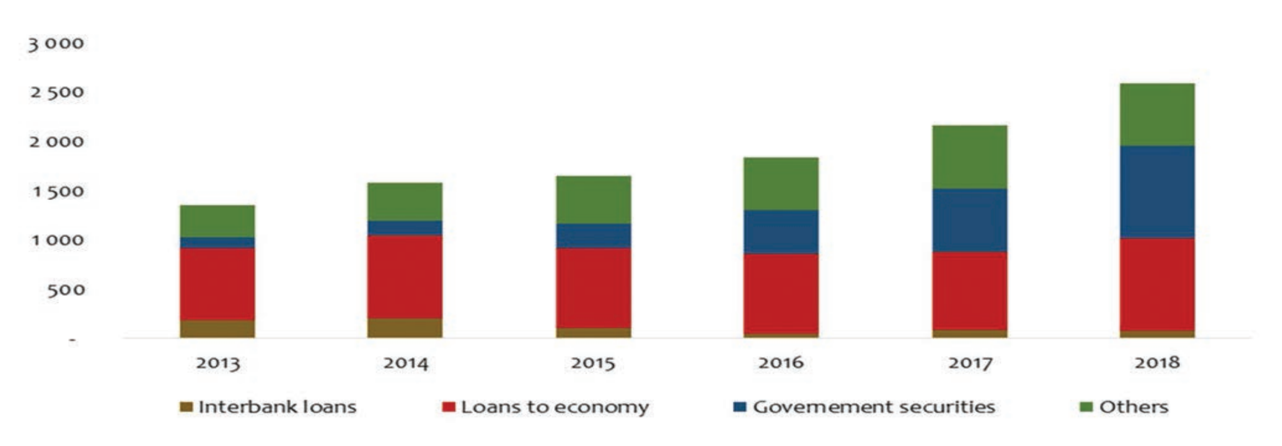
The bank sector’s total assets amounted to 2,580.7 bn of BIF in 2018, compared to 2,164.7 bn of BIF in 2017. The share of domestic private credit institutions in total assets is 39.2% (16.8% of GDP) against 23.1% for foreign credit institutions (9.9% of GDP) and 37.7% (16.2% of GDP) for mixed credit institutions.

The banking sector is dominated by three systemic important banks which alone share 65.0% of assets, 57.2% of loan portfolio, 66.4% of the sector›s deposits and 71.3% of government securities. These banks are exposed to the default risk by companies that provide goods and services to the government, the default risk by indebted state owned enterprises, and the concentration risk on large debtors. However, the stress test conducted under an adverse scenario indicated that a systemic bank would remain sound and resilient to shocks.

A. Assets

The sector›s outstanding loans reached 939.2 bn of BIF in 2018 compared to 795.5 bn of BIF in 2017. However, the share of loans in total assets tends to decrease in favor of investments in Government securities, standing at 36.4% in 2018 against 36.7% in 2017.

Figure 7: Banking sector assets structure (in bn of BIF)



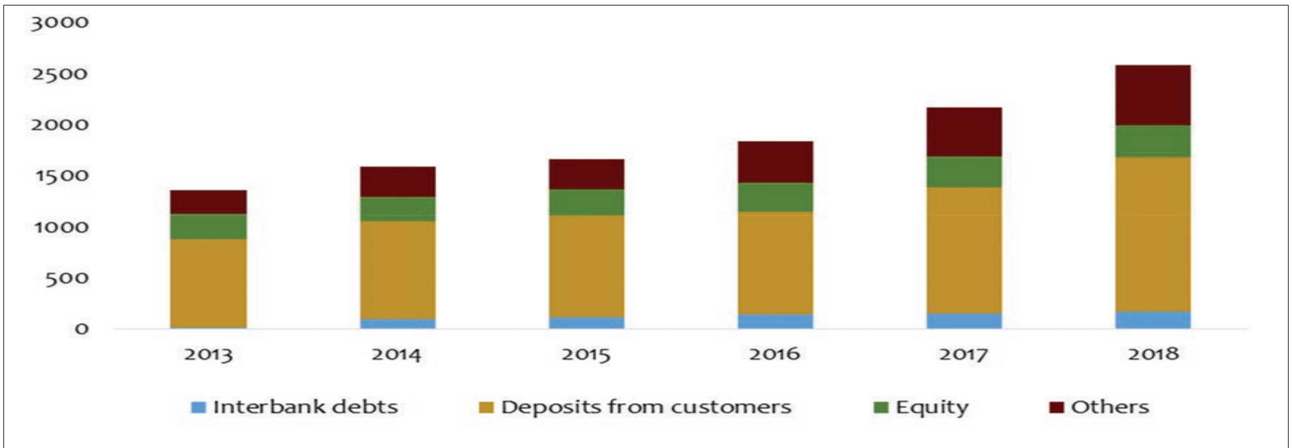
Source: BRB

B. Liabilities

The liabilities of the banking sector consist mainly of customer deposits, capital and debt to the financial sector.

The sector›s deposits amounted to 1,510.3 bn of BIF in 2018 compared to 1,234.1 bn of BIF in 2017. They remain the main component of liabilities with 58.5% of total liabilities in 2018 against to 57.0% in 2017.

Figure 8 : Liabilities structure (in bn BIF)



Source: BRB

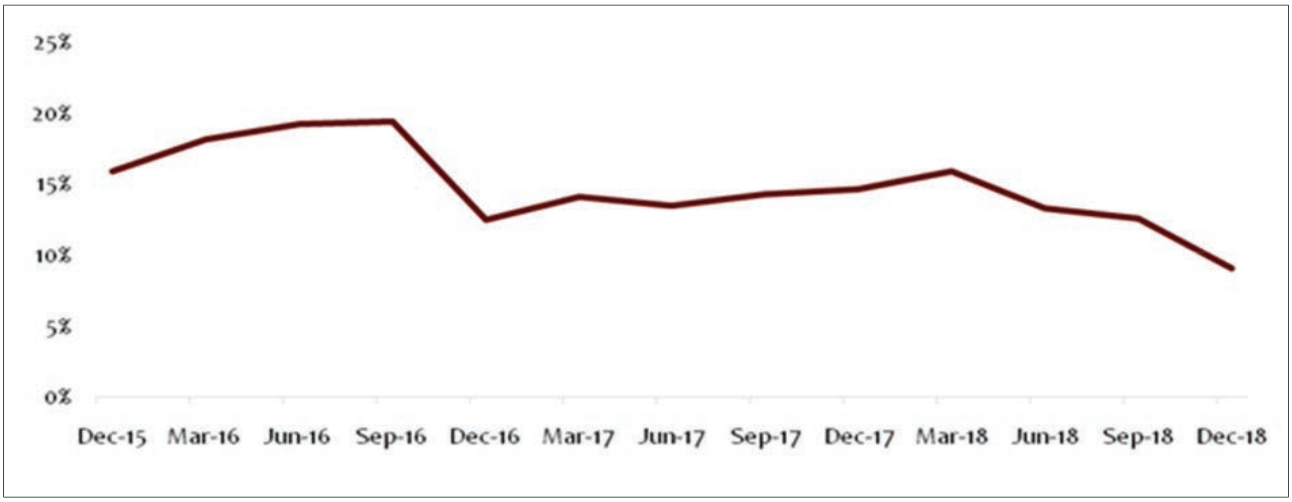
2.2.2. Loan portfolio quality

The loan portfolio quality has improved in 2018, which contributed to the financial system stability. Year on year, non-performing loans ratio[13] was 9.0 against 14.6% in 2017, which represent a decrease of 5.6 pp. This is a result of two-year-old impaired loans write-off, on the balance sheets of credit institutions.

In terms of volume, non-performing loans amounted to 85.0 against 115.9 bn of BIF in 2017. The overdue rate decreased from 19.8% to 13.5% at the end of 2018. As for the unpaid loans, they amounted to 139.6 bn of BIF in 2018 against 157.0 bn of BIF in 2017.

[13] Non-performing loans: all pre-doubtful, doubtful and impaired loans.

Figure 9: Non performing loan ratio

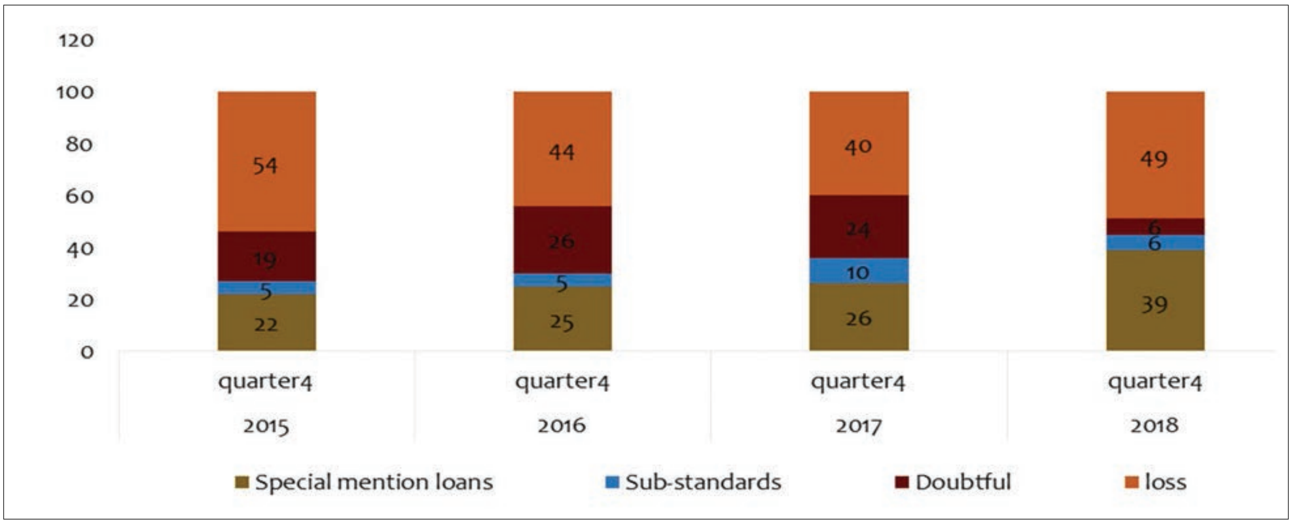


Source: BRB

The sectors that highlight a high intra-sector[14] deterioration rate are hotels and tourism (41.6%), handcrafts (28.2%), small scale equipment (15.0%) and other constructions (14.1%).

The trade sectors (33.8%), hotels and tourism (19.0%) and housing (10.7%) have, in general, a high deterioration rate.

Figure 10 : Unpaid loans structure (in %)



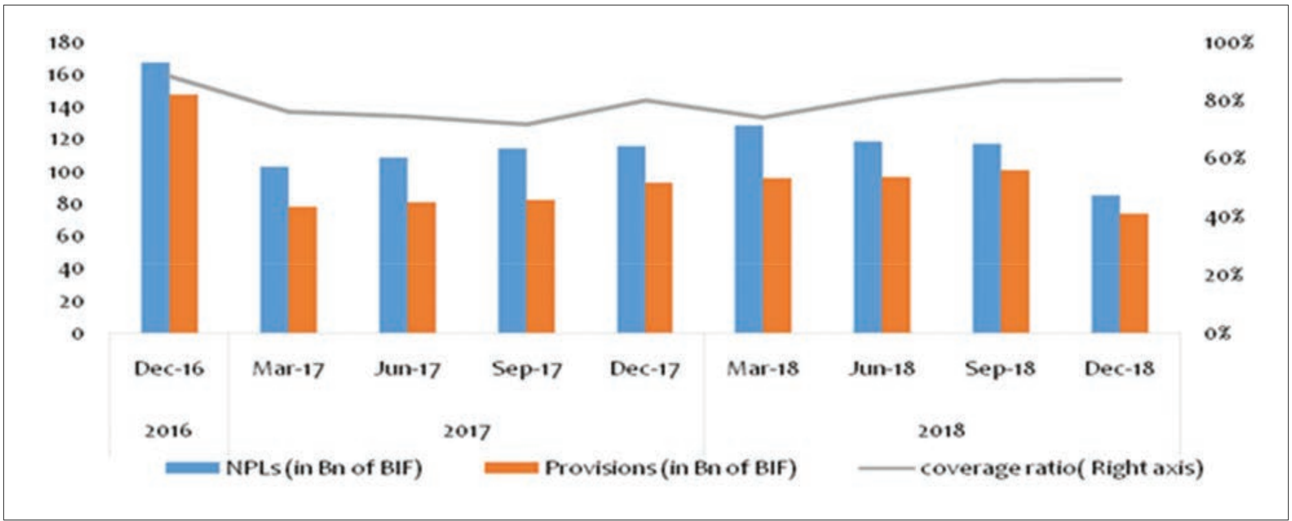
Source: BRB

The level of special mention loans increased to 54, 517.3 MBIF in 2018 against 41,649.6 MBIF in 2017.

The transition of special mention loans into the upper categories involves a risk to the banking sector›s stability.

[14] Intra-sectoral deterioration rate: the proportion of non-performing loans of a sector to the total loans of that sector

Figure 11: Provisioning rate for non-performing loans (in %)



Source: BRB

The non-performing loans coverage ratio improved year-on-year from 80.0 to 87.0%.

2.2.3. Capital adequacy

In 2018, the banking sector had sufficient capital compared to the regulatory threshold. The overall solvency ratio was 22.2%, significantly above of the regulatory minimum of 14.5%.

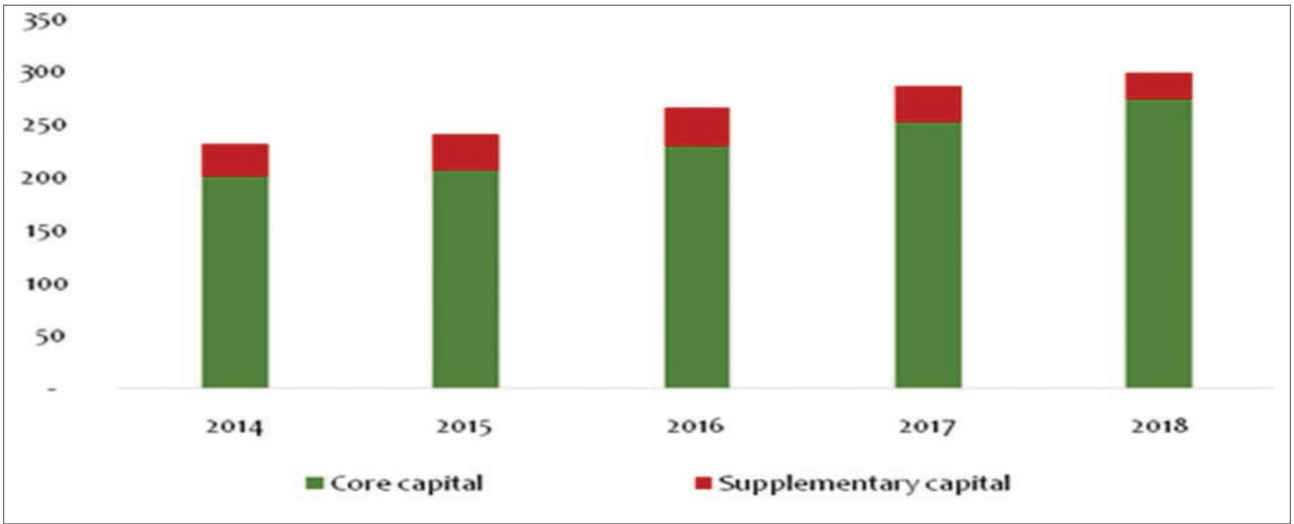
From one year to another, capital increased from 267,074 to 298,561 MBIF, that is an increase of 11.8% due to the Central Bank›s instruction in order to maintain 35% of the net income to strengthen capital.

