BANQUE DE LA REPUBLIQUE DU BURUNDI

2019

FINANCIAL STABILITY REPORT

FISCAL YEAR 2019 – NUMBER 5

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%	: Percentage
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)
ECB	: European Central Bank
BIF	: Burundi Francs
BIS	: Bank for International Settlements
G-SIB	: Global Systemically Important Banks
BRB	: Banque de la République du Burundi (Central Bank of Burundi)
BCBS	: Basel Committee on Banking Supervision
ECOWAS	: Economic Community of West African States
EAC	: East African Community
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)
ETI	: Ecobank Transnational Incorporated
FI	: Financial Institutions
Etc.	: Et cetera
IMF	: International Monetary Fund
GFSR	: Global Financial Stability Report
MFIs	: Microfinance Institutions
ISTEEBU	: Institut de Statistiques et d'Etudes Economiques du Burundi (Burundi Institute of Statistics and Economic Studies)
KCB	: Kenya Commercial Bank

Kg	: Kilogram
MBIF	: Millions of Burundi francs
Bn	: Billions
MFBPE	: Ministère des Finances, du Budget et de la Planification Economique (Ministry of Finance, Budget and Economic Planning)
GDP	: Gross Domestic Product
NPLs	: Non Performant Loans
PP	: Percentage Point
ROA	: Return on Assets
ROE	: Return on Equity
T	: Tons
Q.	: Quarter
USD	: United States Dollar

MISSIONS OF THE "BANQUE DE LA REPUBLIQUE DU BURUNDI"

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

VISION

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

PREFACE

Due to the Global financial crisis of 2008, the Basel Committee on Banking Supervision (BCBS) provided, to the bank supervisory Authorities macroprudential, tools that could enable them to improve the resilience of financial systems in general and banking systems in particular. Thus, the Central Bank of Burundi, based on the Law N° 1/34 of December 2nd, 2008 on its statutes, which gives it the mission of promoting a stable and sound financial system, continues to strengthen its institutional and regulatory frameworks to ensure the stability of the financial system, which is the key of economic development.

Through this fifth edition of the Financial Stability Report, covering the fiscal year of 2019, the Central Bank of Burundi informs its partners on the vulnerabilities that have weighed on the Burundian financial system during 2019 fiscal year and the measures taken to mitigate their impact. Knowing and assessment these vulnerabilities is an important step in the prevention of systemic risks, the financial crisis management, and the decision making in the context of strengthening the stability of the financial system.

Jean CIZA

Governor

EXECUTIVE SUMMARY

In 2019, the global economic growth experienced a slowdown, in the context of persistent uncertainty about the outlook for world trade. In Sub-Saharan Africa, the economic growth turned out to be slower than expected, due to a less favorable external environment for oil-exporting countries and natural disasters that disrupted activity in some countries.

In East African Community, the economic growth decelerated, in line with diplomatic conflicts between some EAC member States which affected trade.

In Burundi, the economic growth continued to increase in relation with the good performance of the primary, secondary, and tertiary sectors, and the financial sector remained sound and stable.

However, both endogenous and exogenous vulnerabilities weighed on Burundi's financial system. The endogenous vulnerabilities are related to the increase in public debt and the decline in tea and gold production and the depreciation of national currency while the exogenous vulnerabilities are related to the decline in coffee and tea price on the international markets and the contraction of economic activity in the main economic partner countries due to the United States and China trade war.

Despite the vulnerabilities observed in 2019, Burundi's financial sector remained sound and stable. On the one hand, the sector had capital adequacy and overall liquidity ratios that are above regulatory standards. On the other hand, it showed positive profitability ratios, improved loan portfolio quality, and resilience to plausible shocks simulated by the Central Bank.

To face on the vulnerabilities weighted on the financial system, the Central Bank has taken prudential measures aimed at strengthening capital and has conducted an accommodating monetary policy, notably through the easing of refinancing conditions.

The Central Bank continued its process of adapting the regulatory framework to the Law N° 1 / 17 of August 22nd, 2018 governing banking activities and to the regional and international financial stability requirements. The regulatory frameworks for insurance sector and capital market also experienced changes.

In term of perspective, the improvement in macroeconomic indicators for 2020 fiscal year remains uncertain, due to the disruption of economic activity as consequence of measures taken to counter the spread of Covid-19.

However, to contain the vulnerabilities that could weigh on the financial system, the BRB will continue to conduct an accommodating monetary policy by easing refinancing and financing conditions in favor of growth-enhancing sectors in order to boost the economy and ease the drying up of liquidity in credit and microfinance institutions. The BRB will also continue the process of strengthening the micro and macro prudential supervision frameworks, notably through the establishment of a deposit guarantee and resolution fund, and cooperation with the various regulatory authorities of the other actors in the financial system.

Table 1: Risks on financial stability in 2019

↑	Risk related to an increase in public debt
↑	Risk related to a national currency depreciation
→	Risk related to a decline in production and commodity prices
→	Risk related to a decrease of economic growth in the main trading partner countries

Legend

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

Note: The color and arrow indicate respectively the intensity and the direction of the risk.

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CHAPTER 1: GLOBAL, REGIONAL AND NATIONAL MACROECONOMIC CONTEXT

The global economic activity faced challenges in 2019. The preliminary agreement signed by United States and China to resolve the trade "war" between the two countries has not completely yielded positive results. Thus, the persistence of uncertainties related to trade and Brexit, macroeconomic tensions in several emerging countries and many other structural and social factors in advanced countries led to a major global recession.

1.1. Global and regional context

1.1.1. Global economic environment

The global economic growth has slowed to about its 10-year average, in the context of continuing uncertainty about the outlook for world trade. The economies of advanced countries continued to slow further, approaching their long-term potential[1].

In the United States of America, economic growth slowed down in 2019 (2.3 compared to 2.9 % in 2018), as the negative impact of uncertainty in world trade discouraged investment.

Nevertheless, employment and consumption remained sound, supported by stimulus measures that have been implemented. In the Euro zone, the economic growth also slowed in 2019 (1.2 compared to 1.9% in 2018), due to less exports in the main economies highly exposed to the slowdown in world trade such as Germany and social unrest and strike action that weighted on domestic demand in France. In Asia, economic activity also declined (4.6 against 5.5% in 2018), driven by slower growth in China (6.1 against 6.7% in 2018) and India (4.2 against 6.1% in 2018), the repercussions of trade tensions and the sanctions taken against Iran by the United States of America.

Along with the weakening of economic activity, financial markets were volatile in 2019. This volatility is linked to the persistence of uncertainties in trade and around Brexit, lower market yields due to the adoption of more accommodative monetary policies by several Central Banks, and geopolitical tensions. All these factors have led to more favorable financial conditions in advanced countries, but not in most emerging and developing countries. The contraction in economic activity coupled with market pessimism and policy reforms have led to a sharp deterioration in asset returns in financial markets.

In the United States of America, the Federal Reserve (FED) lowered twice its policy interest rate, in July and September 2019. At the same time, the European Central Bank (ECB) reduced the deposit rate and implemented quantitative easing. Yields on 10-year Treasury bonds of United States of America, British, German and French fell between 60 and 100 basis points between March and the end of September, while the yield on Italian Treasury bonds fell by 175 basis points[2]. Similarly, the prices of riskier

[1] IMF, World Economic Outlook, April 2020

[2] IMF, World Economic Outlook, April 2020

securities were unstable. The amount of negative-return bonds increased to $15 trillion and the fall in interest rates could last for a long time to come[3].

Several Central Banks in emerging and developing countries have also lowered their policy interest rates since April 2019. Yield spreads on sovereign bonds have been broadly stable over this period[4], with a few exceptions.

The consequences of a global slowdown would probably also be amplified by high debt levels. The overall debt stock has reached three times of the global GDP[5] and is much higher than the level recorded during the 2008-09 recession. Corporate debt in emerging markets has exploded. China alone recorded USD 30,000 billion, or 2/3 of the total outstanding debt of companies in emerging countries[6].

In the short term, financial systems remained resilient to the vulnerabilities mentioned above. Reforms adopted in the global banking system since the 2008-09 crisis have strengthened the soundness of the global financial system. The new regulatory requirements that have been adopted for capital, liquidity, and debt limits have allowed banks to have sufficient capital to address financial sector vulnerabilities.

In addition, the financial easing measures implemented in many countries and the easing of fiscal policies in some countries contributed to mitigate the risks associated with lower global growth in the short term and to maintain financial stability.

However, some vulnerability areas remain, notably as a result of continued uncertainties in global trade, growing concerns about the world economic outlook, and the expansion of the Corona Virus (COVID-19) pandemic since January 2020. The main risk factors to financial stability in 2019 were related to rising of corporate indebtedness, increased portfolios of riskier and less liquid assets held by institutional investors[7], and increased reliance on external borrowing by emerging and pre-emerging countries[8].

The perspective for 2020 remains uncertain. The measures that have been taken by various countries to slow the spread of Covid-19 and to strengthen the capacity of healthcare systems have imposed a marked slowdown in economic activity and undermined hopes of a recovery in the short term. The adverse consequences of the Covid-19 would affect both developed and developing countries.

The health measures put in place in most countries will raise huge sums of money, increasing the level of debt, especially domestic debt, as a result of capital market restrictions due to the COVID-19 crisis. The

[3] Global Financial Stability Report, October 2019
[4] Global Financial Stability Report, April 2019
[5] IMF, World Economic Outlook, April 2020
[6] Le cercle de la finance internationale de Montréal, Financial Stability in an Uncertain World, November 2019

[7] Institutional investors are savings collecting organizations whose commitments and / or assets are governed by a legislative or regulatory text (banks, pension funds, insurance companies, etc.). The returns on their investments allow them to cover their medium or long term commitments.
[8] IMF, World Economic Outlook, April 2020

consequences of these measures are devastating because of disruptions in the trade and tourism sectors due to border closures and containment measures.

According to April 2020 forecasts by the IMF, global growth is projected to contract by 5.9% in 2020[9], which would be much worse than the global financial crisis of 2008-09.

Monetary authorities should address corporate vulnerabilities by adopting stricter microprudential and macroprudential supervision and risks to institutional investors. Fiscal authorities should adopt prudent sovereign debt management practices and implement stronger management frameworks.

1.1.2. Economic Environment in Sub-Saharan Africa

In Sub-Saharan Africa, the economic growth was slower than expected, due to a less favorable external environment for oil-exporting countries and natural disasters disrupting activity in some countries. The economic growth in the region stood at 3.1% against 3.3% in the previous year.

At the end of 2019, the average inflation rate in Sub-Saharan Africa increased slightly from 8.3% in 2018 to 8.4% in 2019, but with some disparities between countries. However, inflation remained lower in monetary unions. In the CEMAC area, the inflation rate declined from 2.1% in 2018 to 1.7% in 2019, while the ECOWAS experienced a deflation (-0.3% against 1.0% in 2018).

The financial systems remained resilient despite the growing risk associated with indebtedness and the widening external current account deficit.

Sovereign debt grew in the majority of Sub-Saharan African countries. In several countries, fiscal deficits were high with high debt levels, with a very limited repayment capacity, and the balance sheets of financial and non-financial enterprises were fragile[10]. The region's public debt as a percentage of GDP increased to 50.1% in 2019 from 48.4% in 2018.

In many countries of the region, outstanding debt to private companies remains the largest component of public debt. The increase in arrears is a consequence of the falling commodity prices. It reduces the ability of private firms to honor their commitments to banks. Thus, the banking sector was weakened as a result of the increase in non-performing loans. This phenomenon discourages loans to the private sector and consequently constrains the expansion of economic activity.

The high external current account deficit is also another characteristic of many Sub-Saharan African countries. It increased from 2.5 % of GDP in 2018 to around 4.0 % of GDP in 2019 as a result of widening deficits in oil-exporting countries and those suffering from climate-related shocks[11].

[9] Idem

[10] IMF, Regional Economic Outlook, October 2019

[11] IMF, Regional Economic Outlook, October 2019

Foreign exchange reserves stood at 5.9 months of imports compared to 4.6 months in 2018. Nevertheless, this level contains disparities between countries.

The reallocation of resources to the most productive and export-oriented sectors could allow for a current account adjustment and a consolidation of the foreign reserves account.

The April 2020 forecasts for Sub-Saharan Africa show a contraction of economic activity of 1.6% in 2020[12]. These forecasts may even be revised downwards in connection with the economic slowdown in several countries, the significant decline in commodity prices and a possible tightening of overall financial conditions as a result of the spread of COVID-19.

1.1.3. Regional economic environment

In EAC, the economic growth decelerated in 2019 standing at 5.9 against 6.6% in 2018, due to diplomatic conflicts between some countries that have weighted on trade. The inflation rate increased slightly from 3.5 to 3.8% in 2019, but still below its 2017 level (6.5%). The sub-region's average reserves in months of imports increased slightly and stood at 5.2% against 4.9% in 2018, with some disparities between countries. The external current account deficit declined from -5.2 in 2018 to -5.4% in 2019.

The EAC's financial system remained sound despite the continuing threat of public debt risk. The level of public debt increased from 48.1% in 2018 to 49.3 % of GDP, in line with rising of debt in Burundi, Uganda, and Rwanda.

In Tanzania, the financial system remained resilient as a result of a sound macroeconomic environment. However, high exposure to credit risk due to a rising of Non-Performing loans (9.8 % in 2019 compared to 6.8 % in 2018) and the risk associated with the expansion of innovations in payment and settlement systems remained a threat to financial stability. Public debt has stabilized at around 38.0% of GDP over the last two years. Policies and regulatory measures aimed in particular at strengthening capital adequacy have been taken by the Bank of Tanzania to strengthen the resilience of the financial system.

In Uganda, the banking system remained resilient in 2019 despite the persistent of a credit risk due to the rising level of Non-Performing loans and public debt. Public debt increased from 35.6 to 40.0% of GDP. However, the resilience of the banking sector to potential shocks improved, due to an increase of capital buffers and liquidity.

In Rwanda, the banking sector's increasing exposure to commercial and residential real estate has been one of the main challenges to financial stability. More than one-third of the banking sector's loans (34.9 % of the loan portfolio in June 2019) were in real estate[13]. A shock to household incomes and

[12] IMF, Regional Economic Outlook, April 2020

[13] Annual financial stability Report, June 18 July 19, National Bank of Rwanda

to the commercial sector would have a significant impact on Rwanda's banking sector. Public debt stood at 38.6 against 34.8% of GDP in 2018, probably due to the increase in the fiscal deficit from 2.6 to 5.2% of GDP.

Kenya's financial system has remained resilient despite the growing risk associated with the increase in non-performing loans (10.0 against 9.1% in 2018) and public debt that exceeds the limit of 50.0% of GDP required by the EAC as convergence criteria.

Table 2: EAC Countries Growth (in %)

	2015	2016	2017	2018	2019
Burundi*	-0.4	3.2	3.6	3.8	4.1
Kenya	5.6	5.9	4.9	6.3	5.6
Uganda	5.0	2.3	5.0	6.3	4.9
Rwanda	8.9	6.0	6.1	8.6	10.1
Tanzania	7.0	6.9	6.8	7.0	6.3
EAC-5	6.0	5.4	5.6	6.6	5.9

***Source**: FMI, Regional Economic Outlook, Sub-Sahara Africa, April 2020*
**MFBPE, Cadrage macroéconomique, April 2020*

1.2. Challenges to Burundi Financial Stability

The main sources of vulnerability in Burundi's financial system are correlated with national, regional and global developments and both coming from internal and external sources. Internal sources are related to the increase in public debt (1), the decline in tea and gold production (2) and the depreciation of the national currency (3); while external sources are related to the decline in coffee and tea prices (4) and the decrease of economic activity in the main trading partner countries of Burundi (5).

1.2.1. Public debt increase

An increase in public debt remains a source of vulnerability for most African countries. These countries have enormous financial needs to finance the infrastructure and public services necessary for economic development. A large part of investment is financed by debt, especially public debt.

Nevertheless, the degree of risk-taking by a country needs proper management in order to avoid exposing itself to a situation where it is unable to meet its financial obligations. The increase in public debt driven by the accumulation of interest charges exposes the country to a default risk on sovereign debt. This can affect interest rates in the form of a risk premium, the value of the debts issued and the balance sheets of the banks subscribing to these debts.

In Burundi, public debt has increased by 18.5% in 2019, reaching 3,263.4 billion of BIF against 2,753.5 billion of BIF in the previous year, in relation with the increase in government obligations to the banking sector. It has reached 52.1% of GDP in 2019 against 47.3% in 2018. This level is above the maximum limit of 50% of GDP required by the EAC as convergence criteria. The increase in the level of sovereign debt remains a potential source of vulnerability for the Burundian banking sector, since a situation of default by the Government would have a negative impact on the entire financial sector, and the banking sector in particular.

Table 3: EAC Countries Public Debt (in % of GDP)

	Public debt (≤50 % du GDP)					External public Debt					Domestic public debt				
	2015	**2016**	**2017**	**2018**	**2019**	**2015**	**2016**	**2017**	**2018**	**2019**	**2015**	**2016**	**2017**	**2018**	**2019**
Burundi*	39.9	43.3	42.6	47.3	52.1	15.6	14.9	13.6	14.0	15.1	24.2	28.3	28.9	33.3	37.0
Kenya	45.9	53.2	55.2	60.1	60.8	21.9	26.1	27.1	30.4	31.3	24.0	27.1	28.1	29.7	29.5
Uganda	27.2	37.1	33.7	35.6	40.0	16.0	21.8	21.6	23.6	26.6	11.2	15.3	12.1	12.0	13.4
Rwanda	22.0	32.9	32.3	34.8	38.6	18.9	33.6	37.3	40.8	45.1	3.1	-0.7	-5.0	-6.0	-6.5
Tanzania	30.4	36.4	37.7	38.6	38.1	22.2	27.6	28.6	28.8	27.4	8.2	8.8	9.1	9.8	10.7
EAC-5	35.9	44.2	44.7	48.1	49.3	20.7	26.1	26.9	29.0	29.8	15.2	18.1	17.8	19.1	19.5

Source: **BRB, Monthly report, December 2019*
FMI, Regional Economic Outlook, Sub-Sahara Africa, April 2020

1.2.2. Evolution of the production and commodity prices

1.2.2.1. Commodity production

Burundi' foreign reserves are mainly coming from the export of coffee, tea, and gold. Given the importance of these products in the country's exports, a decline in the production of these products can have a negative impact on the country's revenues and the activities of companies.

Tea production declined by 4.2% settling at 10,080.5 against 10,525.1 T in 2018. Similarly, the exportable quantity of gold decreased by 11.5% in 2019, settling at 1.6 against 1.8 T 2018. On the other hand, the production of merchant coffee increased by 28.9% in 2019, reaching 21,684.4 against 16,898.7T in 2018.

