BANK OF THE REPUBLIC OF BURUNDI

MONETARY POLICY COMMITTEE

Bujumbura, May 15, 2014

Monetary policy statement: second quarter 2014

The monetary policy Committee has just held its second regular meeting for the year 2014 in which he analyzed developments in the national and international conditions of the 1st quarter 2014 as well as the macroeconomic outlook for the rest of the year.

The Committee noted the following:

Global economic activity which has globally strengthened in 2013 continued in the first quarter of 2014 mainly due to the economic recovery in developed countries. It could accelerate slightly to reach 3.6 p.c. in 2014 against 3.0 p.c. in 2013. The recovery of economic activity also applies to emerging and developing countries.

The Outlook for the rest of 2014 shows an improvement in growth in advanced countries with the exception of Japan. This relief would be driven by the strengthening of the U.S. economy and the euro zone following the reduction of the fiscal tightening and the accommodative monetary policies implemented by their central banks.

In emerging and developing economies, the growth would be linked to the improvement in the global economy, rising domestic demand and, especially, to the revival of economic activity in the advanced economies.

Regarding to inflation, macroeconomic forecasts worldwide show a downward trend related to the decline in commodity prices, particularly oil and food products.

Overall, an acceleration of economic growth would be recorded in 2014 in the countries of the East African Community (EAC).In all countries of the East African community, the inflation rate declined in conjunction with good agricultural production, lower prices of imported commodities and prudent monetary policies implemented by the central banks of the EAC.

In Burundi, the GDP growth rate of 5, 3p.c. in 2014 would be driven by the increased production of primary and secondary sectors while the tertiary sector only a deceleration. In an environment of both global and regional low inflation, inflation in Burundi could further slow in 2014 to reach 6.6 p.c.

In public finance, revenue and grants for the first quarter of 2014 decreased while public spending increased, thereby generating a deficit that was mainly financed by domestic debt, much of which is formed by overdraft from the Central Bank. This underperformance is explained in large part by the review of the tax law including the tax credit, exemptions and lower tax rate on income.

With regard to the external sector, the balance of payments remains marked by a in the current account deficit linked to the deterioration of the trade balance and lower current transfers. This imbalance would increase in 2014 despite the increase of exports due to a more abundant coffee campaign in 2014.

The exchange rate has remained stable during the first quarter of 2014 through the BRB interventions in the interbank foreign exchange market.

On the money market, bank liquidity significantly increased during the first quarter of 2014 with the consequent decrease in refinancing of banks by the Central Bank as well as a decline in market interest rates.

The monetary base has exceeded the target set under the economic and financial program by 6.9 p.c. in the 1st quarter of 2014. This overflow is linked to the progression of net foreign assets which widely registered an increase over the target, net domestic assets value rather settled below the ceiling.

The soundness and stability financial indicators generally improved over the previous year. Banks remained sufficiently capitalized and credits to the economy increased slightly. However, a slight deterioration in the portfolio of the banks was observed over the same period of the previous year.

Given these recent developments and the global, regional and national economic Outlook, which show an improvement in economic growth and a slowdown in inflation in 2014, the BRB will closely follow the evolution of the inflationary factors so as to take necessary measures in the areas of its competency constantly adapting monetary policy to economic conditions.

In this regard:

1. The BRB will ensure compliance with the ceiling for advances to the State within the limits of 4.2 per cent of tax revenues of 2013, with aims to reduce it to zero by 2016;

2. The BRB intends to expand the range of the monetary policy instruments to increase the effectiveness of interest rates and stimulate the financing of medium and long term investments;

3. The BRB will continue to intervene on the interbank foreign exchange market to smooth out volatility of the exchange rates, while maintaining an adequate level of official reserves covering at least 4.5 months of imports of goods and services corresponding to the convergence criterion of EAC, and the floor level of Nets foreign assets in the economic and financial program;

4. The BRB will continue to intervene in money market to regulate bank liquidity to contain the growth of the monetary base within the economic and financial program;

5. The BRB will also remain vigilant to changes in economic conditions to take appropriate measures to ensure the stability of prices and the financial system.

The Chairman of the monetary policy Committee

Jean CIZA

Governor