Figure 12: Capital

Source: BRB

The leverage ratio remained at a satisfactory level, from 12.7 to 11.1% in 2018, that is 6.1 pp above the minimum threshold requirement of 5.0%.

Figure 13: Capital component (bn of BIF)



Source: BRB

The banking sector›s capital changed year-on-year, rising from 286.2 bn of BIF to 298.6 bn of BIF. The higher level of capital, and especially the reinforcement of the core capital, enables credit institutions to withstand any impairment in the quality of their assets.

2.2.4. Liquidity[15]

In 2018, the BRB amended the regulation related to liquidity by introducing a short-term liquidity ratio (Liquidity Coverage Ratio-LCR).

This regulation sets this ratio at a minimum limit of 100% between high quality assets and projected net cash outflows over 30 days. At the end of 2018, the banking sector was highly liquid at the level of 218%.

Table 13: Evolution of banks' liquidity ratios

	Q4 2014	Q4 2015	Q4 2016	Q4 2017	Q4 2018
Liquidity ratio in BIF (in %)	35.4	38	55	58.3	225.5
Liquidity ratio in foreign currency (in %)	84.9	122	128	113.5	138.9
Global liquidity ratio (in %)	52	53	64	64.2	218.5
Minimum threshold (in %)	≥20	≥20	≥20	≥20	≥100

Source: BRB

Despite high liquidity ratio in accordance with the regulatory threshold, some banks did not comply with the liquidity ratio in foreign currencies.

For lending activity, banks continue to maintain a comfortable margin vis-à-vis of deposits, with a loan-to-deposit ratio of 63% at the end of 2018.

[15] From a prudential perspective, liquidity is measured by the minimum ratio of 100% of high-quality liquid assets to the estimated net cash outflows over 30 days.

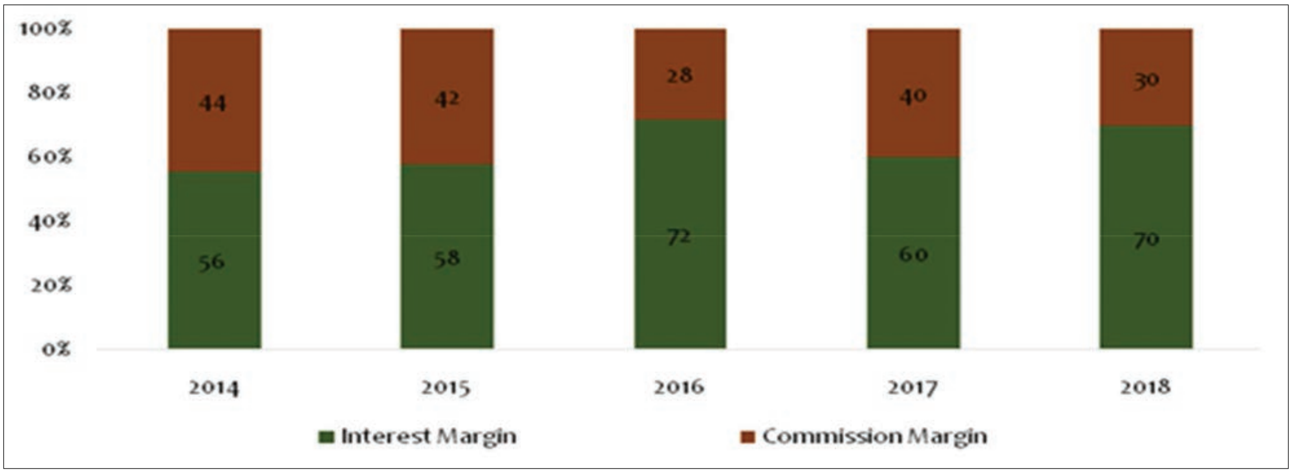
2.2.5. Market risk

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 2018, the banking sector remained profitable. Net Banking Income (NBI) increased by 17.5%, rising from 180,111.1 to 211,472.0 MBIF.

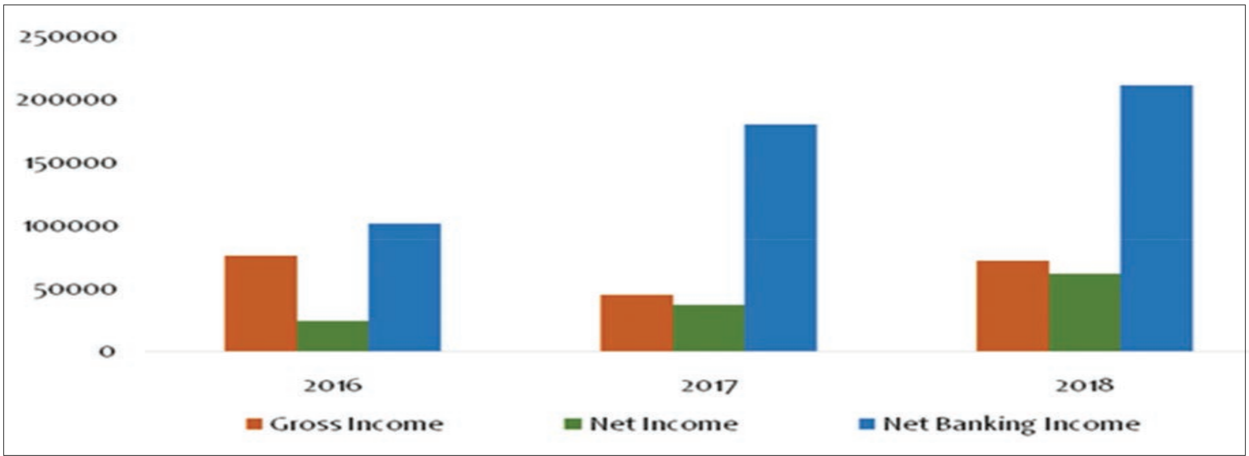
Figure 14: Net banking Income Structure (in %)



Source: BRB

The net profit of credit institutions increased by 65.5% compared to the previous year, rising from 37,018.3 to 61,247.5 MBIF at the end of December 2018. Return On Assets (ROA) was 2.4% and Return On Equity (ROE) was 20.5%.

Figure 15: Credit institutions' intermediate operating balances (in bn of BIF)

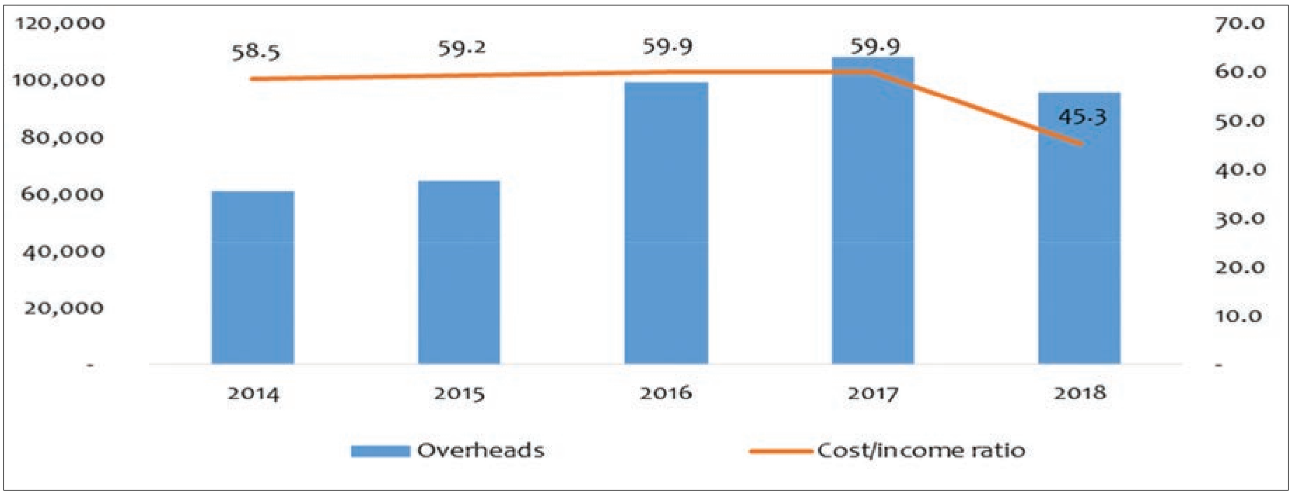


Source: BRB

In terms of overhead costs[16] , they decreased by 11.3% in 2018, which led to a decrease in the cost to income ratio from 59.9 to 45.3% and consequently to an increase in net income.

[16] For the current report, overhead costs shall mean general operating expenses as shown in the operating statement of banks' account number 66.

Figure 16: Overhead cost (MBIF) and cost-to-income ratio (in %)



Source: BRB

2.2.7. Stress tests

Stress tests were conducted to assess the banking sector resilience in order to identify systemic risks. Scenarios of adverse but plausible shocks have been applied to the selected indicators at the end of 2018, to test the ability of financial institutions to withstand these shocks.

Several assumptions have been made based on current macroeconomic and financial environment analysis and the growth expectations. Considering the systemic risks related to the deterioration of macroeconomic indicators (increase in domestic public debt, depreciation of the national currency, coffee and tea prices decline), the simulation assessed the effect of further deterioration on credit institutions› capital.

The after-shock overall capital adequacy ratio is considered as the main measure of resilience in credit institutions, while the change in non-performing loans is the primary measure of credit risk. The stress test carried out at the end of 2018, focused on two main potential sources of vulnerability for the banking sector which are credit and liquidity risks.

A. Credit risk

To test the credit risk resilience, three scenarios have been selected and each of them is independent:

- in the first scenario known as baseline scenario, an additional deterioration of the loan portfolio in 2018 was simulated, in the same proportions as in 2017 on non-performing loans. The findings revealed that all banks are resilient to this shock, as their loan portfolios quality has improved compared to the previous year;
- in the second scenario called adverse scenario, an additional deterioration of loan portfolio was simulated in eight activity sectors that were exposed to the three risks previously identified (increase in domestic public debt, depreciation of the national currency, increase in coffee and tea prices). These sectors are: housing, trade, small scale equipment, agriculture, coffee, industry, other construction and miscellaneous. The findings revealed that eight out of twelve credit institutions remain resilient to adverse shocks and four would be undercapitalised;

- in the third scenario, which focused on concentration risk, a deterioration of 50% of the outstanding loans of the five largest debtors of each credit institution was simulated so that these debtors would be reclassified as impaired loans. The findings indicate that eight banks would remain resilient to this shock and four others would be undercapitalised.

B. Liquidity risk

The liquidity stress test consisted in assessing the impact of a significant withdrawal over five consecutive days. The resilience of banks to liquidity risk is judged by their ability to withstand this shock without way out to external liquidity, particularly the Central Bank's refinancing during this period. Compared to the end of 2017, the findings confirm that at the end of 2018, banks were less sensitive to liquidity risk since only one bank would be illiquid during this period of stress.

2.3. Microfinance sector

The microfinance sector has a positive impact in terms of financial inclusion and improving people›s welfare. It contributes to the country›s development process by offering local financial services to its customers.

2.3.1. Sector structure

At the end of December 2018, the microfinance sector had 37 MFIs, including 17 cooperatives and 20 microfinance companies. Four cooperatives dominate the market›s sector and represent 82% of the sector›s loans, 77% of deposits and 84% of capital.

In 2018, the MFIs› assets were 349,518.5 MBIF against 288,219.7 MBIF in 2017, that is an increase of 21.3%.

Table 14: MFIs Assets concentration (in MBIF)

	2016	2017	2018
Cooperatives	197, 062.1	247, 595.3	299, 206.8
Microfinance companies	34, 354.9	40, 624.5	50, 311.7
Total Asset	231, 416.9	288, 219.7	349, 518.5
Share of cooperatives (in %)	85.2	85.9	85.6
Share of microfinance companies (in %)	14.8	14.1	14.4

Source : BRB

Although the number of microfinance companies is greater (20/37) than Cooperatives (17/37), the latter have a high concentration (85.6%) in the sector's total assets.

2.3.2. Liabilities

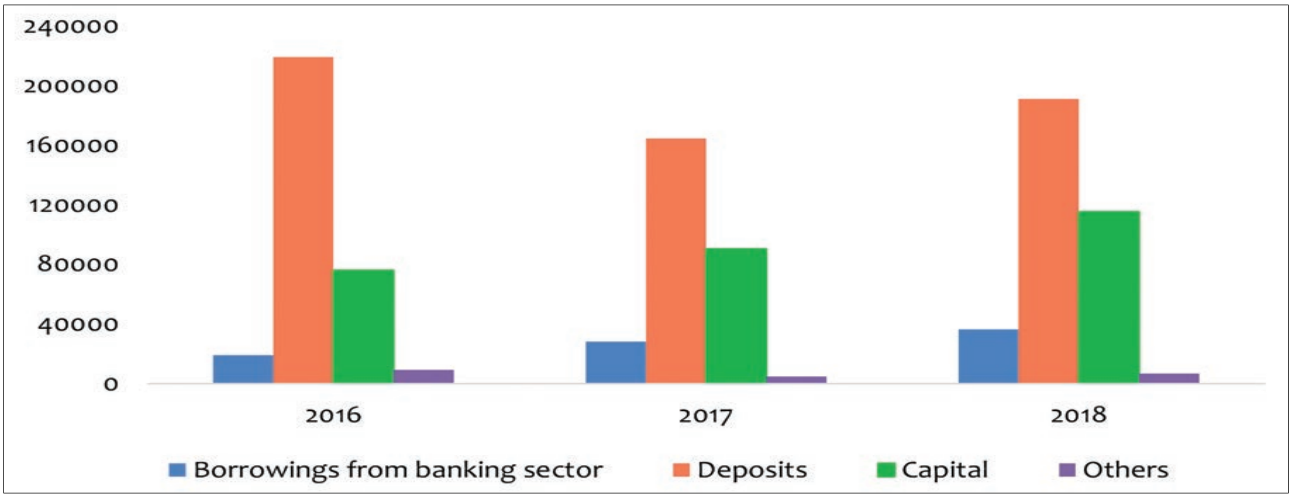
The MFIs› liabilities consist of members› deposits, borrowings and capital plus assimilated funds. According to the regulation[17] governing microfinance activities in Burundi, MFIs are required to hold reserves representing 20% of net profit at the end of the fiscal year. The liabilities of MFIs stood at 349,518.5 MBIF in 2018 against 288,219.7 MBIF in 2017, which is an increase of 21.3%. In fact, deposits constitute the main resource of MFIs and have increased by 16.1%, standing at 190,907.5 MBIF against 164,387.7 MBIF in 2017.