1.2.2.2. Commodity prices

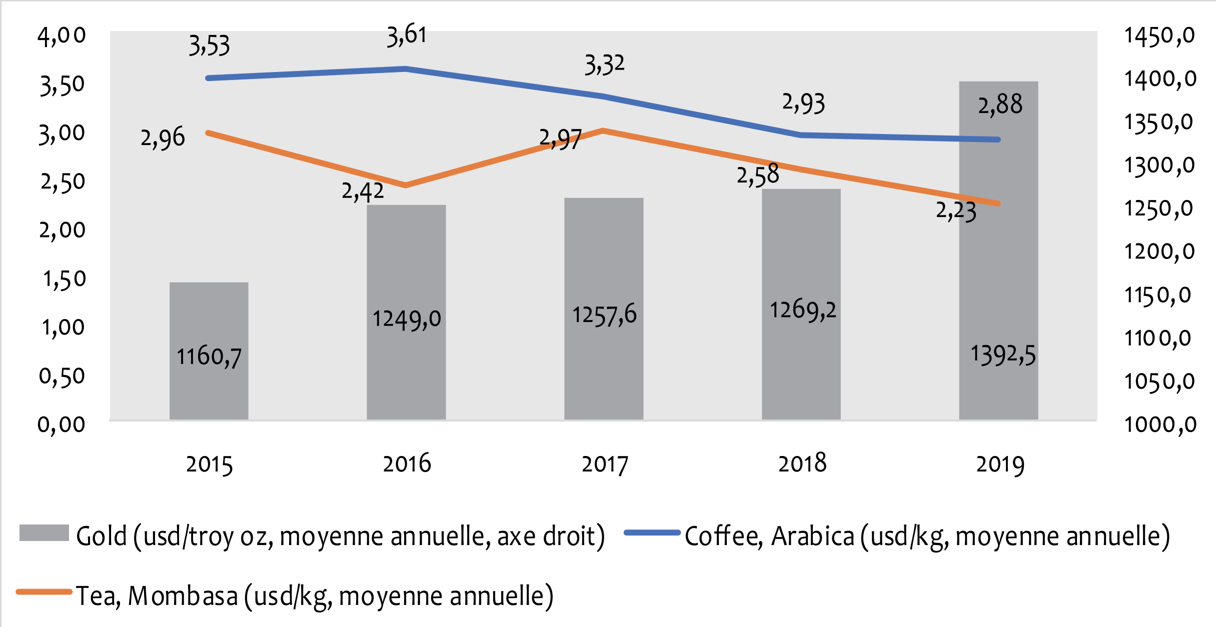
The average prices of coffee and tea on the international market have declined to US$2.88 and US$2.23/kg respectively in 2019 compared to US$2.93 and US$2.58/kg in 2018. As a result, export revenues from coffee and tea decreased by 4.2% and 12.4% respectively in 2019 settling to 69,796.3 in 2019 against 72,827.9 MBIF in 2018 for coffee and 40,663.8 against 46,406.2 MBIF for tea. On the other hand, the average price of gold improved in 2019, rising from 1269.2 USD/troy ounce[14] in 2018 to 1392.5 USD/troy ounce.

The proportion of income from gold in the value of the country's exports was 37.3% in 2019 against 38.8% in 2018.

[14] 1 Troy ounce (Troy oz) = 31,1 grams

Coffee contributed 21.1% of export revenues in 2019 against 22.7% in 2018 while tea contributed 12.3% in 2019 against 14.4% in 2018.

Figure 1 : Coffee, Tea, and Gold Prices (in USD)



Source: *World Bank Commodity Price Data, updates of May 04, 2020*

1.2.2.3. Banking sector exposure to commodities

There are eight (8) banks with exposures to the coffee sector in 2019 and 85.5% of these exposures are in 3 Systemically Important Banks. Nevertheless, the entire banking sector has low exposure to the coffee sector. The proportion of loans granted to this sector represented 1.7% of total loans in 2019 against 4.5% in 2018. The rate of deterioration is also low (1.06% in 2019 against 1.03% in 2018). The coffee loans represented 7.0% of the capital of eight (8) banks that financed this sector in 2019.

Only two (2) banks, including one (1) of Systemically Importance Banks, provided loans to the tea sector. The banking sector's exposure to the tea sector was 0.8 % of total loans to the sector in 2019 against 1.3 % in 2018 and represented 7.0% of the capital of the banks that financed this sector. The default rate stood at 0.04% of loans granted in 2019 against 0.02% in 2018.

1.2.3. Domestic currency depreciation

Burundi faces the risk of national currency depreciation, a major challenge faced by many countries in Sub-Saharan Africa. The Burundian franc depreciated by 3.5% in 2019 compared to 3.1% in 2018 in line with the low level of revenues from exports compared to imports.

The country's export revenues increased slightly by 3.1% in 2019, reaching 331.3 billion of BIF against 321.3 billion of BIF in 2018. Nevertheless, the level of imports increased significantly by 15.8%, reaching 1,638.4 billion of BIF in 2019 against 1,414.7 billion of BIF in 2018. The rate of coverage of imports by exports stood at 20.2% in 2019 against 22.7% in 2018.

Burundi has a low level of foreign exchange reserves compared to other EAC countries. This level stood at 1.5 months of imports in 2019 against 1.0 months in 2018, for a minimum limit of 4.5 months of imports required by the EAC as convergence criteria.

Table 4: Foreign exchange reserves (in months of imports)

	2015	2016	2017	2018	2019
Burundi*	2.0	1.5	1.7	1.0	1.5
Kenya	5.1	4.7	4.2	4.8	6.0
Uganda	4.8	5.0	4.5	4.1	4.1
Rwanda	3.5	4.1	4.4	4.7	5.5
Tanzania	4.0	5.3	6.2	5.7	4.9
EAC-5	4.6	4.9	4.8	4.9	5.2

Source*: IMF, Regional Economic Outlook, Sub-Sahara Africa, April 2020*
**MFBPE, Macroeconomic Framing, April 2020*

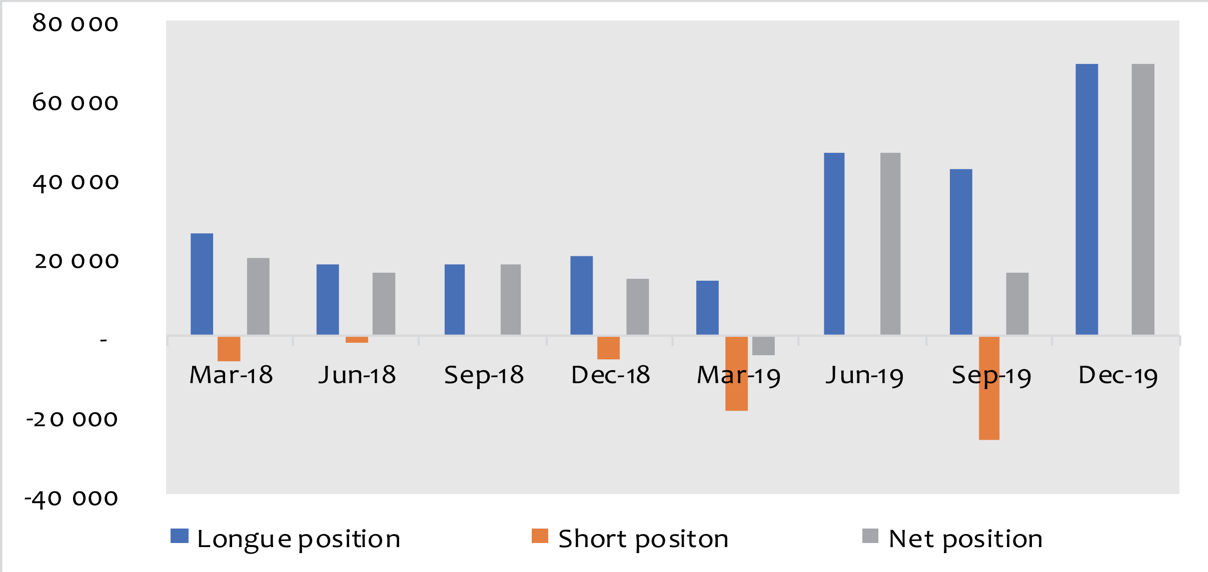
The level of exposure of the Burundian banking sector in foreign currency increased in 2019, reaching 7.5% of the sector's outstanding loans compared to 6.8% in 2018. Nevertheless, the difficulties for banks in the event of a strong depreciation could be considerable and would rise from two channels: (i) loans granted to importing companies and (ii) the foreign exchange position.

In a severe stress test scenario on the impact of BIF depreciation on the banking sector's loan portfolio, the most sensitive sectors are hotels, trade, and health care.

The impact of this stress test on the average solvency of the banking sector is -0.8%, setting it at 26.3% against 27.1% at the end of 2019.

At the end of 2019, the banking sector had a net long foreign exchange position, equivalent to 22.9% of core capital compared to 5.9% at the same period in 2018 for a maximum limit of 25.0%. This position is shared among ten (10) banks with disparities, some having had asymmetrical positions throughout the period under consideration.

Figure 2: Net foreign exchange position of the banking sector



Source: *BRB*

1.2.4. Economic growth decline in major trading partner countries

The level of trade can have implications on production processes and condition the level of productivity in a given country. The evolution of economic activity in the main trading partner countries can have an impact on export revenues and economic growth of Burundi.

The Euro Zone, as privileged trade partner of Burundi, saw its growth deteriorated to 1.2% in 2019 against 1.9% in 2018. Consequently, Burundi's exports to the Euro Zone declined by 30.2% settling to 34,746.4 against 49,755.8 MBIF in 2018.

In Asia, economic growth decreased (4.6 against 5.5% in 2018), linked to the China and the United States of America trade war. In Pakistan, economic activity contracted to 3.3% in 2019 against 5.2%. The value of its imports from Burundi declined by 12.6% settling to 20,492.0 MBIF in 2019 against 23,440.7 MBIF in 2018.

In EAC, the economic activity also slowed down from 6.6% in 2018 to 5.9% in 2019 and the demand for Burundian goods and services declined significantly. Burundi's exports to EAC countries (Kenya, Uganda, Rwanda and Tanzania) declined by 10.9%, reaching 26,363.3 MBIF in 2019 against 29,363.3 MBIF in 2018.

Table 5: Growth in the main trade partner countries (in %)

	2015	2016	2017	2018	2019
Euro Zone	2.0	1.7	2.4	1.9	1.2
USA	2.6	1.6	2.2	2.9	2.3
EAC-5	6.1	5.4	5.6	6.6	5.9
Asia	6.7	6.4	6.4	5.5	4.6
India	8.0	7.1	7.2	6.1	4.2
China	6.8	6.4	6.8	6.7	6.1
Pakistan	4.1	4.5	5.3	5.2	3.3
Saudi Arabia	4.1	1.7	-0.7	2.4	0.3

Source: *FMI, World Economic Outlook, Sub-Sahara Africa, April 2020*

Burundi's low level of exports is one of the factors explaining the low level of foreign exchange reserves.

Box 1: COVID-19 Pandemic follow up

Since the emergence of the coronavirus pandemic in China in November 2019, more than 180 countries have been affected. The negative consequences of the restrictions and measures implemented to mitigate the consequences of COVID-19 pandemic resulted in, among other things, direct disruption of global procurement chains, reduced demand for imported goods and services, and discouraged business tourism and reduced tourist flows.

Indeed, all States have to do a follow up in the choice of economic, monetary and macroprudential policies in order to be able to anticipate adverse effects on economic growth in general and on banking sector in particular.

Central banks will also have to monitor the liquidity of the banking sector due to the limitation of activities.

Another concern is to establish or strengthen coordination mechanisms between monetary, fiscal and macroprudential policies in order to mitigate the effects on financial stability.

1.3. Domestic macroeconomic context

1.3.1. Economic growth

In 2019, the economic activity improved in Burundi. The GDP grew by 4.1% compared to 3.8% in 2018, in relation with the good performance in primary, secondary and tertiary sectors. In the primary sector, livestock and fisheries production increased by 21.4% and 31.9%, respectively. In the secondary sector, production in the textile and construction industries increased by 27.3% and 21.9% respectively. In the tertiary sector, education as well as health and social work increased by 15.5% and 29.8% respectively.

This improvement in economic growth contributed to the performance of the banking sector through the decrease of non-performing loan ratios in 2019 in the following sectors: Tourism (8.6 against 41.6% in 2018), Agriculture (2.8 against 3.0% in 2018), infrastructure (4.3 against 11.3% in 2018) and Industry (0.2% against 11.0% in 2018).

1.3.2. Inflation and interest rates

The inflation rate increased in 2019, reaching -0.7% against -2.6 % in 2018 and remains within the maximum limit of 8% required in EAC as convergence criteria. This increase in inflation is linked to a rise in food prices of 8.9 against -15.2% in 2018.

The average lending rate fell slightly to 15.7 against 15.9% in 2018, as did the deposit rate, which fell to 5.3 against 5.6% in 2018.

In the money market, the overnight facility rate decreased to 5.4 % from 5.8% in 2018. In addition, the liquidity supply rate decreased in 2019 to 2.7% compared to 2.9% in 2018, while the interbank rate increased to 2.9% in 2019 compared to 2.4% in 2018, in line with the accommodative monetary policy implemented by the Central Bank.

Table 6: Inflation* and Interest Rates**

	2015	2016	2017	2018	2019
Inflation Rate	5.5	5.6	16.0	-2.6	-0.7
Overnight Facility Rate	9.8	7.2	7.1	5.8	5.4
Interbank Rate	7.5	3.3	4.0	2.4	2.9
Liquidity Supply Rate	3.4	2.4	2.8	2.9	2.7
Deposit Rate	8.7	7.2	5.9	5.6	5.3
Lending Rate	16.9	16.8	16.2	15.9	15.7

Source: ** ISTEEBU, Consummation prices index, December 2019*
***BRB, Monthly report, December 2019*

1.3.3. Public finances

At the end of 2019, the public finance deficit (excluding grants) increased compared to the previous year, reaching 526,297.4 MBIF compared to 475,462.9 MBIF for 2018. Cumulative expenditure increased by 15.5% at the end of 2019, standing at 1,516.4 against 1,312.4 billion of BIF for the same period in 2018, while cumulative revenue increased by 18.3% at the end of 2019, standing at 990,070.8 against 836,889.2 MBIF in 2018.

The fiscal deficit in percentage of GDP declined to 4.3% compared to 4.5% in 2018 for the maximum limit of 3% set as convergence criteria within EAC. This deficit was mainly financed by domestic resources.

Table 7: EAC countries Fiscal Deficit (% of GDP)

	2015	2016	2017	2018	2019
Burundi*	8.0	5.9	4.3	4.5	4.3
Kenya	5.6	5.9	7.9	7.4	7.8
Uganda	5.0	2.3	3.2	3.8	6.7
Rwanda	8.9	6.0	2.5	2.6	5.2
Tanzania	7.0	7.0	1.2	1.9	2.9
EAC-5	6.9	5.4	4.7	4.9	6.0

Source: **FMI, World Economic Outlook, Sub-Sahara Africa, April 2020*
**BRB, Monthly Report, December 2019*

1.3.3.1. Public debt

The public debt has increased by 18.3% at end 2019, standing at 3,256.8 billion of BIF compared to 2,753.5 billion of BIF in 2018, mainly resulted in the increase of domestic and external debt.

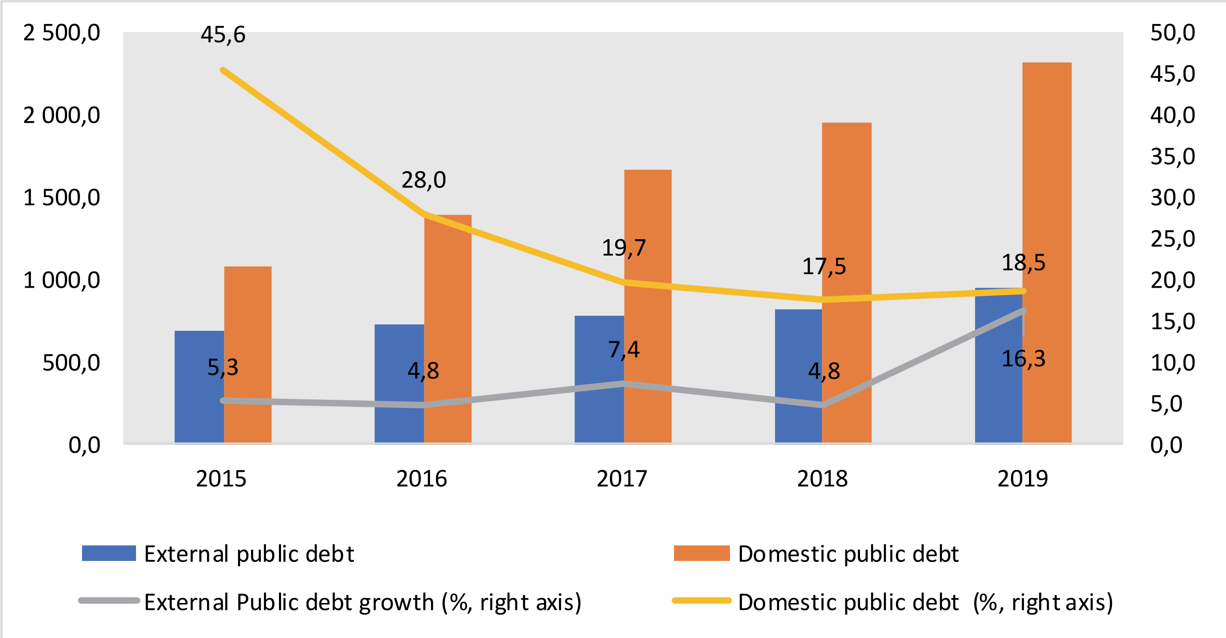
In 2019, the risk of over-indebtedness is high. The public debt was 52.1% of GDP compared to 47.3% in 2018, with a maximum limit of 50% of GDP set as convergence criteria in the EAC.

The domestic debt outstanding increased by 16.3% in 2019, reaching 2,315.0 against 1,953.6 billion of BIF in 2018, in relation to the increase in Treasury securities held by the banking sector. The later stood at 1,286.3 in 2019 against 932.4 billion of BIF in 2018.

The external debt increased by 18.5% in 2019, settling at 941.9 against 815.7 billion of BIF in 2018, due to an increase in drawing rights (+115.2 billion of BIF) and revaluation gains (+28.3 billion of BIF) which exceeded the amortization of the debt in principal (+17.3 billion of BIF)[15].

[15] BRB, Monthly report, December 2019

Figure 3: Burundi's public debt development



***Source:** *BRB, Monthly report, December 2019*

The level of internal indebtedness is a risk to financial stability as long as the delay in debt repayment would increase the exposure of credit institutions to sovereign debt and crowding out of the private sector.

Table 8: Treasury securities and loans on the private sector

	2015	2016	2017	2018	2019
Total Assets (Bn of BIF)	1,441.5	1,835.0	2,164.7	2,583.6	3,262.1
Treasury Bills and Bonds (Bn of BIF)	253.8	438.2	643.5	938.0	1,301.8
Treasury Bills and Bonds in % of Total assets	17.6	23.9	29.7	36.5	39.9
Loans to private sector (Bn of BIF)	673.7	792.8	795.5	939.7	1,071.5
Loans to private sector in % of Total assets	46.7	43.2	36.7	36.5	32.8

***Source:** BRB*

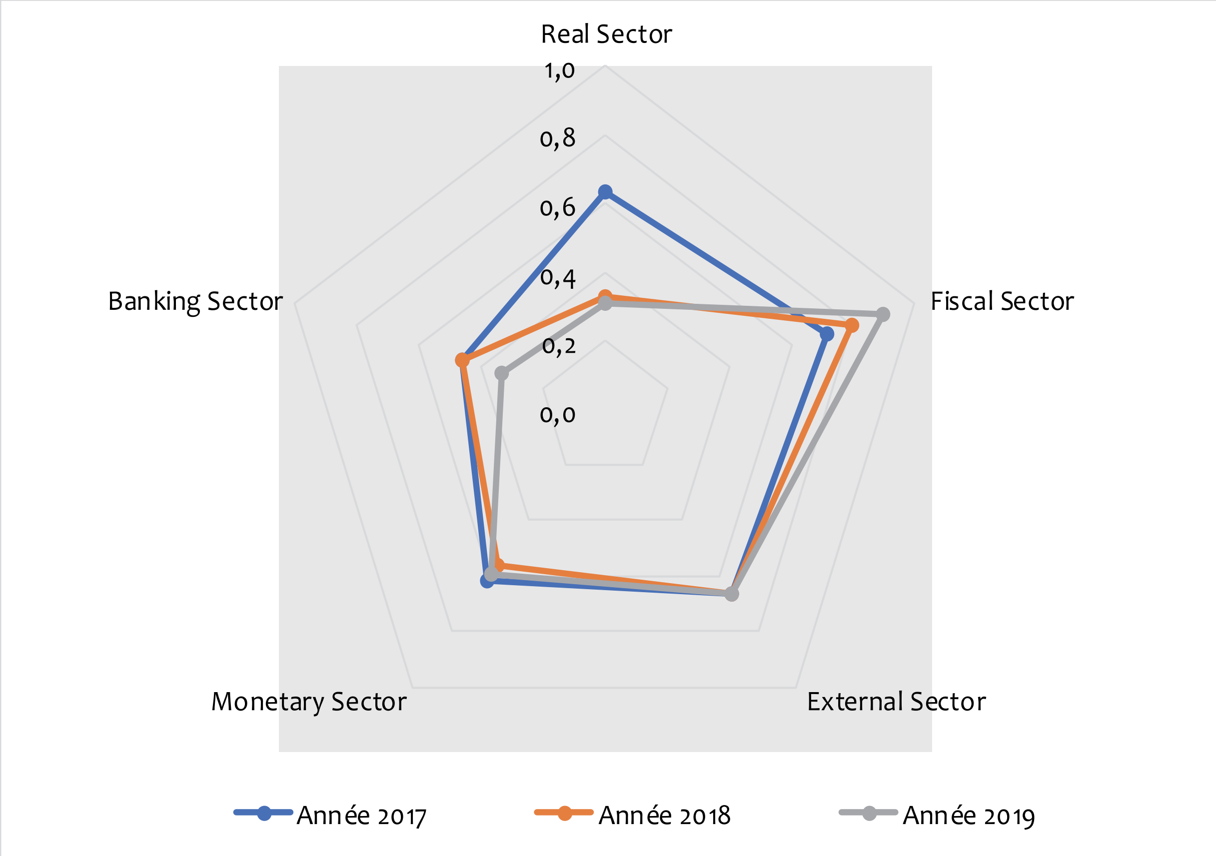
The increase of fiscal deficit would hamper the reimbursement of loans held by companies that provide goods and services to the Government. The loan portfolio of the sectors in which these companies invest has deteriorated. The rate of non-performing loans, in the trade sector, increased to 28.7 in 2019 compared to 11.5% in 2018.

