BANK OF THE REPUBLIC OF BURUNDI

MONETARY POLICY COMMITTEE REPORT

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Content

ANALYTIQUE EXECUTIVE SUMMARY

The year 2012 was generally characterized by a slowdown in global growth. The rate of global GDP growth stood at 3.1 against 3.9% in 2011. However, the performance of the global economy during the year 2012 remained mixed.

The countries of the euro zone sank into recession with a growth rate of 0.6% against 1.5% in 2011. The decline in growth is due to the lingering effects of the crisis of sovereign debt. The U.S. economy, meanwhile, is gradually emerging from the crisis in 2012 and the good performances were mainly due to the recovery in private consumption and a revival in the housing market. The Japanese economy also experienced a remarkable increase compared to 2011. This improvement in economic activity is mainly due to support of aggregate demand during the first half of the year through spending on reconstruction following the earthquake that struck the country. In emerging and developing countries, the growth rate declined in 2012, falling to 4.9 from 6.2% in 2011. Economic activity contracted significantly in all emerging economies (Brazil, Russia, India, China and South Africa). In Brazil, the growth rate stood at 0.9% against 2.7 in 20 11. Russia recorded a rate of 3.4% while it has reached 4.3% in 2011. India has experienced a decline in growth rate; it stood at 3.2% while the economy had experienced a rate of 6.3% in 2011. The growth slowed in China to 7.8% against 9.3% the previous year. Regarding South Africa, she also saw a slowdown in economic activity in 2012, with a growth rate of 2.5% against 3.5% achieved in 2011.

During the first half of 2013, there has been a recovery in economic activity in most developed economies. The outlook for the remainder of the year 2013 shows a rebound in activity in the developed countries. Despite this recovery, the euro area is still hampered by the effects of the crisis of sovereign debt.

With these mixed performance in the world's economies, it is expected a growth rate of 3.1%, similar to that recorded in 2012.

In developed countries, the recession in most countries of the Euro zone continues with a decrease in growth of 0.6%. In the U.S., growth will also slow down to a rate of

1.7%, despite the efforts of the Federal Reserve Bank to support economic activity. In Japan, it is expected a slight improvement in growth with a rate of 2.0% due to policies supporting domestic demand and the expected increase in net exports.

For all emerging and developing economies, it is expected an acceleration of economic growth with a rate of 5.0%. This growth will be mainly driven by the performance of the Chinese economy with a rate of 7.8%, of the Indian economy with a projected rate of 5.6%, the Brazilian economy with a rate of 2.5% and Sub-Saharan Africa with a rate of 5.1%.

As the East African community, the economic growth was mixed in 2012. She is decelerated in Burundi, Rwanda and Uganda while it accelerated in Tanzania and Kenya. Forecasts for the year 2013, it is expected a growth rate of 4.5% in Burundi, 7.5% for Rwanda, 4.8% in Uganda, 6.8% for Tanzania and 5. 8% in Kenya.

For inflation, most countries of the East African Community have experienced a surge in prices in 2012. However, compared to the last quarter of 2012, the inflation rate declined in the first quarter of 2013, except in Kenya. This trend continued in the second quarter. The average inflation rate stood at 8.4% in Tanzania, 7.5% in Burundi, 4.4% in Kenya, 3.7% in Rwanda and 3.5% in Uganda.

However, the increase in the inflation rate was observed in the third quarter of 2013. In September 2013, the average inflation rate stood at 10.3% in Burundi, to 4.2% in Rwanda, 6.3% in Kenya, 6.2% in Uganda and 7.2% in Tanzania. This increase is partly due to rising prices of petroleum products from June in the OPEC countries, undermining expectations of a possible decline in the fourth quarter of 2013.

For the Burundian economy, the growth rate stood at 4.2% in 2012 as in the previous year.

The increase in the general level of prices was mainly caused by a lack of production facing strong demand, higher administered prices and the lack of the balance of payments.

During the first and second quarter 2013 inflation decreased significantly compared to the last quarter of the year 2012. Indeed, in the first quarter 2013, the average inflation rate stood at 7.6% and at 7.5% in the second quarter compared to 13.1% in *the fourth quarter of the previous year. This decline in the rate of inflation is largely due to the removal of taxes on some products of first necessity taken by the Government on May 15, 2012. However, the lifting of the exemption from taxes on certain foodstuffs from July 2013, the upward revision of some administered prices and the introduction of new taxes on certain imported products contained in the 2013 revised Budget Act may accelerate inflationary pressures for the fourth quarter of 2013. In September, inflation was 12.1% against 10.4% in August.*

Persistent deficit in the balance of payments has created pressure on foreign exchange reserves, causing the depreciation of the national currency.

Through the efforts of revenue mobilization by the Burundi Revenue Authority, the budget deficit is reduced in 2012. This revenue mobilization has led the state not to use advances from the Central Bank during the first nine months of 2013.

At the level of monetary sector, the year 2012 was characterized by a lack of liquidity. To cope with this situation, the Bank intensified refinancing operations; specifically to finance the coffee campaign that was more abundant than in 2011. During the first half of 2013, liquidity has improved, resulting in limited use of resources of the Central Bank. This improvement in liquidity has resulted in lower rates on the liquidity and the marginal lending.

Under the conduct of monetary policy in 2013, the Central Bank continued to use indirect monetary policy instruments consist of reserve requirements, tendering liquidity and marginal lending.