[17] Circulaire no 07/M/18 relative aux règles prudentielles applicables aux institutions de microfinance édictée en vertu du règlement no 001/2018 relatif aux activités de microfinance.

This evolution is also related to the increase in borrowings from the banking sector, amounting to 33,266.6 against 26,144.6 MBIF in 2017.

Capital increased by 27.6% in 2018, standing at 115437.9 MBIF in 2017 against 90,476.8 MBIF in 2017.

Figure 17: MFIs'liabilities structure (in MBIF)

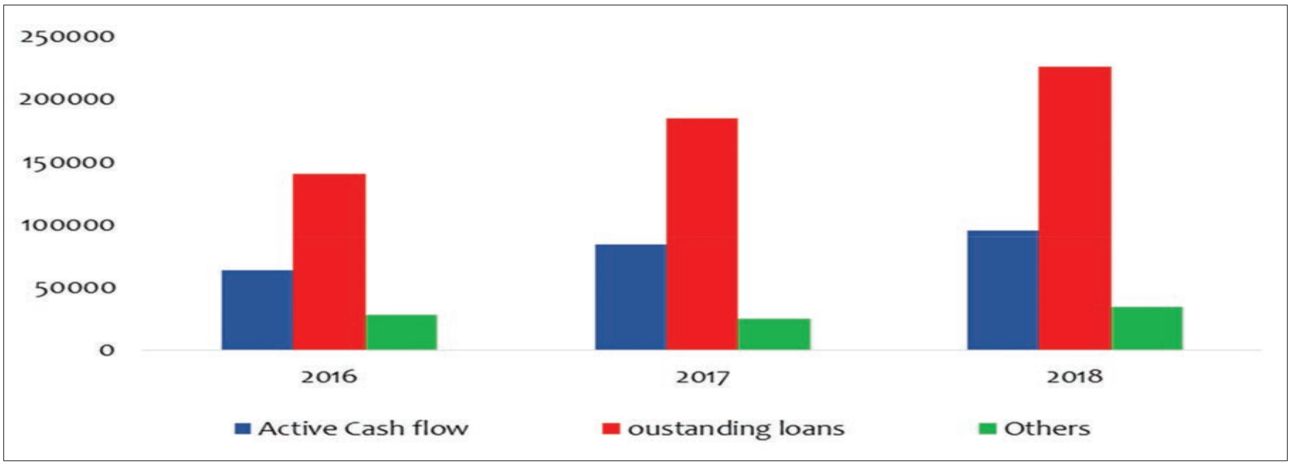


Source: BRB

2.3.3. Stress tests

The MFIs' assets are classified under three categories: active cash flows, loans and other assets. They are mainly made up of loans. The latter have increased by 23.0% from 179, 223.3 in 2017 to 220,451.4 MBIF in 2018. The share of loans in MFIs total assets increased slightly from 62.2% in 2017 to 63.1% in 2018.

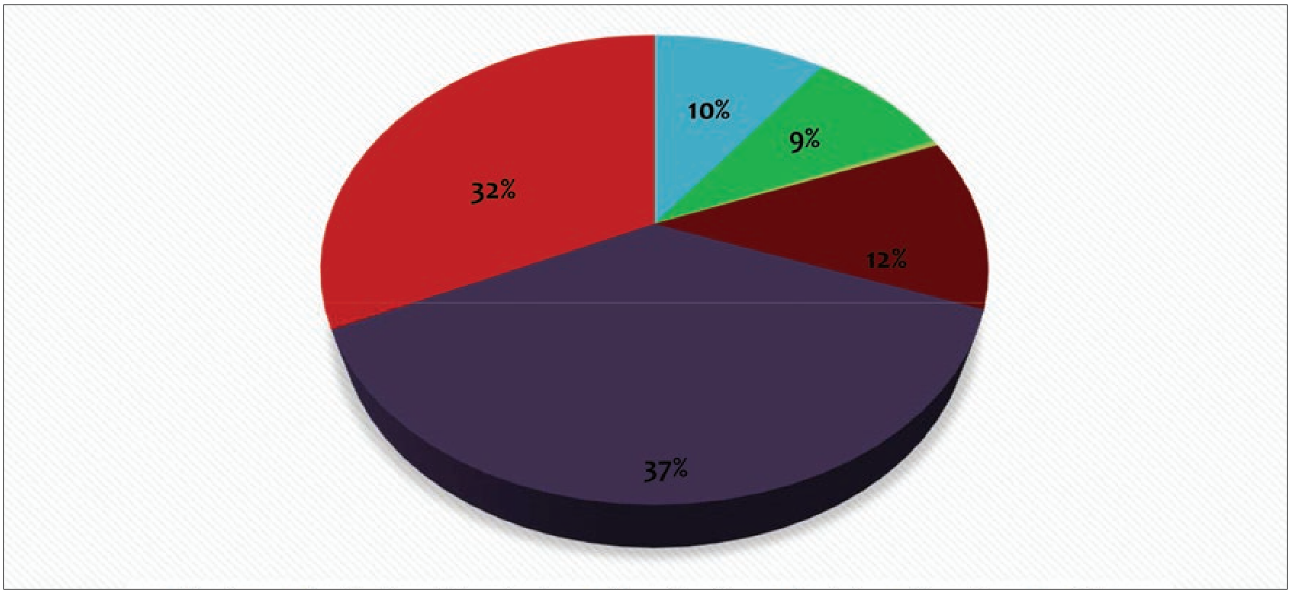
Figure 18: Evolution of MFIs› resources (in MBIF)



Source: BRB

The loan distribution by activity sector shows that the housing sector, is mostly financed by MFIs (37.2%).

Figure 19: Distribution of loans by sector



Source : BRB

2.3.4. Loan portfolio quality

The main activity of MFIs is lending. In 2018, MFIs provided loans amounting to 220,451.4 MBF against 179, 238.7 MBIF in 2017, which is an increase of 23%. The non- performant loans rate increased from 5.8% to 6.2% year-on-year, remaining above the maximum acceptable limit of 5%.

Table 15: Loan portfolio quality

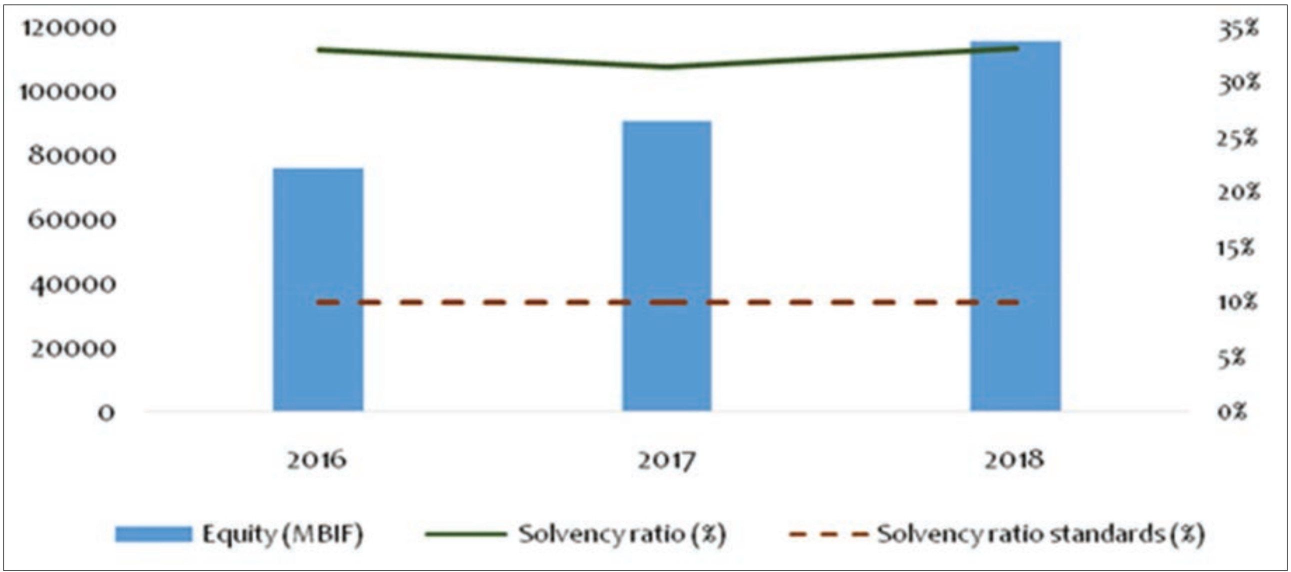
	2 016	2 017	2 018	variation in %
Outstanding loans (in MBIF)	139, 881.0	179, 239.0	220, 451.0	23.0
Unpaid loans (in MBIF)	9, 458.0	10, 432.0	13, 681.0	31.1
Provisions (in MBIF)	4, 526.0	4, 931.0	5, 043.0	2.3
Provisioning rate (%)	47.9	47.3	36.9	
Default rate (%)	6.8	5.8	6.2	

Source: BRB

2.3.5. Capital adequacy

Capital was 115,437.9 in 2018 against 90,476.8MBIF in 2017, which is an increase of 27.6%. For a minimum regulatory threshold of 10%, the sector›s solvency ratio stood at 33% in 2018 against 31.4% compared to the previous year. However, there are disparities in this ratio as some MFIs need to strengthen their capital.

Figure 20: Capital evolution



Source : BRB

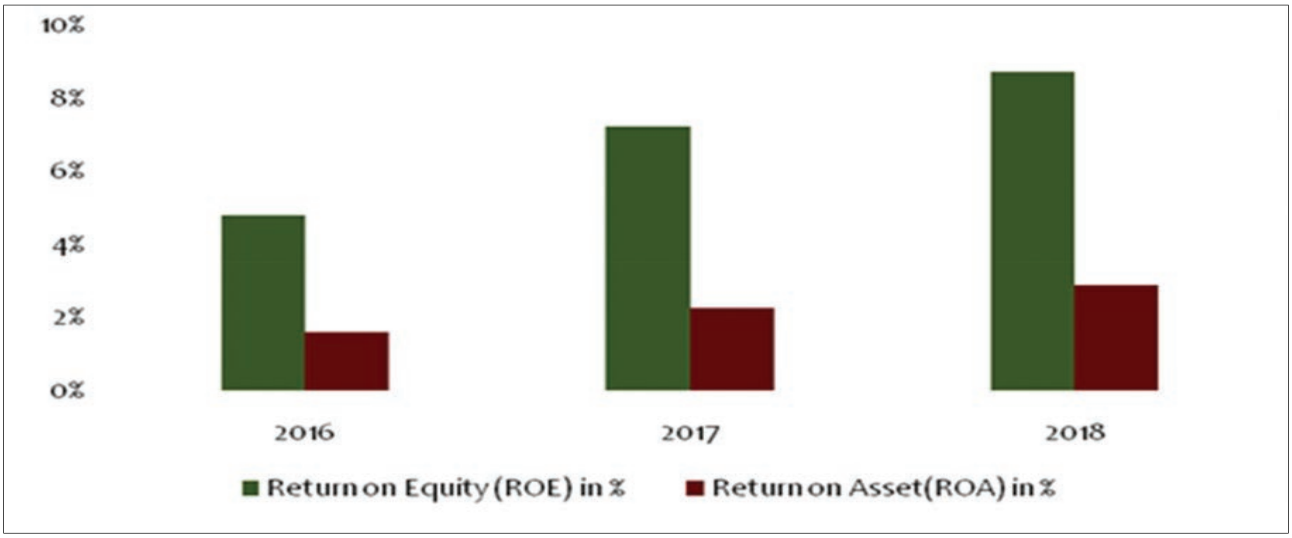
2.3.6. Sector's liquidity

The microfinance liquidity ratio is 43.5%, which is above the minimum regulatory threshold of 20%. However, three MFIs remain below this standard. The loan-to-deposit ratio is 115.5%, above the maximum acceptable threshold of 100%, in relation to borrowings from the banking sector.

2.3.7. Sector's profitability

In 2018, the Net Banking Income was 33,574.2 MBIF against 28,155.60 MBIF in 2017, which is an increase of 19.3%. The sector›s consolidated net profit increased by 54.3%, from 6, 521.5 to 10, 063.4 MBIF year-on year . This profit is concentrated in three MFIs which hold 93.2% of the net profit. Return On Equity (ROE) increased by 1.5pp standing at 8.7 against 7.2 % in 2017. Similarly, the Return On Assets (ROA) increased from 2.3% in 2017 to 2.9% in 2018.

Figure 21: Profitability indicators of MFIs (in %)



Source : BRB

2.3.8. Operational risk

Operational risk to which MFIs are exposed results from the failure or inadequacy of internal processes and deficiencies in management information system.

2.3.9. Exposure to the banking sector

The relationships between MFIs and the banking sector are noteworthy. Indeed, the MFIs› operations with the banking sector are mainly focused on the investment of cash flows surpluses as well as on borrowings. The investments made are significant with 84,892 MBIF in 2018, that represent 24.3% of total assets, while loans are 36,342.5 MBIF in 2018, that is 10.4% of total liabilities.

2.4. The insurance sector

The insurance sector is one of the components of Burundi›s financial system, with a share of 6.2% of total assets. It is an important sector that interacts with all national economy sectors including the banking sector through deposits, investments, loans, shareholding and subscription in loans' insurance.

2.4.1. Structure of the sector

The Burundian insurance sector is made up of thirteen (13) companies, including eight (8) non-life insurance companies and five (5) life insurance companies.

In accordance with the law regulating insurance activities[18] , almost all companies, except one, have already adopted the separation of life and non-life insurance branches.

Table 16: Penetration rate

	2 014	2 015	2 016	2 017	2 018
GDP (in bn of BIF)	4, 185.0	4,423.0	4, 759.0	5, 397.2	6, 010.3
Turnover (in bn of BIF)	36.0	37.0	37.0	40.2	46.4
Penetration rate (%)	0.9	0.8	0.8	0.75	0.8

Source : ARCA

Compared to 2017, the penetration rate, defined as the ratio of turnover to GDP, increased from 0.75 to 0.77% in 2018 and remains low compared to the African average (3.0%)[19] . This rate is mainly driven by non-life insurance products, which represent 63% of the overall turnover of the sector in 2018 against 64% in the previous period.

2.4.2. Sector's performance

The assets of the insurance sector increased by 20.6% in 2018 from 165,060.9 to 199,026.2 MBIF year-on- year due to the final approval of new insurance companies.