1.3.3.2.Official foreign exchange reserves and exchange rate

The official foreign exchange reserves increased by 68.0% to USD 213,443.9 million at the end of 2019 from USD 127,036.3 million at the end of 2018.

These reserves cover 1.5 months of imports of goods and services at the end of 2019 compared to 1.0 month at the same period of 2018. On the other hand, the average exchange rate depreciated by 3.5% at the end of 2018, standing to 1,845.6 BIF/1 USD compared to 1,782.8 BIF/1 USD in 2018.

Figure 4: Burundi macroeconomic situation synthesis



Source: *BRB*

The sectors posing a risk to the financial stability in 2019 are fiscal sector through the increase in public debt, external sector through the depreciation of national currency, and monetary sector as a result of the increase in the money supply. The money supply (M3) increased by 20.8% at the end of 2019, reaching 2,171,039.8 against 1,797,468.9 MBIF in 2018.

1.3.4. Enterprise and household debts

The debt to private enterprises as percentage of GDP increased slightly from 5.8% in 2018 to 6.8% in 2019. The debt of private enterprises is largely made up of trade loans, which represents 37.0 compared to 26.4% in 2018 of total loans to the economy.

The other major components of the debt of private enterprises are loans to industry (5.1 against 7.8% in 2018), hotels and tourism (3.0 against 4.1% in 2018), infrastructures (3.3 against 2.7% in 2018) and coffee (1.9 against 4.6% in 2018).

The level of indebtedness of private companies has an effect on the quality of the loan portfolio. In 2019, the non-performing loans stood at 0.3% in the coffee sector, 41.9% in the hotel and tourism sector, 4.1% in infrastructures and 28.7% in trade. For public enterprises, their level of indebtedness relative to GDP remains low and stable over the last two years (0.7%).

Table 9: Household and enterprise debts (% of GDP)

Year	Household Debts	Private enterprises Debts	State Owned Enterprises debts
2015	11.7	7.9	0.2
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

Source: *BRB, Monthly report, December 2019*

The household debt as a percentage of GDP increased in 2019 to 13.6 compared to 11.2% in 2018. The position of households' debt is in deficit position during 2019 as a result of loans contracted which remain higher than deposits.

The gap between deposits and loans granted to households is - 168 213.2 against - 154 409 MBIF in 2018. Contrary to household situation, the position of private companies is in excess at the end of 2019. Thus, the gap between deposits and loans granted to private firms is 300,923.8 against 193,620.4 MBIF in 2018.

Table 10: Household and enterprise net debts (in MBIF)

	2015	2016	2017	2018	2019
Household deposits	401,843.7	430,975.4	487,757.7	570,114.5	685,506.2
Household loans	514,709.6	602,151.5	615,339.9	724,523.5	853,719.4
Household net debts	-112,865.9	-171,176.1	-127,582.2	-154,409.0	-168,213.2
Private enterprise deposits	183,259.6	252,834.7	389,694.5	566,180.9	727,156.1
Private enterprise loans	348,158.6	312,830.6	300,766.5	372,560.5	426,232.3
Private enterprise net debts	-164,899.0	-59,995.9	88,928.0	193,620.4	300,923.8
State owned enterprise deposits	43,966.7	40,392.7	49,504.3	48,324.8	37,340.3
State owned enterprise loans	6,928.3	7,548.5	28,633.1	41,963.0	42,088.7
State owned enterprise net debts	37,038.4	32,844.2	20,871.2	6, 361.8	-4,748.4

Source: *BRB, Monthly report, December 2019*

Box 2 : Challenges of public debt

The accumulation of public debt can be a source of a country's fragility. According to the IMF, in 2017, fifteen (15) African countries were in debt or at high risk of debt. The continent's public debt increased from 35% of GDP in 2010 to 60% of GDP in 2018 and accelerated over the period 2013-2017.

The situation in Sub-Saharan Africa is very worrisome, with sovereign debt continuing to increase sharply, standing at 50.1 % of GDP at the end of 2019, compared to the average of 33.1 % over the period 2010-2016. This increase was mainly due to the commodity price and weather shocks that hit many countries in the region in 2019. Thus, in almost one-fifth of the region's countries, sovereign debt is over 50% of GDP. External debt rose from 24.6% of GDP to 25.7% at the end of 2019 and the fiscal deficit reached 4.3% of GDP compared to 3.6% at the end of 2018.

In Burundi, public debt is the major risk to financial stability because it has been growing steadily in recent years. In 2019, it reached 52.1% of GDP, above the average for EAC countries (49.3%) and Sub-Saharan Africa (50.1%).

This increase raises questions about how to maintain public debt at a sustainable level while continuing to finance the development process. In order to avoid the adverse consequences of debt, the solution would be good coordination of monetary and fiscal policies. This will make it possible to implement effective strategies for good debt management in the long term.

2

CHAPTER 2:
BURUNDIAN FINANCIAL SYSTEM

The national financial stability also requires that of the national financial system. The stability of the financial system depends on its compliance with existing regulations, its soundness with respect to general standards of financial management, and its resilience to possible vulnerabilities, both endogenous and exogenous.

At the end of 2019, the financial system in general was compliant with current regulations, sound and resilient to threats identified as likely to occur.

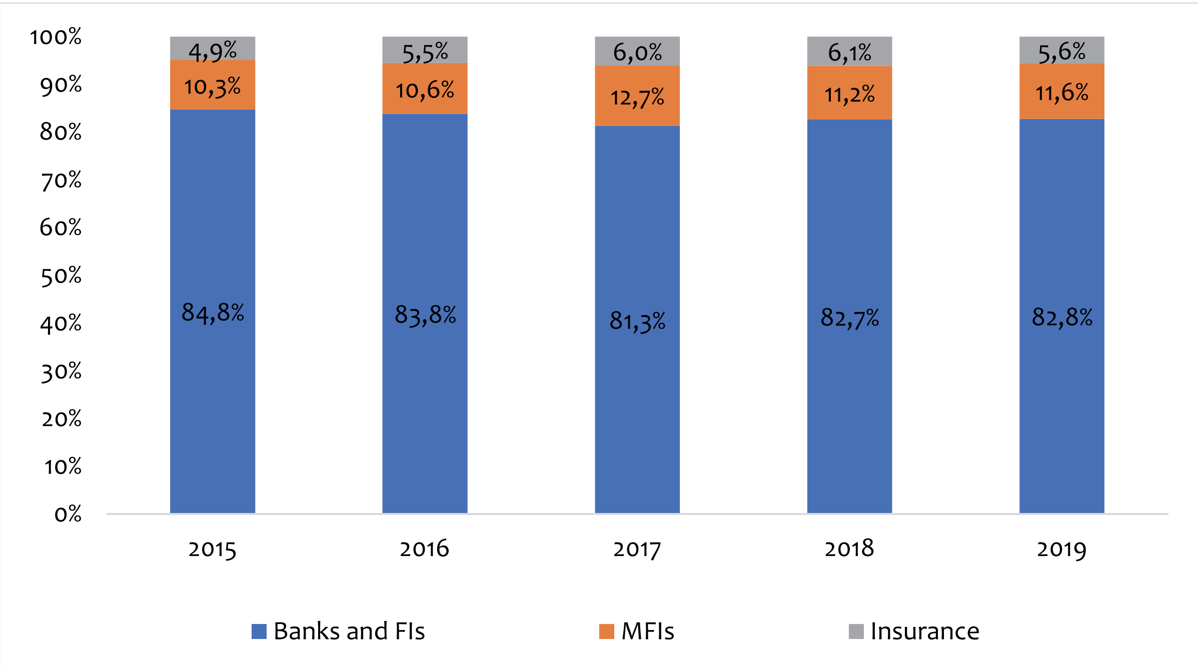
The regulatory compliance was assessed in terms of solvency, asset quality and liquidity. The viability was assessed from the perspective of cost control and profitability. Resilience was assessed in relation to risks identified as threats to financial stability. These are the decline of the price of coffee and tea, the depreciation of the national currency, and the increase in public debt.

2.1. Structure of financial system

The Burundian financial system is composed of five types of financial institutions, namely credit institutions (banking sector), microfinance institutions, insurance companies, payment institutions, and social welfare organizations[16]. The banking sector is made up of 12 credit institutions including 10 commercial banks and 2 specialized financial institutions.

At the end of 2019, the assets of the banking sector are the most preponderant of the national financial sector with 82.8% of the total assets followed by microfinance sector with 11.6%.

Figure 5: Evolution of the financial system structure



Source: *BRB*

[16] Balance sheets datas not available to the Central Bank

2.2. Banking sector

In 2019, the banking sector in Burundi remained compliant, sound, and resilient. In fact, the banking sector shows quasi-compliance with regulatory standards, positive profitability, improved loan-portfolio quality, and success in the resilience tests carried out by the BRB.

2.2.1. Banking sector situation

At the end of 2019, the banking sector's activities are generally oriented towards financing the government and the economy as well as providing means of payment. Loans to the economy from the banking sector represented 17.1% of GDP in 2019 compared to 15.6% in 2018. The banking sector includes three high systemically important banks and two medium systemically important banks.

2.2.1.1. Banking sector assets

At the end of 2019, the total assets of the banking sector have reached 3,262.1 MBIF against 2,580.7 MBIF in 2018, an increase of 26.4%. The banking sector assets are mainly composed of loans to the economy (32.8%) and financing to the Government (39.8%) (against 36.5% and 34.5% respectively in 2018).

The banks of high systemic importance[16] (3) contribute 60.9% in financing the loan to the economy and 64.7% in financing the Government, while banks of medium systemic importance (2) contribute 15.2% in financing the loan to the economy and 19.6% in financing the Government.

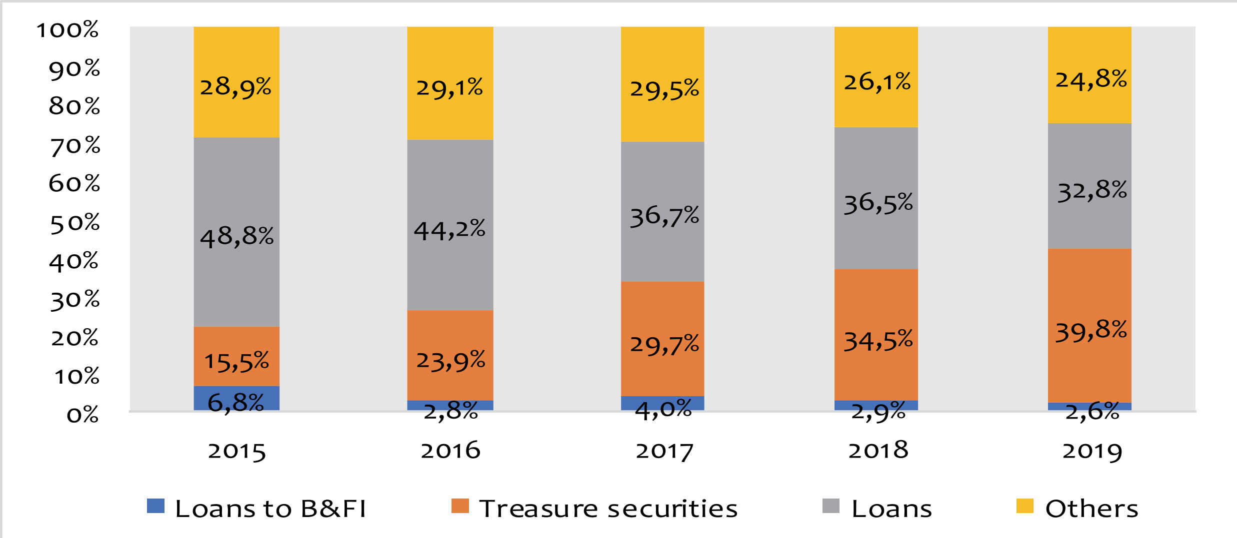
The loans are mainly concentrated in the trade (32.6%) and housing (16%) sectors, against 26.7% and 14.2% respectively in 2018. The loans distributed by banks are mostly short-term (47.5%) while medium and long-term loans represent 31.5% and 21.5% respectively in 2019 against 31.0% and 19.0% in 2018.

The government is funded through the purchase of Treasury Securities (Treasury Bills and Bonds). Treasury bills have maturities of 13 weeks to 26 weeks, while Treasury bonds have maturities of 2 years to 10 years.

The item "Other" includes fixed assets (4.9%) and Cash held on hand and Central Bank (8.5%).

[16] The assessment (identification and analysis) of systemically important banks is done among commercial banks only due to their different business model than domestic specialized financial institutions

Figure 6: Assets structure (in %)



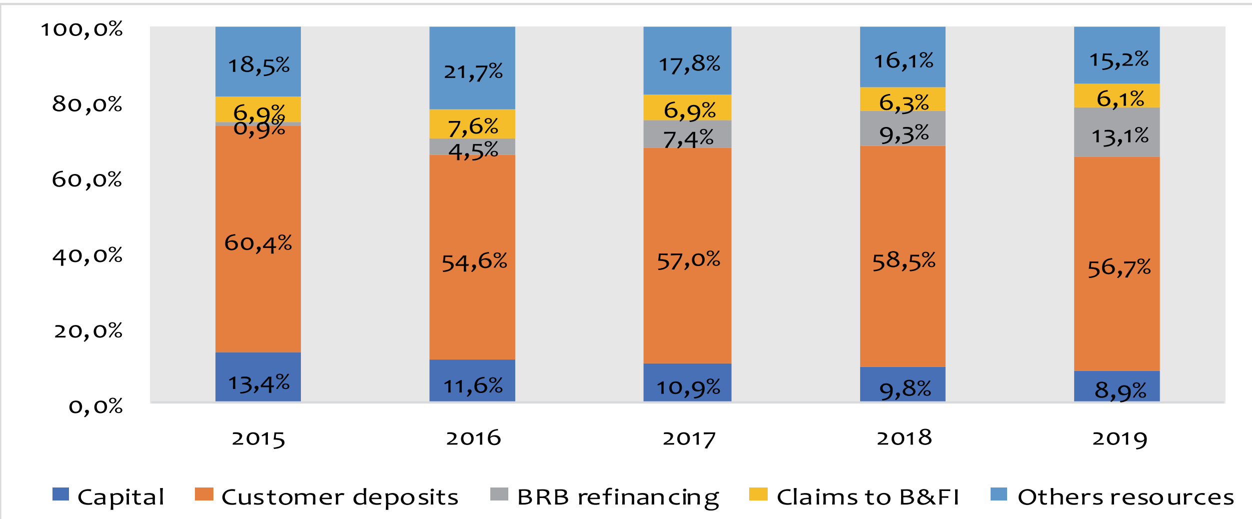
Source : *BRB*

2.2.1.2. Banking Sector Resources

In 2019, the banking sector resources are mainly made up of customer deposits (56.7% vs. 58.5% in 2018), shareholders' equity (15.2% vs. 16.1% in 2018) and Central Bank refinancing (13.1% vs. 9.3% in 2018).

The banks of high systemic importance held 67.1% of customer deposits and received 59.7% of Central Bank refinancing while the banks of medium systemic Importance held 10.9% of customer deposits and received 29.8% of refinancing.

Figure 7: Structure of resources (in %)



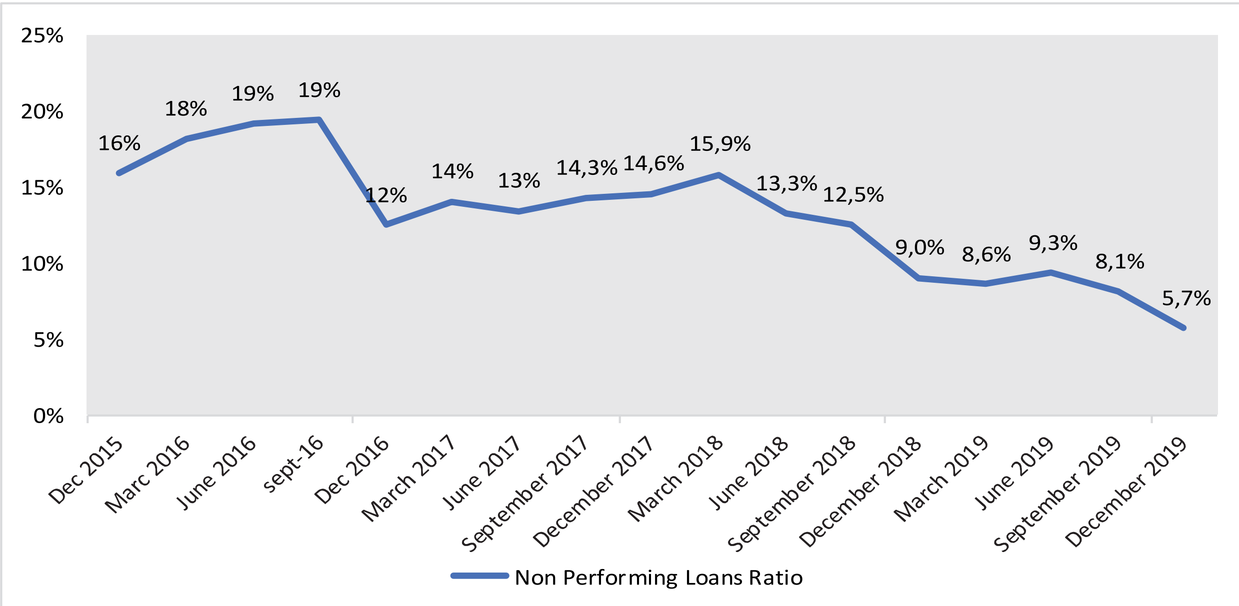
Source : *BRB*

2.2.2. Quality of the loan portfolio

The sectoral structure of the loan portfolio at the end of 2019 has evolved to put the trade sector at the top of the financing list with 32.6%.

