BANQUE DE LA REPUBLIQUE
DU BURUNDI

2020

FINANCIAL STABILITY
REPORT

FISCAL YEAR 2020 – NUMBER 6

CONTENTS

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ACRONYMS

ACH	: Automated Clearing House
ARCA	: Agence de Régulation et de Contrôle des Assurances (Insurance Regulatory Authority)
ARFIC	: Autorité de Régulation de la Filière Café du Burundi (Burundi Coffee Sector Regulatory Authority)
ATS	: Automated Transfer System
BANCOBU	: Banque Commerciale du Burundi (Burundi Commercial Bank)
BCBS	: Basel Committee on Banking Supervision
BIF	: Burundi Francs
BIS	: Bank for International Settlements
Bn	: Billions
BRB	: Banque de la République du Burundi (Central Bank of Burundi)
CEMAC	: Communauté Economique et Monétaire d'Afrique Centrale (Central African Economic and Monetary Community)
CISF	: Comité Interne de Stabilité Financière (Internal Financial Stability Committee)
CNSF	: Comité National de Stabilité Financière (National Financial Stability Committee)
COMESA	: Common Market for Eastern and Southern Africa
CRDB	: Cooperative and Rural Development Bank
CSD	: Central Securities Depositor
CTST	: Comité Technique de Stabilité Financière (Financial Stability Technical Committee)
EAC	: East African Community
ECB	: European Central Bank
ECOWAS	: Economic Community of West African States
ETI	: Ecobank Transnational Incorporated
Etc.	: Et Cetera
FI	: Financial Institutions
GDP	: Gross Domestic Product
GFSR	: Global Financial Stability Report
G-SIB	: Global Systemically Important Banks
IMF	: International Monetary Fund
ISTEEBU	: Institut de Statistiques et d'Etudes Economiques du Burundi
KCB	: Kenya Commercial Bank
Kg	: Kilogram
MBIF	: Millions of Burundais Francs
MFBPE	: Ministère des Finances, du Budget et de la Planification Economique
MFIs	: Microfinance Institutions
NPLs	: Non Performant Loans
PP	: Percentage Points
Q.	: Quarter
ROA	: Return on Assets
ROE	: Return on Equity
T	: Tons
USD	: United States Dollar
%	: 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 foreign exchange reserves;
4. Regulate and supervise banks, financial institutions and microfinance institutions;
5. Issue banknotes and coins;
6. Promote a stable and sound financial system;
7. Promote a reliable, efficient and sound national payment system;
8. Act as a Government Cashier;
9. Accomplish any task as provided in its statutes;
10. Perform any task which any other law would assign to the Bank, subject to its compatibility with its autonomy.

VISION OF THE « BANQUE DE LA REPUBLIQUE DU BURUNDI »

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

PREFACE

In 2020, the COVID-19 pandemic increased uncertainty in financial markets globally. Many jurisdictions have taken measures to contain the effects of vulnerabilities that have affected the financial system.

In fiscal year 2020, the Bank of the Republic of Burundi continued to promote a stable and sound financial system in order to contain the effects of the vulnerabilities that affected Burundi's financial system. Thus, the Bank has contributed to the implementation of economic policies conducive to macroeconomic stability and harmonious development of the country.

This sixth report on financial stability for the year 2020 presents the vulnerabilities that have affected the Burundian financial system and the measures taken by the Bank of the Republic of Burundi to contain their effects.

Jean CIZA

Governor

EXECUTIVE SUMMARY

In 2020, global economic growth slowed considerably due to the impact of the COVID-19 pandemic. To contain the pandemic, promote economic recovery and ensure financial system stability, measures have been adopted in several countries, although they have increased vulnerabilities in the financial systems, including high corporate indebtedness, increased sovereign debt, a fragile non-bank financial institution sector and market access difficulties for some developing economies.

In sub-Saharan Africa, economic activity has deteriorated significantly, linked to a less favourable external environment for commodity exporting and tourism-dependent countries. Due to the support from governments and central banks, the financial systems of sub-Saharan African countries remained resilient.

In the East African Community, economic growth decelerated following the effects of Covid-19. Vulnerabilities have weighed on the financial system, including a significant increase in the region's level of public debt as a percentage of GDP. Despite these vulnerabilities, banks in the region remained largely resilient to the consequences of the pandemic in terms of capital adequacy and liquidity.

In Burundi, economic activity contracted slightly, following a decline in output in the tertiary sector. The main sources of vulnerability of the Burundian financial system identified in 2020 are due to the domestic and external macroeconomic context.

Domestic risks are likely to be linked to the increase in public debt, the depletion of foreign exchange reserves and the decline in commodity production. External vulnerabilities are due to the decline in production in Burundi's main trading partner countries, which could affect Burundi's exports due to the deterioration of purchasing power in these countries and the decline in commodity prices.

To contain the effects of Covid-19, support the economy and ensure the stability of the financial system, the Bank of the Republic of Burundi has pursued an accommodating monetary policy aimed at supporting the financing of growth sectors and providing liquidity to credit institutions. In addition, the regulatory framework governing the activities of the financial system has been strengthened. Because of these measures, Burundi's financial system has remained resilient and sound with sufficient capital and liquidity buffers.

Looking ahead, the Bank of the Republic of Burundi intends to continue to take accommodative monetary and financial policy measures to address vulnerabilities that could affect the financial system and promote both financial stability and economic recovery.

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Table 1: Risks on financial stability in 2020

↑	Risk related to an increase in public debt
↑	Risk related to the foreign exchange reserves damping
→	Risk related to a decline in production and commodity prices
→	Risk related to a weak economic growth in main trading partner countries

Legend

- Very high systemic risk
- High systemic risk
- Moderate systemic risk
- Low systemic risk

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

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CHAPTER 1:
GLOBAL, REGIONAL AND DOMESTIC MACROECONOMIC ENVIRONMENT

CHAPTER 1: GLOBAL, REGIONAL AND DOMESTIC MACROECONOMIC ENVIRONMENT

1.1. Global economic environment

The COVID-19 pandemic was devastating worldwide in 2020. Millions of lives have been lost and populations have been facing profound lifestyle changes. The measures adopted in several countries to counteract the spread of the pandemic, including restrictions on population movement and social distancing disabled all aspects of life. These restrictions have disrupted global supply chains, reduced demand for imported goods and services, lowered tourist flows, etc.

Global growth has slowed considerably as a result of the pandemic. The immediate consequence of this shock was a sharp fall in stock markets, leading to a deterioration in the economic outlook, and an abrupt halt in securities issuance in the equity and bond markets. However, the extent of the consequences differ from region to region.

In the advanced economies, growth has contracted significantly to -3.3% in 2020 from 2.8% in 2019, in connection with the decline in exports, especially in the first half of the year. Growth in the Eurozone countries declined from 1.3% in 2019 to -7.2% in 2020[1]. Growth in the United States has also declined from 2.2% to -3.5% in 2020. In Japan, activity has declined significantly, to -4.8% in 2020 from 0.3% in 2019. In emerging and developing economies, growth declined significantly, particularly in emerging Asia (-1.0 vs. 5.3% in 2019), Europe (-2.0 vs. 2.4% in 2019) and Sub-Saharan Africa (-1.9 vs. 3.2% in 2019).

Output losses have been particularly significant for countries dependent on tourism and commodity exports. In the Middle East and Central Asia, economic activity declined from 1.4% in 2019 to -2.9% in 2020, in line with the effects of the pandemic and the considerable decline in oil prices.

The pandemic has increased uncertainty in financial markets to levels close to those of the 2007-2008 global financial crisis. Interest rates have deteriorated sharply and financial assets have depreciated, significantly increasing global risk aversion.

In the third quarter of 2020, trade rebounded strongly, but the services sector continued to be hit by the ongoing decline in tourist flows due to renewed restrictions on population movements. In the fourth quarter of 2020, activity rebounded well beyond earlier expectations in both advanced and emerging economies as a result of continued broadly accommodative global financial conditions and massive supportive policies that eased credit conditions for households and businesses in many countries[2]. As a result, financial stability risks have been contained and stock markets have recovered.

Banks have always shown resilience in the face of the pandemic. They had sufficient capital and high liquidity buffers following the regulatory reforms implemented in the immediate aftermath of the global financial crisis of 2007-2008.

However, these looser financial conditions, combined with continued support for growth, have fuelled an increase in risk appetite. Credit risks have increased and the volume of non-performing loans has risen, posing a downward threat to the profitability of some banking systems. The increase in corporate debt, stimulated by easy financial conditions, could pose a serious problem for the stability of the global financial system. Thus, the stimulation of economic activity in the short

[1] https://www.oecd-ilibrary.org

[2] Global Financial Stability Report, April 2021.

term could be accompanied by increased vulnerabilities and lower growth in the future.

It should also be noted that the global financial system remained exposed to the financial vulnerabilities that prevailed long before the outbreak of the pandemic, including high corporate leverage, rising sovereign debt, a fragile non-bank financial institution sector and market access difficulties for some developing economies[3]. The high exposure to these financial vulnerabilities can have an impact on confidence and put financial stability at risk, particularly in emerging markets[4].

Accompanying measures are still needed to address these vulnerabilities and promote both financial stability and economic recovery. Looking ahead, uncertainties remain, especially regarding the evolution of the COVID-19 pandemic and the impact of policies put in place to limit its damage. The global scientific community has mobilised to develop vaccines to prevent this pandemic. The effectiveness of some vaccines by the end of 2020 had raised hopes of a possible reversal of the pandemic, especially in the most affected developed economies. However, new waves and variants of the virus keep appearing, raising uncertainties about the outlook. According to IMF forecasts, global growth could rise to 5.5% in 2021 and 4.2% in 2022 due to the expected positive impact of vaccines.

1.2. Economic Environment in Sub-Saharan Africa

Sub-Saharan Africa has not been spared the health crisis that has plagued the world in 2020. Economic activity in the region deteriorated significantly, from 3.2% in 2019 to -1.9% in 2020, as a result of a less favourable external environment for commodity exporting and tourism-dependent countries and natural disasters that disrupted activity in a number of countries.

Nevertheless, the level of growth achieved by the end of the year is a marked improvement on the lower estimates of earlier forecasts, which put growth in the region at -3.0% in 2020. This was due to a rapid improvement in the global economy in the second half of 2020[5], which spilled over to the region through increased trade, higher commodity prices and a resumption of capital inflows.

The economic activity contracted in the region's major economies, including Nigeria (-1.8% in 2020 compared to 2.2% in 2019), Angola (-4.0% in 2020 from -0.6% in 2019), South Africa (-7,0% in 2020 from 0.2% in 2019), Kenya (0.1% in 2020 from 5.4% in 2019), Gabon (-1.8% in 2020 from 3.9% in 2019), Madagascar (-4.2% in 2020 from 4.4% in 2019), Zambia (-3.5% in 2020 from 1.4% in 2019), etc. Growth in the region is estimated at 3.4% in 2021, supported by the recovery of private consumption and investment as well as an improvement in exports and oil prices.

Despite the effects of the COVID-19 pandemic, Ethiopia's growth remained positive (6.1%) in 2020, but low compared to 2019 (9.0%). Continued growth was mainly supported by improved overall economic conditions in the second quarter of 2020. Nevertheless, uncertainty related to COVID-19, the recent locust invasion and the adverse impact of conflict in Tigray might negatively affect agricultural production and non-agricultural activities.

The average inflation rate for the region has ranged from 9.6% in 2019 to 11.1% in 2020, mainly reflecting higher food prices in some countries such as Ghana, currency

[3] Global Financial Stability Report, April 2021.
[4] Idem
[5] In the second half of 2020, strict containment was gradually ending across the world and particularly in China, what resulted in a gradual recovery of commodity prices.

depreciation in Angola and Zambia, and higher energy prices towards the end of 2020[6]. This inflation rate is far higher than that of the West African monetary unions. In the UEMOA, the inflation rate has risen from -0.6% in 2019 to 2.2% in 2020 and from 1.8% to 2.8% in the CEMAC zone.

Due to massive and exceptional government support, the financial systems of Sub-Saharan African countries have remained resilient. Nevertheless, financial soundness indicators deteriorated slightly. According to the April 2021 Sub-Saharan Africa Regional Outlook, the region's solvency ratio declined slightly year-on-year from 17.6% in 2019 to 17.4% in 2020. The region's average non-performing loan ratio increased slightly, from 7.2% at end-2019 to 8.3% in October 2020 but still below the 2018 average. Nevertheless, the persistence of the pandemic is likely to pose a problem of increasing non-performing loans while compromising the solvency of banks.

During 2020, supervisors in some sub-Saharan African countries such as Botswana, Ghana and Namibia allowed their banks to use their countercyclical capital buffers to cope with the crisis. Others, such as Zambia, Uganda, Lesotho and the UEMOA countries, have extended the deadlines for compliance with certain prudential principles and requirements. At the same time, others have restricted the distribution of dividends in order to strengthen the capital base of banks (Burundi, Rwanda, Uganda, South Africa, Lesotho, Guinea Conakry, Benin, CEMAC and UEMOA countries).

The period of the pandemic has widened the exposure of the banking sectors to governments in many countries. Many countries in the region including Uganda, South Sudan, Ghana, Mauritius, Nigeria and the Democratic Republic of Congo, etc., have resorted to their Central Banks to finance increasing government expenditure. Lending to the government (3.0% of GDP) was almost double that to the private sector (1.5% of GDP)[7].

Direct lending by the Central Bank to the government can undermine the long-term effectiveness of the Central Bank's policies and its independence, and thus undermine its commitment to containing inflation. Indeed, the government as a borrower with the lowest risk of default, its loans compete with those of other conventional borrowers and eventually crowd them out of the credit market. In some circumstances, this crowding out can fuel higher inflation. It is true that in exceptional circumstances, the government may not be able to obtain other forms of financing, but countries should refrain from using this form of financing and use it only as a last resort. Thus, loans to the state should be limited in time and based on an explicit medium-term repayment plan.

1.3. Regional economic environment in EAC

EAC's economic growth slowed to -0.2% in 2020 from 6.5% in 2019, due to a less favourable external environment associated with restrictions that were adopted to limit the spread of the COVID-19 pandemic. The inflation rate increased slightly from 4.0% in 2019 to 4.5% in 2020. The average number of months of import reserves in the sub-region increased slightly from 4.9 in 2019 to 4.5, but disparities remain among countries, with some having averages below the norm of 4.5 months of imports. The external current account deficit increased from -5.1 in 2019 to -5.4 in 2020.

[6] Sub-Saharan Africa Regional Economic Outlook, April 2021.

[7] Sub-Saharan Africa Regional Economic Outlook, April 2021.

Table 2: GDP growth in EAC countries (%)

Countries	2016	2017	2018	2019	2020
Burundi*	3.2	3.8	5.3	4.5	-0.5
Kenya	5.9	4.9	6.3	5.6	-0.1
Uganda	2.3	5.0	6.3	4.9	-2.1
Rwanda	6.0	6.1	8.6	10.1	-0.2
Tanzania	6.9	6.8	7.0	6.3	1.0
EAC-5	5.4	5.6	6.6	6.5	-0.2
South Sudan	n.d.	-6.6	-1.9	0.9	-6.6

Source: FMI, Regional Economic Outlook, Sub-Sahara Africa, April 2021 *MFBPE, Document de cadrage macroéconomique, April 2021

The region's public debt level as a percentage of GDP increased significantly from 50.0% in 2019 to 55.2% in 2020 as a result of a rise in indebtedness in four (4) countries of the region, Uganda (45.7% vs. 37.3% in 2019), Rwanda (61% vs. 51% in 2019), Burundi (58.4% vs. 52.5% in 2019) and Kenya (68.7% vs. 62.1% in 2019). In Tanzania, public debt has stabilized at around 38.0 percent of GDP over the past two years.

EAC's financial system has remained resilient despite the pandemic crisis and continued public debt risk. Banks in the region have remained largely resilient to the consequences of the pandemic, in line with the level of capital and adequate liquidity accumulated the years ago.

In Tanzania, the financial system remained resilient following a strong macroeconomic environment. The COVID-19 pandemic did not have a significant impact on the country's economy due to the easing of credit conditions for households and businesses. However, threats to financial stability persist. The level of non-performing loans remained high, at 9.4% compared to 10.1% in 2019.

In Uganda, the COVID-19 pandemic has affected bank lending to businesses and households. The level of non-performing loans increased from 4.9% in 2019 to 5.3% in 2020. The most affected sectors are real estate, housing and trade, which account for almost 54.4% of bank loans. Economic activity has slowed, which is likely to exacerbate vulnerabilities. A credit relief programme introduced in 2020 has helped to support the sectors most affected by the pandemic.

In Rwanda, systemic risks have increased due to the COVID-19 pandemic-related shock to the economy, particularly following the increase in restructured loans during the pandemic. The Rwandan economy contracted by about 12.4% in the second quarter of 2020. The main challenge for the Rwandan financial system remains the banking sector's increasing exposure to commercial and residential real estate. A slowdown in economic activity and/or a continued decline in property prices could negatively affect household incomes and hamper the ability of households and businesses to repay their loans.

The Kenyan financial system remained stable and resilient to shocks emanating from the COVID-19 pandemic. Banks and SACCOs had sufficient capital and liquidity reserves to absorb potential shocks. However, areas of threat remain. The level of non-performing loans increased from 6.2% to 9.1%. In addition, public debt, at 68.7% of GDP, far exceeds the 50.0% of GDP recommended by the EAC convergence criteria. The increase in the level of public debt is explained by the measures that were taken by the Government to mitigate the spread and impact of the COVID-19 pandemic on households and businesses in the first half of 2020, notably the reduction in taxes.