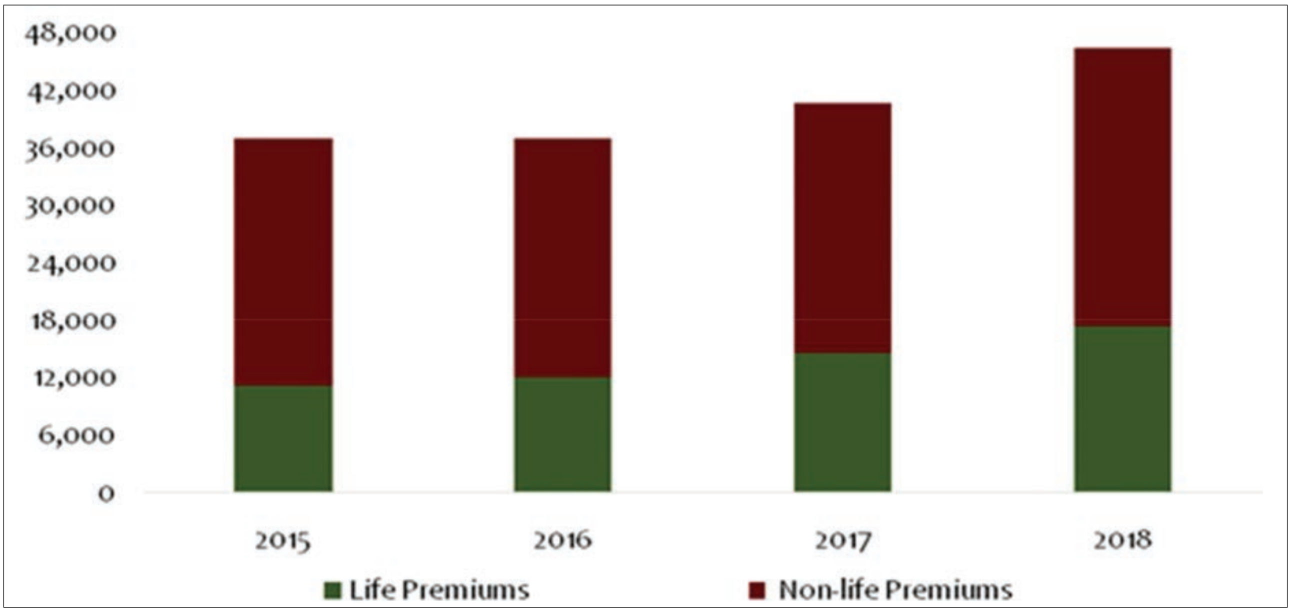
A. Evolution of the insurance premiums

From one year to another, premiums collected by insurance companies stood at 46, 410.3 MBIF

[18] Loi no 1/02 du 07 janvier 2014 portant Code des Assurances au Burundi
[19] Tunisian Insurance Federation, Report 2018

against 40, 610 MBIF in 2017, which represent an increase of 14.3%. They are divided between life insurance (37.4%) and non-life insurance (62.6%).

Figure 22: Evolution of Premiums by type of insurance (in MBIF)



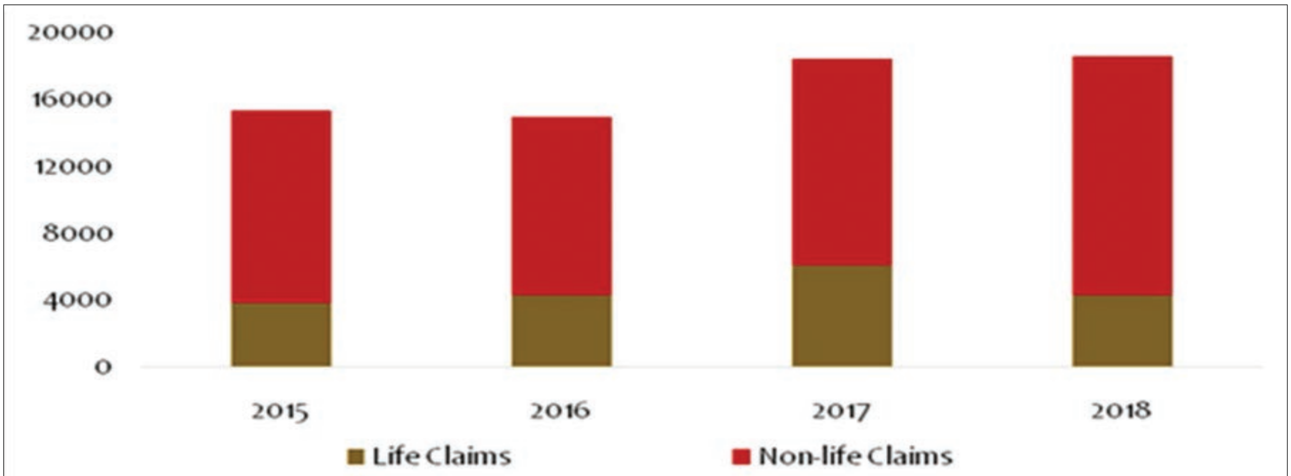
Source: ARCA

B. Claims

Life insurance claims were set to 4,261.4 MBIF against 6,003.9 MBIF in 2017, that is a decrease of 29%, while non-life claims amounted to 14, 257 MBIF against 12, 362.4 MBIF in 2017, that is an increase of 15.3%. The share of non-life insurance is increasing from 67 to 77% from one year to the other, while the share of life insurance is declining from 33% to 23% over the same period.

The claims ratio, which indicates the ratio between claims and collected premiums stood at 24.5% in 2018 for the life branch against 41.3% in 2017, while non-life insurance stood at 49.1% in 2018 against 47.4% the previous year.

Figure 23: Evolution of sector claims by types of insurances (in MBIF)

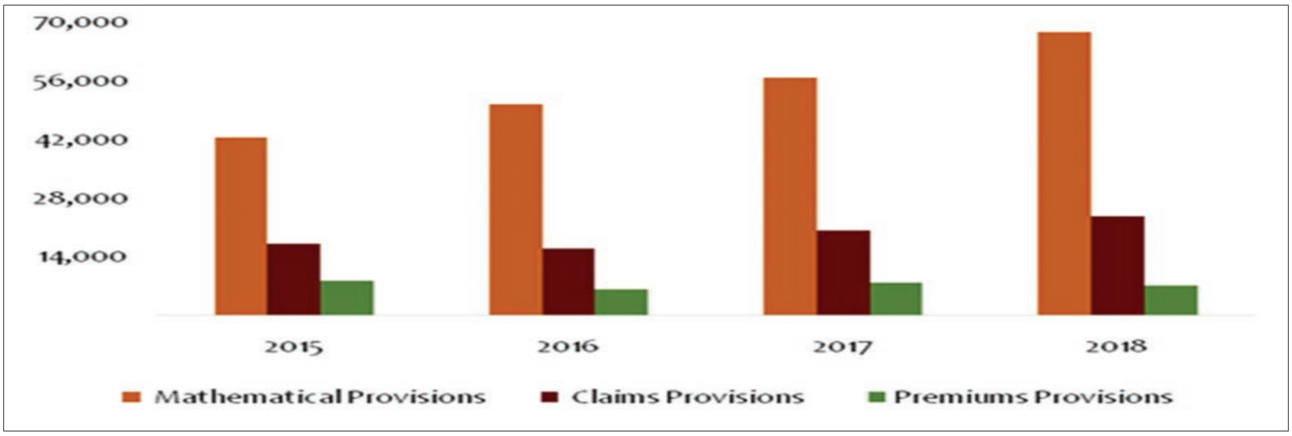


Source: ARCA

C. Technical provisions for the sector

Technical provisions consist of mathematical provisions, claims and premium provisions. They increased by 16.0% in 2018 due to an increase of 19.3% of mathematical provisions.

Figure 24: Evolution of technical provisions by types of insurances (in MBIF)



Source: BRB

D. Sector profitability

Return On Assets (ROA) and Return On Equity (ROE) increased from 1.9 to 2.2% and from 5.7 to 6.1% respectively year-on-year due to the increase in the profit of the sector.

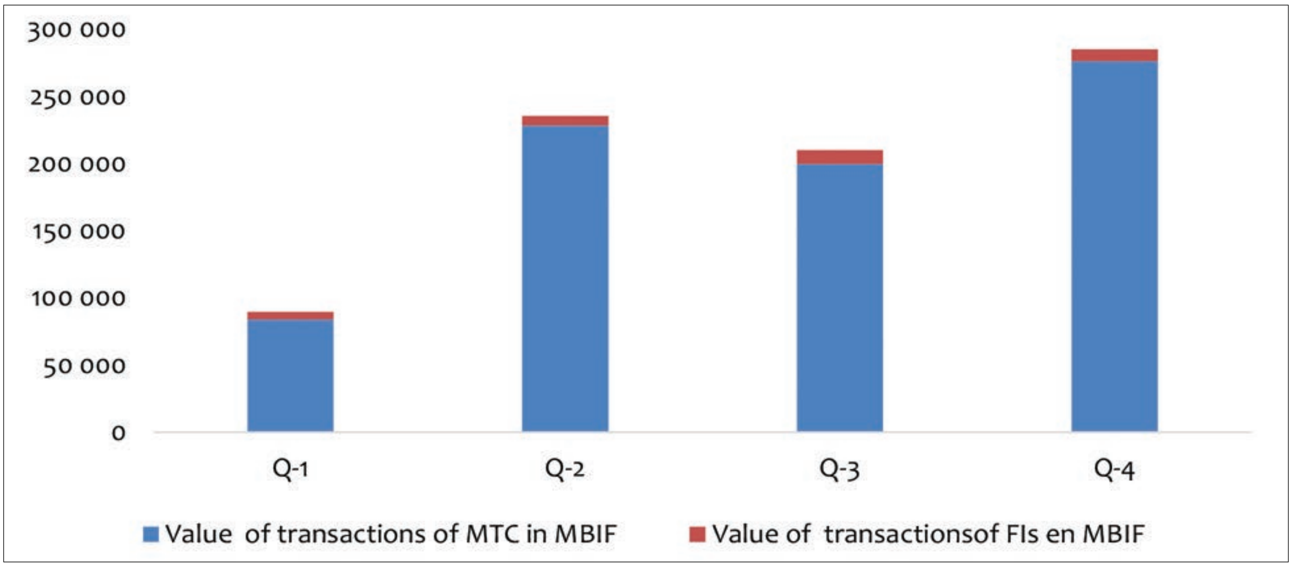
2.5. Digital financial services

Payment services are offered in particular by mobile phone companies or credit institutions allowing transactions to be carried out via mobile phones, with or without holding a bank account. These Digital Financial Services (DFS) have developed rapidly, which led to significant growth in electronic money.

2.5.1. Electronic transactions

The Burundian market for electronic money is shared by two types of institutions, namely, mobile phone companies and credit institutions.

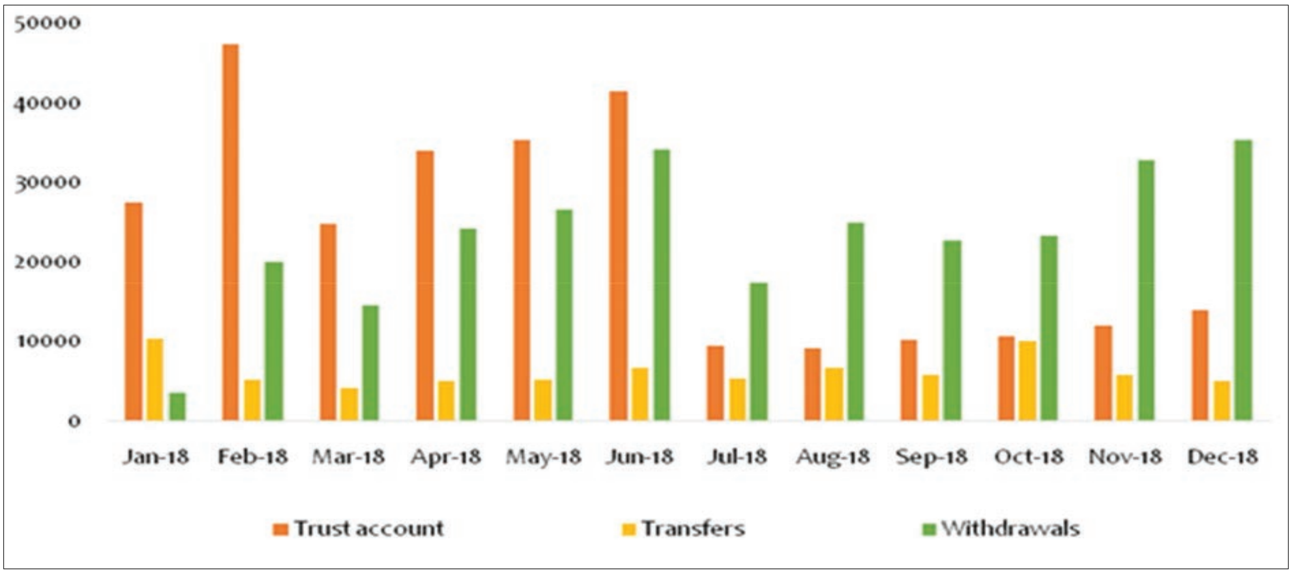
Figure 25: Value of electronic transactions



Source: BRB

The number of electronic money transactions carried out by credit institutions in 2018 is low compared to the number of transactions made by Mobile Telephone Companies (MTCs).The cumulative transactions carried out by Mobile Telephone companies amounted to 787,897 MBIF, while those of credit institutions amounted to 32,121 MBIF, representing 96.1% and 3.9% of the total value respectively.