The quality of the loan portfolio for the banking sector has improved. The non-performing loan ratio stood at 5.7% in 2019 against 9% in 2018. This improvement is mainly due to the write-off of bad debts of 35,656.1 billion of BIF, as opposed to a further deterioration of 11,940.5 billion of BIF. Nevertheless, non-performing loan ratio before the write-off of bad debts was 10.5%.

Figure 8: Evolution of non-performing loans ratio (in %)



Source : *BRB*

At the end of 2019, within the non-performing portfolio, the sectors of trade, housing, health, and hotels were the most preponderant with 29.6%, 16.6%, 13.1%, and 10.6% respectively. In 2018, the most preponderant activity sectors within the non-performing portfolio were trade, hotels, housing, and industry with 33.7%, 14.1%, 10.9%, and 9.5% respectively.

From an intra-sectoral point of view, the best performing sectors of activity are the mining sector (0.00%), the tea sector (0.04%) and the education sector (0.06%) while the least performing sectors are the health sector (60.88%), the hotel sector (46.15%) and the tourism sector (32.9%).

From one year to another, the sectors of handicrafts (25.5%), hotels (22.4%), industry (10.8%) and trade (6.2%) have improved in terms of intra-sectoral performance.

Indeed, the ratio of non-performing loans within trade has improved from 11.3% to 5.2% in 2019.

This improvement is due to a decrease in non-performing loans and an increase in loans provided to the sector.

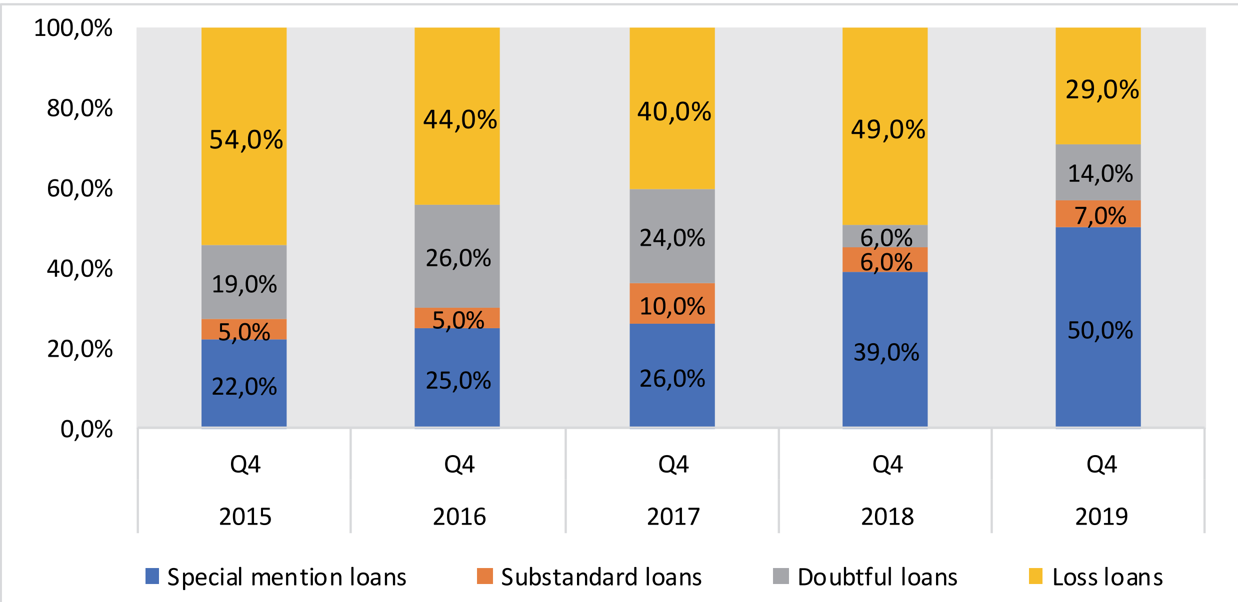
In comparison with EAC countries, according to the standard accepted by the banking profession (≤ 5%) regarding the quality of the loan portfolio, Burundi's situation is almost acceptable.

Table 11: Non-performing loan rates trends at the EAC level

	2016	2017	2018	2019
BURUNDI	12.9	14.5	9.0	5.7
KENYA	9.1	10.6	9.1	12.0
UGANDA	10.5	5.6	3.3	4.9
RWANDA	7.6	7.6	5.0	4.9
TANZANIA	9.1	12.5	6.9	10.1
SOUTH SUDAN	N/A	48.0	4.1	2.1

Source: *EAC partner states risk assessment dashboard October 2020*

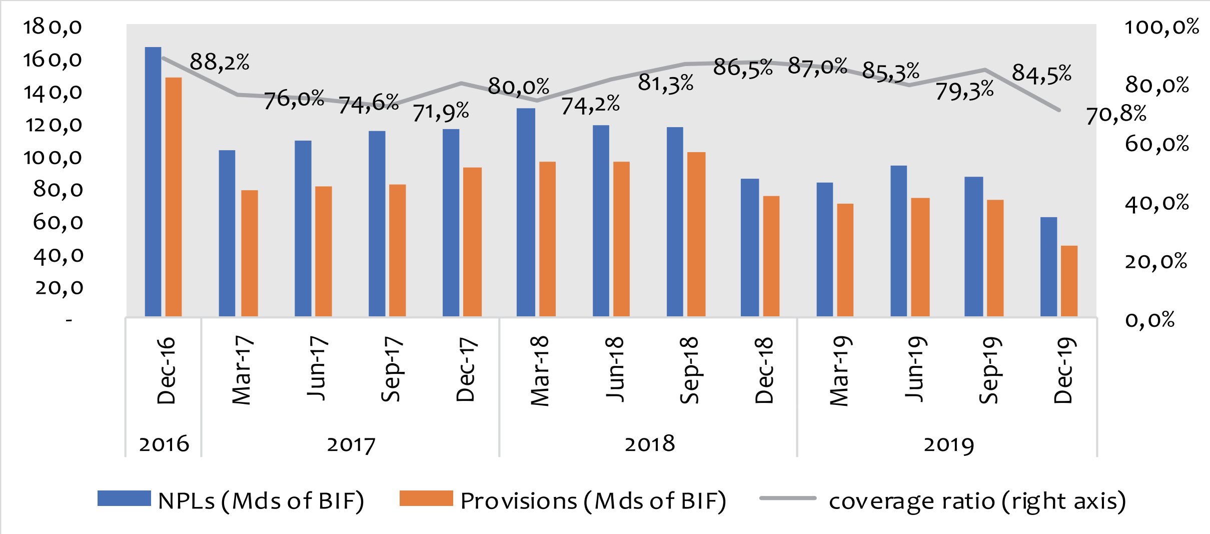
Figure 9: Outstanding loan structure (in %)



Source: *BRB*

The proportion of special mention loans increased by 11 pp. between 2018 and 2019, the proportion of substandard loans increased by 1%, the proportion of doubtful loans increased by 8%, while the proportion of loss loans decreased by 20 pp. This decrease in loss loans is mainly due to the write-off of loans more than 2 years in a position of impairment against an additional downgrading of doubtful loans to loss loans. In fact, the loans written off amounted to 35,656.1 billion of BIF compared with 2,836.4 billion of BIF in doubtful loans having migrated to loss loans category.

Figure 10: Provisioning rate for non-performing loans



Source : *BRB*

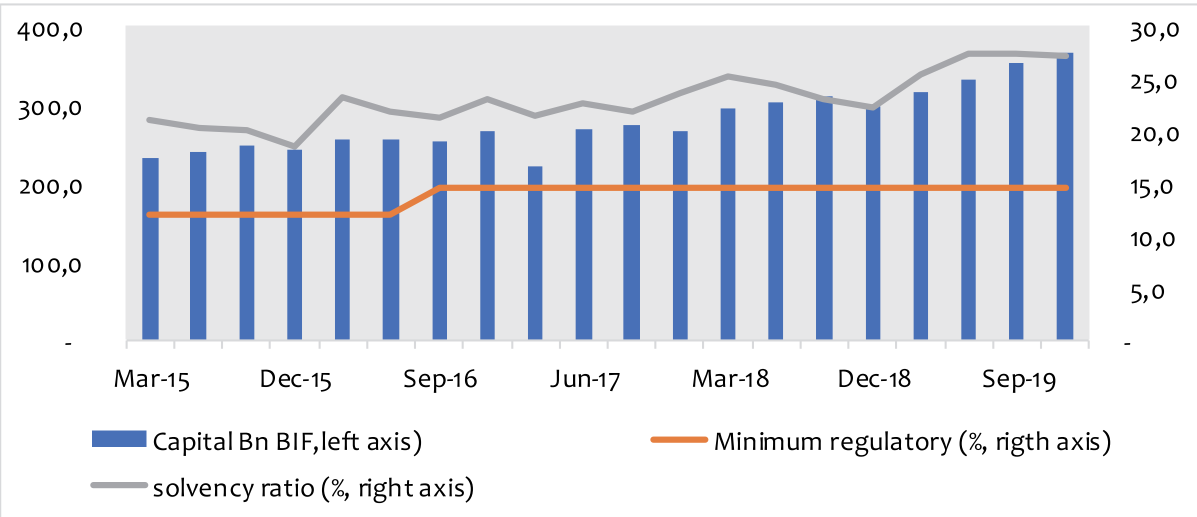
The coverage ratio for non-performing loans remained at a satisfactory level from one year to the next, standing at 70.8% against 87.0% in 2018. The 16.2 pp. decrease is due to the improvement in the quality of the loan portfolio with regard to loss loans.

2.2.3. Capital adequacy

At the end of 2019, the banking sector had sufficient capital compared to the regulatory standard. The overall solvency ratio(27.2%) was significantly above the regulatory minimum (14.5%).

From one year to another, capital increased by 22.1% from 298,561 MBIF to 364,576 MBIF mainly in line with the improvement in the commercial banks' income.

Figure 11: Evolution of capital adequacy



Source: *BRB*

The leverage ratio was maintained at a good level from 11.5% to 10.5%, while remaining above the minimum regulatory standard of 5%.

2.2.4. Liquidity

At the end of 2019, the overall liquidity of the banking sector as stipulated in Circular N° 04/2018 relating to liquidity coverage ratio had slightly improved from 218.5 to 220.0%, for a minimum threshold of 100%. Nevertheless, the sector's overall compliance with the liquidity ratio includes some gaps.

Indeed, from the point of view of local currency liquidity, one commercial bank is non-compliant while from the point of view of foreign currency liquidity two systemically important banks are non-compliant.

The overall liquidity ratio is the ratio between the sector's high quality liquid assets (in local and foreign currency) and cash outflows (in local and foreign currency).

Table 12: Evolution of the Liquidity Ratio

	Q4 2014	Q4 2015	Q4 2016	Q4 2017	Q4 2018	Q4 2019
Liquidity Ratio in BIF (in %)	35.4	38.0	55.0	58.3	225.5	226.1
Liquidity Ratio in foreign currencies (in %)	84.9	122.0	128.0	113.5	138.9	133.4
Overall Liquidity Ratio (in %)	52.0	53.0	64.0	64.2	218.5	220.0
Standard (in %)	≥20	≥20	≥20	≥20	≥100	≥100

Source*: BRB*

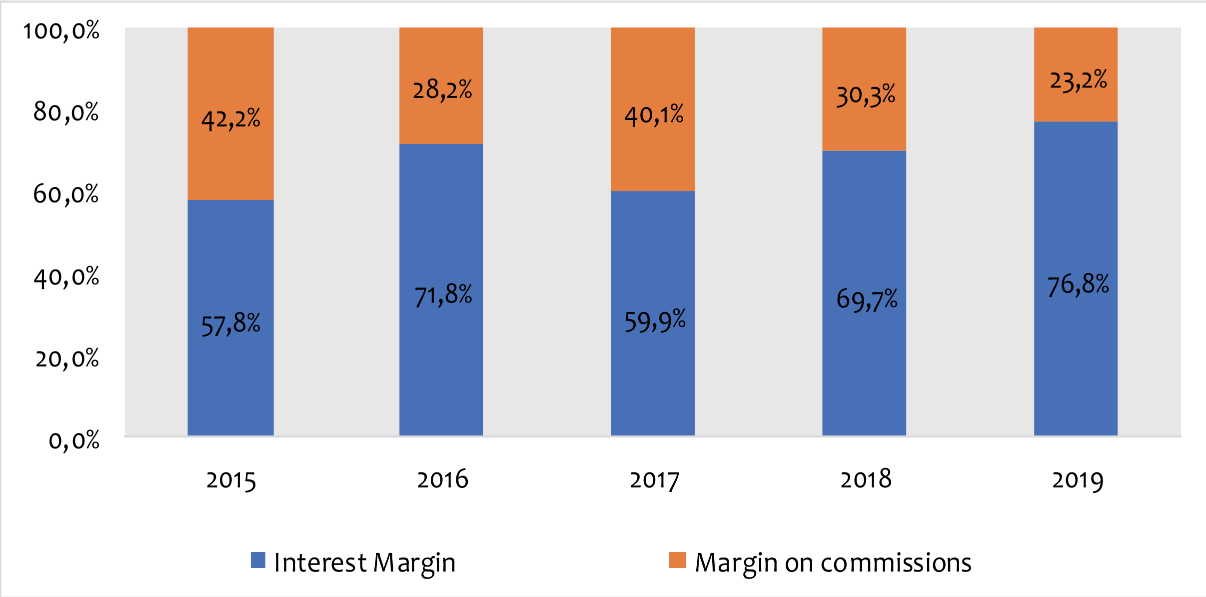
2.2.5. Market risk

The financial sector has low exposure to market risk due to the early stage of the Burundian financial market. Treasury securities that are in the banks' portfolio are held to maturity, and are therefore not subject to potential price changes.

2.2.6. Banking sector profitability

At the end of 2019, the banking sector remained profitable. The banking net income has increased by 21.3% from 211,472.0 to 256,477.4 MBIF. In comparison with last year, the net income of credit institutions increased by 93.8% from 61,247.5 to 118,686.4 MBIF at the end of 2019.

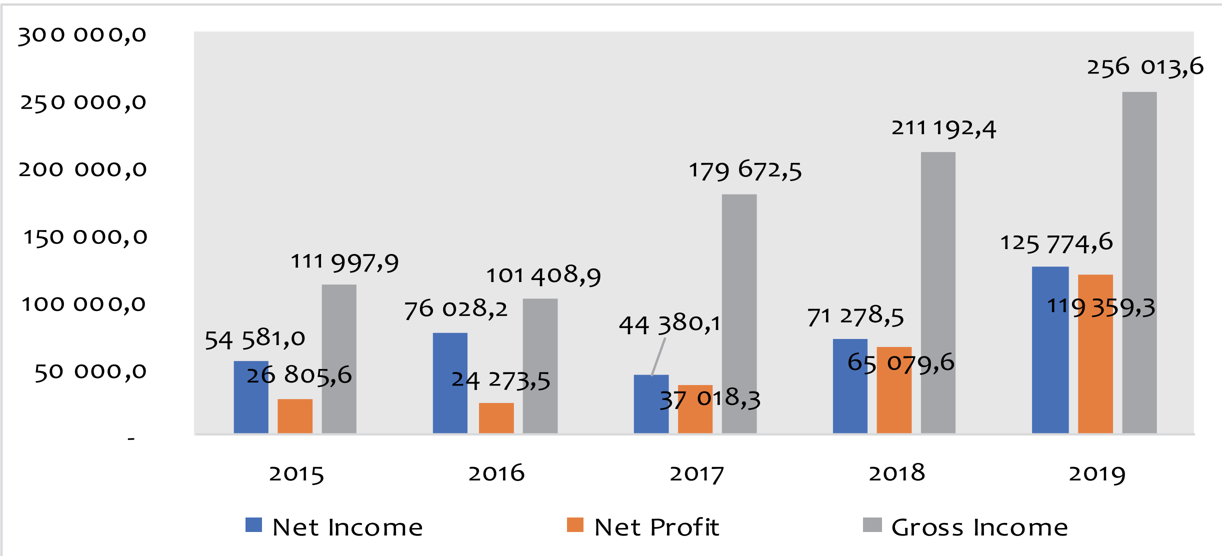
Figure 12: Distribution of banking net income (in %)



Source: *BRB*

Return on assets was 3.7% and return on equity was 32.6%. The Banking sector's profitability is largely due to interest on securities which represent 91.9% of interest from banks and related institutions operations in 2019 against 88.1% in 2018.

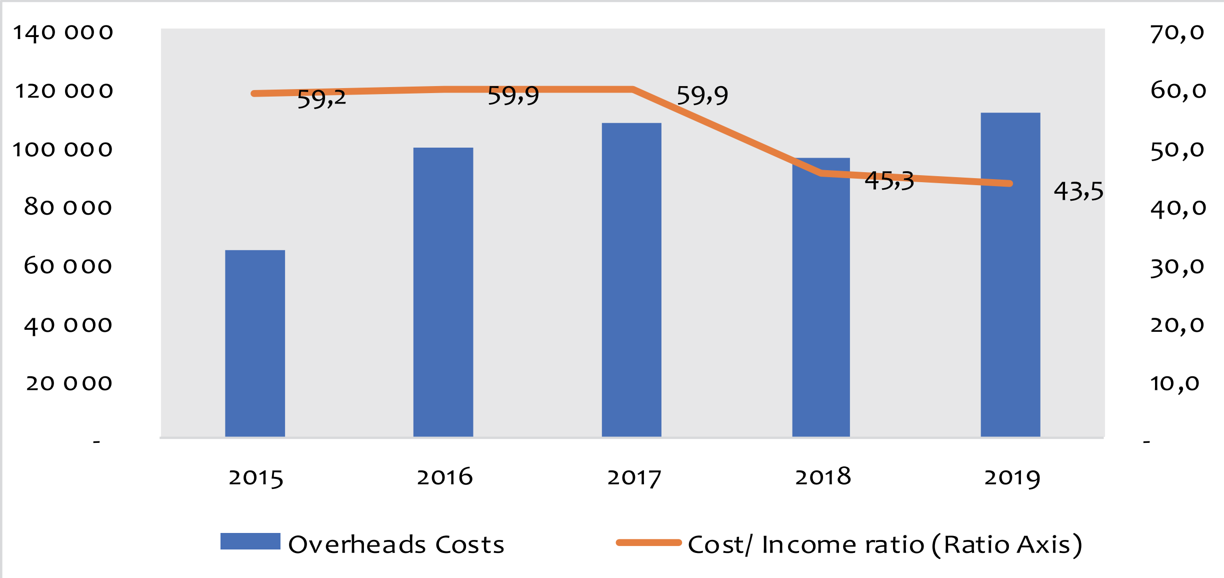
Figure 13: Intermediate Operating Balances (in billions of BIF)



Source: *BRB*

At the end of 2019, overhead costs have increased by 16.5%, while banking net income increased by 21.3%, thus the cost/income ratio decreased by 1.8 p.p from 45.3 to 43.5%.

Figure 14: Overheads Cost (MBIF) and Cost/income ratio (%)



Source: *BRB*

2.2.7. Stress testing

The implementation of stress tests for the financial regulatory environment has become an indispensable means of supervision and assessing the resilience of financial institutions in the case of crises since the Subprime crisis in 2008. Indeed, it is one of the main instruments recommended for macro-prudential supervision. In Burundi, these tests are carried out annually on the banking sector from the perspective of credit and liquidity risks.

2.2.7.1. Credit risk

Credit risk or counterparty risk is the risk that a borrower will not repay its lender (an institution of the banking sector) as agreed in their contract. The vulnerability factors that may cause this default may be endogenous or exogenous to the borrower.

In Burundi, the BRB's assessment of this risk is made in relation to exogenous vulnerability factors to borrowers. These vulnerabilities are first identified as risks to national financial stability. Secondly, a possible reaction of the Burundian banking sector is measured in terms of the deterioration of the loan portfolio.

Finally, the remaining solvency is assessed after setting aside additional provisions in the event that the simulated risk occurs.