1.4. Domestic economic context

The national macroeconomic context is analysed through the level of growth, inflation, interest rate and public debt.

1.4.1. Economic growth

Economic activity contracted slightly in Burundi in 2020, with a GDP growth rate of -0.5% compared with 4.5% in 2019. This contraction was mainly linked to the decline in output in the tertiary sector (-2.7 against 7.2%).

To support the economy, the Bank of the Republic of Burundi continued to implement monetary policy measures aimed at supporting the financing of growth driving sectors. In addition to the agropastoral and industrial sectors, the BRB also extended these measures to the social housing, infrastructure and hotel and tourism sectors to stimulate investment in these sectors. It also provided liquidity to credit institutions as part of the monetary policy.

1.4.2. Inflation and interest rates

Year-on-year, headline inflation was 7.5% in December 2020 compared to -0.7% in the same period of the previous year. This increase is linked to a rise in food prices (+13.2 compared to +8.9%) and non-food products (+2.5 compared to +1.1%). The maximum acceptable inflation norm is 8% at the EAC level.

The average lending rate declined slightly to 15.2 from 15.5% in 2019, but the deposit rate increased to 5.7 from 5.3% in 2019.

In the money market, the marginal lending rate increased to 6.9 from 5.6% in 2019. In addition, the liquidity provision rate increased in 2020 to 3.9 against 3.0 % in 2019 while the interbank rate increased to 4.4% in 2019 against 2.9% in 2019, in connection with the accommodating monetary policy put in place by the Central Bank through a special refinancing credit in favour of growth driving sectors.

Table 3: Inflation* and Interest rates**

	2016	2017	2018	2019	2020
Inflation rate	5.6	16.0	-2.6	-0.7	7.5
Overnight facility rate	7,2	7,1	5,5	5,6	6,9
Interbank rate	3.0	4.3	2.4	2.9	4.4
Liquidity provision rate	2,4	2,8	2,4	3	3,9
Deposit rate	7,2	6	5,4	5,3	5,7
Lending rate	16,8	16,2	15,5	15,5	15.2

Source: * ISTEEBU, Consummation prices index, December 2020
**BRB

1.4.3. Base money, broad money and its counterparts

On a year-on-year basis, the monetary base and money supply increased at the end of December 2020, following the increase in net domestic assets.

The monetary base increased by 11.6% in 2020, from 698 156.6 MBIF in 2019 to 778 976.6 MBIF in 2020, mainly in line with the increase in banknotes and coins in circulation (+21.4 against +18.4%) and commercial banks' deposits at the Central Bank (+3.9 against +25.1%). The money supply (M3) increased by 23.8% in 2020 against 22.7% in 2019, standing at BIF 2,729.5 billion against BIF 2,205.3 billion, in line with the increase in the M2 monetary aggregate (+25.0 against +24.1%) and foreign currency deposits of residents (+10.2 against +9.7%).

1.4.4. Public finances

In 2020, public expenditures increased by 12.5% to BIF 1 704.3 billion from BIF 1 514.5 billion in 2019, in line with the financing of expenditure related to the prevention of the Covid-19 pandemic and some expenditures related to elections held in 2020. Government revenue increased by 8.4% to BIF 1,073.3bn from BIF 990.1bn in the same period of the previous year. Burundi's budget deficit amounted to BIF 631,018.1 compared to BIF 524,458 in 2019.

Burundi's budget deficit increased from 4.3% in 2019 to 8.8% in 2020. This level exceeds the minimum standard of 3% required at the EAC level and is the highest compared to the region's average over the last 5 years.

Table 4: Fiscal deficit in EAC countries (percent of GDP)

	Norm ≤ 3% of GDP				
	2016	2017	2018	2019	2020
Burundi*	5.9	4.3	4.5	4.3	8.8
Kenya	5.9	7.9	4.7	7.8	5.3
Uganda	2.3	3.2	2.6	2.9	3.8
Rwanda	6.0	2.5	1.4	2.4	8.0
Tanzania	7.0	8.2	3.5	3.4	3.0
EAC-5	5.4	4.7	36.0	4.0	4.5

Source: *FMI, World Economic Outlook, Sub-Sahara Africa, April 2021
*BRB

1.4.4.1. Public debt

The outstanding public debt increased by 19.0% in 2020, to BIF 3 887.2 billion from BIF 3 265.9 billion the previous year, in line with the increase in both domestic debt (+23.0%) and external debt (+9.2%). Public debt represents 58.4% of GDP for a minimum standard of 50% required at the EAC level. The average for the EAC-5 is 55.2%.

1.4.4.1.1. Domestic debt

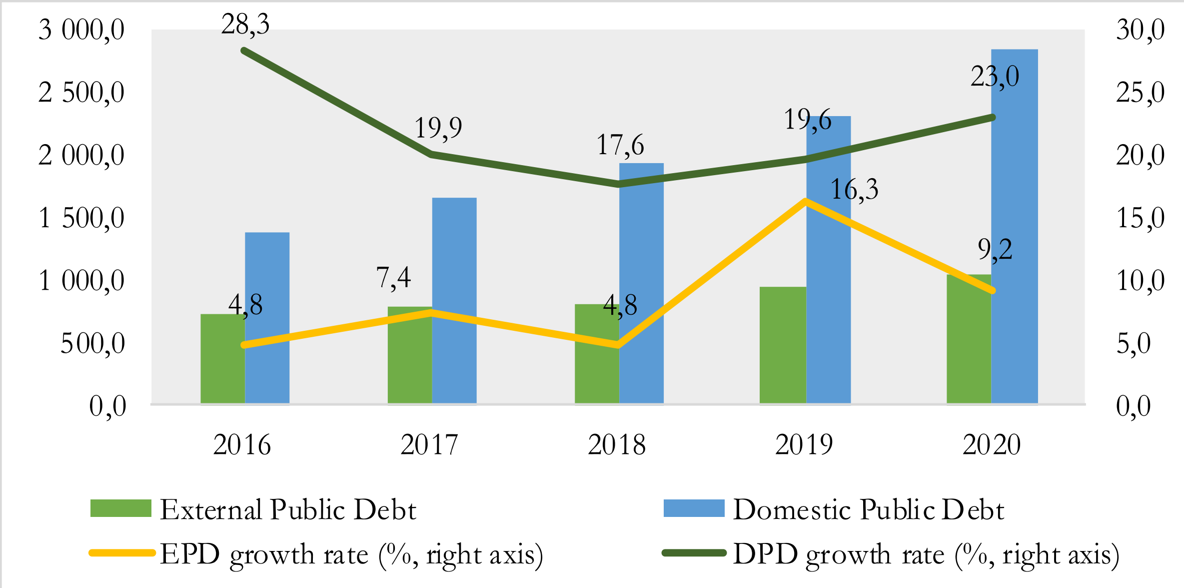
Domestic debt increased by 23.0% in 2020, from BIF 2 317.5 billion to BIF 2 851.2 billion. This increase is mainly due to the rise in the State's liabilities to banks, in the form of Treasury securities (+ BIF 339.7 billion) and liabilities to the Central Bank (+ BIF 148.2 billion).

The outstanding Treasury securities increased by 21.3%, from BIF 1,497.6 to 1,817.3 billion. This increase concerned both Treasury bonds (+BIF 290.3 billion) and Treasury bills (+BIF 29.4 billion).

1.4.4.1.2. External debt

External debt increased by 9.2% in 2020 compared to a 16.3% increase in 2019. It rose from BIF 948.4 billion in 2019 to BIF 1 036.0 billion. This increase was driven by the rise in drawings on external loans (BIF 46.4 billion) and revaluation gains (BIF 60.1 billion), which offset the amortisation of the principal debt (BIF 18.9 billion). Expressed in US dollars, external debt increased by USD 28.0 million year-on-year to USD 532.9 million at the end of December 2020 from USD 504.9 million.

Figure 1: Burundi public debt development



Source: BRB

1.4.4.2. Loans to government and private sector

The share of credit to the government in the total assets of the banking sector is growing, representing 42.1% in 2020 against 39.9% in 2019. In 2020, the claim on the private sector is also growing; it is at 33.7% against 32.8% in 2019.

Table 5: Treasury Securities and loans on the Private Sector

	2016	2017	2018	2019	2020
Total assets (BIF Bn)	1,835.0	2,164.7	2,583.6	3,262.1	3,894.3
Treasury bills and Bonds (BIF Bn)	438.2	643.5	938.0	1,301.8	1,639.7
Treasury bills and Bonds in % of total assets	23.9	29.7	36.5	39.9	42.1
Loans to private sector (BIF Bn)	792.8	795.5	939.7	1,071.5	1,310.9
Loans to private sector in % of total assets	43.2	36.7	36.5	32.8	33.7

Source: *BRB*

1.4.4.3. Debts to enterprises and households

In 2020, the debt of private companies as a percentage of GDP stood at 7.9% compared to 6.9% in 2021,9 while the debt of public companies decreased to 0.3% in 2020 compared to 0.7% in 2017. The level of household debt was 15.6% in 2020 compared to 13.8% in 2019.

Table 6: Enterprises and households indebtedness (percent of GDP)

Year	Household debt	Private entreprises debt	State-owned entreprises debt
2016	12.4	6.5	0.2
2017	10.8	5.3	0.5
2018	12.5	5.8	0.7
2019	13.6	6.8	0.7
2020	15.6	7.9	0.3

Source: BRB

In 2020, the net debt of households is in negative of BIF 5.9 million as a result of credits that are slightly higher than deposits. On the other hand, the net debt of private companies is in positive of BIF 451,489.6 and the net debt of public companies is in positive of BIF 15,400 as a result of deposits that are higher than credits.

Table 7: Enterprises and households net debts (BIF million)

Year	2016	2017	2018	2019	2020
Households deposits	487,305.1	568,981.7	653,115.3	810,694.5	1,040,171.2
Households loans	625,118.0	643,004.2	725,652.3	855,794.2	1,040,177.1
Households net debts	-137,812.9	-74,022.5	-72,537.0	-45,099.7	-5.9
Private entreprises deposits	286,457.3	432,043.8	613,761.8	776,783.7	978,900.6
Private entreprises loans	313,771.9	300,767.8	363,274.4	426,311.3	527,411.0
Private entreprises net debts	-27,314.6	131,276.0	250,487.4	350,472.4	451,489.6
State-owned entreprises deposits	42,723.8	62,765.1	51,702.8	38,317.1	37,743.7
State-owned entreprises loans	7,041.4	28,633.1	41,962.0	42,076.6	22,343.7
State-owned entreprises net indebtedness	35,682.4	34,132.0	9,740.8	-3,759.5	15,400.0

Source: BRB

1.5. Challenges to Burundi Financial Stability

This section reviews the main risks facing the Burundian financial system. The main sources of vulnerability of the Burundian financial system are correlated with the domestic and external macroeconomic context. Domestic risks are related to the increase in public indebtedness, the depletion of foreign exchange reserves and the decline in commodity production. External vulnerabilities are due to declining economic growth in Burundi's main trading partners and falling prices for some commodities.

1.5.1. Public debt increase

In Burundi, credits granted to the Government in 2020 reached 8.2% of GDP. Burundi's public debt increased by 19.0% in 2020, settling to BIF 3 887.2 billion from BIF 3 265.9 billion the previous year. The increase was mainly due to the rise in the government's liabilities to the banking sector and to the Central Bank.

The government liabilities to the banking sector increased by 20.3% in 2020, to BIF 1,631.8 billion from BIF 1,356.9 billion the previous year. Similarly, the Central Bank's direct advances to the government increased by 19.9% to BIF 894.7 billion from BIF 746.5 billion. The level of public debt exceeded the maximum standard of 50.0% of GDP set as a convergence criterion within the EAC, thus, settling at 58.4% of GDP in 2020 from 52.5% in 2019.

The growing exposure of the government to individual creditors is one of the main concerns for the stability of a country's financial system. Direct lending by the central bank to the government can undermine the effectiveness of the central bank's policies; compromise its commitment to containing inflation and jeopardize its independence. Indeed, as the government is the borrower whose default risk is generally considered as the lowest, its loans compete with those of other conventional borrowers and eventually crowd them out of the credit market. This crowding out can lead to higher inflation and, in these circumstances, weigh on the most vulnerable segments of the population.

It is true that in exceptional circumstances, the state may not be able to obtain other forms of financing, but advances from the Central Bank should be a last resort. These should be on market terms, limited in time and based on an explicit medium-term repayment plan.

Table 8: Public Debt in EAC Countries (percent of GDP)

Criteria	Total public debt (≤50 % of GDP)					External Public Debt					Domestic Public Debt				
Countries	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Burundi*	42,5	43,2	46,6	52,5	58,4	14,7	13,6	13,8	15,3	15,6	27,9	28,9	32,8	37,3	42,8
Kenya	53.2	55.2	60.2	62.1	68.7	26.1	27.1	30.5	31.8	34.7	27.1	28.1	29.7	29.5	34.0
Uganda	37.1	33.7	34.9	37.3	45.7	21.8	21.6	23.3	25.5	31.3	15.3	12.1	12.0	13.4	14.4
Rwanda	32.9	32.3	45.0	51.0	61.0	33.6	37.3	40.2	44.2	54.0	-0.7	- 5,0	-6.0	-6.5	7.0
Tanzanie	36.4	37.7	38.6	38.1	38.2	27.6	28.6	28.9	28.1	28.0	8.8	9.1	9.8	10.7	10.2
South Sudan	n.d.	41.2	46.3	35.5	44.9	n.d.	2.1	0.1	0.3	0.4	n.d.	39.1	46.2	35.2	44.5
CAE-5	44.2	44.7	48.4	50,0	55.2	26.1	26.9	29,0	30,0	32.9	18.1	17.8	19.1	19.5	22.3

Source: *BRB, Monthly report, December 2020
FMI, Regional Economic Outlook, Sub-Sahara Africa, April 2021

1.5.2. Production and commodity prices development

1.5.2.1. Commodity production development

In Burundi, a large part of the foreign exchange is generated mainly by the export of coffee, tea and gold. A decline in the production of these products can have a negative impact on the country's income and thus on economic activity in general. In 2020, production of export crops declined. Tea production decreased by 0.6% in 2020, reaching 10 762.7T compared to 10 823.0T in 2019. Similarly, merchant coffee production declined by 40.5% in 2020 to 12 896.2T from 21 684.4T in 2019. Gold exports fell by 46.0% in 2020 to 0.9T from 1.6T in 2019.

1.5.2.2. Evolution of the commodity prices

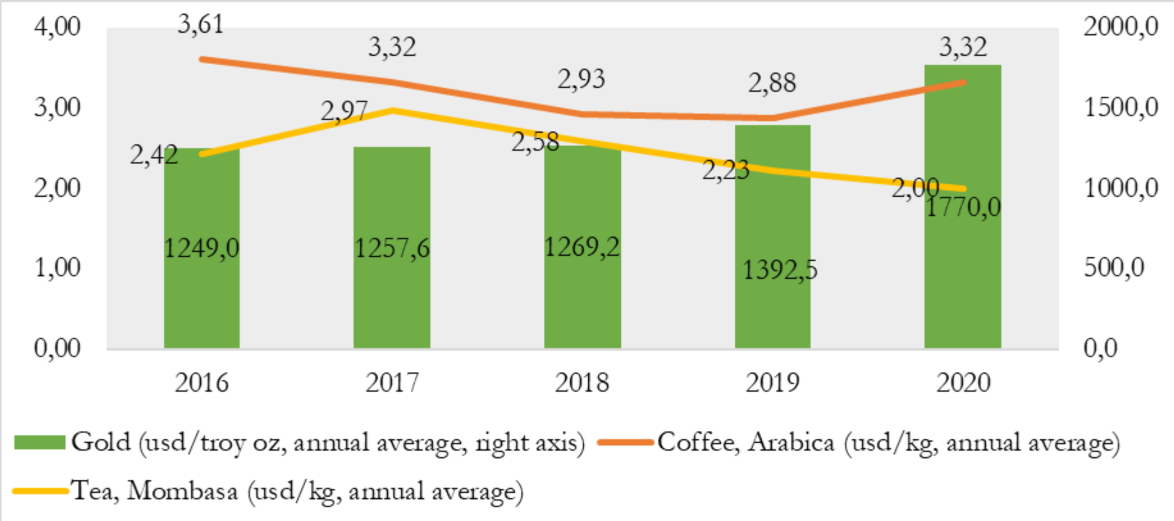
The average international market price for tea fell by 10.3% in 2020 to USD 2.00/kg from USD 2.23/kg in 2019. In contrast, the average price of coffee increased by 15.3% to USD 3.32/kg in 2020 from USD 2.88/kg in 2019. Similarly, the average price of gold increased by 27.1% in 2020 to USD 1 770.0/troy ounce from USD 1 392.5/troy ounce[8] in 2019.

Coffee and tea export earnings decreased by 15.9% and 1.2% respectively in 2020, to MBIF 58 726.9 for coffee and MBIF 40 192.4 for tea in 2020 compared to MBIF 69 796.3 for coffee and MBIF 40 663.8 for tea. The decrease were mainly due to the decline in production of these products. Gold export revenue fell by 28.7% to BIF 88 036.5 in 2020 from BIF 123 428.5 in 2019, in line with the lower level of exports.