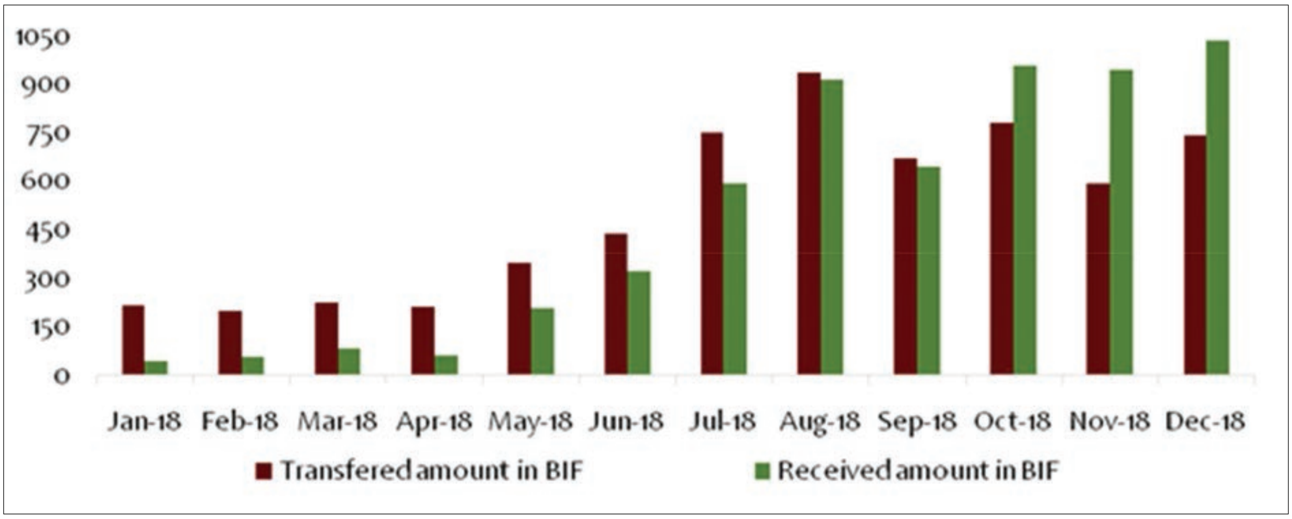
Figure 26: Local transactions of mobile telephone companies (in millions)



Source: BRB

The main electronic transactions carried out by mobile telephone companies are more withdrawals than transfers. However, there has been a significant reduction in the balance of trust accounts since July 2018, due to the high number of inactive accounts[20] amounting to 71.1% out of a total of 4,248,361 accounts.

Figure 27: Evolution of IMTI transfers (in MBIF)



Source : BRB

[20] An inactive account is an account that is open but does not record transaction

The transactions of Instant Money Transfer Institutions 'IMTI' increased significantly from July 2018, due to the arrival of two other institutions approved by the Central Bank on the market, in addition to the existing services such as «Western Union» and «MoneyGram».

2.5.2. Challenges of electronic money

Electronic money is recent in Burundi and the regulatory frameworks governing activities in this area were adopted in 2017. The number and volume of transactions is continuously growing and there are challenges, such as:

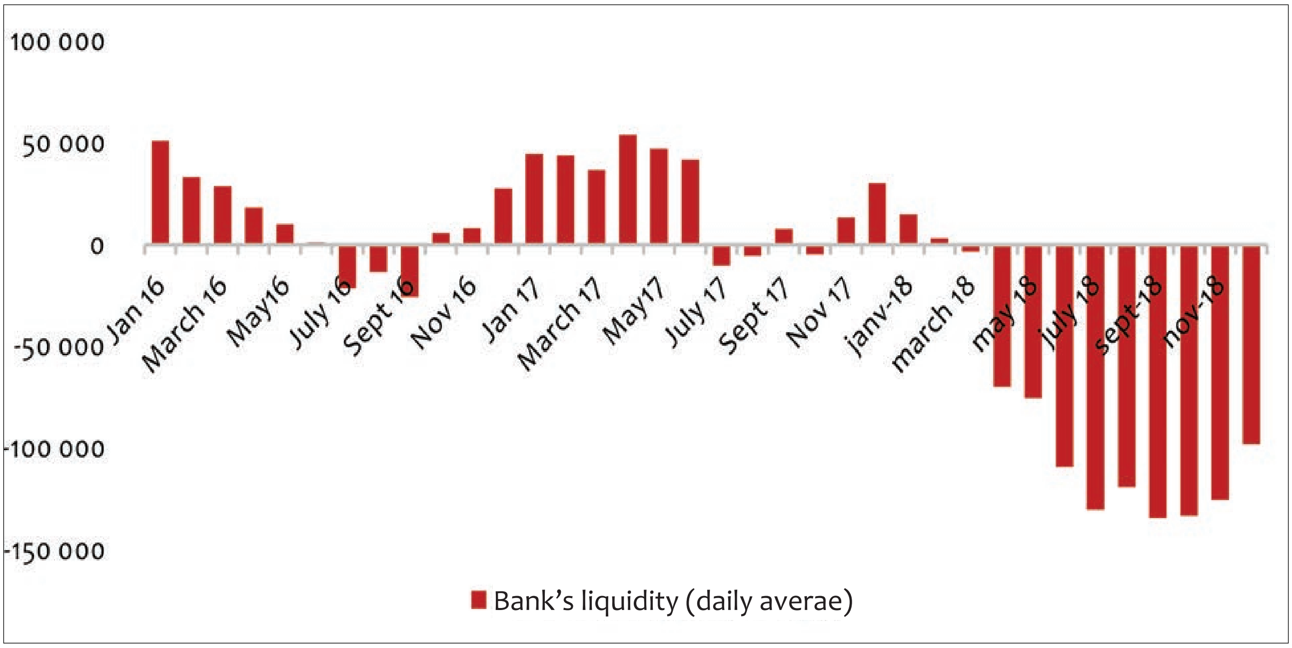
- the promotors of payment system institutions have not yet understood the need to be subject to the monitoring of their activities;
- the lack of the accounting standards for these institutions makes it impossible to prepare financial statements;
- the regulatory framework still needs to be strengthened, especially the sanctions matrix and the framework regulating digital loans;
- the awareness of the institutions› managers to benefit trainings on the risks that the sector is exposed to.

3

CHAPTER 3: MONEY MARKET AND MARKET INFRASTRUCTURE

The year 2018 was characterized by deterioration in bank's liquidity[21]. In fact, the bank's liquidity amount (without Central Bank intervention) stood at -98,028 MBIF at the end of 2018, whereas it was 30,147 MBIF at the end of 2017.

Figure 28: Bank's liquidity (Daily average in MBIF)



Source: BRB

Regarding market infrastructures, their functioning during 2018 did not disrupt the financial stability.

3.1. Money Market

3.1.1. BRB liquidity supply

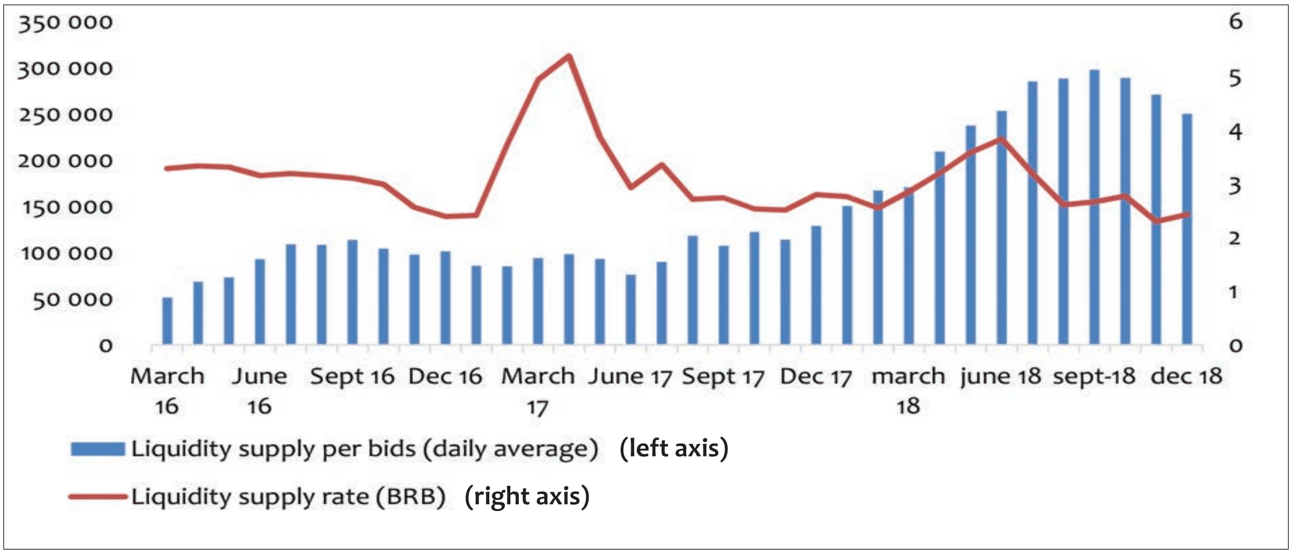
As part of the conduct of its monetary policy, the Central Bank carried out liquidity supply operations.

The amount of liquidity supply per bid increased to reach 248,180 MBIF at the end of December 2018 against 159,990MBIF at the end of December 2017.

As result of this policy of easing the conditions for refinancing of banks to support the economy financing, the rates on the money market and the government securities market decreased. The liquidity supply rate stood at 2.4% at the end of 2018 against 2.8% at the end of 2017, which is a decrease of 0.4 pp.

[21] In monetary policy, bank's liquidity is the commercial bank's account balance in Central Bank

Figure 29: BRB liquidity supply per bid

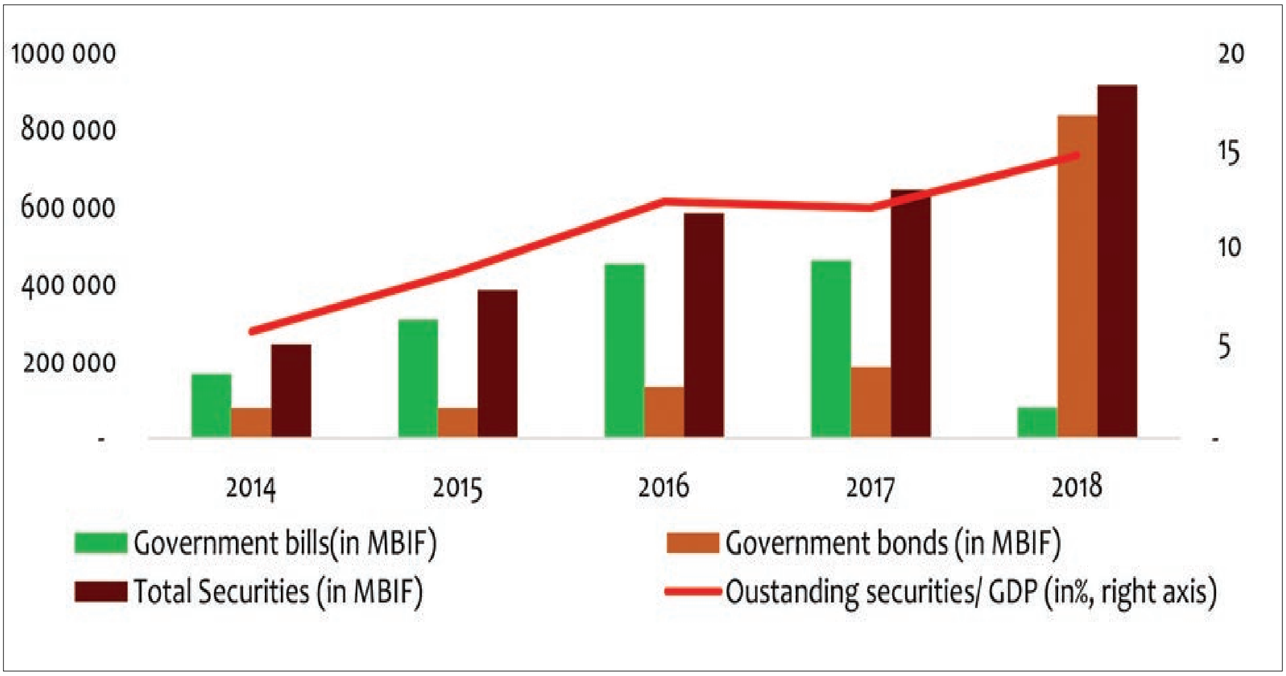


Source: BRB

3.1.2. Government securities market

The easing of refinancing conditions allowed the banks to increase the subscription to Government securities (government bills and bonds) whose outstanding amount has increased from 643.5 to 938.0 MBIF from December 2017 to December 2018, that is an increase of 45.8%. The share of government securities held by the banking sector as a percentage of GDP represents 15.6 against 12.4%.

Figure 30: Outstanding government securities (in MBIF)



Source: BRB

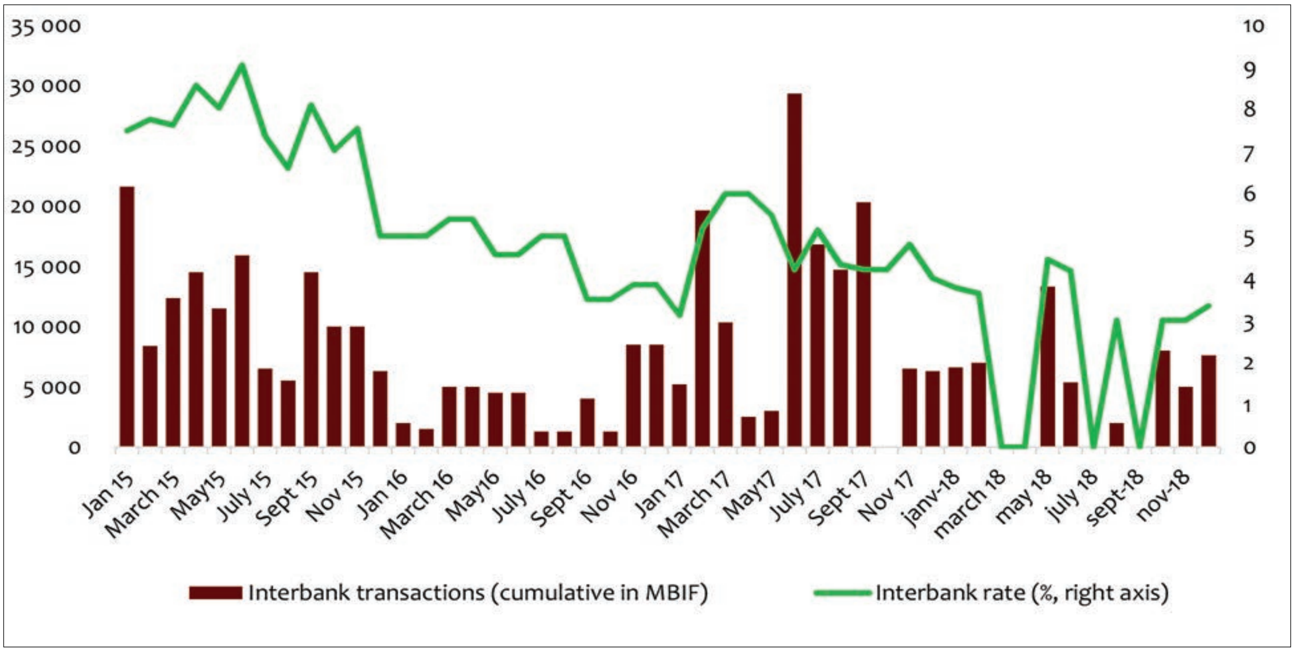
There is a high level of interconnection between the banking sector and the government securities market. In fact, the share of government securities in the banks' balance sheets increased from 29.7% at the end of 2017 to 36.4% at the end of 2018.

During the year of 2018, the Central Bank approved two banks as Primary Dealers which operate on the new secondary market for government securities.