In a baseline scenario, the banking sector is generally resilient. However, a bank would become insolvent. In a severe scenario, the banking sector is generally resilient except for one bank that would become insolvent and another one that would reach the minimum regulatory solvency level.

2.2.7.2. Liquidity risk

The liquidity risk is the risk that a bank will not be able to meet its commitments to its depositors. In a severe scenario of sustained withdrawals over 5 consecutive days, the sector is generally resilient except for one bank that would become illiquid.

2.3. Microfinance Sector

The microfinance sector is involved in the provision of financial services to low-income individuals and is considered as an essential tool to facilitate financial inclusion. Thus, microfinance has become a modern feature in the loan markets as a tool for socioeconomic development.

2.3.1. Microfinance sector structure

In Burundi, the institutions engaged in microfinance activities are divided into 4 categories, namely:

- First category: Microfinance Enterprises, Financial Cooperative Societies and other types of microfinance institutions with the legal form of a public limited company, public company or mixed company that carry out the operations of collecting deposits and granting loans and that provide other financial services for the benefit of their clients;
- Second category: financing and/or guarantee funds carrying out microfinance activities, Microcredit Programs related to Non-Governmental Organizations (NGOs) and Non-Profit Associations (NPOs) that provide loans but are not allowed to collect deposits from the public;
- Third category: Saving and Credit Cooperatives in the legal form of Cooperative Societies that collect deposits from their members and provide them loans and other financial services;
- Fourth category: Community Financial Groups such as cooperative societies, pre-cooperative groups, savings and credit village associations that collect their members' contributions and provide them loans according to the agreed approach.

Regarding the 4th category, the carrying on the activities of the latter does not require approval but a simple registration with the BRB.

The Burundian microfinance sector at the end of 2019 included 55 Microfinance Institutions (MFIs) licenced by the BRB, including 19 savings and loan cooperatives and 21 Microfinance Enterprises, in addition to 15 community financial groups.

It should also be noted that in order to improve access to financial products and services, the number of MFIs' points of service (head offices, branches and counters) authorized by the BRB increased from 288 in 2018 to 329 in 2019.

In terms of market expansion and savings mobilization, five cooperatives dominate the market in the sector. They account for 83.1% of assets, 84.7% of loans, 82.6% of deposits and 56.3% of the sector's capital. In 2019, the total assets of MFIs were 456,482.9 compared to 349,518.5 MBIF in 2018, an increase of 30.6% in relation to the increase in the amount allocated to the financing of the economy up to 25.6% from one year to another.

Table 13: Concentration of MFIs Assets in MBIF

	2017	2018	2019
Cooperatives	247, 595.3	299, 206.8	391, 580.7
Microfinance companies	40, 624.5	50, 311.7	64, 902.3
Total Assets	288, 219.7	349, 518.5	456, 482.9
Cooperatives share	85.9	85.6	85.8
Microfinance companies share	14.1	14.4	14.2

Source: *BRB*

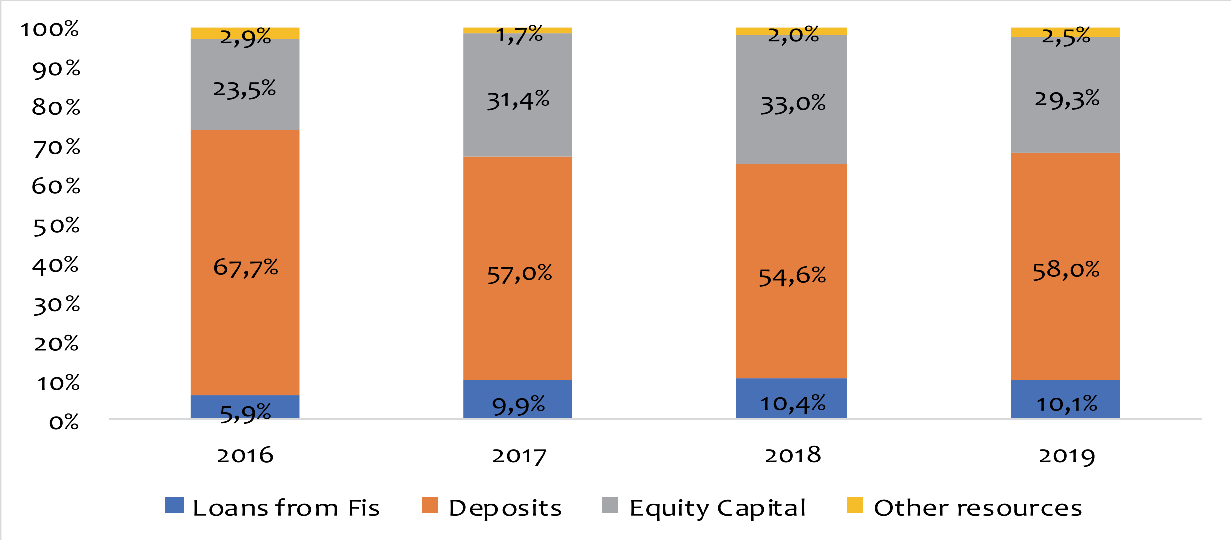
The MFIs' assets are highly concentrated in cooperatives (3rd category) with 85.8% of total assets while microfinance companies (1st category) account for 14.2%.

2.3.2. Microfinance sector liabilities

The MFIs' resources, consisting of members' deposits, loans, capital and miscellaneous operations, increased by 30.6% amounted to 456,482.9 MBIF in 2019 compared to 349,518.5 MBIF in 2018. This increase is mostly due to the increase in deposits by 38.7%, amounting to 264,853.2 MBIF compared to 190,907.5 MBIF in 2018.

The liabilities have also increased due to the growth of loans from the banking sector, amounting to 46 317.7 as against 33 266.6 MBIF in 2018. At the end of December 2019, capital increased by 16.0% amounted to 133,862.9 against 115,437.9 MBIF at the end of December 2018.

Figure 15: Distribution of MFIs' liabilities in MBIF



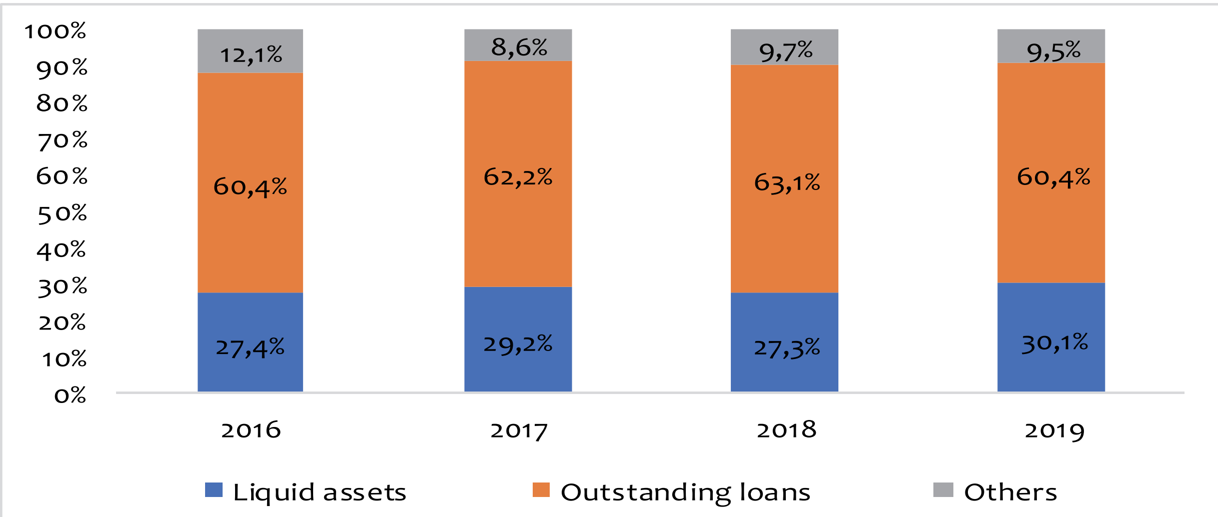
Source: BRB

2.3.3. Microfinance sector assets

The MFIs' net outstanding loans reached 275,755.9 in 2019 compared to 220,451.4 MBIF in 2018, an increase of 25.1%. However, the proportion of loans in the total assets of MFIs decreased by 2.7 pp, from 63.1% in 2018 to 60.4% in 2019, due to a significant increase in liquidity (active cash flow),i.e. 44.0% from one year to the other.

It should be noted that in 2019, demand deposits accounted for 53.6% of total deposits while time deposits amounted to 43.7%.

Figure 16: Evolution of MFIs assets in MBIF

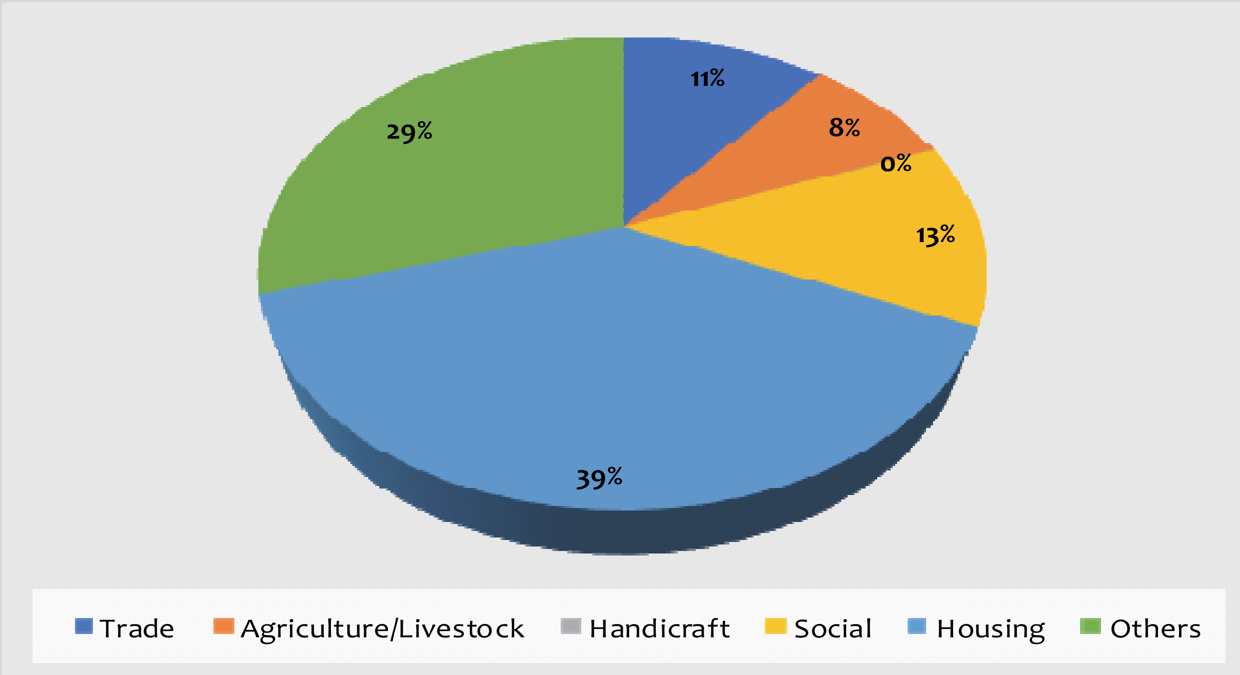


Source: BRB

2.3.4. Financing structure by sector

The housing sector is the most favoured by MFIs compared to other sectors with 39.0% of loans. Nevertheless, being one of the sectors with the highest growth potential, the agriculture sector is the least financed by MFIs with only 8.0% at the end of 2019. The figure below provides details on the distribution of loans by sector of activity.

Figure 17: Distribution of loans by sector of activity



Source: *BRB*

2.3.5. Loan portfolio's quality

The deterioration rate of the loan portfolio declined by 0.4 pp. Year-on-year from 6.2% to 5.8%; but still above the maximum allowable limit of 5%.

Table 14: Loan Portfolio's Quality

	2017	2018	2019	Variation in %
Outstanding loans(in MBIF)	179,238.7	220,451.4	275,755.9	25.1
NPLs (in MBIF)	10,432.4	13,680,8	15,815.2	16.6
Provisions (in MBIF)	4,931.1	5,042.8	8,194.6	62.5
Coverage rate	47.3	36.9	51.8	
Deterioration rate	5.8	6.1	5.6	

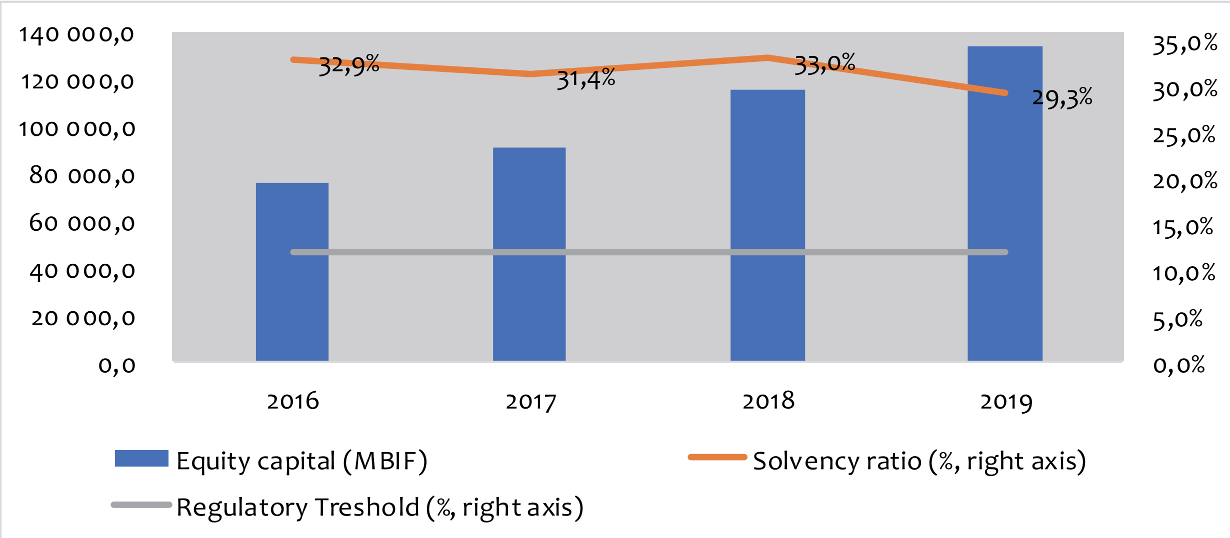
Source: *BRB*

2.3.6. Capital Adequacy

The microfinance sector remains sufficiently capitalised and capital is increasing year over year. The capital was 133,862.9 MBIF in 2019 compared to 115,437.9 MBIF in 2018, i.e.an increase of 16.0% with an increase of 24.3% of total risk weighted assets from 281 705,3 in 2018 to 347 749,1 MBIF in 2019.

The sector's overall solvency ratio declined by 3.7 pp. to 29.3% in 2019 against 33.0% in the previous year, remaining above the regulatory standard of 12%. Nevertheless, there are disparities in this ratio as some MFIs need to strengthen their capital.

Figure 18: Capital evolution



Source: *BRB*

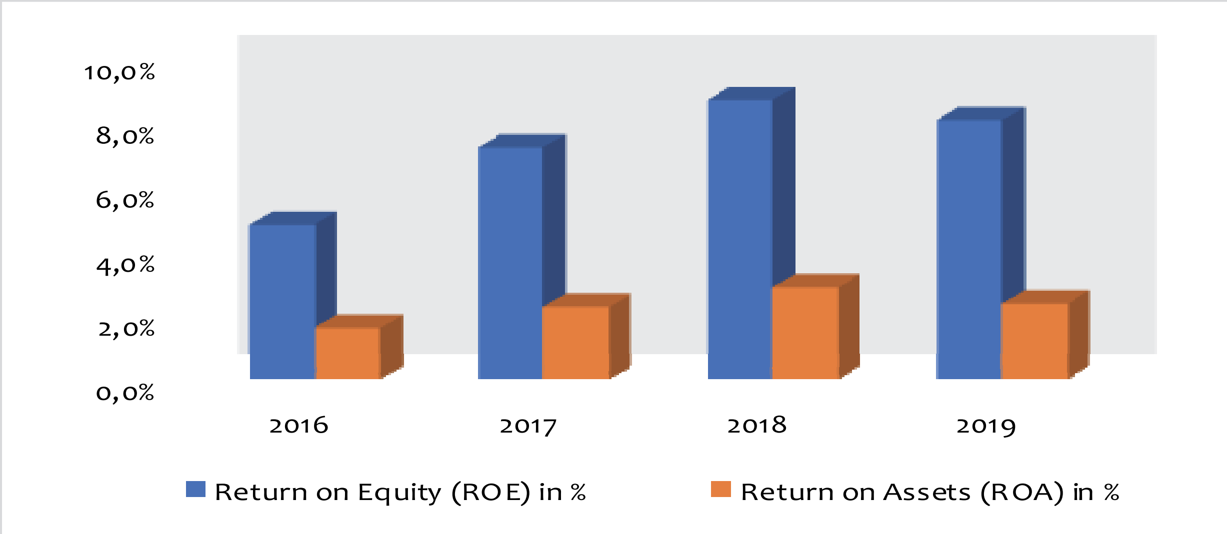
2.3.7. Microfinance Sector Liquidity

At the end of 2019, the microfinance sector was sufficiently liquid at 45.4%, a liquidity ratio above the minimum regulatory standard of 20%. However, three MFIs remain below this standard. The loan-to-deposit ratio is 104.1%, slightly above the maximum acceptable standard of 100%, in relation to loans from the banking sector.

2.3.8. Microfinance sector profitability

At the end of 2019, the microfinance sector remained profitable. The Banking Net Income has increased by 14.2%, from 33,574.2 to 38,335.5 MBIF. The sector's net income varied by 7.1% from 10,063.4 to 10,845.3 MBIF year over year, compared to the last year. Nevertheless, this income is largely concentrated in 3 MFIs that hold 91.8% of the sector's net income. The Return on Equity (ROE) decreased by 0.6 pp. to 8.1 compared to 8.7% in 2018. In contrast, the Return on Assets (ROA) was 2.9% in 2019 compared to 2.4% in 2018.

Figure 19: MFIs profitability indicators (in %)



Source: *BRB*

2.3.9. Banking Sector Exposure

The MFIs' operations with the banking sector focus primarily on investing surplus cash and borrowings. The investments made are identified through term deposits with 70,951.2 MBIF in 2019, i.e. 15.5% of total assets, while borrowings are 40,317.7 MBIF in 2019, i.e. 10.1% of total liabilities.

2.3.10. Main risks of MFIs

Given the activity of MFIs, the main risks incurred include solvency and liquidity. Furthermore, given the context that currently prevails in Burundi's MFI sector, shortcomings in terms of organization and overall management persist, in this case operational risk and governance risk.

2.3.10.1. Operational Risk

Most of the MFIs do not have an efficient information and Management System, while others still manually process their data. In addition, MFIs are experiencing difficulties in managing risks, controlling expenses and producing financial information in accordance with the deadlines and frameworks set by the BRB. In terms of internal control, the main findings of the various MFIs' audit missions are as follows:

- Problems of interconnection of the information and Management Systems between the MFIs' headquarters and their branches and tellers;
- The lack of internal control tools (procedures handbooks, audit charter, etc.);
- The unavailability of appropriate tools and/or equipment to measure major risks;
- The high deterioration rate of the loan portfolio;
- The shortage of sufficiently secure space for loading and unloading funds in the branches and tellers;

- Non-compliance with some prudential ratios.

2.3.10.2. Governance Risk

In Fiscal Year 2019, the MFIs' governance has further deteriorated, which led the BRB to revoke their license.

The main findings noted during the various MFIs' audit missions are as follows:

- Irregularity in holding meetings of the management bodies;
- Interference of the decision-making boards in the MFIs' daily management;
- Non-appropriation of organic and regulatory texts by the members of the institutions' management bodies;
- fail to respect the term of the management boards;
- Poor communication between the members of the Boards of Directors.