[8] 1 Troy ounce (Troy oz) = 31,1 grams

The proportion of revenue from gold exports in the value of the country's exports was 28.3% in 2020 compared to 37.2% in 2019. Coffee contributed 18.9% of export revenue in 2020 compared to 21.0% in 2019 while tea contributed 12.9% in 2020 compared to 12.2% in 2019.

Figure 2: Evolution of Coffee, Tea, and Gold Prices (USD)



Source: World Bank Commodity Price Data, updates of February 02, 2021

1.5.2.3. Banking sector exposure to commodities

Seven banks have exposures to the coffee sector in 2020 and 66% of these exposures are in two high systemically important banks. Nevertheless, the entire banking sector has a low exposure to the coffee sector (0.8%) compared to 6.41% in 2019. The non-performing loans rate stood at 14.9% compared to 1.03% in 2019.

Only two banks, one of which is systemically important, have lent to the tea sector. The banking sector's exposure to the tea sector was 0.44% of the sector's total credit in 2020 compared to 0.78% in 2019. The non-performing loans rate was 64.7% of credit extended in 2020 compared to 0.04% of credit in 2019.

1.5.3. Foreign exchange reserves depletion

Burundi's level of foreign exchange reserves is low compared to the standard of 4.5 months of imports set as a convergence criterion within the EAC. Foreign exchange reserves could cover 1.1 month of the country's imports at the end of 2020, whereas they covered 1.5 months of imports in 2019.

This weakness is mainly correlated with the low level of revenue from exports. The rate of coverage of imports by exports stood at 17.9% in 2020 compared with 20.3% in 2019. The country's export earnings decreased slightly by 6.4% in 2020, to BIF 311.0 billion from BIF 332.2 billion in 2019. On the other hand, the value of imports increased by 6.3%, reaching BIF 1 741.9 billion in 2020 compared with BIF 1 638.4 billion in 2019.

The Burundian franc depreciated by 3.4% against the US dollar. The exchange rate rose from BIF 1,881.6 to BIF 1,946.40 per US dollar unit from end-December 2019 to end-December 2020.

Table 9: Foreign exchange reserves (months of imports)

	2016	2017	2018	2019	2020
Burundi*	1.5	1.7	1.0	1.5	1.1
Kenya	4.7	4.2	4.8	6.0	4.6
Uganda	5.0	4.5	4.1	4.1	4.5
Rwanda	4.1	4.4	4.7	5.5	4.7
Tanzania	5.3	6.2	5.7	4.9	5.2
EAC-5	4.9	4.8	4.9	5.2	4.5
South Sudan	n.a.	2.1	0.1	0.3	0.4

Source: IMF, Regional Economic Outlook, Sub-Sahara Africa, April 2021
*MFBPE, Macroeconomic Framework, April 2021

1.5.4. Economic growth decline in major trading partner countries

The level of aggregate demand in a country's main trading partners can have a significant impact on the level of its export earnings. Despite a clear resilience in domestic demand, external demand has shown little change from its historical levels due to the movement restrictions that have been adopted in the main partner countries.

Indeed, growth in Eurozone countries deteriorated significantly in 2020, from 1.3% in 2019 to -6.6% in line with the Covid-19 pandemic. In contrast, Burundi's exports to the Euro Zone increased by 26.8% year-on-year, standing at MBIF 34 920.5 in 2020 compared to MBIF 27 545.4 in 2019.

In Asia, Burundi exports much more to Saudi Arabia, China and Pakistan. Growth has fallen significantly in these countries, to 2.3% in 2020 from 6.0% in 2019 in China, to -0.4% from 1.9% in Pakistan and to -3.9% from 0.3% in Saudi Arabia. Exports to Saudi Arabia fell by 24.9% to BIF 137.2 billion from BIF 182.8bn. Exports to China fell by 65.0% to BIF 3.6 billion from BIF 10.2 billion. In Pakistan, demand for Burundi's exports deteriorated by 16.0% to BIF 17.3 billion from BIF 20.6 billion.

At the EAC level, economic activity also decelerated from 6.5% in 2019 to -0.2% in 2020 and demand for Burundi's goods and services declined significantly. Burundi's exports to EAC countries (Kenya, Uganda, Rwanda and Tanzania) fell by 10.9% to BIF 26 363.3 in 2020 from BIF 29 363.3 in 2019.

Table 10: GDP growth in main trade partner countries (percent)

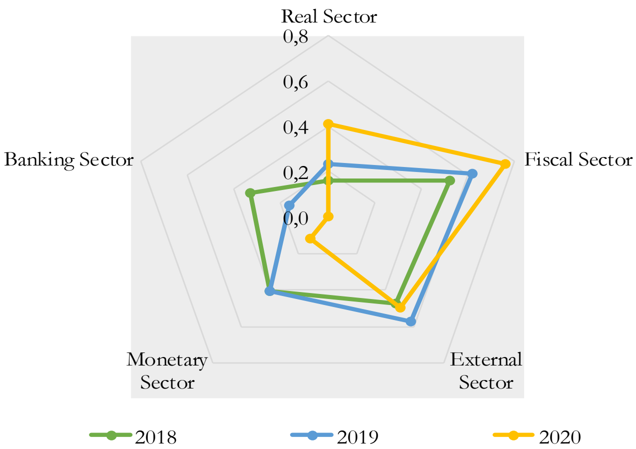
	2016	2017	2018	2019	2020
Eurozone	1.7	2.4	1.9	1.2	-6.6
USA	1.6	2.2	2.9	2.3	-3.5
EAC-5	5.4	5.6	6.6	5.9	-0.2
Asia	6.4	6.4	5.5	4.6	n.a.
India	7.1	7.2	6.1	4.2	-8.0
China	6.4	6.8	6.7	6.1	2.3
Pakistan	4.5	5.3	5.2	3.3	-0.4
Saudi Arabia	1.7	-0.7	2.4	0.3	-3.9
SSA	1.5	3.1	3.2	3.2	-1.9

Source: FMI, World Economic Outlook, Sub-Sahara Africa, April 2021 Note: n.a. = Not available

1.5.5. Synthesis of challenges to Burundian Financial Stability

The sectors posing a risk to financial stability are the fiscal sector through the increase in public debt (58.4% of GDP in 2020 for a minimum standard of 50% required by the EAC), external sector through the depletion of external reserves (1.1 months of imports in 2020 from 1.5 in 2019) and the real sector through the contraction of economic activity (GDP growth of -0.5% in 2020 from 4.5% in 2019).

Figure 3: Synthesis of challenges to Burundi Financial Stability



Source: BRB

2

CHAPTER 2: FINANCIAL SYSTEM DEVELOPMENT

CHAPTER 2: FINANCIAL SYSTEM DEVELOPMENT

Domestic financial stability also requires stability of the domestic financial system. As the latter is essentially banking, its stability requires its compliance with the regulations in force, its soundness with regard to general financial management standards, and its resilience to possible simulated endogenous and exogenous vulnerabilities.

At the end of 2020, the financial system in general was compliant with existing regulations, sound, and resilient to identified threats that could occur. Thus, regulatory compliance was assessed in terms of solvency, asset quality and liquidity. Sustainability was assessed in terms of cost control and profitability. The resilience was assessed in relation to risks identified as threats to financial stability. These include depreciation of coffee and tea yields, depletion of foreign exchange reserves and increasing public debt.

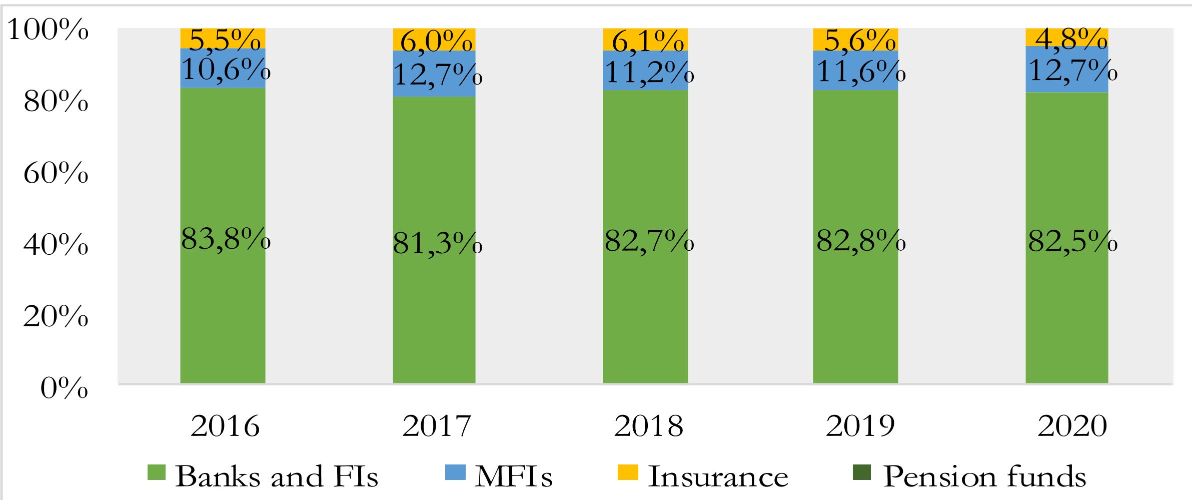
2.1. Financial system structure

At the end of 2020, Burundi's financial system is composed of five types of financial institutions, namely credit institutions (banking sector), microfinance institutions, insurance companies, payment institutions and social security institutions.

At the end of 2020, the banking sector is composed of 14 credit institutions, including 12 banks and 2 specialized financial institutions. There are 60 microfinance institutions, including 20 savings cooperatives, 20 microfinance companies and 20 community financial groups. There are nine payment institutions, including three electronic money payment institutions from mobile phone companies, five from credit institutions and one detained by a microfinance institution.

At the end of 2020, the assets of the banking sector are the most preponderant in the national financial sector[9] with 82.5% of total assets, while those of microfinance, insurance and social security held 12.7% and 4.8% respectively.

Figure 4 : Evolution of the financial system structure



Source: BRB

[9] Data on pension funds institutions are not available

2.2. Banking sector

In 2020, the Burundian banking sector remained compliant, sound and resilient. Indeed, the banking sector shows near compliance with regulatory standards, positive profitability, improved credit portfolio and resilience to stressed shocks (top down stress test).

2.2.1. Banking sector situation

At the end of 2020, the activities of the banking sector are generally oriented towards the financing of the government and the economy as well as in the provision of means of payment. The banking sector's loans to the economy represent 19.6% of GDP in 2020 from 17.1% in 2019. The banking sector has four banks of high systemic importance and three banks of medium systemic importance.

2.2.1.1. Banking sector assets

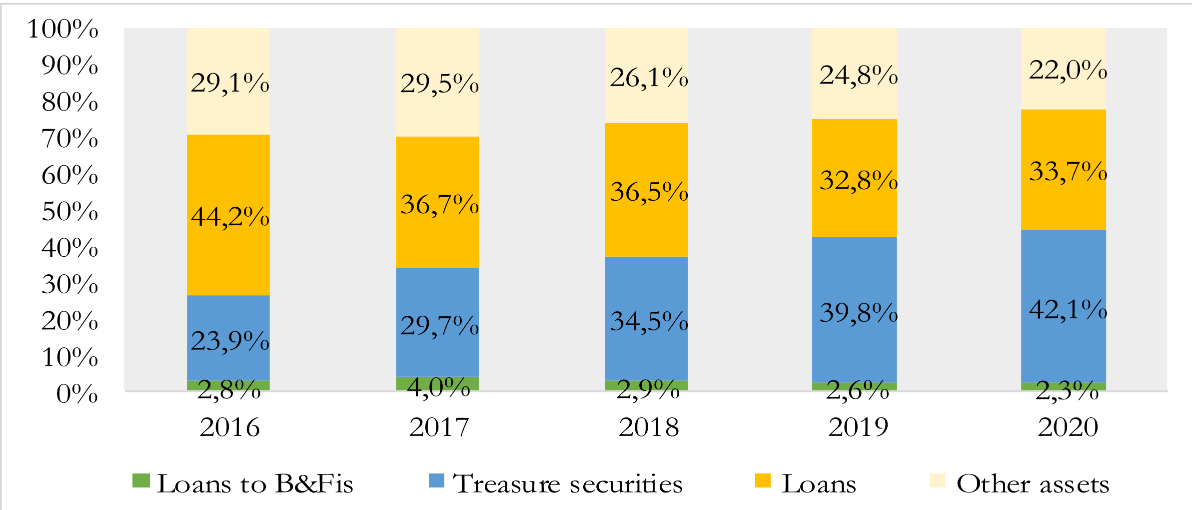
At the end of 2020, the total assets of the banking sector reached 3 894.25 against 3 262.1 MBIF in 2019, an increase of 19.2%. The banking sector's assets are mainly composed of loans to the economy 33.7% and loans to the government 42.1% against 32.8% and 39.8% respectively in 2019. Banks of high systemic importance[10] contribute for about 67.7% to the financing of credit to the economy and 75.4% to the financing of the government while banks of medium systemic importance contribute for 23.6% to the financing of loans to the economy and 8.6% to the financing of the government.

Loans are concentrated in particular in the trade (30.4%), miscellaneous (27.8%), housing (17.2%), industry (8%) and transport (6.5%) sectors. The majority of loans distributed by banks are short-term (45.7%) while medium and long-term loans represent respectively 27.1% and 27.3% in 2020 from 31.5% and 21.5% in 2019.

The financing of the government was done through the purchase of Treasury securities (Treasury bills and bonds). Treasury bills have a maturity of between 13 weeks and 26 weeks, while Treasury bonds have a maturity of between 2 years and 10 years.

The heading "Other" includes in particular fixed assets (4.9%) as well as cash in hand and credit institutions deposits in the BRB (8.5%).

Figure 5: Assets structure (percent)



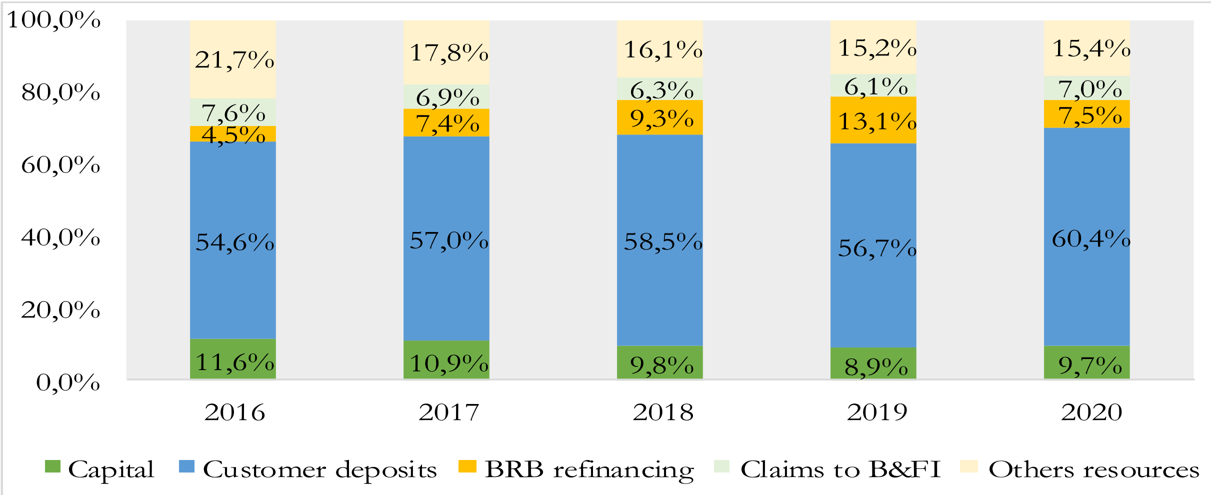
Source: BRB

[10] The assessment (identification and analysis) of Systemically Important Banks is done on banks only because their business models differ from those of domestic financial institutions.

2.2.1.2. Banking Sector liabilities

In 2020, the liabilities of the banking sector are mainly composed by customer deposits (60.4% against 56.7% in 2019), capital (9.7% against 8.9% in 2019) as well as BRB refinancing (7.5% against 13.1% in 2019). High Systemic Importance Banks hold 71.9% of customer deposits and receive 87.5% of BRB refinancing while Medium Systemic Importance Banks hold 20% of customer deposits and receive 3.4% of refinancing.