3.1.3. Interbank Market

Interbank transactions did not increase much in 2018, amounting to 7,600 MBIF at the end of 2018 against 6,300 MBIF in 2017. Over the same period, the interbank interest rate fell to 3.3% at the end of 2018 against 4% at the end of 2017.

Figure 31: Interbank money market transactions



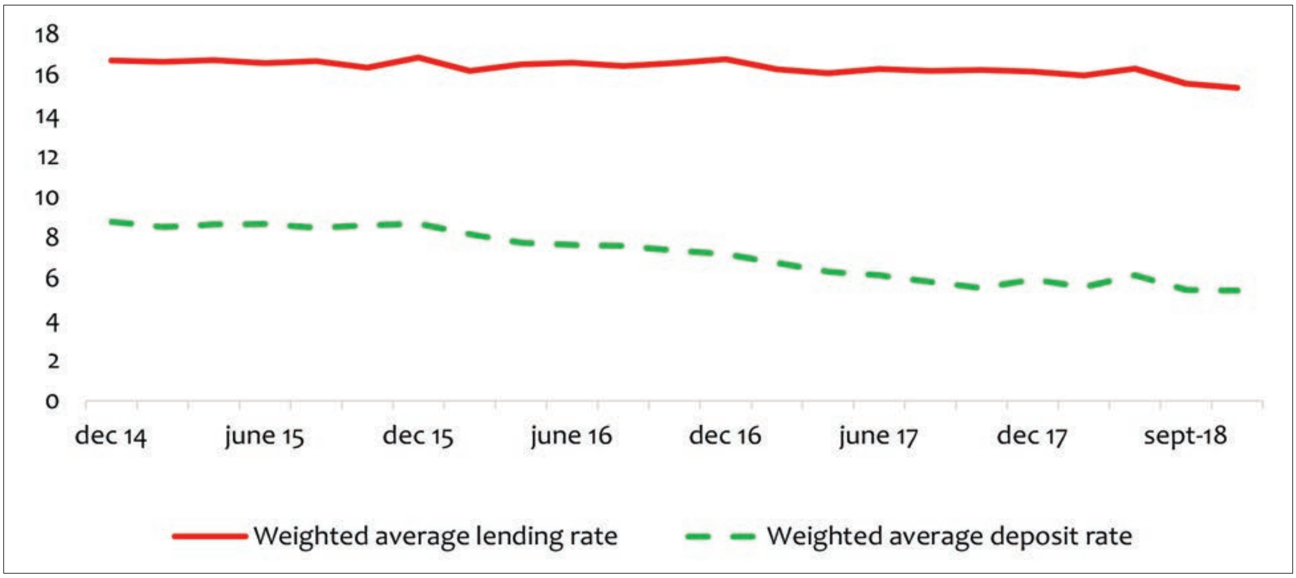
Source: BRB

3.1.4. Interest rates on loans and deposits

For 2018, the average interest rate on loans provided by credit institutions decreased by 0.79 pp, standing to 15.37% against 16.16% at the end of 2017.

The interest rates on deposits also decreased by 0.54 pp, to stand at 5.42% at the end of 2018 against 5.96% at the end of 2017. Although the spread between the lending and deposit rates increased at the end of 2018 (9.95%), it decreased by 0.25 pp compared to the end of 2017.

Figure 32: Average lending and deposit rates



Source: BRB

3.2. Market infrastructure: payment and settlement systems

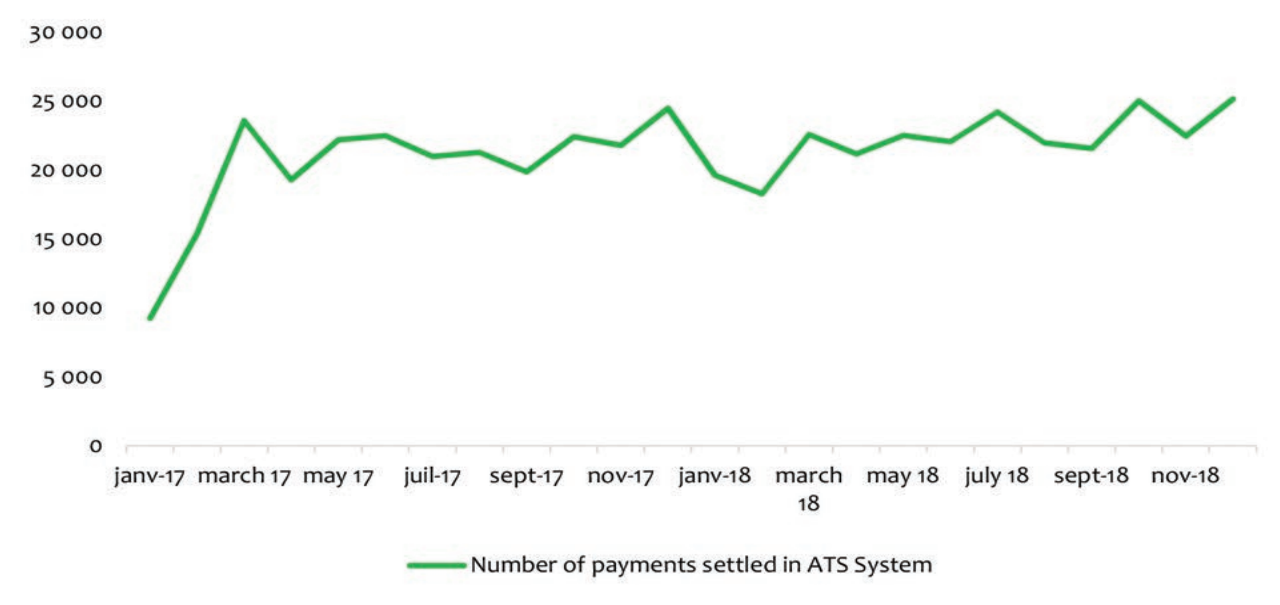
A well-functioning payment infrastructure is a pillar for the financial system stability and it is for this reason that close monitoring is necessary to mitigate any malfunction. Such infrastructures are therefore important for maintaining financial stability due to the systemic risks they may cause when they fail.

Currently, three components of the payment system are the main infrastructures for Burundi's financial transactions. These include the Automated Clearing House (ACH), the Real Time Gross Settlement (RTGS) 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.

3.2.1. Payment and settlement systems

In May 2018, Law No. 01/07 of May 11, 2018 on the National Payment System was enacted, thereby ensuring a high level of protection of payment systems, instruments and means of payment as well as their users. The Automated Transfer System (ATS) enables to settle a large number of payments. At the end of 2018, there were 25,218 payments against 19,601 at the end of 2017.

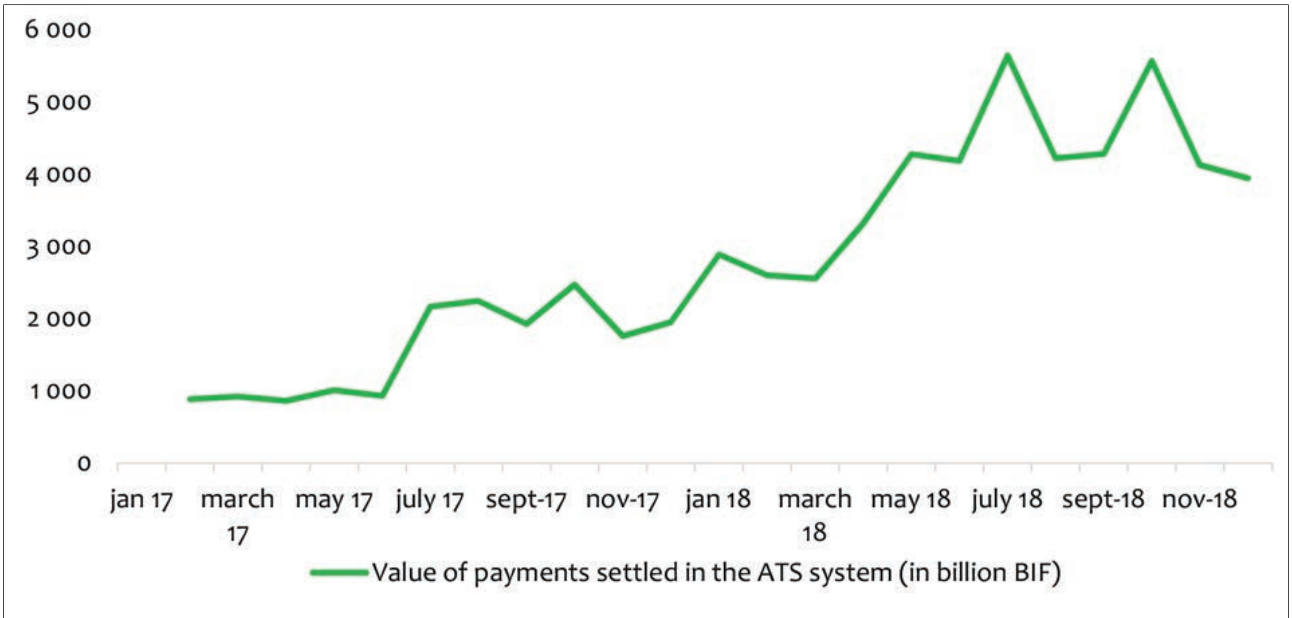
Figure 33: Number of payments settled in the ATS system



Source: BRB

In addition, since the operationalization of ATS payment and settlement in February 2017, the value of payments stood at 1,945.6 bn BIF at the end of 2017 and at 3, 944.2 bn BIF at the end of 2018.

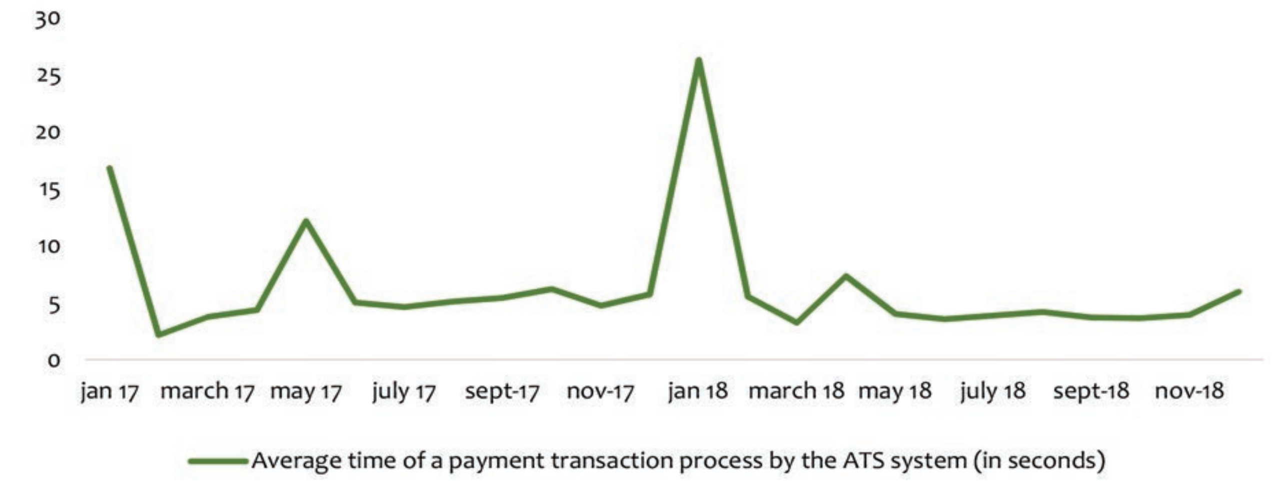
Figure 34: Value of payments settled in the ATS system (in bn of BIF)



Source : BRB

The introduction of the new automated payment system has helped to reduce the time it takes to process payment transactions. Thus, the average processing time for a transaction payment in the Automated Transfer System (ATS) decreased to 5.96 seconds at the end of December 2018 against 16.79 seconds in January 2017.

Figure 35: Average time of a payment transaction process by the ATS system (in seconds)



Source : BRB

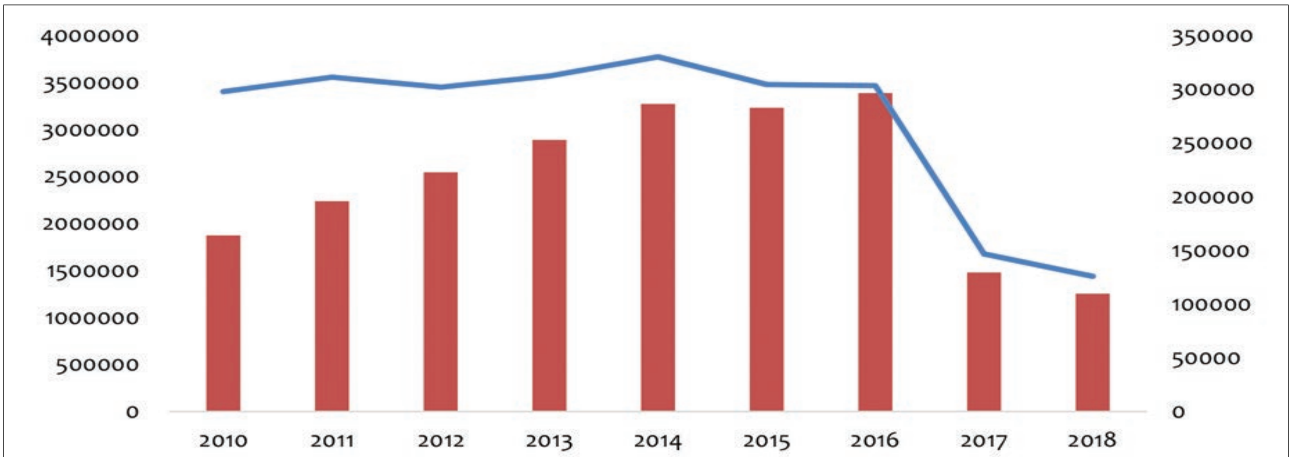
In order to ensure the integration of the national payment system at regional level, the Central Bank continued, during 2018, the process of finalizing the tasks for the SWIFT connection of its payment and settlement systems in real-time (RTGS) with regional payment and settlement systems. These are East African Payment System (EAPS) from EAC and Regional Electronic Payment and Settlement System (REPSS) from COMESA.

BRB, in collaboration with credit institutions and the "Régie Nationale des Postes", has created a company called BI-SWITCH, responsible for facilitating the interoperability of card payment systems or any other electronic means of payment in Burundi.

3.2.2. Clearing House Activities

At the end of 2018, manually processed transactions (checks and transfer orders) in the clearing house decreased by 14.2% compared to the end of 2017. They went from 303,106 at the end of 2017 to 146,739 transactions at the end of 2018. Similarly, the overall value of these operations also decreased by 15.3%, from 1,479.6 at the end of 2017 to 1,255.0 bn of BIF at the end 2018 due to the automation of clearing operations in the ACH and RTGS systems.

Figure 36: Clearing house transactions



Source : BRB

The efficiency of the ACH infrastructure is demonstrated through intraday credit and 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.