The risks arising from these shortcomings are as follows:

- Non-involvement of the Board of Directors in monitoring the quality of the loan portfolio;
- The insufficient rate of implementation of previous recommendations;
- The interference of the Chairman of the Board of Directors in the daily management of the institutions.

2.4. Insurance Sector

The insurance sector is one of the components of the Burundian financial system, and represents 5.6 % of assets, and the sector's activities continue to expand through the market entry of new operators. It plays an essential part in the protection against both life and physical risks of insurers.

2.4.1. Insurance sector structure

In accordance with the law regulating insurance activities, advocating the separation of life and non-life insurance activities, almost all companies, except one, have already split life and non-life insurance branches. Thus, the Burundian insurance sector is made up of fourteen (14) companies, five (5) of which are specialized in life insurance, eight (8) in non-life insurance and one (1) operates both life insurance and no life insurance.

The penetration rate indicates the extent to which the insurance sector contributes to the national economy. It is obtained by the percentage ratio between the total insurance premiums collected in a given country and its GDP. Compared to 2018, the penetration ratio of the Burundian insurance sector increased by 0.07%, reaching 0.87% in 2019 against 0.77% in 2018.

Penetration ratio in life insurance increase than no life insurance. However, this rate is still low compared to the African average of 3.0% and the contribution of the non-life branch is still significant in terms of activities, but it was down to 57.4% of the sector's revenues in 2019 against 63.0% in 2018.

Table 15: Insurance Penetration Rate

	2014	2015	2016	2017	2018	2019
GDB (Bn BIF)	4,185.0	4,423.0	4,759.0	5,397.2	6,010.3	6,254.8
Turnover (Bn BIF)	36.0	37.0	37.0	40.6	46.4	54.3
Penetration ratio (%)	0.86	0.84	0.78	0.74	0.77	0.87

Source: *ARCA*

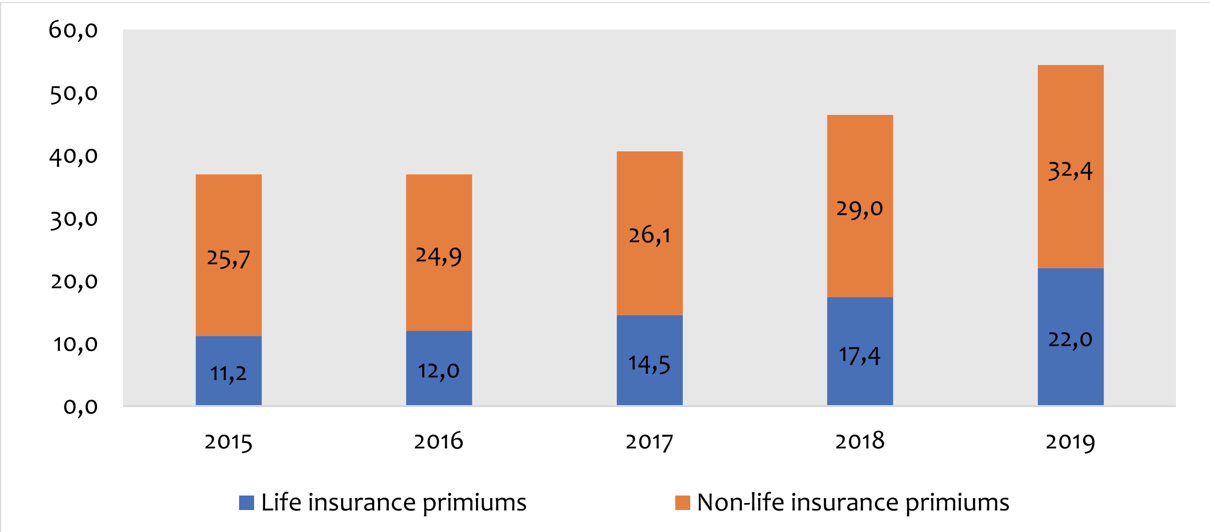
2.4.2. Performance of the Insurance sector

The insurance sector assets increased by 11.8% in 2019 to 222.4 billion of BIF compared to 199.0 billion of BIF in 2018, in line with the final approval of new insurance companies.

2.4.2.1. Insurance premium trends

In terms of annual growth, premiums collected by insurance companies increased by 16.4% to 54.3 versus 46.4 billion BIF in 2018. They are divided between life (40.5%) and non-life (59.5%) branches.

Figure 20: Premiums by type of Insurance company (Bn BIF)



Source: *ARCA*

2.4.2.2. Claims

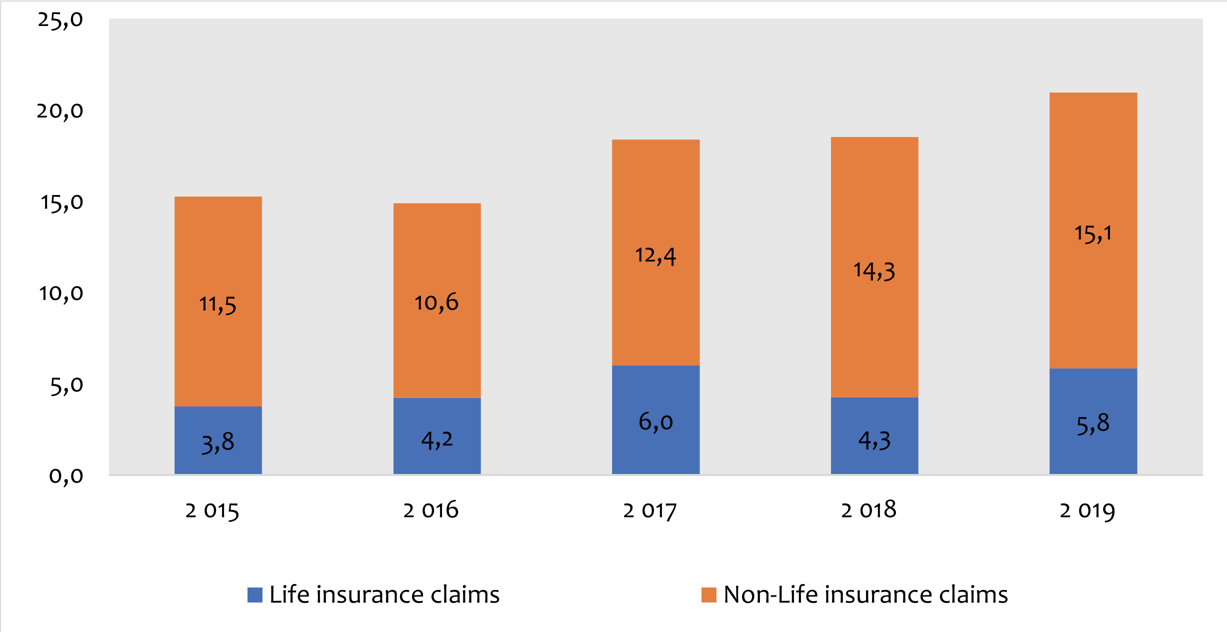
The sector's expenditure on claims coverage increased by 13.1% to 20, 952.5 versus 18,518.4 MBIF in 2018. The claims in the life insurance branch increased by 37.2% from 4,261.4 in 2018 to 5,847.3 MBIF in 2019 while they increased by 5.9% in non-life insurance from 14,257.0 to 15,105.2 MBIF.

The non-life insurance has resumed the growth rate. The share of non-life insurance reached 27.9% in 2019 against 23.0% in 2018 while it was 32.7% at the end of 2017.

The claim ratio[18] in the life branch increased by 2.1 pp. in 2019 to 26.6% in 2019 against 24.5% in 2018, while that of the non-life branch decreased by 2.4 pp. to 46.7% against 49.1% in the previous year.

[18] The claim ratio is the ratio of claims over premium collected

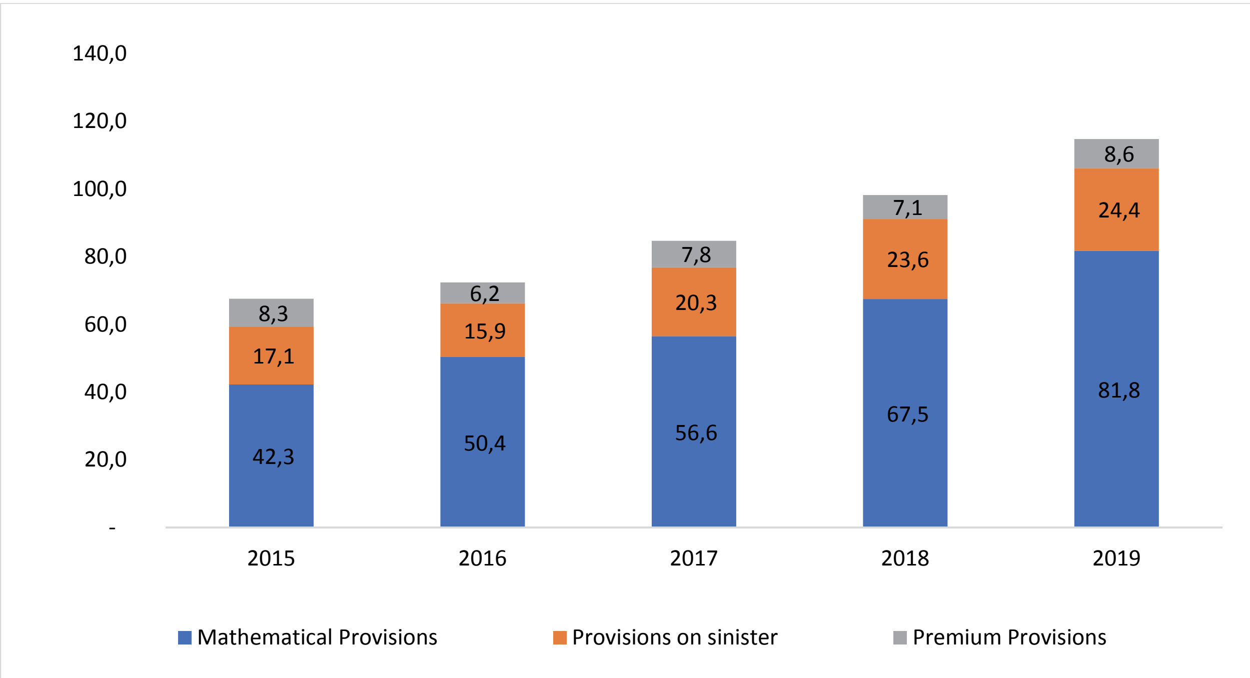
Figure 21: Claims per sector (Bn BIF)



Source: *ARCA*

The technical provisions have increased by 16.9% year on year, from 98.3 billion BIF at the end of 2018 to 114.8 billion BIF at the end of 2019, in relation to the growth in mathematical provisions (21.2%) and provisions for premiums (21.1%).

Figure 22: Technical provisions for Insurance (Bn BIF)



Source *: ARCA*

2.4.2.3. Insurance Sector Profitability

For 2019 fiscal year, the sector's net income amounted to 5,474.7 MBIF compared with 3,804.8 MBIF at the end of 2018, with return on assets (ROA) and return on equity (ROE) increasing respectively from 1.9 to 2.5% and from 5.5 to 7.9% in relation to the increase of the sector's income.

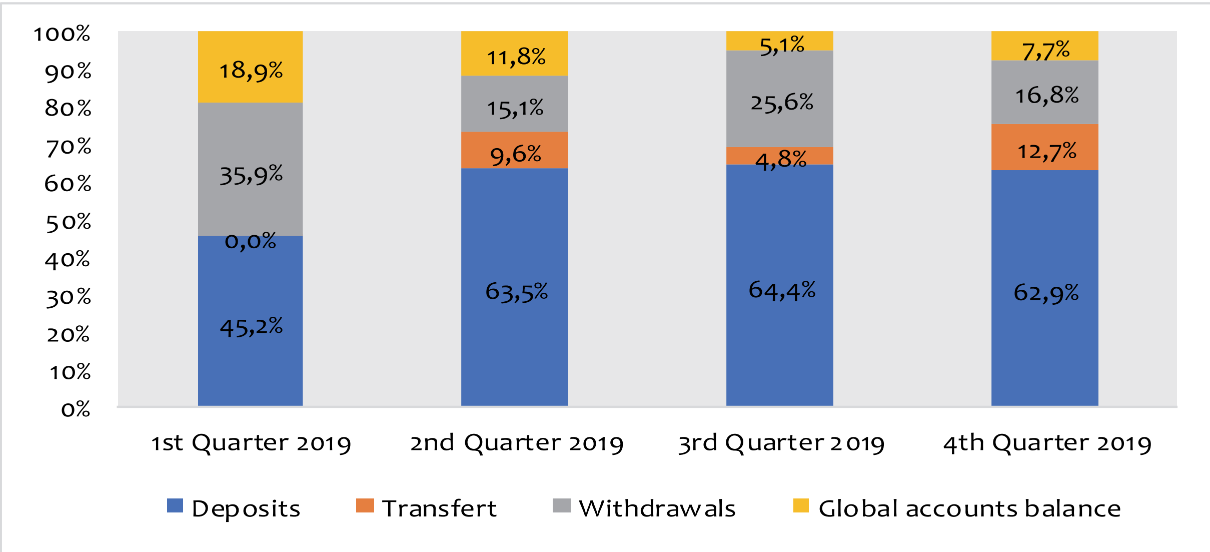
2.5. Digital financial services

The Regulation N°001/2017 on payment services and the activities of payment institutions sets the rules for the licensing of payment institutions and the conduct and supervision of their activities by the BRB.

2.5.1. Evolution of transactions in digital financial services

By the end of 2019, five commercial banks, three payment institutions and 29 commercial agents were providing digital financial services for the electonic money.

Figure 23: Transactions carried out by commercial banks

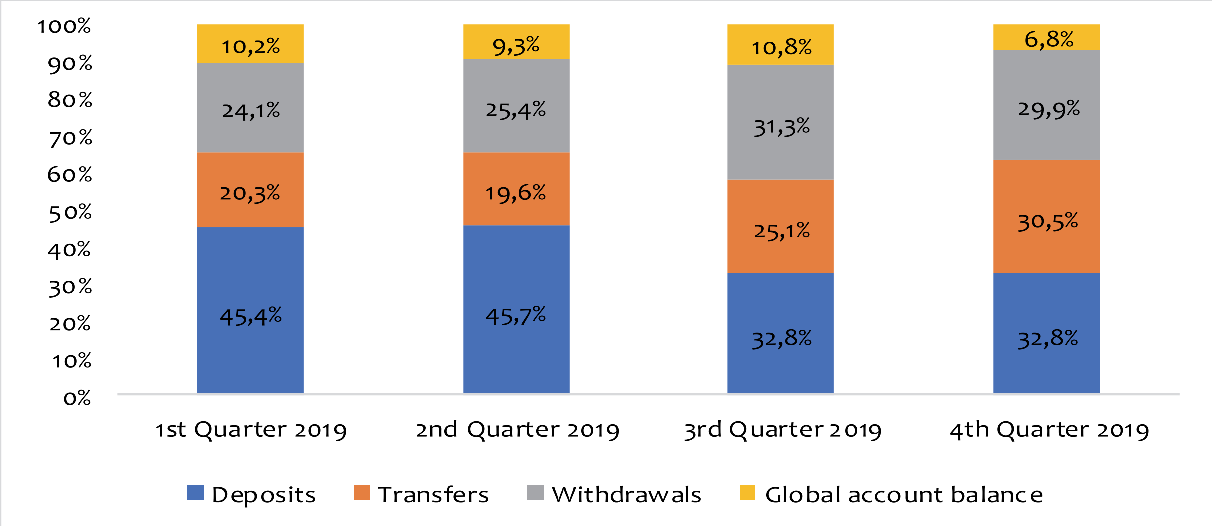


***Source :** BRB*

The e-money deposits have increased during the year 2019 from an average of 1,487 to 7,821 MBIF from the first quarter to the fourth quarter due to higher deposits in 2 commercial banks where they grew by 58% in Q3 compared to Q2 2019.

Furthermore, the global account balance “Trust account” experienced an increase in Q2 2019, averaging 1,205 MBIF compared to 629 MBIF in Q1 2019 before becoming stable in Q3 and Q4. It should be noted that almost the entire global account balance is almost all recorded by a single bank operating in electronic money, which implies a concentration risk.

Figure 24: Evolution of the payment institutions transactions

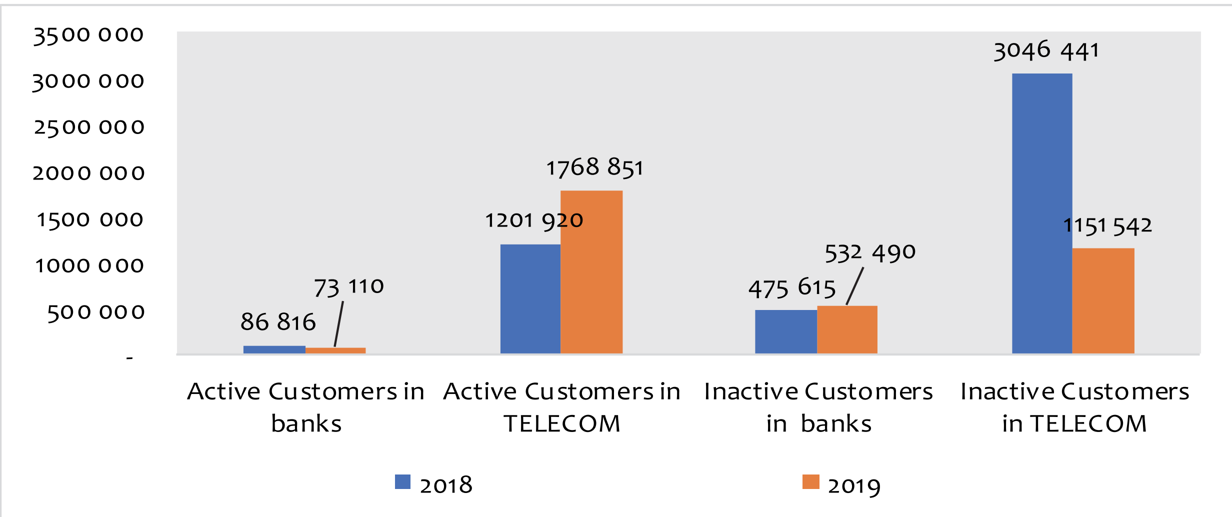


Source: *BRB*

E-money transactions are significantly higher in 2019. There is an increase in deposits in Q3 2019 compared to the previous two quarters. On the other hand, the decrease in deposits is noticed in Q4 2019 settling at 57, 778 MBIF compared to 98, 651 MBIF in the second quarter. The increase in deposits leads at the same time to an increase in both withdrawals and transfers.

This increase in deposits reflects the need to strengthen the regulatory framework of digital financial services in order to control the risks associated with them. Concentration risk is high, since 87.1% of deposits are held by a single company.

Figure 25: Digital financial services accounts trends



Source *: BRB*

The number of inactive customers of payment institutions decreased significantly by 62.0% in 2019 due to the removal of many accounts that remained inactive during 2019. On the other hand, those of commercial banks remained stable compared to the same period in 2018. It is the same for active customers.

On the other hand, active customers in payment institutions of electronic money increased by 47.1%, due in particular to the effective licensing of a third payment institution.