Figure 6: Structure of liabilities (percent)

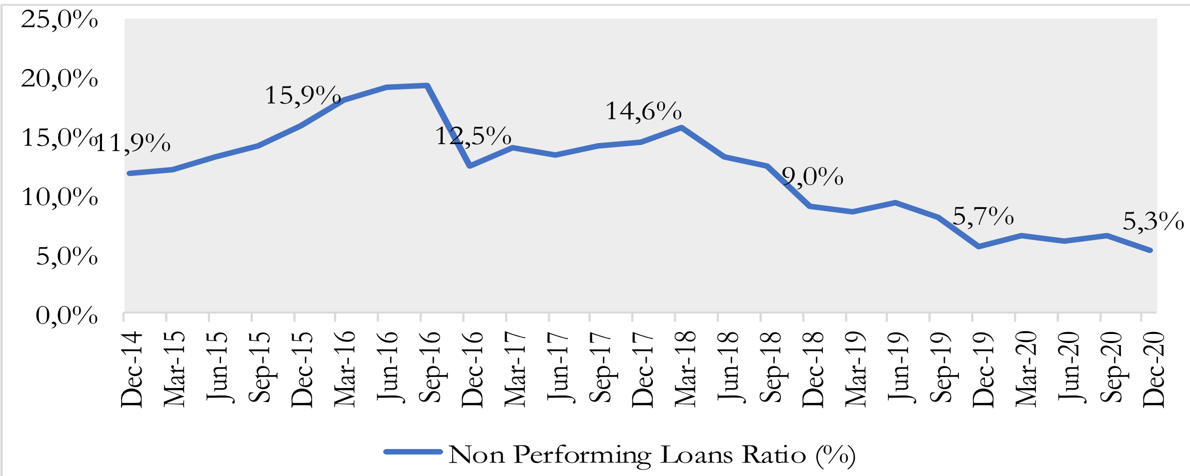


Source: BRB

2.2.2. Quality of the loan portfolio

The quality of the sector's loans portfolio improved slightly at end-December 2020, which contributed to the improvement of the stability of the financial system. The overall deterioration rate decreased from 5.7% at end-December 2019 to 5.3% at end-December 2020. This improvement is linked to the write-off of two-year old impaired loans in the balance sheets of credit institutions amounting to BIF 15 422.4 billion. However, non-performing loans before the write-off amounted to BIF 84 802.5 billion, thus constituting a deterioration of the credit portfolio by 6.4%.

Figure 7 : Evolution of non-performing loans ratio (percent)



Source: BRB

At the end of 2020, within the non-performing portfolio, the trade, housing and transport sectors were the most dominant with 28.7%, 15.7% and 14.0% respectively. For 2019, the most dominant sectors within the non-performing portfolio were trade, housing and health with 29.6%, 16.6% and 13.1% respectively.

From an intra-sector perspective, the best performing sectors were mines and quarries (0.03%), fishing (0.46%) and education (0.60%), while the non-performing sectors were health (69.85%), tea (64.67%) and hotels (29.30%).

Year-on-year, the tourism (26.5%) and hotel (16.8%) sectors improved in terms of intra-sector performance. Indeed, the ratio of non-performing loans within tourism improved from 8.6% to 1.3% in 2020. The improvement is mainly due to the decrease in non-performing loans and to a lesser extent to the increase in credits granted to this sector.

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

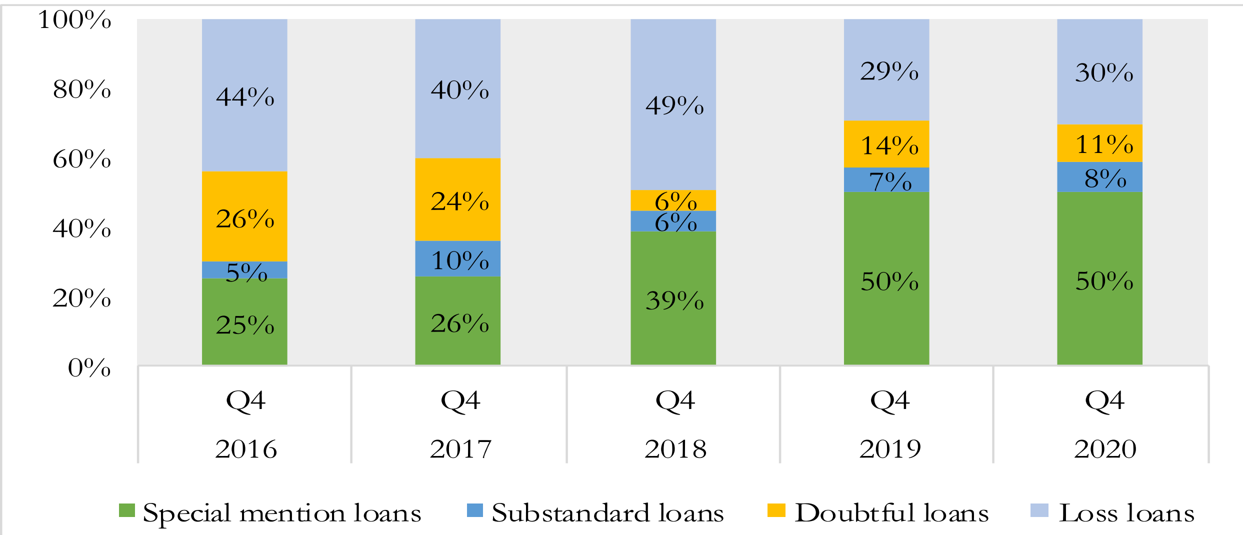
Table 11: Non-performing loans rate trends at the EAC level

NPLs	2016	2017	2018	2019	2020
Burundi	12.9	14.5	9.0	5.7	5.3
Kenya	9.1	10.6	9.1	10.0	14.1
Uganda	10.5	5.6	3.3	3.8	5.3
Rwanda	7.6	7.6	5.0	4.9	4.5
Tanzania	9.1	12.5	6.9	9.8	9.4
South Sudan	n.a.	48,0	4.1	n.a.	3.1

Source: Risk assessment dashboard of EAC countries, June 2021

The evolution of special mention loans as a key indicator of future deterioration of the loan portfolio remained high from a year to another, at 50%. Thus, in order to remedy with the portfolio deterioration, the banks have made sufficient provisions with a provisioning rate of 64.9%.

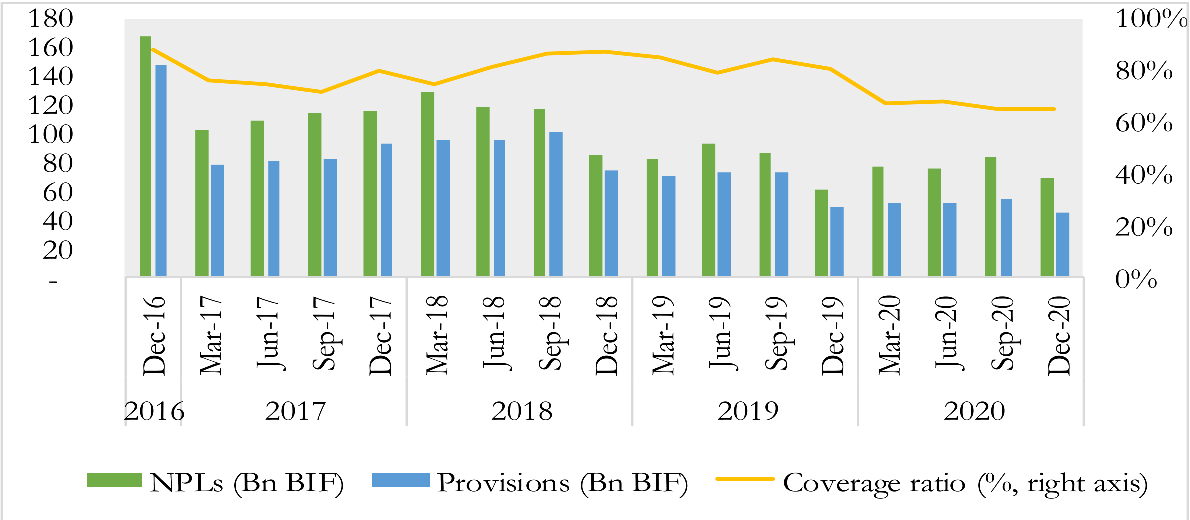
Figure 8: Overdue loans structure (percent)



Source: BRB

The coverage rate for non-performing loans declined slightly from 80.9% in 2019 to 64.9% in 2020. Year-on-year, the amount of provisions made for non-performing loans grew from BIF 61.2 billion in 2019 to BIF 69.4 billion in 2020.

Figure 9 : Coverage rate for non-performing loans

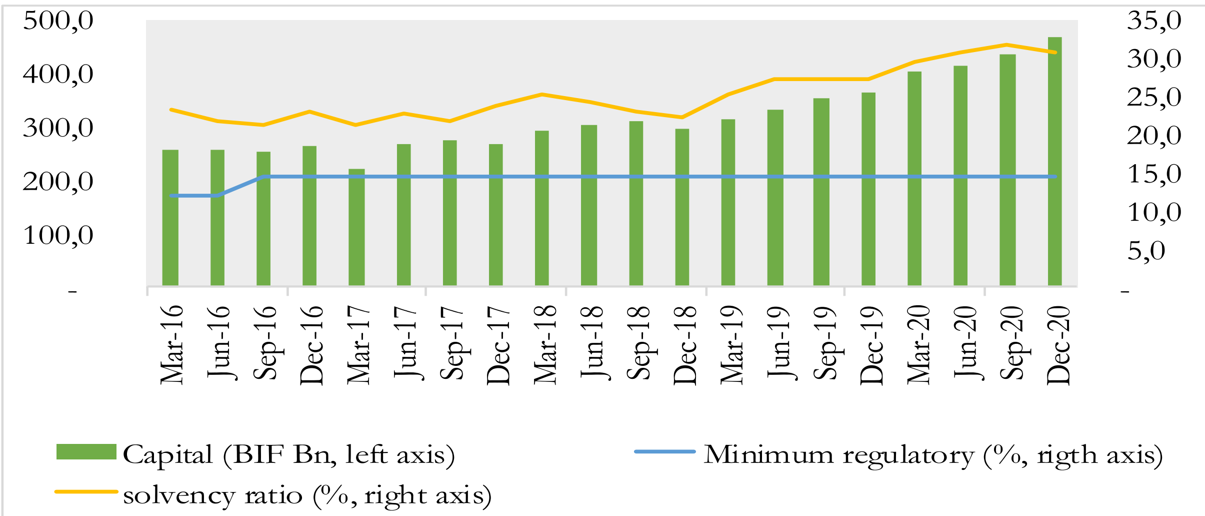


Source: BRB

2.2.3. Capital adequacy

In 2020, the banking sector had sufficient capital compared to the regulatory standard. It increased by 26.3% to MBIF 460 427.1 at the end of December 2020, compared to MBIF 364 576.9 at the end of December 2019. This improvement was due to the incorporation of part of the result in the capital. The Tier 1 and overall solvency ratios improved slightly, from 20.3 and 22.0% respectively at the end of December 2019 to 20.8 and 22.4% at the end of December 2020. Similarly, the leverage ratio stood at 11.0% compared to 10.3% given the minimum threshold of 5.0%.

Figure 10: Evolution of capital adequacy



Source: BRB

2.2.4. Liquidity

At the end of 2020, the overall short-term liquidity ratio deteriorated slightly from 220.0 to 210.4%. Although it declined, the ratio remained above the regulatory standard.

The overall compliance of the sector with the liquidity ratio contains some disparities. Indeed, from the point of view of local currency liquidity, all banks are compliant while for foreign currency liquidity, one systemically important bank is non-compliant.

Table 12: Evolution of the Liquidity Ratio

	2014 Q4	2015 Q4	2016 Q4	2017 Q4	2018 Q4	2019 Q4	2020 Q4
Liquidity Ratio in BIF (%)	35,4	38,0	55,0	58,3	225,5	232,0	213,5
Liquidity Ratio in foreign currency (%)	84,9	122,0	128,0	113,5	138,9	137,4	172,4
Overall Liquidity Ratio (%)	52,0	53,0	64,0	64,2	218,5	220,0	210,4
Standard (%)	≥20	≥20	≥20	≥20	≥100	≥100	≥100

Source: BRB

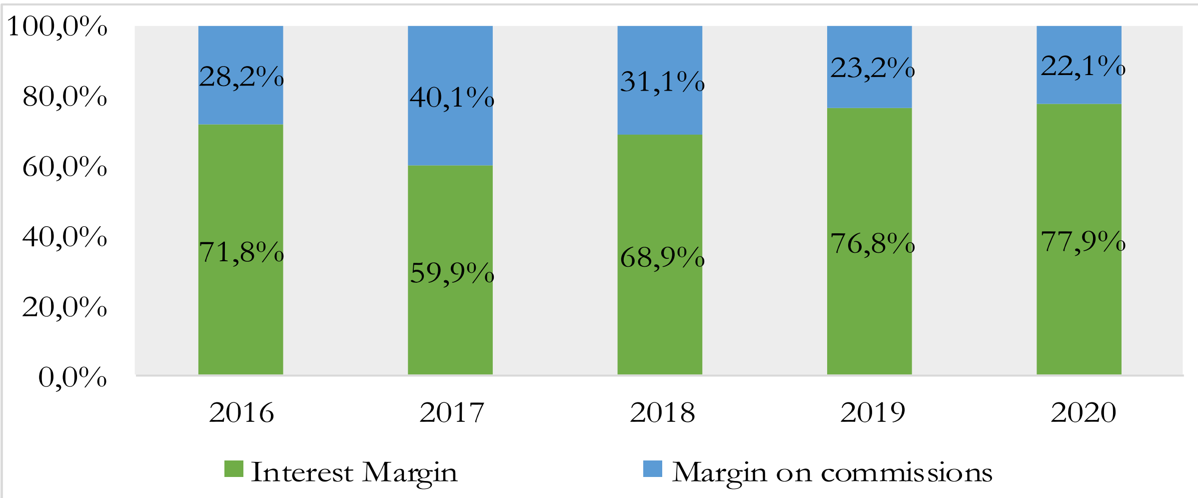
2.2.5. Market risk

The Burundian financial market is not sufficiently developed as the financial system is almost dominated by the banking sector, which is weakly interconnected with international markets. The secondary market is still in its infancy and the financial assets traded on it often reach maturity, which means that they are not subject to possible price changes.

2.2.6. Banking sector profitability

At the end of 2020, the banking sector remained profitable. Net banking income increased by 14.5% from BIF 256 013.6 million to BIF 293 546 million. Compared to the previous year, the net profit of credit institutions increased by 18.9% from BIF 118 686.4 million to BIF 141 069.1 million at the end of 2020.

Figure 11: Distribution of banking net income (percent)

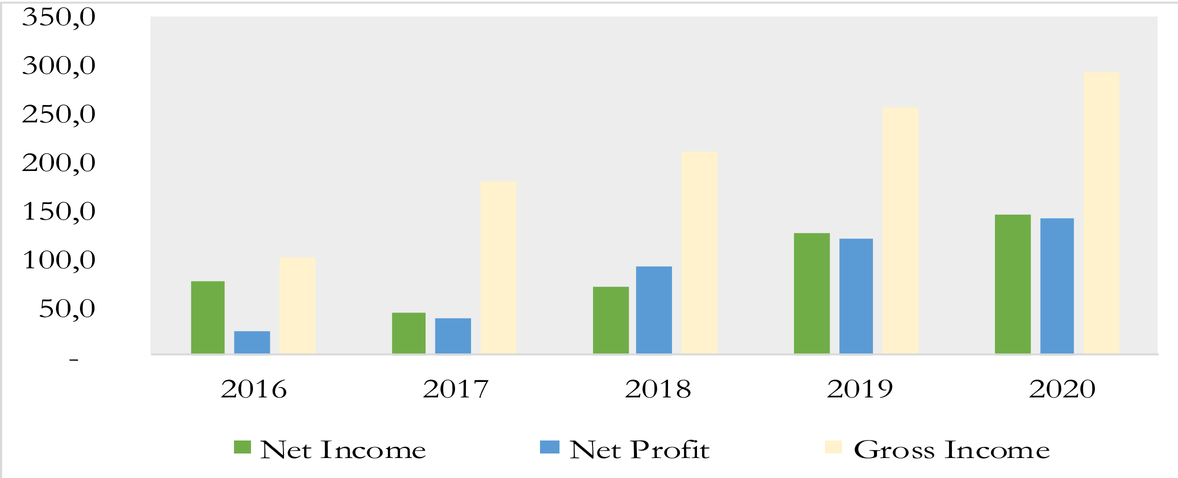


Source: BRB

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

The overall profitability of the sector comes mainly from investment operations in Treasury securities and those with customers. It is driven by 7 banks. The return on assets was 3.8% and the return on equity 32.3%.

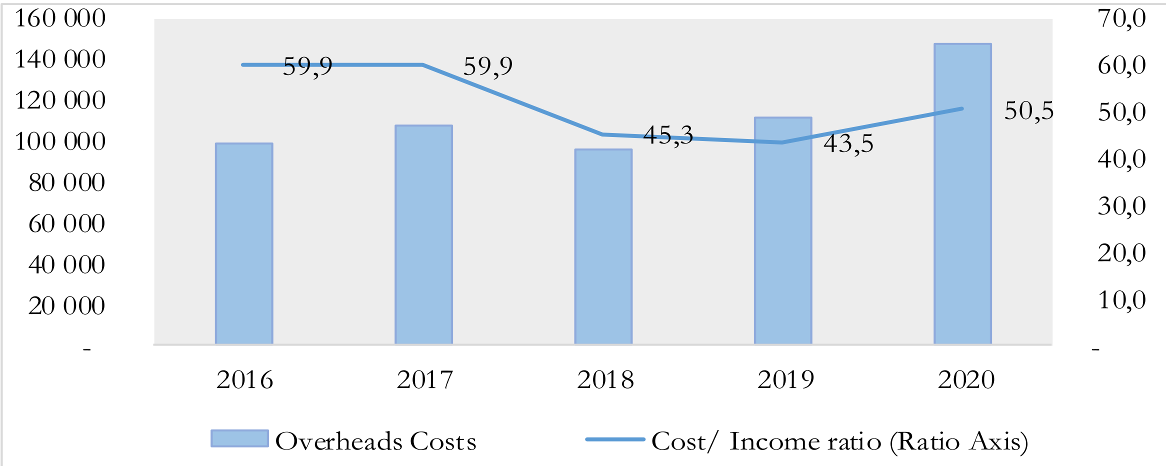
Figure 12: Intermediate operating balances (BIF million)



Source: BRB

At the end of 2020, general expenses increased by 32.8%, while net banking income rose by 14.4%, resulting in a 7% increase in the cost/income ratio.