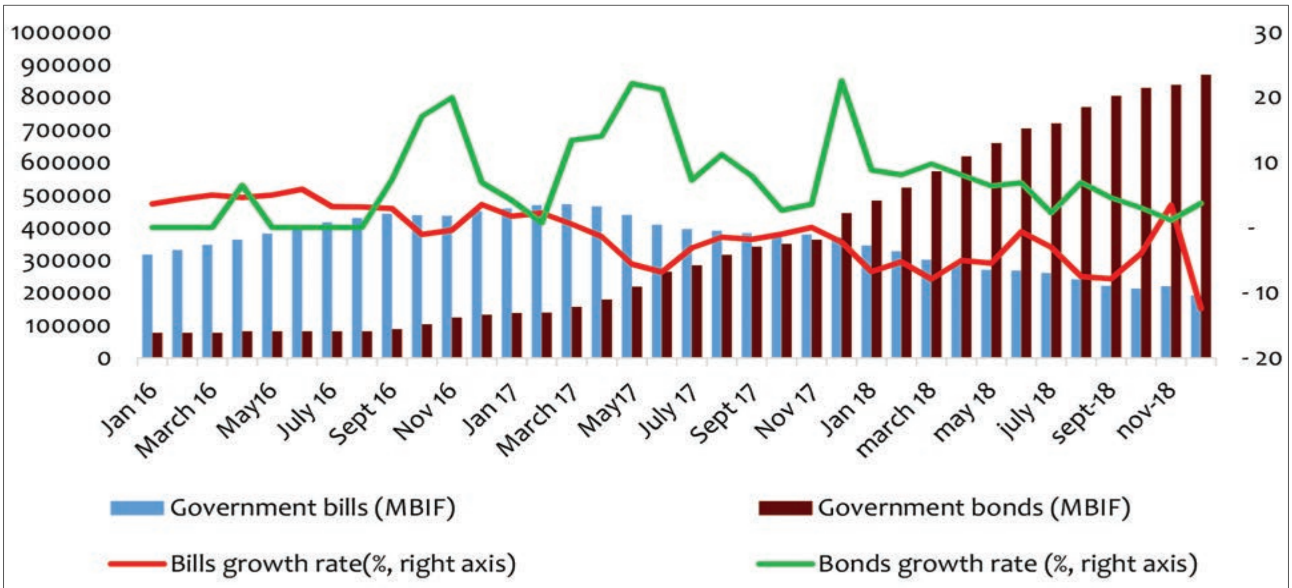
This infrastructure operated without any malfunction during 2018, which allowed all of the banks' transactions to be settled without any risk, thereby preserving the risk for the entire financial sector.

3.2.3. Securities settlement-delivery system

In the absence of an operational secondary securities market, the BRB provides the central functions for the smooth running of transactions on the government securities market (government bills and bonds) through the CSD. Indeed, the BRB keeps the securities registered in the account and manages the settlement / delivery system for all processed transactions. 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 due to the volume of financial assets and the flows processed through this system.

The volume of government securities processed in the CSD amounted to 1,060.9 bn of BIF at the end of 2018 compared to 813.7 bn of BIF at the end of 2017, which is an increase of 30%. The progression pace of the securities traded through the CSD in government bonds is important than that of the government bills with a positive growth rate of 3% and a negative growth rate of 12.6% respectively.

Figure 37: Evolution of Government Securities in CSD



Source : BRB

3.3. Currency circulation

Bank notes and coins in circulation increased by 13.6% in 2018, from 308,146.5 MBIF in 2017 to 350,207.7 MBIF in 2018.

Currency circulation consists of 99.5% of bank notes and 0.5% of coins.

4

CHAPTER 4 : PRUDENTIAL REGULATION FRAMEWORK

The implantation of an appropriate prudential regulation framework is important to ensure regular monitoring of the soundness and stability of the financial system.

Thus, during 2018, there was strengthening of the regulatory frameworks governing the banking sector, the microfinance sector, the financial market and the insurance sector, which will allow the strengthening of the soundness and stability of the Burundian financial system in perpetual development.

4.1. Banking sector regulation

During 2018, the BRB carried out a complete revision of all the circulars governing the banking sector and the enactment of new circulars, on the one hand, in application of law n° 1/17 of August 22nd, 2017 governing banking activities, and on the other hand, in accordance with international best practices and the EAC convergence criteria in banking supervision issues.

The innovations in this new regulatory framework relate in particular to the requirement of the constitution of the Tier 1 capital, the taking into account of off-balance sheet commitments in the calculation of the leverage ratio, the introduction of the short term liquidity ratio required by Basel III which aims to require banks to permanently maintain a stock of high-quality liquid assets to cover net cash outflows for 30 days, strengthening risk management, the internal control system, corporate governance and risk division monitoring, disclosure of financial statements as well as strengthening of corrective measures and sanctions applicable to credit institutions that do not comply with the legal and regulatory framework.

The circulars enacted on August 17, 2018 are related to:

- the minimum compulsory share capital of credit institutions;
- the capital of credit institutions;
- the solvency ratios of credit institutions;
- the short-term liquidity ratio of banks;
- the ratio of long term resources and fixed assets of credit institutions;
- the credit risk division of credit institutions;
- the internal control of credit institutions;
- the acquisition and holding of participations in credit institutions;
- the conditions for setting up branches, counters, representative offices and subsidiaries of credit institutions;
- the non-banking activities of credit institutions;
- the risk classification and constitution of provisions for credit institutions;
- the approval of the executives and directors of credit institutions;
- the approval and functions of credit institutions auditors;
- the loans ban to defaulting customers within the banking sector;
- the foreign exchange position of the banks;
- the licensing of credit institutions and representative offices of foreign banks;
- the risk management;
- the corporate governance in credit institutions.

Box 2: Need to set up a deposit insurance and resolution fund in Burundi

The evolution of 2007 financial crisis has shown that it is important to maintain depositors' confidence in the financial system and that the main objective is to protect depositors and contribute to financial stability in order to mitigate the systemic risks.

It is in this perspective that the law n ° 1/17 of August 22nd, 2017 governing the banking activities, in its article 87, requires the Central Bank to set up a deposit insurance and banking crisis resolution mechanism. To this end, the Central Bank must define the terms and conditions of its functioning.

In addition to the national legal framework encouraging the establishment of this institution, on an international level, there is already a regulatory institution called International Association of Deposit Insurers (IADI) from which countries are referring to develop regulations governing the deposit insurance funds according to their contexts.

On the regional level, all EAC countries, except Burundi and South Sudan, have already set up the deposit insurance fund, with features specific to each country. It is in this perspective that the EAC countries have set up a Technical Working Group to harmonize practices, so that these institutions converge on the same criteria (level, volume, safeguarding of balances held by banks) that will serve as a benchmark for banking crises management through a deposit insurance fund. Also, in addition to the coverage of conventional deposits of deposit-taking institutions, the EAC countries will also include the coverage of mobile money balances.Taking into account the mobile money is a significant advanced stage in terms of financial stability, as the development of the digital financial services is accentuated in EAC in general and in Burundi in particular.

4.2. Microfinance sector regulation

In 2018, the BRB enacted new regulations governing the microfinance sector in application of Law No. 1/17 of August 22nd, 2017 governing the banking activities.

Since August 17th, 2018, the microfinance sector has been governed by Regulation No. 001/2018 relating to microfinance activities as well as the implementation of twelve (12) circulars related to:

- the licensing of microfinance institutions ;
- the institutional transformation of a microfinance institution or a community financial group;
- the approval of directors, members of the monitoring board, qualified shareholders, reference shareholders and executive managers of microfinance institutions, federation structure, financial structures

as well as the registration of the management committee members of community financial groups;

- the governance of microfinance institutions, federation structure, federation bodies, financial structures and community financial groups;
- the pricing of services offered by the Central Bank to microfinance institutions, community financial groups, federation structures and to federation bodies;
- the assessment of the inventory of premises and equipment of the head office or of an agency or counter of a microfinance institution;
- the loans classification and provisioning ;
- the procedures for transmitting financial statements and other periodic statements by microfinance institutions, federal organizations and financial bodies;
- the approval and exercise of the function of the Statutory Auditors of microfinance institutions and financial bodies;
- the internal control applicable to microfinance institutions, federal organizations and financial bodies;
- the supply and consultation of the information exchange center.

4.3. Payment institutions regulation

In 2018, the BRB continued to strengthen the legal framework related to the payment institutions. Indeed, the article N°7 of regulation 001/2017 related to the payment services and activities of payment institutions stipulates that each existing entity must create a subsidiary with an independent personality. The BRB has therefore approved two subsidiaries in order to be able to comply with these provisions.

4.4. Capital market regulation

During the 2018 fiscal year, the Central Bank provided technical support to the authorities empowered to adopt the law governing the capital market in Burundi[22]. It also prepared the regulation drafts related to the regulation of the capital market. The BRB has conducted, with technical assistance of the EAC Secretariat, capacity-building workshops for its staff and other stakeholders on the functioning and regulation of the capital market.

4.5. Measures adopted in relation to the new monetary policy orientations

In view of recent developments and the future prospects in terms of accelerating economic growth compatible with the imperatives of financial stability and the harmonious development of the Burundian economy, the Central Bank announced, on November 8th, 2018, new monetary policy orientations that will support the sectors driving economic growth. These measures include:

- adapt the refinancing policy to encourage credit institutions and microfinance institutions to finance investments in priority and sectors driving economic growth, by setting up affordable refinancing mechanisms, in order to influence the lending cost in these priority sectors;

[22] Law No 1/05 of February 27 governing the capital market in Burundi.

- introduce, as part of refinancing and in addition to maturities already existing of 7 and 28 days, new relatively long maturities covering a period ranging from 6 to 12 months depending on the conditions that the Central Bank will set for this purpose;
- assist credit institutions in monitoring funding granted in sectors deemed to be priority to support economic growth;
- introduce bilateral agreements with credit institutions which will be deemed effective in relation to this new orientation, according to the discretionary analysis of the Central Bank;
- support credit institutions that will engage in the negotiation of partnerships with foreign financial institutions in the financing of investments within the sectors driving economic growth ;
- assist credit institutions in setting up a credit guarantee fund and refinancing external credit to the Central Bank that will serve to cover losses incurred by banks which will have financed sectors driving economic growth, in accordance with the rules laid down by the Central Bank in this perspective;
- Set the lending rate cap in application of law n° 1 / 17 of August 22nd , 2017 governing banking activities in order to reduce the lending cost, for the banking and microfinance sectors.

4.6. Insurance companies supervisory framework

In 2018, regulatory texts governing the insurance sector were implemented by ARCA in order to comply with the provisions of the Insurance Code in Burundi.

4.6.1. Circular relating to the creation of a National Arbitration Commission

In 2018, the Insurance Sector Regulatory Authority continued to strengthen the sector in general and regulation in particular. To this end, to be in line with Law N ° 1/02 of January 7th, 2014 on the insurance Code in Burundi, a circular was enacted setting up a National Arbitration Commission whose object is to settle the disputes arising among insurance companies. Thus, each company must appoint a representative to be a member of this commission.

In this perspective, in order to limit and avoid conflicts of interest, in a dispute involving two insurance companies, the analysis of the issue will exclude the representatives of the companies in conflict and the decision must be disclosed within one month following the date of the meeting.

4.6.2. Decision on exemptions

With the same objective of ensuring the proper functioning of the insurance sector, ARCA, which is the regulatory authority, has exempted some requests from insurance companies. Since 2018, it has been decided that direct insurance abroad and compliance with the maximum risk transfer rate abroad may not be exempted under any circumstances. Therefore, this provision will be applied to any insurance company willing to evade non-compliance with the regulatory limit for the constitution of a financial guarantee under 20% of the share capital, and non-compliance with the rules for the constitution of claims reserves.

4.6.3. Decision on provisions applicable to the payment of claims and provisions constitution for claims to be paid

In accordance with the provisions of the Insurance Code, this regulatory framework provides details on the method of calculating claims reserves in terms of the minimum amount of premiums written in the non-life branches specified during a given fiscal year.

4.6.4. Other decisions on insurances 'definitive licensing

According to the Law N° 1/02 of January 7th, 2014 on the Insurance Code in Burundi, all insurance companies must comply with the adoption of the separation between life and non-life products. Thus, after having assessed whether the insurance companies have complied with the separation provisions, the Regulatory Authority finalized in 2018 the agreement on final licenses for almost all of the companies. Therefore, these decisions will allow, in one way or another, to assess risks related to each type of product in order to define the strategies for their mitigation.

OUTLOOK

During 2018, the risks to financial stability remained moderate and the results of stress tests showed that the banking sector has a sufficient capital buffer to withstand potential shocks. The Financial stability outlook continues to improve due to the progressive recovery of economic activity. This improvement had an impact on the performance of the banking sector.

For 2019, in addition to this recovery trend, financial stability could improve as a result of the amelioration of the main macroeconomic indicators and the issuance of new circulars in both the banking and microfinance sectors, as well as the tools for monitoring financial stability.

In addition, the banking sector performance should improve, stimulated by the recovery in economic activity (GDP[23] growth of 5.0% in 2019 compared to 3.8% in 2018). Nevertheless, three main risks continue to weigh on this outlook.

First, almost half of credit institutions have an average rate of non-performing loans above 9.4% and weak credit growth could affect the profitability of banks.

Second, the volume of special mention loans remains high, leading to an increase in non-performing loans and to a decrease in credit institutions' capital.

Another challenge facing the stability of the financial system in the short term is the increase in public debt and the depreciation of the national currency, which could cause possible losses to the financial sector.

To mitigate these imminent risks to financial stability, the Banque de la République du Burundi will strengthen the macro and micro prudential supervision framework for credit institutions through appropriate tools in order to preserve the soundness and stability of the financial sector. Thus, it will initiate the establishment of a National Committee for Financial Stability including the Ministry in charge of Finance and the other regulators of the financial system and sensitize all the stakeholders for the implementation of the application texts of the law n ° 1/02 of February 4th, 2008 on anti-money laundering and the terrorist financing, and the related institutional framework.

In accordance with the new law n°1/17 of August 22nd, 2017 governing the banking activities, and taking into account commitments made in the context of regional integration, it is imperative to anticipate banking crisis by setting up the appropriate institutional and legal frameworks for crisis management, including in particular the establishment of a deposit insurance fund, and the establishment of a framework for cooperation and information sharing between regulators from different sectors of the Burundian financial system.

[23] Données du Cadrage Macroéconomique, MFBCDE, March 2018.