2.5.2. Risks related to digital financial services

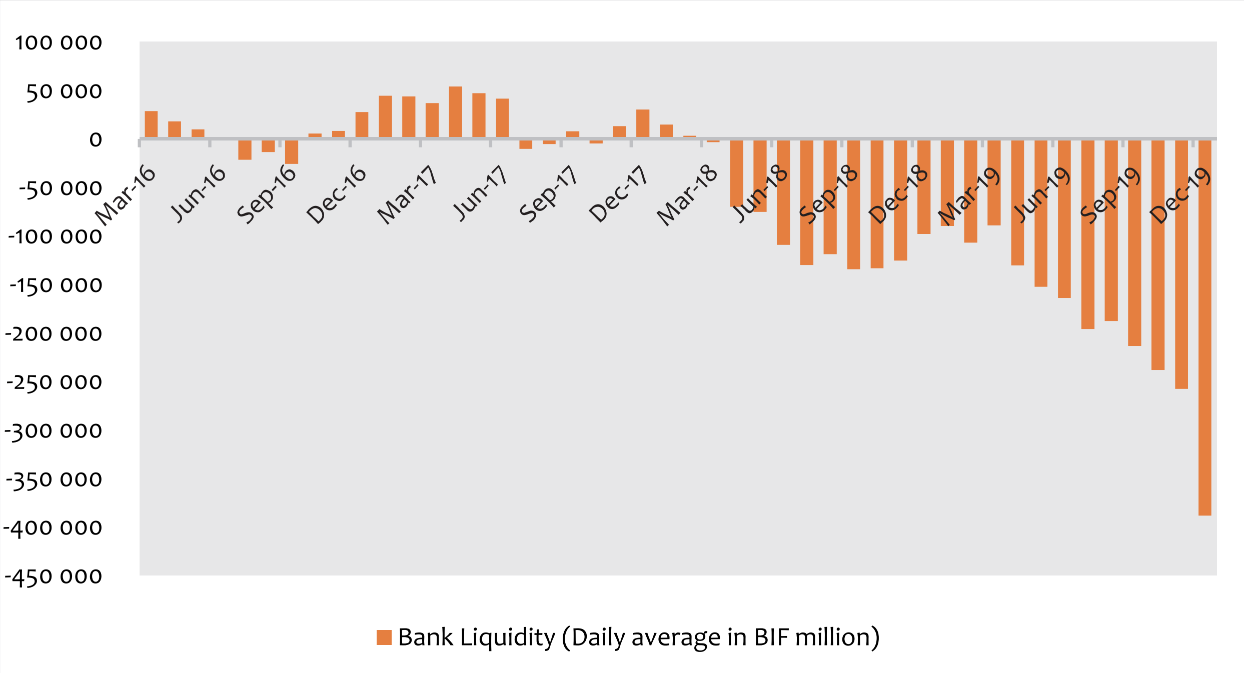
Failures related to internet connection are a major risk for digital financial services operators. Another risk resides in the speculation of principal agents who carry out deposit and withdrawal transactions with their secondary agents in order to benefit from commissions. In order to mitigate this risk, payment institutions try to track such speculative agents.

3

CHAPTER 3: MONEY MARKET AND MARKET INFRASTRUCTURE

In comparison with the end of 2018, the bank liquidity (without BRB intervention) decreased at the end of 2019 from -98,026 to -388,179 MBIF on a daily average basis.

Figure 26: Bank Liquidity[19] (Daily average in MBIF)



***Source**: BRB*

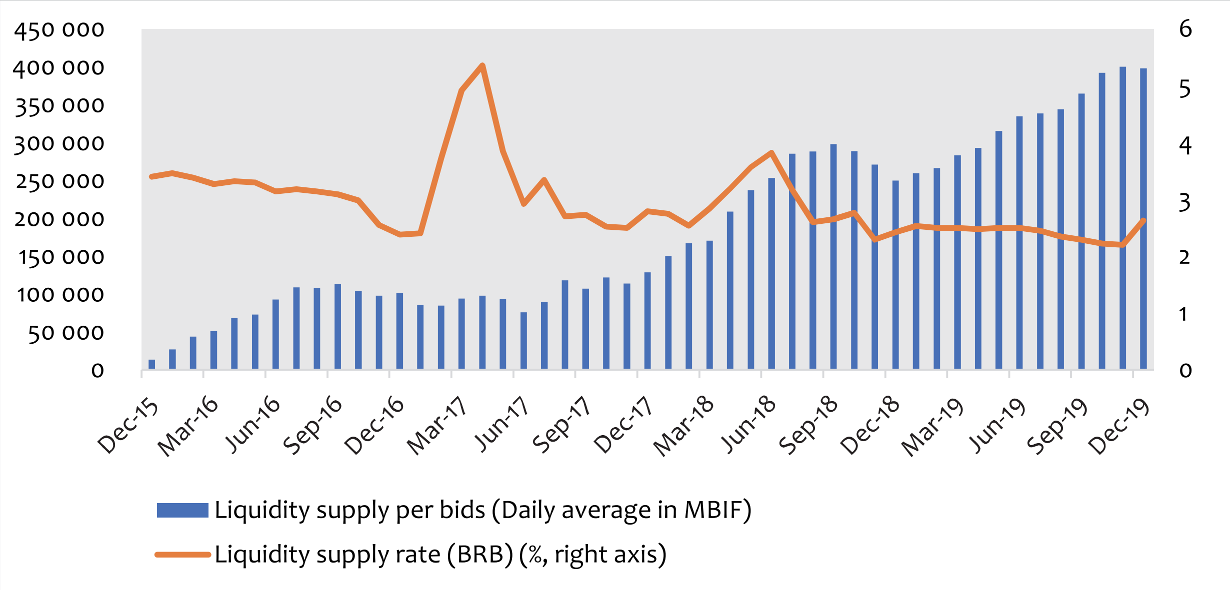
3.1. Money Market

3.1.1. BRB liquidity supply

As part of the implementation of monetary policy, the Central Bank carried out liquidity supply operations by means of a bidding process. The amount of liquidity supplies per bid increased to reach 398,013 MBIF at the end of 2019 compared to 249,966 MBIF at the end of 2018. Despite the increase in the amount of liquidity supply in order to conduct an accommodating monetary policy in the face of the economy's financing needs, the liquidity supply rate increased slightly to 2.63% at the end of 2019 against 2.48% at the end of 2018, an increase of 0.15 pp.

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

Figure 27: BRB liquidity supply per bid



Source: *BRB*

3.1.2. Government securities market

During 2019, the Central Bank continued to allocate, on behalf of the Government, the Treasury bonds resulting from the securitization of the Government's arrears to its suppliers. Treasury bonds equivalent to 75,210 MBIF were allocated during this period. The increase in Government financing through the market and the purchase of bonds resulting from securitization led to an increase in the portfolio of Treasury securities (Treasury bills and bonds) held by banks. The outstanding amount rose from 886.1 to 1,319.6 billion of BIF from the end of 2018 to the end of 2019, i.e. an increase of 32.8%. The share of Treasury securities held by the banking sector as a percentage of GDP is 21.0 compared to 14.0% at end-2018. With the aim of broadening the investor base in Treasury securities and enabling the government to finance itself through the money market, the Central Bank continued to license commercial banks that so desire as Specialists in Treasury Securities (SVTs) in order to foster the secondary market for Treasury securities. Nine (9) out of ten (10) commercial banks were SVTs at end of 2019, while they were two (2) banks at end of 2018.

Also, the number of individuals and insurance companies dealing in Treasury securities increased from 5 to 84, from 4 to 10, respectively, from one year to the other. The amount invested by individuals increased from 1,220 MBIF in 2018 to 14,823.5 MBIF in 2019, and the amount invested by insurance companies increased from 169,440 MBIF in 2018 to 188,715 MBIF in 2019.

The secondary market for Treasury securities has also allowed buyers of Treasury bonds resulting from the securitization of government arrears to have liquidity and to continue their economic activities by selling these securities on this market. Secondary market transactions in Treasury securities are carried out, in an automated manner, by the market infrastructure: the Central Securities Depository (CSD).

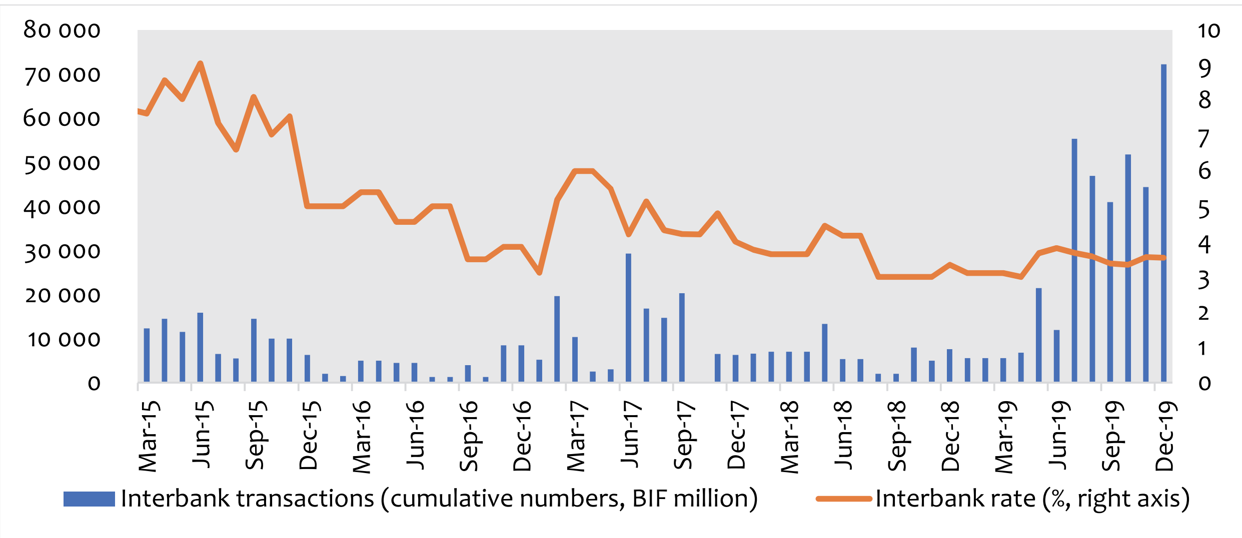
Figure 28: Outstanding government securities held by the banking sector (in MBIF)

Source: BRB

3.1.3. Interbank market

During 2019, the interbank market was dynamic, with the volume of liquidity exchanges through interbank operations increasing from 7,600 to 72,205 MBIF year-on-year. Over the same period, the interbank interest rate increased slightly, standing at 3.5% at end of 2019 compared to 3.3% at end of 2018.

Figure 29: Interbank money market transactions

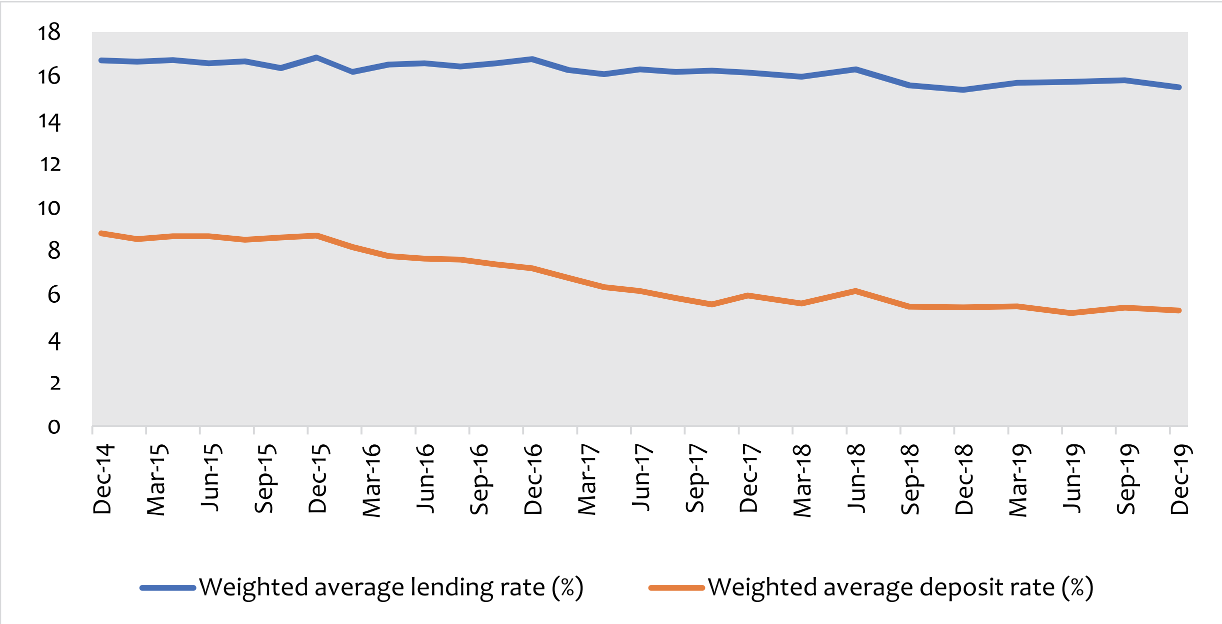


Source: *BRB*

3.1.4. Interest rates on loans and deposits

For the year 2019, the average interest rate on loans provided by credit institutions decreased by 0.70 pp. to 15.49% compared to 16.19% for the same period in 2018. This decrease is observed over two consecutive years. Interest rates on deposits also fell by 0.14 pp. to 5.28% at the end of 2019 compared to 5.42% at the end of 2018.

Figure 30: Average lending and deposit Rates



***Source**: BRB*

3.2 Market infrastructure: Payment and settlement systems

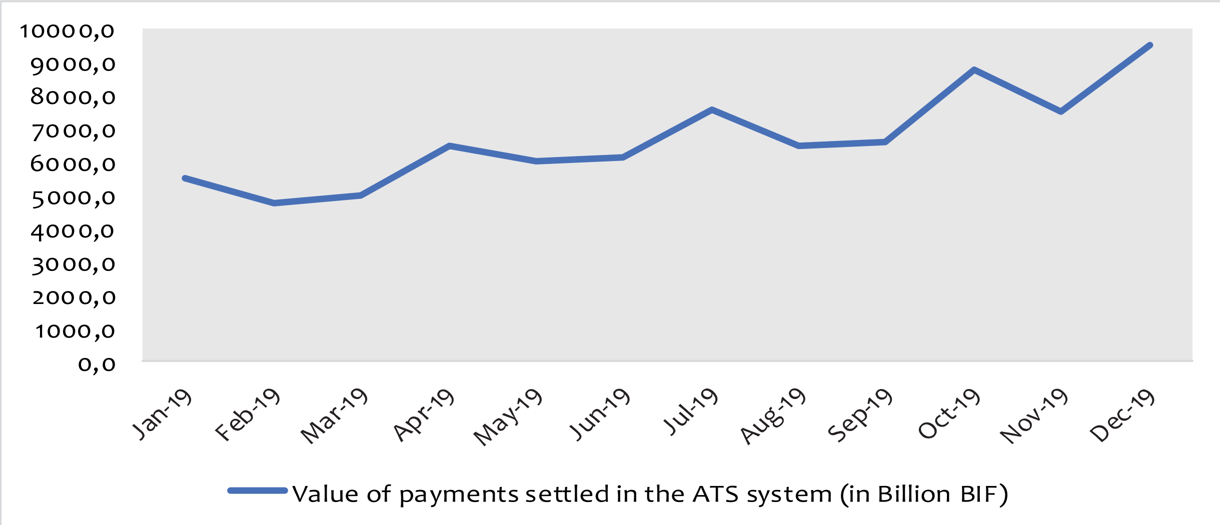
During 2019, the Central Bank continued to exploit the payment and securities settlement systems put into production in February 2017. The Law n°01/07 of May 11, 2018 on the National Payment System ensures a high level of protection for payment systems, payment instruments and means of payment and their users. The BRB has maintained discussions with the banking sector for the implementation of participation agreements to ensure the smooth operation of payment and settlement systems in order to better securing them in compliance with international standards and best practices in this domain.

3.2.1. Payment and settlement systems

The integration of payment systems with the information systems of the commercial banks and the "Régie Nationale des Postes" (RNP) has been completed and has enabled the automation of all interbank payment transactions with the exception of checks.

For the latter, the Central Bank continued to encourage commercial banks and the RNP to speed up and finalize the implementation of Automated Transfer System (ATS) mechanisms, and in this respect, the automated processing tests have significantly progressed.

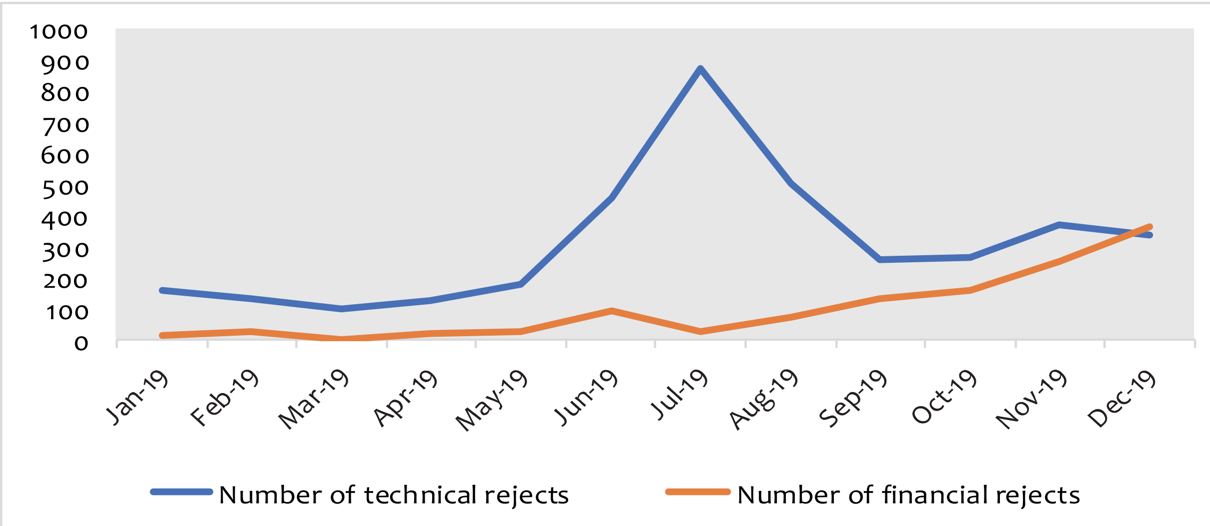
Figure 31: Value of payments settled in the ATS System (in Bn of BIF)



Source: *BRB*

The value of payments made in the ATS system increased during 2019 from 5,000 billion to 9,000 billion BIF from January to December. This variation reflects the performance of the payment system.

Figure 32: Technical and financial rejects



Source: *BRB*

Technical rejects are due to the fact that the information input into the ATS system is erroneous or insufficient with respect to the requirements of the system. Technical

rejects may also result from technical system or network failures, while financial rejects are due to an insufficient amount of the transaction.
Technical rejects remained stable during the first quarter of 2019. A peak was recorded in July 2019, due to connection failures.

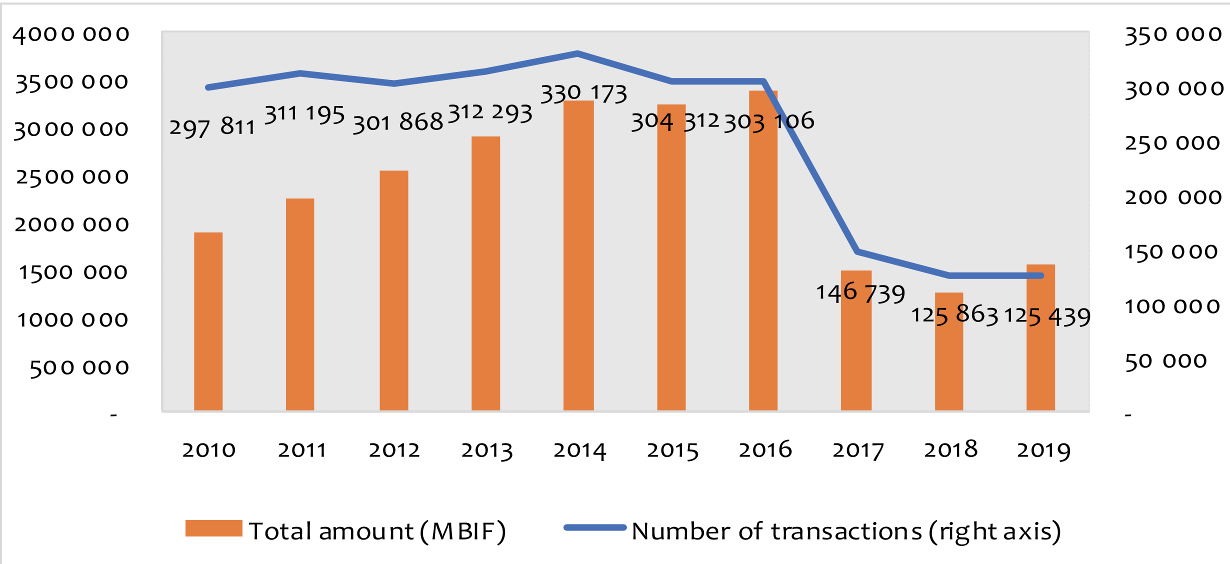
On the other hand, financial rejects are less important than technical rejects, although an increase in financial rejects can be observed from the 2nd quarter of 2019. Despite this increase in rejects, the payment system remained stable.