Figure 13: Overheads Cost (BIF million) and Cost/income ratio (percent)



Source: *BRB*

2.2.7. Stress testing

The assessment of the financial system resilience is a part of risk management process. Indeed, after an assessment of the soundness of the banking sector according to the existing regulations, it is common to assess its resilience under hypothetical adverse conditions.

There are two main categories of stress tests. The micro-prudential stress tests assessing the resilience of each institution on its own and the macro-prudential tests which assess the resilience of the whole financial system, thereby capturing the impact of identified systemic risks. The former can be conducted in a bottom-up manner (by banks internally) or in a top-down manner (by the regulator).

From a micro prudential point of view, the stress test was conducted to assess the resilience of 13[11] Burundian credit institutions to credit and liquidity risk based on their financial statements as at end December 2020.

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

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

The shock of a proportional increase in non-performing loans was assessed in two scenarios. The *first scenario*, known as the *reference scenario*, assesses whether the additional provisioning in the event of a 25% migration of performing loans to non-performing loans would produce an acceptable negative impact or not. All credit institutions remain adequately capitalised after this test. The second scenario, known as the severe scenario, assesses whether the additional provisioning in the event of a migration of 50% of performing loans to non-performing loans would produce an acceptable or unacceptable negative impact. Twelve credit institutions remain adequately capitalised after this test.

The sectoral deterioration shock was assessed in two scenarios. The *first scenario*, known as the *benchmark scenario*, assesses whether additional provisioning would be required in the event of a 20% migration of performing loans to non-performing loans in each sector of activity and a provisioning of 25% of new non-performing loans. Nine credit institutions remain adequately capitalised after these tests. The *second scenario*, known as the *severe scenario*, assesses whether the additional provisioning in the event of a 30% migration of performing loans to non-performing loans in each business line and a 25% provisioning of new non-performing loans. Seven credit institutions remain adequately capitalised after these tests.

The deterioration shock to large debtors[12] was assessed in three scenarios. The *first scenario*, known as the *reference scenario*, assesses the resilience of credit institutions to additional provisioning of 100% in the event of default by the largest debtor. Ten credit institutions remain sufficiently capitalised after this test.

The *second scenario*, known as the *severe scenario*, assesses the resilience of credit institutions to additional provisioning of 100% in the event of the failure of the three largest debtors. Six credit institutions remain adequately capitalised after this test.

The third scenario, known as the very severe scenario, assesses the resilience of credit institutions to additional provisioning of 100% in the event of the failure of the five largest debtors. Six credit institutions remain sufficiently capitalised after this test. This risk is largely related to the level of concentration of each credit institution's portfolio. Mitigating

[11] At the end of December 2020, one bank had not yet started transmitting its financial statements to the BRB.

[12] Loans to government are not included.

this risk involves monitoring the default risk of the Burundian banking sector's largest debtors. With regard to liquidity risk, a sustained withdrawal for 5 consecutive days was simulated at the rate of:

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

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

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

The hypothetical calibration of systemic risks has been increased to double/half (depending on the direction of risk) the observed average from 2015 to 2020. The impact is measured in terms of the response of the quality of the banking sector's credit portfolio to the simulated occurrence of each of these risks in isolation, as well as the related impact on the solvency of the banking sector. The results are that the banking sector's credit portfolio is resilient.

2.3. Microfinance Sector

The Burundian microfinance sector comprises 60 microfinance institutions (MFIs). It includes 20 savings cooperatives, 20 microfinance enterprises and 20 community financial groups. The number of service points for savings cooperatives and microfinance enterprises (headquarters, branches and counters) total 348 in 2020 compared to 329 in 2019. Four cooperatives dominate the sector's market, accounting for 80.2% of assets, 82.4% of loans, 78.5% of deposits and 84.1% of equity in the microfinance sector.

In 2020, the total assets of MFIs increased by 31.5%, from 456,482.9 MBIF in 2019 to 600,599.4 MBIF. This increase is linked to the increase (35.6%) in the amount allocated to financing the economy.

Table 13: Concentration of MFIs Assets (BIF million)

	2017	2018	2019	2020
Cooperatives (3rd category)	247,595.3	299,206.8	391,580.7	511,123.7
Microfinance companies (1st Category)	40,624.5	50,311.7	64,902.3	89,475.6
Total Assets	288,219.7	349,518.5	456,482.9	600,599.4
Cooperatives' share	85.9	85.6	85.8	85.1
Microfinance companies share	14.1	14.4	14.2	14.9

Source: BRB

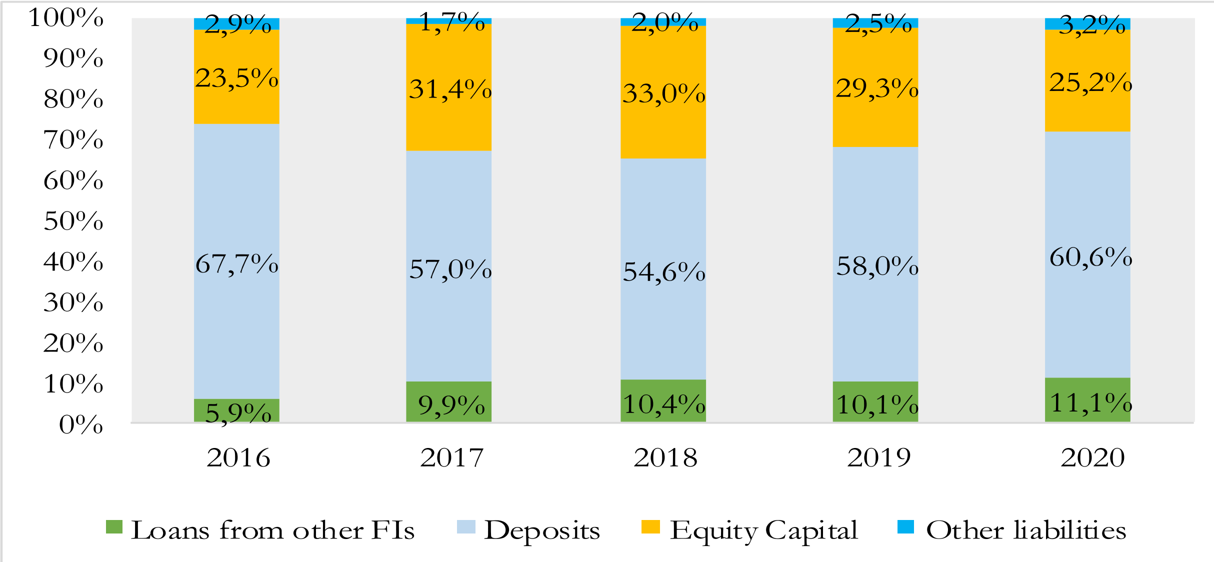
The assets of MFIs are heavily concentrated in cooperatives with 85.1% of total assets while microfinance enterprises account for 14.9%.

2.3.1. Microfinance sector liabilities

The resources of MFIs amounted to MBIF 600,599.4 in 2020, compared to MBIF 456,482.9 in 2019, an increase of 30.6%. This increase is mainly due to the rise in deposits (37.3%), which increased from BIF 264,853.2

in 2019 to BIF 363,843.7 in 2020, and in borrowings from the banking sector, which amounted to BIF 66,700.0 against BIF 46,317.7 in 2019. Shareholders' equity also increased by 13.4% to BIF 151,092.8 from BIF 133,862.9 at the end of December 2019.

Figure 14: Distribution of MFIs' liabilities (BIF million)

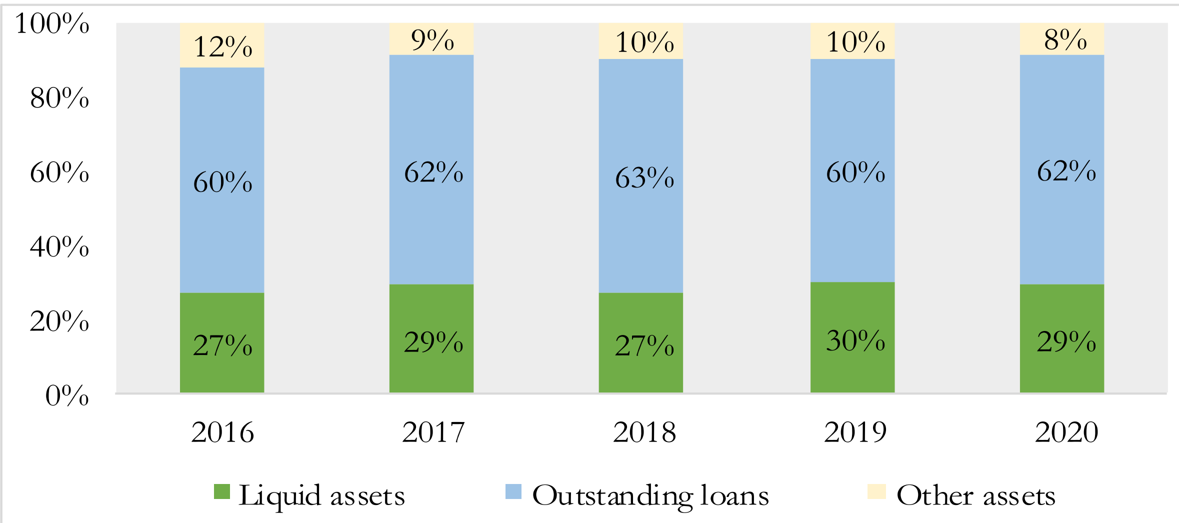


Source: BRB

2.3.2. Microfinance sector assets

The net outstanding loans of MFIs reached MBIF 374 151.6 in 2020 against MBIF 275 755.9 in 2019, an increase of 31.6%. However, the share of loans in the total of MFIs Assets increased by 1.9 p.p., from 60.4% in 2019 to 62.3% in 2020.

Figure 15: Evolution of MFIs assets (BIF million)

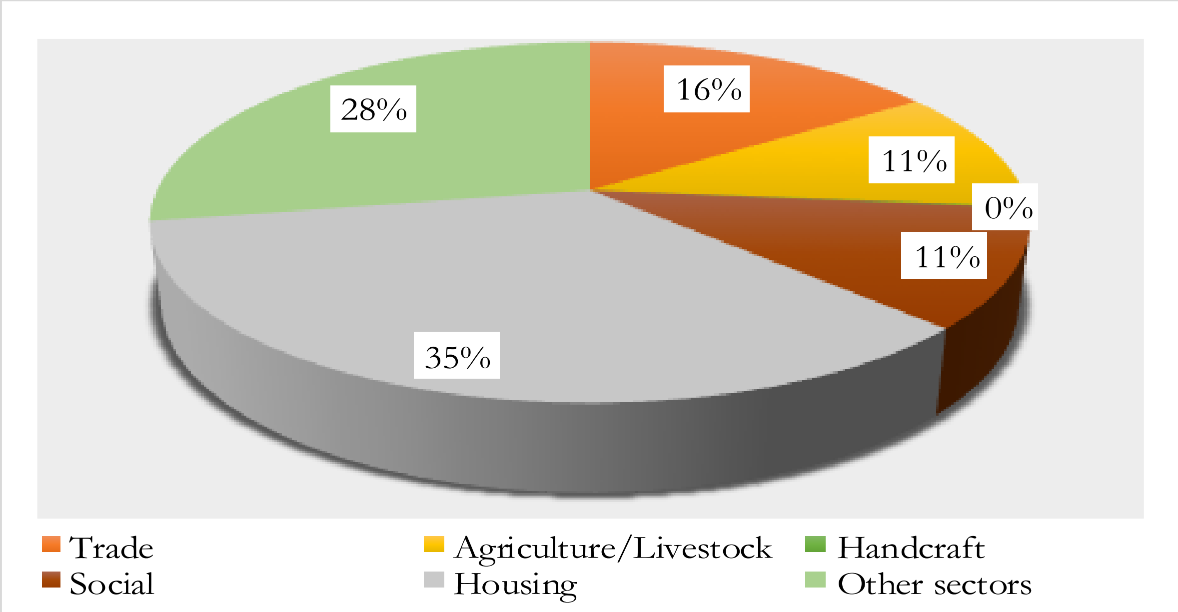


Source: BRB

2.3.3. Financing structure by sector

The housing sector is the most favoured by MFIs compared to other sectors with 35.0% of loans. As one of the growth sectors, the agriculture sector is the least financed by MFIs with only 11.0 % at the end of 2020. The figure below provides details on the loan distribution by sector of activity.

Figure 16: Distribution of loans by sector of activity



Source: BRB

2.3.4. Loan portfolio's quality

The deterioration rate of the credit portfolio decreased by 0.7 p.p. year-on-year, from 5.6 to 4.9 %; however, it remained within the maximum limit of 5% acceptable in the profession.

Table 14: Loan portfolio's quality

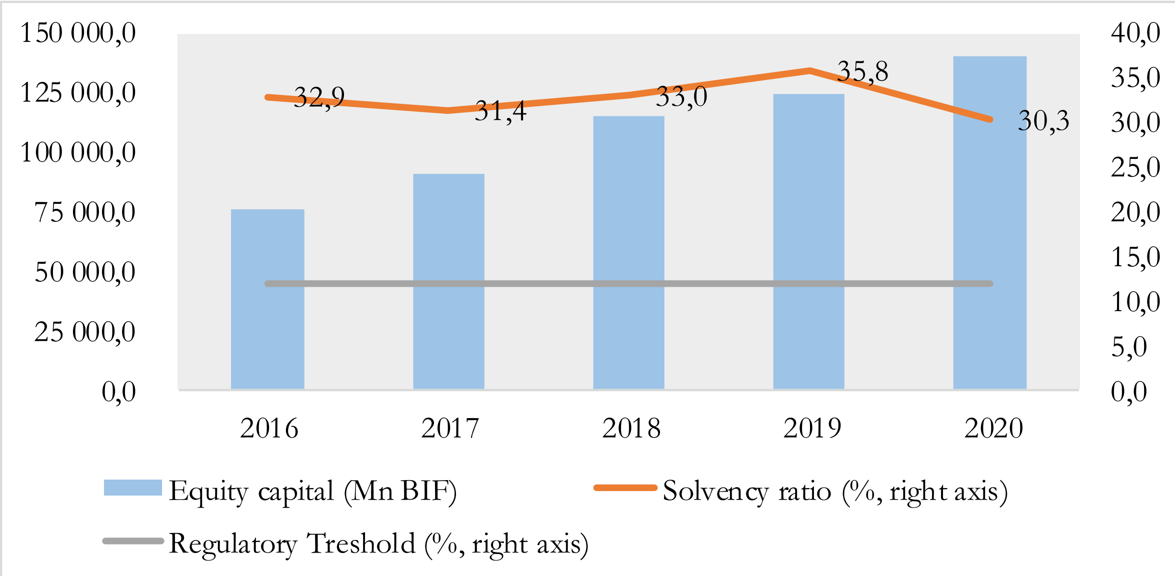
	2016	2017	2018	2019	2020	Change in %
Outstanding loans (BIF Mn)	139,881.0	179,238.7	225 468.8	283 950.6	374,151.6	31,9
NPLs (BIF Mn)	9,458.0	10,432.4	13,680.8	15,949.9	17,844.7	15,4
Loan provisions (BIF Mn)	4,526.4	4,931.1	5,042.8	8,262.9	8,202.9	2,7
Coverage rate	47,9	47,3	36,9	51,8	46,0	
Default rate	6,8	5,8	6,2	5,8	4,8	

Source: BRB

2.3.5. Capital Adequacy of the Microfinance Sector

The microfinance sector remains adequately capitalised and equity increased year-on-year from MBIF 124 664.3 in 2019 to MBIF 140 356.8 in 2020, an increase of 12.6%. Similarly, the sector's overall solvency ratio increased by 5.5 p.p. to 30.3% from 35.8 % in 2019, remaining above the minimum regulatory standard of 12%. However, this ratio contains disparities, as some MFIs do not meet this standard.