5 APPENDIXES

Appendix 1: EAC, Financial Soundness Indicators

Indicators	Country	Dec-15	Dec-16	Dec-17	Dec-18
Equity/Risk Weighted Assets	Burundi	18.1	22.7	23.2	23.6
	Kenya	21.7	18.9	18.5	17.2
	Tanzania	18.9	19.1	19.7	14.2
	Uganda	21	19.8	23.2	18.7
	Rwanda	22.2	23.1	21.4	19.8
	South Sudan	N/A	N/A	N/A	13.9
Non Performing loans/Total loans	Burundi	17.9	14.7	14.7	9
	Kenya	6	11.7	10.6	12
	Tanzania	8.6	9.6	12.5	10.2
	Uganda	5.1	10.4	5.6	3.4
	Rwanda	6.2	7.1	7.6	5
	South Sudan	N/A	N/A	48	44.4
Return On Equity (ROE)	Burundi	11.5	8.5	16.5	20.6
	Kenya	23.8	24.8	20.8	22.5
	Tanzania	13	8.9	6.9	5.9
	Uganda	16	8.3	16.4	14.4
	Rwanda	11.8	9.1	6.3	11.7
	South Sudan	30.7	21.6	16	24.8
Return On Assets (ROA)	Burundi	1.9	1.3	2.2	2.4
	Kenya	2.9	3.1	2.7	2.7
	Tanzania	2.7	2.1	1.7	1.5
	Uganda	2.6	1.3	2.7	2.5
	Rwanda	2.9	2.5	2.1	3
	South Sudan	3.4	2.3	2.3	3.4

Source: BRB

Appendix 2: Financial Soundness Indicators for Banking Sector

	2010	2011	2012	2013	2014	2015	2016	2017	2018
CAPITAL ADEQUACY									
Core Capital (tier 1)	106,404.4	136,188.5	162,524.4	189,541.4	200,630.6	210,323.5	229,217.6	224,608.6	286,587.8
Total Capital	126,767.0	157,829.8	185,430.9	223,415.7	231,350.9	243,523.4	265,744.0	247,559.8	312,326.5
ASSET QUALITY									
NPL Ratio	9.0	6.9	7.7	9.4	11.1	16.9	12.1	14.7	8.9
Performing Loans									
Pass loans	380,854.0	533,927.0	506,820.0	592,607.0	528,871.0	300,915.0	611,508.0	638,481.0	804,866.60
Special mention loans	3,072.0	4,350.0	6,278.0	7,189.0	8,768.0	37,364.0	32,131.0	41,098.7	54,517.3
Non-performing loans									
Substandard loans	2,361.0	3,703.0	7,137.0	4,821.0	8,625.0	32,811.0	33,734.0	14,031.8	8,144.4
Doubtful loans	2,429.0	4,730.0	4,056.0	7,591.0	6,583.0	8,472.0	6,925.0	21,644.0	8,371.8
Loss loans	34,029.0	31,329.0	39,044.0	53,400.0	75,763.0	94,149.0	50,918.0	80,237.7	68,407.8
Total NPLs	38,819.0	39,762.0	50,238.0	65,812.0	90,971.0	135,433.0	91,577.0	115,913.0	84,924.2
PROFITABILITY									
Net income	22,550.7	33,984.3	20,705.9	18,855.1	14,066.1	22,579.7	21,863.2	35,731.7	61,662.7
ROA	4.1	6.9	4.2	4.5	1.9	1.9	1.3	2.2	2.4
ROE	25.2	34.9	18.6	18.7	9.4	11.5	8.5	16.5	19.7
Interest Margin	51,769.0	61,814.6	71,955.9	80,686.8	81,335.0	112,289.5	90,834.4	107,678.0	147,155.0
Margin on commission	26,424.2	33,378.2	18,070.1	35,969.6	44,373.9	32,766.9	103,534.5	71,994.6	40,956.0
Average lending rate	15.9	15.3	15.7	16.2	16.7	16.9	16.8	16,2	15.4
Average Deposit rate	7.3	7.6	8.8	9.0	8.8	8.7	7.2	6.0	5.4
LIQUIDITY									
Liquid assets	354,622.8	312,317.5	317,691.7	420,546.1	514,743.3	493,719.2	758,972.1	285,645.0	233,363.4
Liquid Assets/ Deposits ratio	0.6	0.5	0.5	0.5	0.5	0.5	0.8	0.2	0.2
Loans/Deposits ratio	0.8	0.9	1.0	0.8	0.9	0.8	0.7	0.6	0.6
MARKET									
Foreign Currency loans	3,025.2	3,141.0	81.2	2,315.8	36,394.6	34,634.1	23,163.7	16,958.3	55,526.8
Foreign currency									
deposits	145,126.5	155,089.7	185,108.5	199,349.5	225,790.8	154,231.8	180,504.9	119,675.0	159,047.0
Foreign currency									
assets	169,608.0	157,129.0	210,111.3	218,810.2	219,025.9	260,502.6	167,374.0	187,039.8	218,519.9
Foreign currency									
liabilities	150,062.2	157,869.0	203,792.6	222,629.7	252,723.5	248,580.5	180,504.9	201,694.8	236,643.7
Foreign currency loans / Tier I	3.0	2.0	-	1.0	1.0	2.0	10.0	7.6	19.3
Foreign currency loans /Foreign currency deposits	0.0	0.0	0.7	0.0	0.0	0.0	0.1	0.1	0.3
Foreign currency assets/Foreign currency liabilities	1.1	1.0	1.0	1.0	0.9	1.1	0.9	0.9	0.9

Source : BRB

Appendix 3 : GDP constant prices (in Bn BIF)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Primary Sector	**509.3**	**461.7**	**470.8**	**465.3**	**472.8**	**466.3**	**476.3**	**516.4**	**497.9**	**488**	**497.1**	**490.9**	**502.9**
- Food Crops	418.9	398.7	408.8	408.6	387.1	398.9	404.2	465.7	442.2	427.4	431.8	428.5	437.5
- Agriculture exports	40.9	19.3	29.3	13.9	32.8	14.3	19.3	16.6	18.4	21.3	17.6	17.5	18.3
- Coffee	36.0	13.9	22.5	4.8	23.7	5.7	9.8	2.6	3.2	4.9	4.2	4.6	4.7
- Tea	4.2	4.6	5.2	6.8	8.3	7.5	7.7	13	14.2	15.4	12.3	12.1	12.7
- other agricultural exports	0.8	0.8	1.5	2.3	0.8	1.1	1.8	1.0	1.0	1.0	1.1	0.8	0.9
- Forest	8.9	9.2	7.2	6.2	10.7	11.3	10.2	11.2	11.9	13.4	12.2	16.7	18.5
- Livestock	35.3	32.1	22.4	33.7	38.5	38.6	39.0	20.2	22.4	22.5	31.6	24.6	24.8
- Fishing	5.2	2.5	3.1	3.0	3.7	3.2	3.6	2.6	3.0	3.4	3.8	3.5	3.7
Secondary Sector	**215.6**	**233.5**	**244.9**	**267.0**	**270.6**	**275.7**	**290.2**	**297.3**	**315.7**	**290.2**	**322.6**	**323.4**	**334.4**
- Extraction	10.2	9.6	6.9	7.4	7.3	8.3	9.0	9.5	8.4	7.9	7.7	8.3	10.0
- Industries	152.8	157.8	165.7	168.4	173.9	178.0	183.5	187.5	211.9	192.3	220.8	214.2	219.1
- agro-food Industries	105.9	110.2	119.9	125.4	128.3	129.3	131.6	134.5	155.7	143.1	168.4	162.8	165.2
- Manufacturing Industries	46.9	47.6	45.8	43.0	45.6	48.7	51.9	53.0	56.2	49.2	52.4	51.4	53.9
- textile industries	3.9	3.6	5.1	3.9	4.5	4.6	4.7	5.8	4.3	3.9	9.5	3.5	3.6
- Other manufacturing industries	43.0	44.0	40.7	39.1	41.1	44.0	47.2	47.3	51.9	45.3	42.9	47.9	50.3
- Power, gas and water	8.6	12.4	12.7	11.1	8.1	6.3	7.3	7.7	7.9	7.5	7.7	9.1	10.5
- Construction	44.0	53.8	59.6	80.2	81.3	83.0	90.4	92.5	87.5	82.5	86.3	91.8	94.8
Tertiary Sector	**441.7**	**515.8**	**549.9**	**579.4**	**612.8**	**655.6**	**701.3**	**721.1**	**784.3**	**828.9**	**821.4**	**897.9**	**940.4**
- Trade	92.7	97.7	76.8	75.8	79.9	82.7	85.9	71.2	79.4	68.5	62	69.7	71.8
- Transport and communication	38.8	59.5	39.8	52.8	49.1	49.8	54.4	51.4	67.6	73.4	66.7	64.7	67.7
- Transports	34.1	42.7	23.4	29.5	24.0	17.5	17.7	14.4	15.6	16.8	17.6	13.5	13.9
- Postal, Telecom, Internet Services	4.7	16.8	16.4	23.3	25.2	32.4	36.7	36.9	52.0	56.6	49.2	51.2	53.8
- Banks and Insurances	24.8	38.9	55.0	65.1	69.4	78.7	85.1	85.9	98.2	100.0	102.8	112.4	122.5
- Hotels, Restaurant and other services	180.0	151.7	160.3	130.6	131.2	133.9	136.2	138.0	124.9	114.0	108.7	126.4	128.9
- Public Administration	69.8	111.6	140.8	168.7	160.3	180.5	200.9	228.2	272.9	298.9	316.7	340.9	366.5
- Schools	44.5	53.5	67.7	77.0	133.4	162.8	187.2	188.1	195.6	209.1	211.7	227.2	239.3
- Health and Social Actions	5.7	4.5	4.3	5.6	7.5	10.8	12.3	12.8	13.4	14.0	14.4	18.0	20.0
- Group or Individual Activities	11.5	36.5	53.1	55.0	58.2	47.9	26.7	33	47.1	54.4	45.6	51.9	54.5
- Domestic services	9.3	8.5	7.7	7.1	5.3	5.4	5.1	4.8	4.7	5.4	4.6	5.7	6.0
- FISIM	-35.5	-46.6	-55.7	-58.3	-81.7	-97.1	-92.5	-92.4	-119.5	-108.9	-111.8	-118.9	-136.8
GDP at Factor Cost	1166.6	1211.1	1265.5	1311.6	1356.2	1397.6	1467.8	1534.7	1597.9	1607.1	1641.1	1712.2	1777.6
Taxes	107.1	106.5	116.2	122.7	151.6	171.1	170.7	184.4	194	177.5	200.6	195.9	203.4
GDP at Market Price	**1273.7**	**1317.6**	**1381.7**	**1434.4**	**1507.9**	**1568.7**	**1638.4**	**1719.1**	**1791.9**	**1784.6**	**1841.7**	**1908.1**	**1981.0**

Source : MFBCDE, Cadrage macroéconomique, March 2019.

Appendix 4: Evolution of key macroeconomic indicators

	2014	2015	2016	2017	2018
GROSS DOMESTIC PRODUCT AND PRICES					
Real GDP Growth (in %)	4.2	-0.4	3.2	3.6	3.8
Inflation Rate (annual average)	4.4	5.5	5.6	16.1	-2.6
EXTERNAL SECTOR					
Exports, FOB (in millions of dollar)	131.8	120.8	124.7	172.6	180.2
Imports, CIF (in millions of dollar)	768.7	721.4	616.2	756.0	793.5
Volume of exports (in tons)	82,825.0	85,758.0	84,614.0	93,125.0	103,218.0
Volume of imports (in tons)	798,239.0	632,337.0	708,203.0	822,514.0	976, 694
Current Account Balance (in millions of dollar)	-395.1	-373.2	-339.7	-360.0	-361.8
Exchange Rate BIF/USD (period average)	1,546.7	1,571.9	1,654.6	1,729.1	1,782.9
Exchange Rate BIF/USD (end of period)	1,553.1	1,617.1	1,688.6	1,766.7	1,808.3
Gross Foreign Reserves (in millions of USD, end of period)	317.3	121.2	98.6	109.8	80.5
Gross Foreign Reserves (in months of imports of the following year)	4.2	2.0	1.4	1.7	1.0
MONETARY SECTOR					
Net Foreign Assets (MBIF)	180,525.3	-75,870.1	-176,523.1	-154,400.0	-203,201.0
Domestic Loans (MBIF)	1,135,873.8	1,410,604.3	1,767,122.4	2,004,966.2	2,369,485.6
Net loans to the Government	384,697.0	687,259.5	905,857.4	1,112,214.4	1,337,534.0
Loans to private sector	751,176.8	723,344.8	861,265.0	892,941.6	1,038,614.2
Money supply (M3)	1,045,336.7	1,060,791.0	1,187,101.8	1,499,512.9	1,797,468.9
Money supply (M2)	880,206.6	923,271.7	1,093,131.8	1,340,926.6	1,325,958.7
Money velocity (GDP/M2, end of period)	4.8	4.8	4.4	4.1	3.4
Monetary base (Gross Rate)	15.8	-8.6	29.2	39.0	-3.3
Liquidity supply interest rate (in%)	-	3.4	3.1	2.8	2.9
Overnight facility rate (in %)	8.0	9.8	8.6	7.1	5.8
Average Deposit Rates (in %)	8.8	8.7	7.7	6.0	5.6
Government securities		8.7		16.2	
Average lending interest rate (in %)	16.7	16.9	16.5	16.2	15.9
PUBLIC FINANCE					
Revenue and grants (in % of GDP)	21.0	16.7	15.7	16.5	17.4
Expenses (in % of GDP)	25.3	24.7	21.6	21.1	21.5
Primary Balance (in % of GDP, basis accruals)	-0.5	-6.0	-2.3	-1.5	-1.3
Overall balance (in % of GDP, basis accruals)					
- Grants excluded	-9.5	-11.2	-8.4	-6.9	-7.9
- Grants included	-4.4	-8.0	-5.9	-4.4	-4.1
Domestic Debts (MBIF)	727,264.4	1,069,551.8	1,374,144.6	1,647,833.5	1, 911, 446,0
External Debts (in MUSD, end of period)	429.6	420.5	429.6	440.5	441.0
External debts service ratio (in % of exports)	4.1	5.8	6.6	9.1	11.9
External Debts (in % of GDP)	15.7	15.6	15.2	14.4	13.2
GDP at Market Price (in Bn BIF)	4,185.0	4,417.9	4,824.2	5,397.2	6,010.3

Source : MFBCDE, Cadrage macroéconomique, March 2019

Appendix 5 : Evolution of convergence criteria in Burundi

	2011	2012	2013	2014	2015	2016	2017	2018
1. Annual Inflation rate (ceiling= 8%)	9.6	18.2	8	4.4	5.5	5.6	16	-2.6
2. Fiscal Deficit, Grants included in % of GDP (ceiling = 3%)	3	3.6	2.9	4.2	8.0	5.9	4.6	4.2
3. Public Debt in % of GDP (ceiling = 50%)	33.7	34.1	31.8	31	39.8	43.2	43.6	45.8
4. Foreign Exchange Reserves in Months of Imports (min= 4,5 months)	4	4	4.2	4.1	2	1.5	1.7	1

Source : BRB

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