3.2.2. Clearing house activities

At the end of 2019, the number of transactions (checks and transfer orders) processed manually in the clearing house decreased by 0.3% compared to 2018. They fell from 125,863 to 125,439 transactions between the end of 2018 and the end of 2019.

On the other hand, the overall value of these transactions also increased by 24.1%, from 1,253.9 to 1,555.9 billion BIF from end 2018 to end 2019.

Figure 33: Clearing house transactions



Source: *BRB*

The efficiency of the ACH infrastructure is maintained through the intraday credits and overnight facilities granted by the Central Bank to banks, and avoiding payment cessation and blockages in order to ensure the smooth functioning of the payments system.

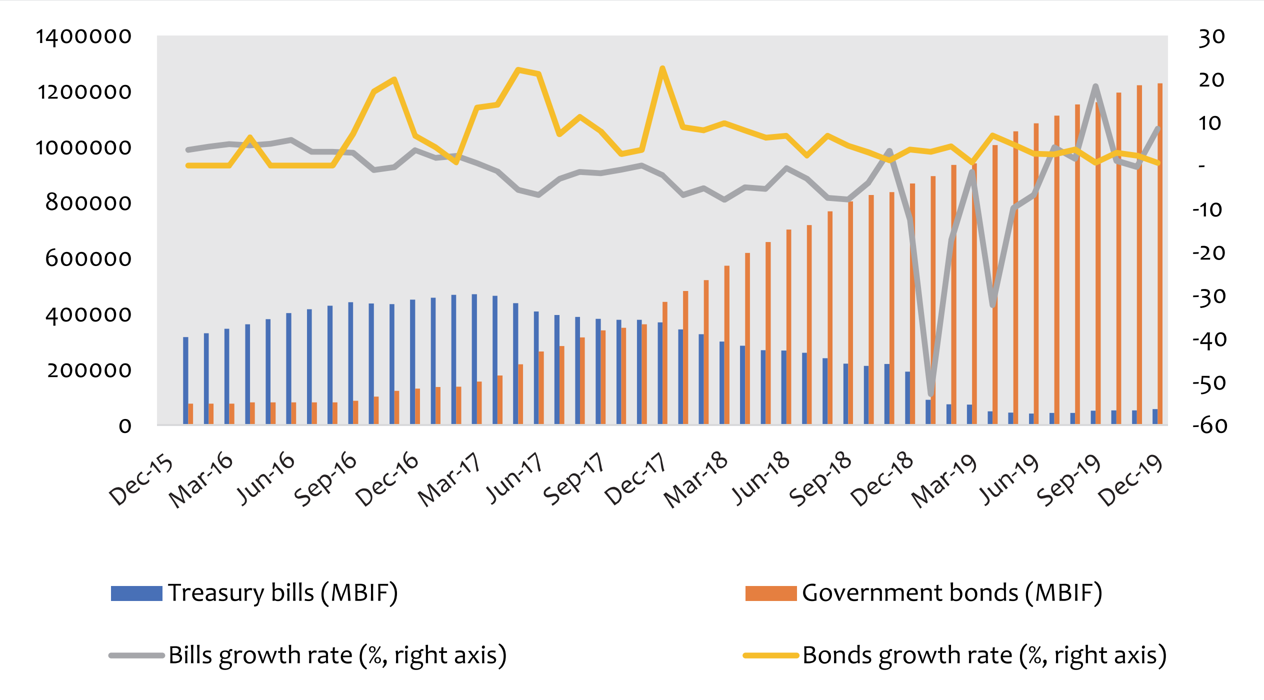
In 2019, this infrastructure functioned without any malfunctioning, allowing all bank operations to unwind without any risk, and thus preserving risk for the entire financial sector.

3.2.3. Securities settlement-delivery system

For the proper functioning of the primary and secondary markets for government securities (Treasury bills and government bonds), the BRB provides the central functions for the smooth operation of transactions on these markets through the Central Securities Depository (CSD). Thus, the BRB holds the securities registered in the CSD and manages the settlement/delivery system for all transactions carried out on the securities. The performance and reliability of this system is the fundamental basis for the smooth 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 volume of government securities processed in the CSD stood at BIF 1,540.4 billion at end 2019 compared to BIF 1,111.5 billion at the end of 2018, an increase of 38.6%. The rate of growth of securities traded through the CSD in government bonds was more pronounced than that of Treasury bills, with a positive growth rate of 59.2% and a negative growth rate of 58.4% respectively.

Figure 34: Evolution of Government securities traded via the CSD



Source: *BRB*

3.3. Currency circulation

To fulfil its mission of issuing banknotes and coins and ensuring the quality of money in circulation, the Central Bank made new banknotes in all densities available to the public in response to the needs expressed by the Burundian economy.

In 2019, the Central Bank issued an improved range of 500, 2,000, 5,000, and 10,000 banknotes, whose durability and security have been enhanced by the adoption of long-lasting fiduciary paper. This change is part of the BRB's missions to ensure the stability of the national currency.

Regarding currency circulation, banknotes in circulation increased by 18.5% in 2019 compared to 2018, from 348,843.4 to 413,438.3MBIF. On the other hand, coins increased slightly by 0.9%, from 1,364.2 in 2018 to 1,376.6MBIF in 2019.

Box 3 : Projects related to the modernization of payment systems

As part of the regional integration of payment systems, the Bank finalized the SWIFT connectivity component to effectively integrate the Real-Time Gross Settlement system (RTGS) with regional systems of EAC (EAPS-East African Payment System) and COMESA (REPSS-Regional Electronic Payment and Settlement System). The finalization of the tests should ensure effective and operational integration with the EAC's EAPS and COMESA's REPSS regional payment systems.

Also, within the framework of the Project for the Integration of Payment Systems in the East African Community, the process of setting up a Payment Incident Center (PIC) is in the procurement stage.

The Bank has also undertaken, in collaboration with the EAC Secretariat, the work for the implementation of the interface of its securities processing and settlement system (CSD) with the regional capital market infrastructure. Once this interface is finalized, the regional infrastructure will serve as the technical platform for Burundi's Securities Exchange system.

In collaboration with commercial banks and the National Post Office, the Bank continued to finalize the implementation of the interbank electronic banking system that integrates card, cell phone, and Internet payments. The integration tests were successfully completed. The user tests were also successfully completed, paving the way for the system to go into production in the near future. A BI-SWITCH company, created at the end of 2018 by the commercial banks, the National Post Office and the BRB to manage the new Interbank Electronic Banking System, started its activities in 2019, waiting for the system to go into production for its operational use.

4

CHAPTER 4: EVOLUTION OF THE LEGAL AND REGULATORY FRAMEWORKS

The Burundian financial system is constantly evolving in terms of general activity as well as regulation. In fact, in order to comply with the various convergence requirements established in the different economic zones to which Burundi belongs, financial sector regulators spare no effort to improve regulation. This chapter presents the changes made by the financial sector in terms of regulation in its various components.

4.1. Banking sector regulation

In 2019, the Central Bank continued to adapt its regulatory framework to the Law n°1/17 of August 22nd, 2017 governing banking activities. Three circulars were issued, namely: the circular n° 24/2019 on the disclosure of financial information by credit institutions, the circular n° 25/2019 n° 19/2019 on the tariff grid for services provided by the Central Bank in the area of supervision of credit institutions and representative offices established in Burundi, and the circular on the sanctions matrix.

The Regulation n°001/2019 on the protection of consumers of financial products and services was also enacted.

The existence of this regulatory framework is a fundamental asset for increasing access, use, and quality of financial products and services and, therefore contributes to improve the public confidence in supplying of financial sector services.

The Central Bank has also developed a methodology for rating credit institutions using the SEPREC model (System for the Evaluation of the Risk Profile of Credit Institutions), established in accordance with international standards and the principles of risk-based supervision. This rating model will enable an assessment to be made of each credit institution with regard to the various risks to which it is exposed.

4.2. Microfinance sector regulation and forex bureaus

For the microfinance sector, Circular N° 11/M/19 relating to the matrix of sanctions applicable to Microfinance Institutions, umbrella structures and Financial Entities has been issued pursuant to Regulation N° 001/2018 relating to microfinance activities.

As for the supervision of forex bureaus, the Foreign Exchange Regulation was revised and a circular n°1/RC/19 relating to the margin to be applied by forex bureaus in their operations and the protection of the profession was issued.

4.3. Payment institutions regulation

In 2019, the BRB continued its daily activities of permanent monitoring of the activities of payment institutions. Within this framework, four (4) new institutions were licensed, bringing the number of institutions providing digital financial services to eight (8). Among these new institutions, there is one (1) electronic money payment institution, three (3) institutions providing funds transfer services. In addition, license was granted to two (2) microfinance institutions to offer digital financial services.

Within the same year, the BRB joined the process of strengthening the existing regulatory framework by issuing Circular n°01/EP/2019 relating to the matrix of sanctions applicable to Payment Institutions under Regulation n°001/2017 relating to payment services and activities of Payment Institutions and Regulation n°002/2017 relating to the activities of commercial agents in banking and payment services operations.

4.4. Capital market regulation

In 2019, the BRB elaborated the pre-draft law governing the Burundi Capital Markets Regulatory Authority, which was submitted to the appropriate authorities for adoption and promulgation.

4.5. Insurance Companies regulation

Regulation in 2019 concerned the licensing decisions of brokerage firms and insurance companies.

4.5.1. Decisions concerning the licensing of brokerage companies

In 2019, the insurance industry continued to work towards strengthening the sector's regulatory framework. Thus, decisions and other regulatory documents were put in place by ARCA with the aim of complying with the provisions of the Insurance Code in Burundi dating from 2014.

Indeed, ARCA has issued 5 decisions on the licensing of brokerage companies in order to extend the proximity of insurance services to the population and to provide advice to insured persons wishing to subscribe to new contracts.

4.5.2. Other final insurance approval decisions

According to the Law N° 1/02 of January 7, 2014 on the Insurance Code in Burundi, all insurance companies must comply with the adoption of the separation of life and nonlife branches. Thus, in 2019, ARCA finalized the final approval agreement for a life insurance company. The decision to separate branches is in line with the aim of understanding the risks associated with each type of product, in order to define strategies for mitigating them. In addition to this decision, ARCA granted provisional approval to one insurance company, bringing the number of branches to 14.

OUTLOOK

During 2019, economic activity grew by 4.1% despite shocks related to the macroeconomic situation and challenges related to the vulnerabilities of Burundi's financial system. In addition, the results of the stress test showed that the banking sector remained resilient to credit and liquidity risks.

However, the projections for economic growth in 2020 remain pessimistic, due to disruptions in economic activity in a context of heightened restrictions and measures implemented to counter the spread of COVID-19 that have affected certain sectors of activity such as trade, hotels and tourism and would have resulted in revenue losses.

Nevertheless, for the year 2020 the financial system would remain resilient despite these uncertainties, and for a few reasons.

Firstly, since the end of 2019, the Central Bank has implemented monetary policy measures aimed at financing projects in growth-generating sectors to boost the Burundian economy.

These facilities will not only alleviate the drying up of banks' liquidity in the short term, but also boost output in the long and medium term.

Second, the new government's flagship policies are already raising hopes, particularly in terms of the fight against corruption and economic malpractice, the resumption of international cooperation in terms of bilateral aid and debt write-offs by technical and financial partners. These policies could help improve economic growth and debt indicators.

Finally, the BRB will continue to strengthen the macro-prudential supervision framework. To this end, it will first study the establishment of a deposit guarantee and resolution fund to give more confidence to small depositors.

Then, it will conduct a study aimed at activating the systemic risk buffer in order to further strengthen the soundness of systemically important banks, and finally, it will continue to cooperate with stakeholders in the financial system to implement the project of establishing the National Financial Stability Committee.

APPENDICES

Appendix 1: EAC, Financial Soundness Indicators

Indicators	Country	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Capital/Risk Weighted Assets	Burundi	18.1	22.7	23.2	23.6	27,2
	Kenya	21.7	18.9	18.5	17.2	18.8
	Tanzania	18.9	19.1	19.7	14.2	17.9
	Uganda	21	19.8	23.2	18.7	21.8
	Rwanda	22.2	23.1	21.4	19.8	24.1
	South Soudan	N/A	N/A	N/A	13.9	11.6
Non-Performing Loans/Total loans	Burundi	17.9	14.7	14.7	9.0	5.7
	Kenya	6.0	11.7	10.6	12.0	12.0
	Tanzania	8.6	9.6	12.5	10.2	9,8
	Uganda	5.1	10.4	5.6	3.4	4,9
	Rwanda	6.2	7.1	7.6	5.0	9,8
	South Soudan	N/A	N/A	48.0	44.4	N/A
Return on Equity (ROE)	Burundi	11.5	8.5	16.5	20.6	32,6
	Kenya	23.8	24.8	20.8	22.5	21.23
	Tanzania	13	8.9	6.9	5.9	8.1
	Uganda	16	8.3	16.4	14.4	16.7
	Rwanda	11.8	9.1	6.3	11.7	
	South Soudan	30.7	21.6	16	24.8	NA
Return on Assets (ROA)	Burundi	1.9	1.3	2.2	2.4	3,7
	Kenya	2.9	3.1	2.7	2.7	2.5
	Tanzania	2.7	2.1	1.7	1.5	1.9
	Uganda	2.6	1.3	2.7	2.5	2.9
	Rwanda	2.9	2.5	2.1	3	
	South Soudan	3.4	2.3	2.3	3.4	NA

Appendix 2: Burundi banking sector's Financial Soundness Indicators

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CAPITAL ADEQUACY												
Core Capital (tier 1)	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
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
ASSET QUALITY												
NPLs Ratio	22.6	11.3	9.0	6.9	7.7	9.4	11.1	16.9	12.1	14.7	8.9	5.7
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
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
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
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
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
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
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
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
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
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
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
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
Average deposit rate	8.1	7.6	7.3	7.6	8.8	9.0	8.80	8.70	7.21	5,96	5.42	5.3
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
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
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
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
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	165465.9
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
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
Loans in foreign currency / Core capital Tier I	4.0	1.0	3.0	2.0	-	1.0	1.0	2.0	10.0	7.6	19.3	20.5
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	41.7
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

Appendix 3: GDP per branch (reference year 2005, in Bn BIF)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
- 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
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
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
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

Source: *MFBPE, Cadrage macroéconomique, March 2020*

Appendix 4: Key macroeconomic indicators

	2015	2016	2017	2018	2019
GROSS DOMESTIC PRODUCT AND PRICES					
Real GDP Growth (in %)	-0.4	3.2	3.8	4.2	4.1
Inflation Rate (annual average)	5.5	5.6	16.1	-2.6	-0.7
EXTERNAL SECTOR					
Exports, f.o.b. (in millions of dollar)	120.8	124.7	172.6	180.2	179.5
Imports, CIF (in millions of dollar)	721.4	616.2	756.0	793.5	871.0
Volume of exports (in tons)	85,758	84,614	93,125	103,218	102,721.0
Volume of imports (in tons)	632,337	708,203	822,514	976 694	1,143,866.0
Current Account Balance (in millions of dollar)	-373.2	-339.7	-360.0	-361.8	-349.0
Exchange Rate BIF/USD (period average)	1,571.9	1,654.6	1,729.1	1,782.9	1,845.6
Exchange Rate BIF/USD (end of period)	1,617.1	1,688.6	1,766.7	1,808.3	1,881.6
Gross Foreign Reserves (in millions of USD, end of period)	136.4	95.4	102.2	70.3	113.4
Gross Foreign Reserves(in months of imports of the following year)	2.0	1.5	1.7	1.0	1.5
MONETARY SECTOR					
Net Foreign Assets (MBIF)	-75,870.1	-176,523.1	-154,400.0	-203,201.0	-206,340.3
Domestic Loans (MBIF)	1,410,604.3	1,767,122.4	2,004,966.2	2,369,485.6	2,830,022.4
Net Claims on the Government	687,259.5	905,857.4	1,112,214.4	1,337,534.0	1,621,458.5
Loans to private sector	723,344.8	861,265.0	892,941.6	1,038,614.2	1,208,563.9
Money supply (M3)	1,060,791.0	1,187,101.8	1,499,512.9	1,797,468.9	2,205,255.2
Money supply (M2)	923,271.7	1,093,131.8	1,340,926.6	1,325,958.7	2,017,166.9
Money velocity (GDP/M2, end of period)	4.8	4.4	4.3	4.4	3.1
Monetary base (Gross Rate)	-8.6	29.2	39.0	-3.3	23.6
Liquidity supply interest rate (in%)	3.4	3.1	2.8	2.9	2.7
Overnight facility rate (in %)	9.8	8.6	7.1	5.8	5.4
Average Deposit Rates (in %)	8.7	7.7	6.0	5.6	5.3
Rate on Treasury bonds of 5 years and over	-	-	14.3	12.3	12.3
Average lending rate (in %)	16.9	16.5	16.2	15.9	15.7
PUBLIC FINANCE					
Revenue and grants (in % of GDP)	16.7	15.6	15.7	18.0	19.7
Expenses (in % of GDP)	24.7	21.5	20.0	22.6	24.0
Primary Balance (in % of GDP, basis accruals)	-6.0	-2.3	-1.4	-0.9	1.4
Overall fiscal balance (in % of GDP, basis accruals)					
- Grants excluded	-11.8	-8.4	-6.8	-8.2	-8.2
- Grants included	-8.0	-5.9	-4.3	-4.5	-4.3
Domestic Debts (MBIF)	1,070,572.8	1,376,307.8	1,647,896.9	1,937,821.9	2,314,985.5
External Debts (in MUSD, end of period)	427	429.1	440.5	451.1	502.3
External debts service ratio (in % of exports)	3.9	4.2	5.1	3.4	5.7
External Debts (in % of GDP)	15.6	14.9	13.6	14.0	15.2
For memory					
GDP at Market Price (in Bn BIF)	4,417.9	4,848.2	5,702.1	5,816.7	6,254.8

Source: *MFBPE, Cadrage macroéconomique, March 2020*

Appendix 5: Compliance to EAC convergence criteria

	2011	2012	2013	2014	2015	2016	2017	2018	2019
1. Annual Inflation rate (ceiling= 8%)	9.6	18.2	8.0	4.4	5.5	5.6	16.1	-2.6	-0,7
2. Budgetary Deficit Grants included in% of GDP (ceiling = 3%)	3.0	3.6	2.9	4.1	8.0	6.0	4.6	4.4	4,3
3. Public Debt in % of GDP (ceiling = 50%)	33.7	34.1	31.8	31.0	39.8	43.5	41.9	43.4	52,1
4. Foreign Exchange Reserves in Months of Imports (min= 4,5 months)	4.0	4.0	4.2	4.1	2.0	1.5	1.7	1.0	1,5

Source: *BRB*

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