Figure 17: Capital evolution



Source: *BRB*

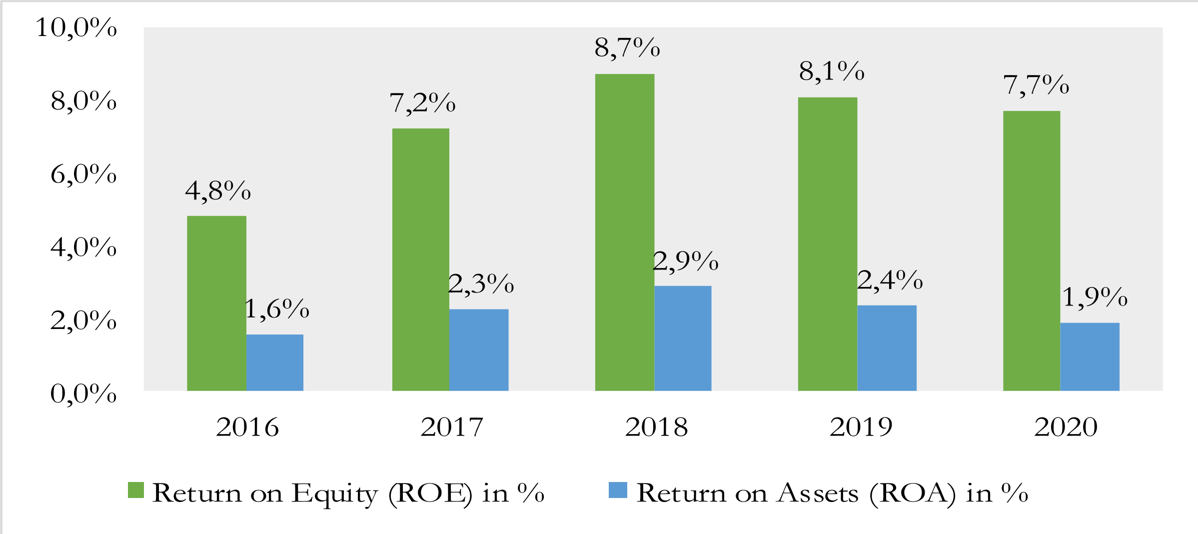
2.3.6. Liquidity of microfinance sector

The microfinance sector was, at the end of 2020, sufficiently liquid at 42.2%, a liquidity ratio above the minimum regulatory standard of 20%. However, two MFIs remain below this standard. The credit to deposit ratio is 102.8%, slightly above the maximum acceptable standard of 100%, in relation to borrowing from the banking sector.

2.3.7. Microfinance sector profitability

At the end of 2020, the microfinance sector remained profitable. Net banking income increased by 21.2%, from BIF 38,335.5 to BIF 46,491.7. The net result of the sector changed positively by 6.6%, from BIF 10,845.3 to BIF 11,563.4 year-on-year. Nevertheless, this result is largely concentrated in three MFIs, which hold 89.4% of the sector's net result. Return on equity (ROE) declined by 0.4 p.p. to 7.7 from 8.1% in 2019. Similarly, return on assets (ROA) fell from 2.4% in 2019 to 1.9% in 2020.

Figure 18: MFIs profitability indicators (percent)



Source: BRB

2.3.8. Banking Sector Exposure from MFIs

The MFIs' operations with the banking sector are mainly centred on the investment of cash surpluses as well as on borrowing. The investments made are identified through term deposits with BIF 52,977.4 million in 2020, i.e. 8.8% of total assets, while borrowings are 66,700.1 MBIF in 2020, i.e. 11.1% of total liabilities.

2.3.9. Main risks of MFIs

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

2.3.9.1. Operational Risk of MFIs

Most of MFIs do not have an efficient Management and Information System while others still process their data manually. In addition, MFIs have difficulties in managing risks, controlling expenses and producing financial information in accordance with the deadlines and frameworks set by the BRB. In overall, the main Weaknesses observed in the microfinance sectors are:

- problems of interconnection of the information and management systems between the headquarters of the MFIs and their branches and tellers;
- the lack of internal control tools (procedure manuals, audit charter, etc.);
- the lack of adequate tools and/or equipment to measure major risks;
- the high rate of deterioration of the loans portfolio;
- the lack of sufficiently secure space for loading and unloading funds in branches and tellers ;
- the non-compliance with some prudential ratios.

2.3.9.2. MFIs Governance challenges

In 2020, the microfinance sector is experiencing a number of shortcomings in terms of corporate governance. The main findings include:

- the irregularities in the holding of meetings of management bodies;
- the interference of the deliberative bodies in the daily management of MFIs;
- the non-appropriation of organic and regulatory texts by the members of the institutions' management bodies;

- the failure to respect the mandates of the management bodies;
- the low level of communication between the members of the boards of directors.

The risks arising from these shortcomings are as follows:

- the non-involvement of the Boards of Directors in monitoring the quality of the credit portfolio;
- the insufficient rate of implementation of previous recommendations;
- interference by the Chairman of the Board in the day-to-day management of the institutions.

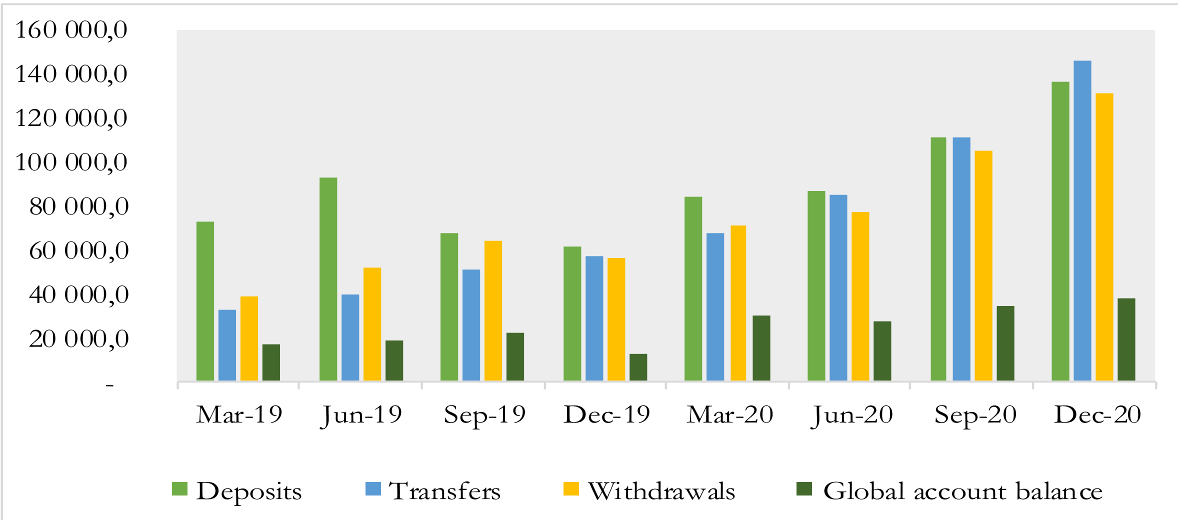
2.4. Digital financial services

Beyond the new licenses of Payment Institutions operating in digital financial services, many factors contribute to the growth of mobile money in Burundi, one of the economies where the level of electronic money transactions is still low compared to other economies in the sub-region.

The world in general and Burundi in particular suffered from the COVID-19 pandemic in 2020, the major role of these digital services in providing citizens and governments with access to secure, low-cost and contactless financial tools has become more weighted. In 2020, digital financial services were provided in Burundi by nine (9) institutions, including three (3) electronic money payment institutions from mobile phone companies, five (5) banks and one (1) microfinance institution.

The digital financial services distribution network was composed of 101,127 commercial agents, including 98,218 agents for electronic money payment institutions, 2,879 agents for banks and 30 agents for a microfinance institution.

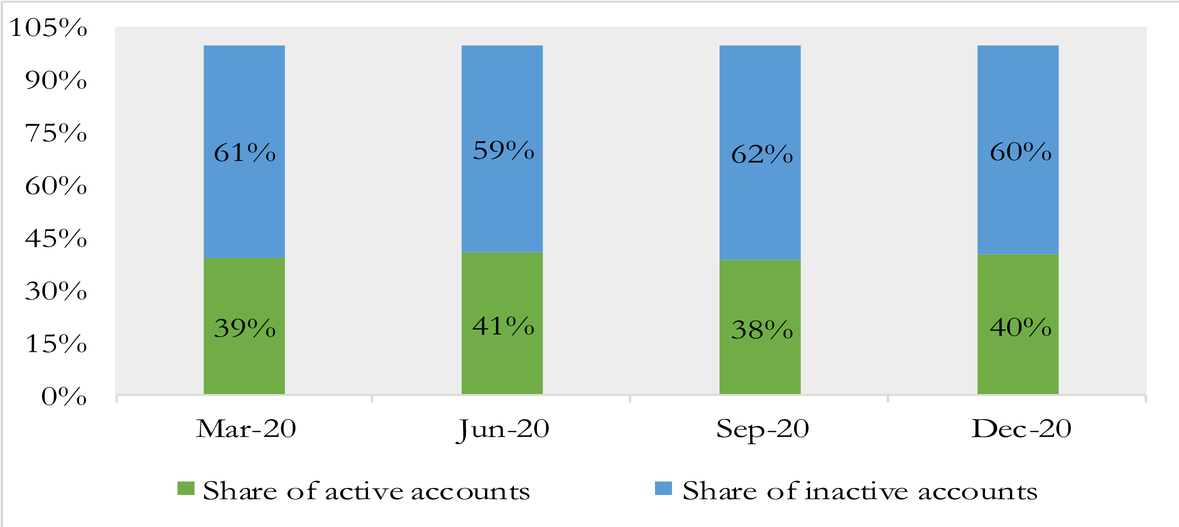
Figure 19: Transactions carried out by commercial banks



Source: BRB

Digital financial services increased in terms of transactions in 2020 compared to the same period in 2019. Deposits increased by 123% from 61,021 to 136,292 MBIF due to the increase in the number of customers in the sector.

Figure 20: Share of accounts in payment institutions



Source: BRB

The number of customers of payment institutions is constantly increasing, and amounted to 5.8 million customers at the end of December 2020. Among these customers, it is worth noting at least the high number of inactive customers at an average of 60% during the year 2020, due in particular to the creation, by default, of accounts in favour of the customer at the time of subscription to the network.

2.5. Risks related to digital financial services

In today's age, financial systems have become highly interconnected. With the advent of new technologies, many financial transactions are settled digitally. Nevertheless, these innovations are subject to vulnerabilities. In particular, these monetary tools are much more exposed to criminal counterfeiting and fraud risks, and various other forms of cyber security attacks. These risks may arise from the networked structure of payment transactions and from deficiencies in the reliability and integration of systems, as well as from the possible fragility of the clearing house.

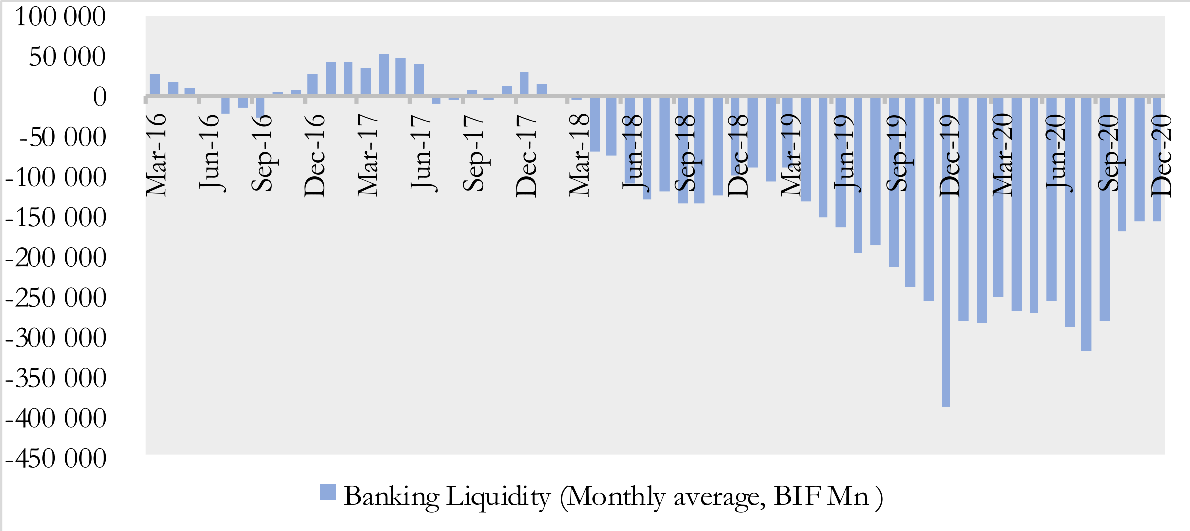
3

CHAPTER 3:
MONEY MARKET AND MARKET INFRASTRUCTURE

CHAPTER 3: MONEY MARKET AND MARKET INFRASTRUCTURE

At the end of 2020, banking liquidity (without BRB interventions) increased compared to the end of 2019, from - 388 179 to - 157 660 MBIF on average per day.

Figure 21: Bank Liquidity (BIF million)



Source: BRB

3.1. Money Market

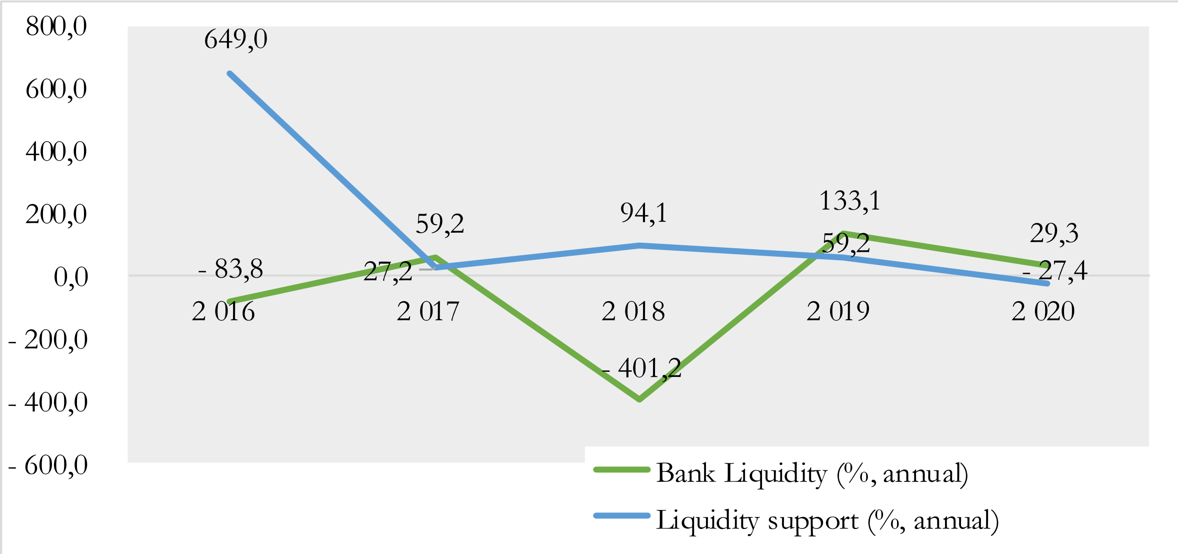
3.1.1. BRB liquidity supply

As part of the implementation of monetary policy, the BRB carried out liquidity providing operations in the banking sector. The amount of liquidity provided decreased to MBIF 320 235 at the end of 2020 compared to MBIF 398 013 at the end of 2019. As a result, the liquidity provision rate increased to 3.93% at the end of 2020 from 2.63% at the end of 2019. This liquidity providing situation reflects the fact that the banking sector was illiquid during 2020.

The vulnerability of the sector to the liquidity problem can be observed through the reserves of credit institutions. For almost four (4) years, the liquid reserves of credit institutions have remained low. However, this state has not had a negative impact on the stability of the financial sector since a large part of these reserves has been used to accumulate public debt securities in the form of Treasury bills and bonds. This has led the Central Bank to maintain permanent interventions vis-à-vis credit institutions in the form of liquidity providing on a weekly basis.

Nevertheless, in 2020, the sector's liquid reserves improved by an annual average of 29.3%, standing at BIF -157.7bn in 2020 compared with BIF -388.2bn in 2019. This improvement in liquidity enabled the Central Bank to reduce its interventions by 27.4% year-on-year, reaching BIF 288.9 billion in 2020 against BIF 398.0 billion in 2019.

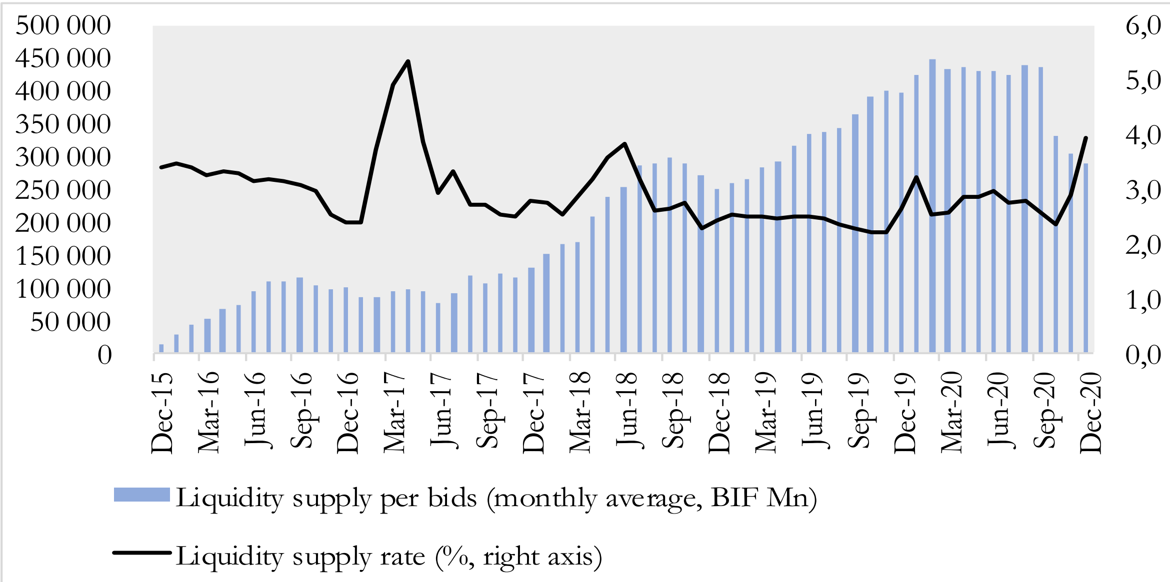
Figure 22 : Banking liquidity and BRB refinancing



Source: BRB

From this figure, it is clear that when the sector's liquidity is low, central bank refinancing increases especially in the period from 2016 to 2019. In 2020, refinancing follows the trend of reserves, which indicates a certain easing of the sector's dependence on central bank intervention.

Figure 23: BRB liquidity supply per bid



Source: BRB

3.1.2. Government securities market

During the year 2020, the BRB continued to issue Treasury securities on behalf of the government through auctions as well as the allocation of Treasury bonds resulting from the securitisation of the government's arrears to its suppliers. The total outstanding amount of

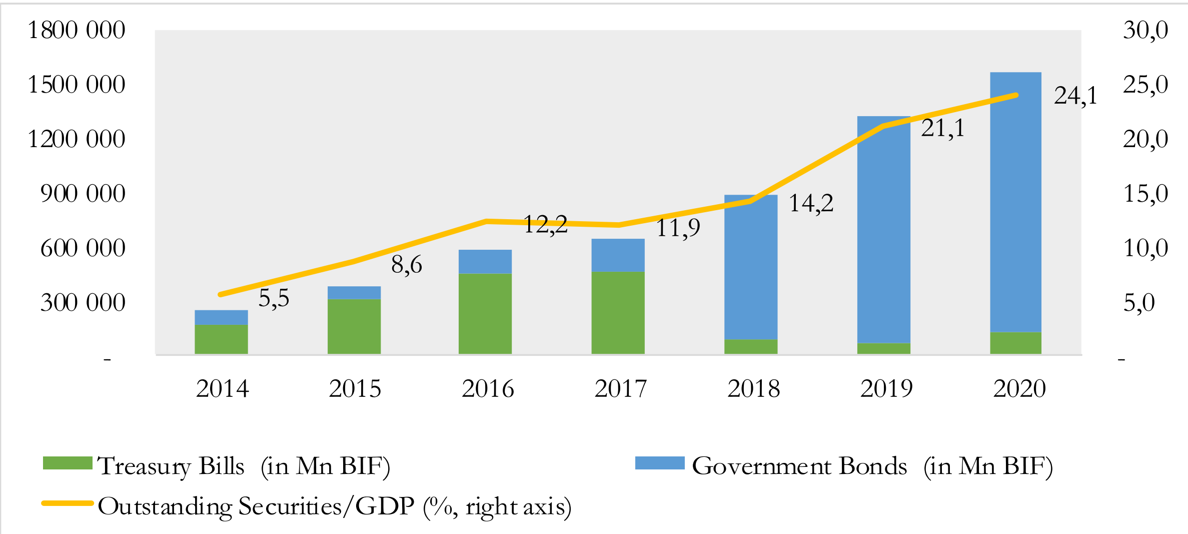
Treasury securities stood at MBIF 1 829 849 at the end of 2020, compared with MBIF 1 540 313 at the end of 2019. Treasury bonds equivalent to MBIF 37 700 were allocated during this period compared to MBIF 75 210 during 2019.

The increase in government financing through the market and the purchase of bonds from securitisation led to an increase in the portfolio of Treasury securities (Treasury bills and bonds) held by banks. The outstanding amount rose from BIF 1 286 306 to BIF 1 567 144 million from the end of 2019 to the end of 2020, an increase of 21.8%. The share of Treasury securities held by the banking sector, as a percentage of GDP was 24.1% compared with 20.6% at the end of 2019.

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

For instance, the number of individuals and insurance companies investing in Treasury securities rose from 84 to 156 and from 10 to 16 respectively, from one year to the next. The outstanding amount invested by individuals increased from BIF 14 823.5 million in 2019 to BIF 26 236.6 million in 2020, and that invested by insurance companies increased from BIF 74 670 million in 2019 to BIF 98 241 million in 2020.

Figure 24: Outstanding government securities held by the banking sector (BIF million)

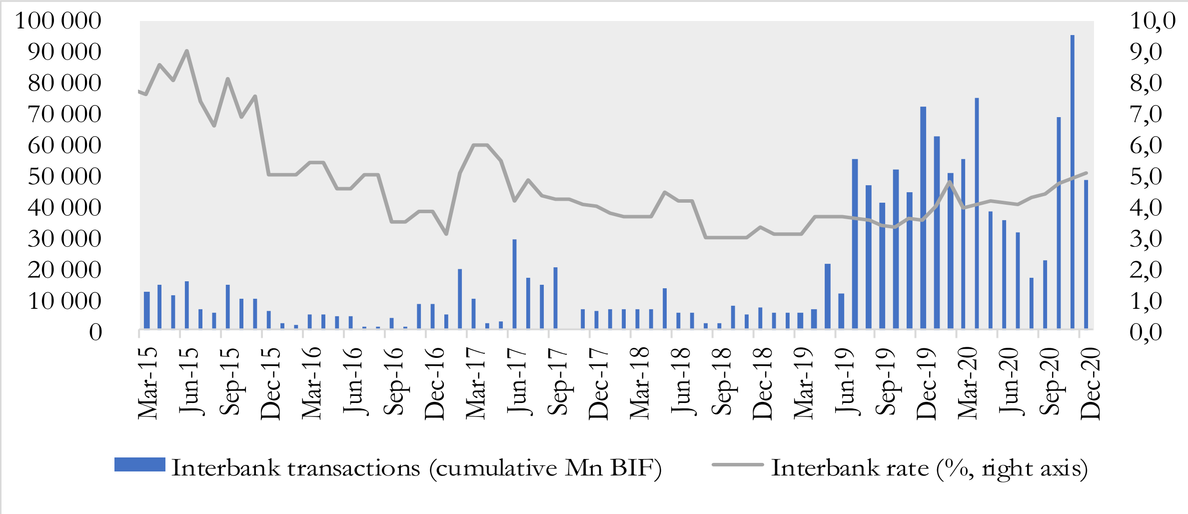


Source: BRB

3.1.3. Interbank market

In 2020, the volume of interbank transactions decreased compared to 2019. Indeed, the cumulative volume of liquidity exchanges through the interbank market decreased from BIF 72 205 million to BIF 48 500 million year-on-year. Over the same period, the interbank interest rate increased to 4.4% at the end of 2020 compared to 2.9% at the end of 2019.

Figure 25: Interbank money market transactions

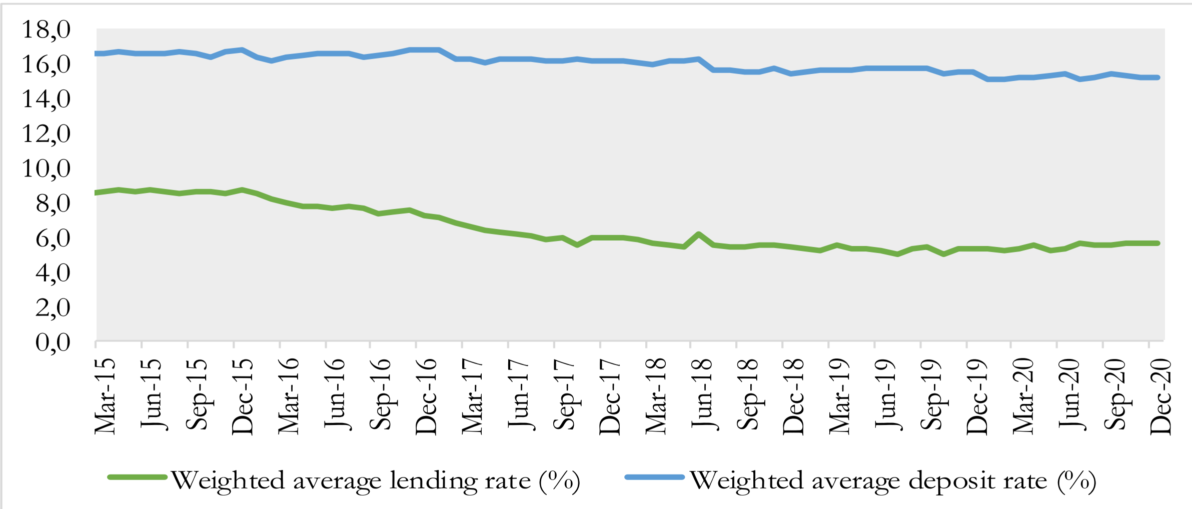


Source: BRB

3.1.4. Interest rates on loans and deposits

The average interest rate on loans distributed by credit institutions fell by 0.3 p.p. in 2020, to 15.2% compared to 15.5% in the same period of 2019. This fall is linked to the measures adopted by the Central Bank to finance growth sectors. On the other hand, interest rates on deposits also increased by 0.4 p.p., reaching 5.7% at the end of 2020 against 5.3% in the same period of 2019.

Figure 26: Average lending and deposit Rates

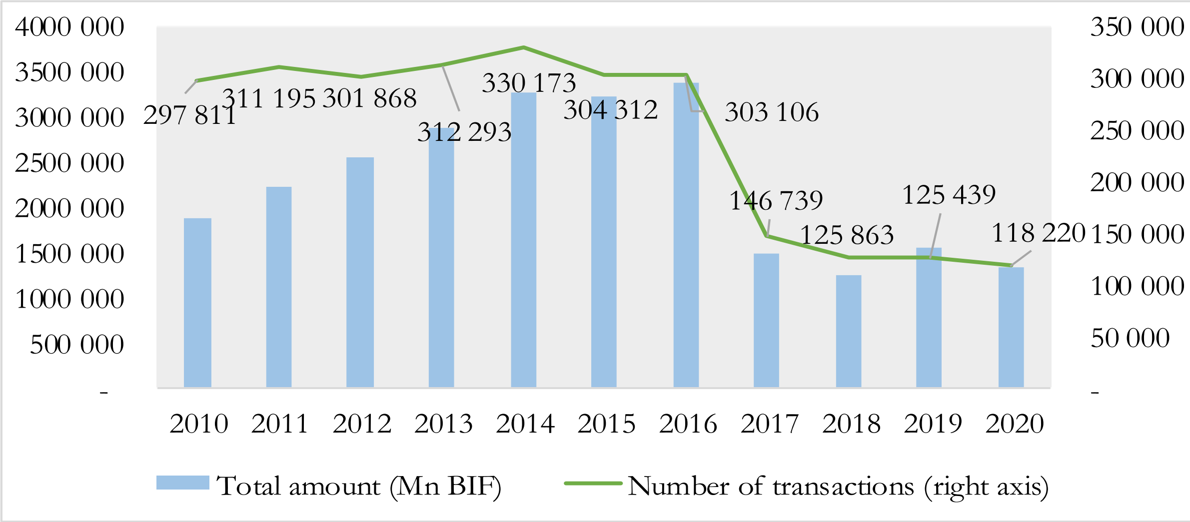


Source: BRB

3.2. Clearing house activities

At the end of 2020, transactions (cheques and transfer orders) processed manually in the clearing-house fell by 5.8% compared to the same period in 2019. They decreased from 125 439 to 118 220 transactions from the end of 2019 to the end of 2020. Similarly, the overall value of these transactions also fell by 14.6%, from BIF 1,555.9bn to BIF 1,329.4bn from end-2019 to end-2020.

Figure 27: Clearing house transactions



Source: BRB

During the year 2020, as part of the conduct of monetary policy, the Bank of the Republic of Burundi carried out all its liquidity-providing operations and granted marginal lending facilities to the banking sector through the RTGS automated securities settlement system, and all operations were success fully completed within a very short timeframe.

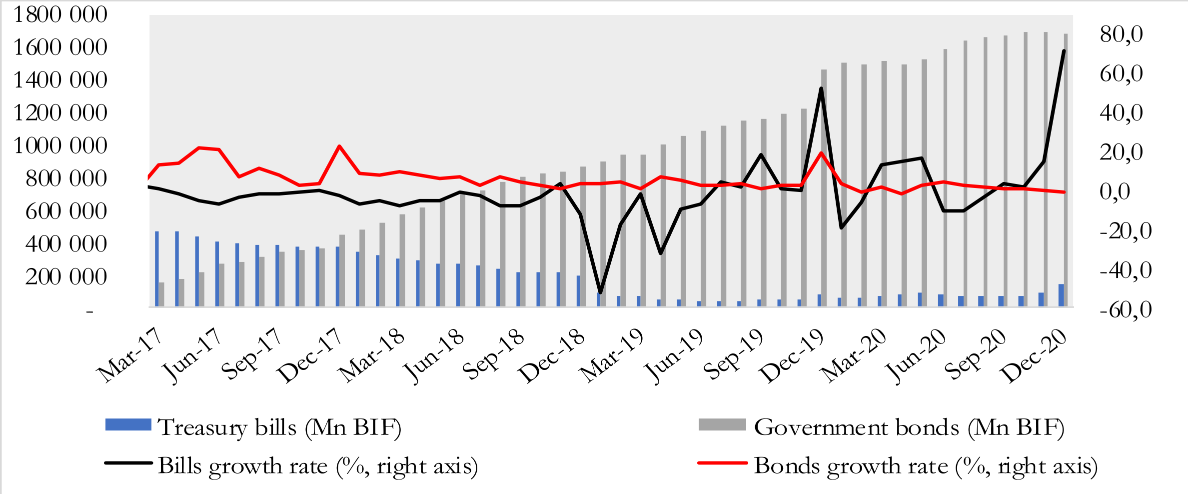
3.3. Securities settlement-delivery system

For the proper functioning of the primary and secondary market for Treasury securities (Treasury bills and bonds), the BRB performs the central functions for the smooth operation of transactions on these markets through the Central Securities Depository (CSD). Thus, the BRB keeps the securities registered in the CSD's account and manages the settlement/delivery system for all transactions carried out on the securities.

The performance and reliability of this system is the fundamental basis for the proper functioning of the financial system and the assessment of systemic risks due to the volume of financial assets and flows processed through this system.

The outstanding amount of Treasury securities processed in the CSD stood at BIF 1,829,849 million at the end of 2020 compared to BIF 1,540,313 million at the end of 2019, an increase of 18.8%. The rate of increase in the volume of Treasury securities processed in the CSD was greater for Treasury bills than for Treasury bonds, at 84.2% and 15.2% respectively.

Figure 28: Evolution of Government securities traded via the CSD



Source: BRB

Box 1: Modernisation of payment system

In the framework of the regional integration of payment systems, the Bank has finalised the SWIFT connectivity component to enable the integration of its Real Time Payment and Settlement System (RTGS) with the regional systems of the EAC (EAPS-East African Payment System) and COMESA (REPSS-Regional Electronic Payment and Settlement System). The finalisation of the tests should lead to effective and operational integration with the EAC EAPS and COMESA REPSS regional payment systems.

Also, within the framework of the East African Community Payment Systems Integration Project, the process of setting up a Payment Incident Centre (PIC) is currently in the procurement phase with the support of the AfDB through the EAC Secretariat.

In the same context, the procurement of equipment for the Rumonge alternative site has made significant progress as the contract has been signed for some equipment and their delivery to the Bank is underway.

The Bank, in collaboration with the EAC and the various system integrators, has finalised work on the implementation of the interface of its securities processing and settlement system (CSD) with the regional capital market infrastructure, which will serve as the technical platform for the Burundi Stock Exchange system.

With regard to the implementation of the interbank electronic payment system in Burundi, the Bank transferred this aspect to the new company BI-SWITCH that, in collaboration with the BRB, the commercial banks and the Régie Nationale des Postes, monitored the work to finalise the implementation of the interbank electronic payment system.

The latter should integrate interoperability and interbanking of card, mobile phone and internet payments. The tests have made significant progress, suggesting that the system will soon be ready for production.

4

CHAPTER 4:
EVOLUTION OF THE LEGAL AND REGULATORY FRAMEWORKS

CHAPTER 4: EVOLUTION OF THE LEGAL AND REGULATORY FRAMEWORKS

The regulatory framework governing the activities of financial system institutions has been adjusted, thereby enhancing the soundness and stability of the financial system.

4.1. Banking sector regulation

In 2020, the BRB issued Circular No. 01/2020 on the matrix of sanctions applicable to providers of financial products and services. The purpose of this circular is to specify the sanctions applicable to providers of financial products and services authorised by the BRB in case of violation of the provisions of Regulation No. 001/2019 on the protection of consumers of financial products and services.

The BRB also issued Circular No. 02/RC/20 on the margins applicable by banks in their foreign exchange operations with customers. The purpose of this circular is to specify the modalities for the fixing, by banks, of the buying and selling rates of currencies as well as the margins applicable for foreign exchange operations.

In addition, the BRB issued Regulation No. 001 of 28 February 2020 of the Bank of the Republic of Burundi on the dematerialisation and automated processing of cheques. The purpose of this regulation is to facilitate the implementation of an effective and efficient payment system by setting rules and principles for the management of dematerialization and automated processing of cheques in Burundi and by defining the rights and responsibilities of the remitting bank and the drawee bank within the framework of the dematerialized cheque exchange system, including the Bank of the Republic of Burundi in its capacity as supervisor of the clearing system.

4.2. Capital market regulation

In 2020, the BRB continued to support the Government in setting up a regulatory framework for the capital market. Thus, the law n° 1/08 of October 29th, 2020 governing the Capital Market Regulatory Authority in Burundi was enacted. The purpose of this law is to create, organise and determine the missions and functioning of the Capital Market Regulatory Authority.

4.3. Insurance Companies regulation

In order to strengthen the regulation and supervision of the insurance sector, the Insurance Companies Regulatory Agency (ARCA) has issued regulations and decisions during the year 2020. These include the following regulatory texts.

4.3.1. Regulation No. 001 of August 18th, 2020 on the payment of insurance premiums and the establishment of provisions for claims

This regulation focuses in particular on the classification and provisioning of claims on insurance companies, as well as the conditions for their repayment.

4.3.2. Regulation No. 002 of October 28th, 2020 laying down the conditions for the authorisation, exercise and striking off of experts, claims agents and actuaries

Experts and Auditors are approved by the Insurance Companies Regulatory Agency and their interventions are part of risk and damage assessment, with a view to improving the required conditions of practice. This regulation also emphasises the qualities and requirements for the exercise of their functions in the insurance sector.

Thus, this regulatory framework also specifies the incompatibilities, prohibitions and obligations to which they must adhere. Thus, to be licensed, they must not have incurred any penalty in any form. They must put the welfare of society first and avoid any kind of conflict of interest, and be guided by a sense of professional secrecy and strict adherence to the ethics of the profession.

As regards sanctions, they can be warning sanctions, financial sanctions, suspensions and withdrawal of approval.

4.3.3. Law N°1/06 of 17 July 2020 revising Law N°1/02 of 7 January 2014 on the Burundi Insurance Code

Among other innovations, the Burundi Insurance Code of 2020 brings a great improvement, particularly in terms of compensation for victims and their heirs.

Indeed, there has been a harmonisation of the modalities for calculating compensation for all victims or beneficiaries who have suffered the same damage, whereas in the 2014 code of calculation was done on the discretion of the judge, which led to divergent and contradictory decisions on similar cases. Also, following the conflict maintained by the term of annual income as a basis for calculation, it was introduced in the Burundi Insurance Code of 2020 that the Gross National Product per capita (GNP/capita) is retained in the calculation of compensation to be allocated to persons who cannot justify an income.

While the 2014 Code did not allow for the compensation of minors in the event of bodily injury or their dependants in the event of death, the 2020 Code considers minors and incapacitated persons as adults who cannot justify their income. They are therefore included in the category of people to be compensated on an equal footing with adults (art. 223).

Victims of road accidents, except for drivers of motor vehicles, are compensated for damage resulting from injury to their person, without their own fault being invoked against them, except where the said victims have voluntarily sought the damage suffered (Art. 182, para. 1). The victim is therefore excluded from the consideration of liability against the insurer, unless he himself intentionally caused the accident. The other great revolution of the new Code is the introduction of the system of amicable settlement in matters of civil liability for a motor vehicle (Art. 184 para. 3, 185, 186, 187 and 188). This provision was added in order to promote the rapid compensation of claims resulting from road accidents and thus avoid long and often costly trials, especially for the victims.

For compensation for the assistance of a third party, the revised Code only requires that the doctor treating the victim has made the prescription (Art. 227, para. 1) and since the evaluation and assessment of the damage related to the injuries suffered by the victim may vary from one doctor to another, the new Code provides for an indicative functional scale of disabilities to serve as a reference base for doctors in determining personal injury (Art. 226, para. 2). The scale was set by a joint order of the Ministers responsible for insurance and public health respectively.

4.4. Monetary policy regulatory framework

On October 19th, 2020, the BRB extended refinancing measures for institutions that have financed sectors identified as growth drivers. In addition to the agro-pastoral and industrial sectors aimed at export development, import substitution and value chain development, the BRB has added the infrastructure, hotel, tourism, and social housing sectors.

OUTLOOK

OUTLOOK

As part of the strengthening of financial stability, the BRB will pursue the project to set up a Deposit Guarantee and Resolution Fund. It will continue to pursue an accommodating monetary policy aimed at providing liquidity at lower cost to credit institutions and microfinance institutions to support the financing of driving growth sectors, particularly the agropastoral and industrial sectors, infrastructure, social housing, the hotel and tourism and industry.

The BRB will also continue to strengthen the regulatory and macro-prudential framework to ensure the stability of the Burundian financial system.

4 APPENDICES

APPENDICES

Appendix 1: EAC, Financial soundness indicators

Indicators	Country	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20
Capital/Risk Weighted Assets	Burundi	18.1	22.7	23.2	23.6	22	22.4
	Kenya	21.7	18.9	18.5	17.2	18.8	19.2
	Tanzania	18.9	19.1	19.7	14.2	17.1	17.9
	Uganda	21.0	19.8	23.2	18.7	21.8	22.2
	Rwanda	22.2	23.1	21.4	19.8	24.1	21.5
	South Sudan	N/A	N/A	N/A	13.9	11.6	14.8
Non performing Loans/Total loans	Burundi	17.9	14.7	14.7	9.0	5.7	5.3
	Kenya	6.0	11.7	10.6	12.0	12.0	14.4
	Tanzania	8.6	9.6	12.5	10.4	10.1	11.8
	Uganda	5.1	10.4	5.6	3.4	4,9	5.1
	Rwanda	6.2	7.1	7.6	5.0	9,8	4.5
	South Sudan	N/A	N/A	48	44.4	N/A	3.1
Return on Equity (ROE)	Burundi	11.5	8.5	16.5	20.6	32.6	32.3
	Kenya	23.8	24.8	20.8	22.5	21.3	13.8
	Tanzania	13.0	8.9	6.9	5.9	8.1	
	Uganda	16.0	8.3	16.4	14.4	16.7	14.2
	Rwanda	11.8	9.1	6.3	11.7	N/A	11.8
	South Sudan	30.7	21.6	16.0	24.8	N/A	19.7
Return on Assets (ROA)	Burundi	1.9	1.3	2.2	2.4	3.7	3.8
	Kenya	2.9	3.1	2.7	2.7	2.5	1.6
	Tanzania	2.7	2.1	1.7	1.5	1.9	
	Uganda	2.6	1.3	2.7	2.5	2.9	2.4
	Rwanda	2.9	2.5	2.1	3.0	N/A	2.0
	South Sudan	3.4	2.3	2.3	3.4	1.7	2.6

Source: BRB

Appendix 2: Financial sector soundness indicator for credit institutions

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CAPITAL ADEQUACY													
Core capital (tier1)	55,722.8	78,181.9	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	335,858.9	398,124.5
Total capital	67,882.4	97,880.4	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	364,790.7	421,913.6
ASSET QUALITY													
NPLs Ratio	22.6	11.3	9.0	6.9	7.7	9.4	11.9	15.9	5.0	14.6	9.0	5.7	5.3
Performing Loans													
Pass loans	220,436.0	233,058.0	380,854.0	533,927.0	506,820.0	592,607.0	528,871.0	300,915.0	611,508.0	638,481.0	804,866.6	923,173.5	1,000,051.0
Special mention loans	1,837.0	5,550.0	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	61,324.9	46,936.4
Non-Performing Loans													
Substandard loans	1,589.0	698.0	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	8,776.1	7,392.5
Doubtful loans	2,308.0	2,165.0	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	16,658.4	13,055.5
Loss loans	60,871.0	34,931.0	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	35,774.0	39,718.2
Total NPLs	64,768.0	37,795.0	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	61,208.4	60,166.2
PROFITABILITY													
Net income	17,538.7	20,964.8	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	119,359.3	130,881.6
ROA (%)	2.8	6.4	4.1	6.9	4.2	4.5	1.9	1.9	1.3	2.2	2.4	3.7	3.8
ROE (%)	25.8	34.0	25.2	34.9	18.6	18.7	9.4	11.5	8.5	16.5	19.7	32.7	32.3
Interest Margin	52,649.3	35,170.0	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	196,645.4	210,102.4
Margin on commission	N/A	23,190.6	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	43,869.7	45,510.8
Average lending rate	16.7	16.5	15.9	15.3	15.7	16.2	16.71	16.85	16.77	16,16	15.37	15.5	15.2
Average deposit rate	8.1	7.6	7.3	7.6	8.8	9.0	8.80	8.70	7.2	6.0	5.4	5.3	5.7
LIQUIDITY													
Liquid asset	243,276.5	310,295.9	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	293,874.1	318,411.3
Liquid Asset/ Deposit ratio	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	80.0	24.0	20.0	28.3	0.1
Loans/Deposit ratio (%)	0.8	0.7	0.8	0.9	1.0	0.8	88.0	81.0	68.0	59.0	56.0	57.9	50.3
MARKET													
Loans in foreign currency	2,483.0	474.2	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	68,955.0	165,178.2
Deposit in foreign currency	106,564.3	136,350.7	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		231,875.6
Assets in foreign currency	134,577.5	160,028.1	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	293,874.1	413,037.0
Liabilities in foreign currency	78,770.1	140,381.3	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	257,797.7	399,795.7
Loans in foreign currency / Core capital	4.0	1.0	3.0	2.0	-	1.0	1.0	2.0	10.0	7.6	19.3	20.5	41.4
Loans in foreign currency/Deposits in foreign currency	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0	13.0	14.0	34.0	41.6	71.2
Assets in foreign currency/Liabilities foreign currency	1.7	1.1	1.1	1.0	1.0	1.0	0.9	1.1	93.0	93.0	92.0	114.0	103.3

Source: BRB

Appendix 3: GDP per Branch (BIF Bn)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Primary Sector	509.3	461.7	470.8	465.3	472.8	466.3	476.3	516.4	497.9	488.0	497.1	490.9	502.9	544.2	566.7
- 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	464.9	498.3
- 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	19.0	19.9
- 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	3.6	5.0
- Tea	4.2	4.6	5.2	6.8	8.3	7.5	7.7	13.0	14.2	15.4	12.3	12.1	12.7	14.2	13.7
- Others 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	1.3	1.2
- 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	16.4	14.7
- 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	39.1	29.5
- 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	4.8	4.3
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	343.9	361.3
- 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	12.5	10.5
- 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	224.9	244.8
- 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	177.0	193.4
- Manufacturing Industry	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	47.9	51.3
- Textile industry	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	9.4	7.7
- Other manufacturing industry	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	38.5	43.7
- 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	11.1	9.5
- 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	95.4	96.6
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	961.3	919.7
- Trade	92.7	97.7	76.8	75.8	79.9	82.7	85.9	71.2	79.4	68.5	62.0	69.7	71.8	69.9	69.7
- Transport et 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	78.5	80.0
- 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	19.8	19.6
- 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	58.7	60.4
- 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	145.8	170.7
- Hotels, Restaurant and other merchant 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	114.4	71.6
- 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	380.5	367.8
- Education	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	250.5	241.9
- 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	19.0	18.0
- Collective or Individual Activities	11.5	36.5	53.1	55.0	58.2	47.9	26.7	33.0	47.1	54.4	45.6	51.9	54.5	56.1	57.0
- Household 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	5.5	4.8
- SIFIM	-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	-158.8	-161.7
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	1849.4	1847.7
Taxes	107.1	106.5	116.2	122.7	151.6	171.1	170.7	184.4	194.0	177.5	200.6	195.9	203.4	226.4	244.2
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	2075.8	2091.9

Source: MFBPE, Cadrage macroéconomique 2021

Appendix 4: Key macroeconomic indicators

	2014	2015	2016	2017	2018	2019	2020
GROSS DOMESTIC PRODUCT AND PRICES							
Real GDP Growth (in %)	4.2	- 0.4	3.2	3.6	3.8	4.1	- 0.5
Inflation Rate (annual average)	4.4	5.5	5.6	16.1	- 2.6	- 0.7	7.5
EXTERNAL SECTOR							
Exports, f.o.b. (in millions of dollar)	131.8	120.8	124.7	172.6	180.2	176.1	159.9
Imports, CIF (in millions of dollar)	768.7	721.4	616.2	756.0	793.5	871.0	896.0
Volume of exports (in tons)	82,825.0	85,758.0	84,614.0	93,125.0	103,218.0	102,721.0	105,857.8
Volume of imports (in tons)	798,239.0	632,337.0	708,203.0	822,514.0	976 694	1,143,866.0	1,175,731.2
Current Account Balance (in millions of dollar)	- 395.1	- 373.2	- 339.7	- 360.0	- 348.9	- 342.3	- 736.1
Exchange Rate BIF/USD (period average)	1,546.7	1,571.9	1,654.6	1,729.1	1,782.9	1,881.1	1,915.1
Exchange Rate BIF/USD (end of period)	1,553.1	1,617.1	1,688.6	1,766.7	1,808.3	1,878.6	1,944.1
Gross Foreign Reserves (in millions of USD, end of period)	322.7	137.2	98.6	109.8	80.5	128.7	
Gross Foreign Reserves(in months of imports of the following year)	4.2	2.0	1.4	1.7	1.0	1.5	1..1
MONETARY SECTOR							
Net Foreign Assets (MBIF)	180,525.3	- 75,870.1	- 176,523.1	- 154,400.0	- 203,201.0	- 206,330.5	- 205,016.1
Domestic Loans (MBIF)	1,135,873.8	1,410,604.3	1,767,122.4	2,004,966.2	2,369,485.6	2,829,229.0	3,475,806.4
Net Claims on the Government	384,697.0	687,259.5	905,857.4	1,112,214.4	1,337,534.0	1,619,626.9	2,026,263.4
Loans to private sector	751,176.8	723,344.8	861,265.0	892,941.6	1,038,614.2	1,209,602.1	1,449,543.0
Money supply (M3)	1,045,336.7	1,060,791.0	1,187,101.8	1,499,512.9	1,797,468.9	2,203,107.7	2,728,326.8
Money supply (M2)	880,206.6	923,271.7	1,093,131.8	1,340,926.6	1,325,958.7	2,015,018.8	2,520,998.3
Money velocity (GDP/M2, end of period	4.8	4.8	4.4	4.3	4.4	3.1	2.6
Monetary base (Gross Rate)	15.8	- 8.6	29.2	39.0	- 3.3	23.6	23.7
Liquidity supply interest rate (in%)	-	3.4	3.1	2.8	2.9	2.7	3.9
Overnight facility rate (in %)	8.0	9.8	8.6	7.1	5.8	5.4	6.9
Average Deposit Rates (in %)	8.8	8.7	7.7	6.0	5.6	5.3	5.4

Rate on Treasury bonds of 5 years and over							
Average lending rate (in %)	16.7	16.9	16.5	16.2	15.9	15.7	15.2
PUBLIC FINANCE							
Revenue and grants (in % of GDP))	21.0	16.7	15.6	15.7	18.0	19.7	19.6
Dépenses (en p.c. du PIB)	25.4	24.7	21.5	20.0	22.6	24.0	25.6
Primary Balance (in % of GDP, basis accruals)	- 5.2	- 6.7	- 6.6	- 4.8	- 4.9	- 4.8	-3.7
Overall fiscal balance (in % of GDP, basis accruals)							
- Grants excluded	- 9.5	- 8.9	- 8.4	- 6.8	- 8.2	- 8.2	- 9.5
- Grants included	- 4.4	- 5.8	- 5.9	- 4.3	- 4.5	- 4.3	2,851,240.2
Domestic Debts (MBIF)	727,373.2	1,070,685.9	1,374,178.2	1,648,219.7	1,937,821.9	2,314,985.5	532.9
External Debts (in MUSD, end of period)	422.8	427.4	429.1	440.5	451.1	502.3	
External debts service ratio (in % of exports)	6.5	5.6	6.3	8.0	5.3	8.3	15.6
External Debts (in % of GDP)	15.7	15.6	14.9	13.6	14.0	15.1	
For memory							
GDP at Market Price (Bn BIF)	4,185.1	4,417.9	4,938.2	5,702.1	5,914.4	6,216.9	6 655.6

Source: BRB

Appendix 5: Burundi compliance to EAC convergence criteria

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Annual Inflation rate (ceiling= 8%)	9.6	18.2	8.0	4.4	5.5	5.6	16.1	(2.6)	-0,7	7.5
Budgetary Deficit Grants included in% of GDP (ceiling = 3%)	3.0	3.6	2.9	4.1	8.0	5.9	4.3	4.5	4,3	8.8
Public Debt in % of GDP (ceiling = 50%)	33.7	34.1	31.8	31.0	39.8	42.5	43.2	46.6	52,5	58.4
Foreign Exchange Reserves in Months of Imports (min= 4,5 months)	4.0	4.0	4.2	4.1	2.0	1.5	1.7	1.0	1,5	1.1

Source: BRB

Appendix 6: Public debt structure

	2016	2017	2018	2019	2020
Domestic debt (BIF Bn)	1,376.3	1,647.9	1,937.8	2,317.5	2,851.2
1. Treasure securities	584.7	829.8	1,106.8	1,497.6	1,817.3
2. B.R.B. liabilities	752.3	787.2	772.1	746.5	894.7
3. Other liabilities	39.3	30.9	58.9	73.4	139.3
External debt (BIF Bn)	723.8	778.3	815.7	948.4	1,036.0
1. Direct debt	721.7	776.3	813.8	946.8	1,034.5
2. Indirect debt	2,148.1	2,008.0	1,867.6	1,597.6	1,441.4
Global Public Debt (BIF Bn)	2,100.2	2,426.1	2,753.5	3,265.9	3,887.2
Public Debt (% of GDP)					
Domestic debt (% of GDP)	27.9	28.9	32.8	37.3	42.8
External debt (% of GDP)	14.7	13.6	13.8	15.3	15.6
Public debt (% of GDP)	42.5	43.2	46.6	52.5	58.4
GDP (BIF Bn)	4,938.2	5,702.1	5,914.4	6,216.9	6,655.6

Source: BRB