On the foreign exchange market, the BRB has taken measures to develop the interbank market and stabilize the exchange rate. These measures focused on :

1. *The establishment of the Interbank Currency Market (MID) ;*
2. *The fixing of a fluctuation margin in the exchange rate of ± 1% around the reference rate on the purchase and sale transactions of commercial banks and exchange offices ;*
3. *Liberalization of the foreign currency accounts of residents (deposits and withdrawals unlimited amounts).*

As part of the implementation of monetary and exchange rate policies, the Central Bank will take the following actions for the fourth quarter of 2013:

1. *continue to regulate bank liquidity operations through tender liquidity;*
2. *maintain the reserves requirement ratio to 3%;*
3. *keep the rate of the marginal lending indexed to the weighted average rate on the 13-week Treasury Bills plus 3 points percentage*
4. *ensure compliance with the ceiling on advances to state ;*
5. *Further determination of exchange rates by market mechanisms and encourage the development of foreign exchange market.*

1. OBJECTIVES AND TASKS OF THE BANK OF THE REPUBLIC OF BURUNDI

Under Article 6 of Law No. 1/34 of 2 December 2008 on the Statute of the Bank of the Republic of Burundi, the Central Bank's main objective is to ensure price stability and, and without prejudice to the achievement of the previous objective to contribute to the stability of the financial system.

To achieve these two objectives above and contribute to implementing economic policies conducive to macroeconomic stability and the harmonious development of the country, article 7 of the same Act gives the Bank the following missions:

1. Define and implement the monetary policy;
2. Define and implement the exchange rate regime;
3. Hold and manage the official foreign reserves;
4. Regulate and supervise banks, financial institutions and microfinance institutions;
5. Issuing of bank notes and coins;
6. Promote a stable and sound financial system;
7. Promote a reliable national payment, efficient and robust;
8. Act as cashier of the State;
9. Perform any other duties prescribed by law, and
10. Perform any task that any law would give the Central Bank subject to compatibility with its autonomy.

2. MONETARY POLICY FRAMEWORK OF THE BANK OF THE REPUBLIC OF BURUNDI

The monetary policy framework outlines the operational and intermediate goals as well as the instruments of monetary policy implemented by the BRB.

2.1. Monetary policy objectives of the BRB

The monetary policy framework of the Bank of the Republic of Burundi is characterized by the targeting of monetary aggregates and the use of indirect instruments to control money supply and ensure price stability. In the implementation of monetary policy, the BRB uses the monetary base as an operational target, assuming a stable linear relationship both between the monetary base and money supply M2, and between the M2 money supply and the general price level.

The M2 money supply is the intermediate target of monetary policy that allows achieving the ultimate goal of price stability. To act on the intermediate target M2, the Central Bank shall, within the framework of economic and financial program agreed with the International Monetary Fund and supported by the Extended Credit Facility, set the quantitative target for monetary base. The level of the monetary base set is controlled through the quantitative targets of net domestic and foreign assets using indirect instruments of monetary policy.

2.2. Monetary policy instruments of the BRB

2.2.1. Reserve requirements

It is a requirement for commercial banks to establish separately in their current accounts in BIF, in U.S. Dollars (USD) and Euros (EUR), opened in the books of the Bank of the Republic of Burundi, the required reserves in the form of unpaid deposits. Required reserves are used to control money creation by commercial banks.

They are calculated on the basis of deposits on current and saving accounts made in BIF and foreign currency by bank clients from their monthly accounting statements submitted to the Bank of the Republic of Burundi.

Reserve requirements on deposits in BI, U.S. Dollars (USD) and euros (EUR) are made in the same currencies. Reserve requirements on deposits denominated in other currencies are made in U.S. Dollars (USD).

The required reserve ratio, currently set at 3%, is determined by the Bank of the Republic of Burundi and communicated to banks through a circular letter.

The period of minimum reserve extends from the first to the last day of each month.

The amount of reserve requirements of each bank is the monthly average of daily credit balances in BIF, USD and EUR current accounts, opened in the books of the Bank of the Republic of Burundi. For holidays, the balance to be considered is that of the last working day. Average balances of these accounts must be at least equal to the respective amounts required reserves.

Liquidity tenders

The Central Bank monitors liquidity through operations of tenders for delivery and resumption of liquidity which it sets the duration (usually 7 days) and frequency. Tenders liquidity may be fixed or variable rate. In the case of fixed rate tenders, BRB announces the interest rate at which all banks present their bids. In variable rate bidding each bank indicates the amount it wishes to borrow or invest, as applicable, and the corresponding rates.

▪Liquidity- providing tenders

By calls for liquidity-providing, at a fixed rate or variable rate tender, the BRB grants temporary advances to banks.

When the tender is fixed rate, each bank is served for the full amount she asked as long as the sum of bids is less than or equal to the amount that the BRB is willing to provide. If the total of bids is greater than the amount set by the BRB, banks are paid in proportion to their respective claims on the basis of a percentage equal to the ratio between the amount awarded and the total amount tendered.

When the tender is at variable rates, bids are ranked in descending order of rates and are satisfied starting with those that are accompanied by higher interest rates until the total amount of cash to provide. If, at the lowest accepted interest rate, called marginal rate, the cumulative total bid exceeds the remaining amount to be provided, it is allocated pro rata among the bids according to the ratio of the remaining amount and the total bids at the marginal rate. Once the allocations, the BRB can apply the method of single rate auction or multiple rate method, as announced in the tender. In the first case, all selected banks are paid at the same rate, in principle, the marginal rate of the tender. In the second case, banks are paid to corresponding rates in each of their bids.

After opening of tenders and auctions, the BRB notify each bidder bank amounts allocated to it and the interest rate that will be counted. The total amount is credited to the current account on the date value specified in the tender. At redemption date announced in the tender, the current account of the relevant bank is charged the full amount awarded and interest.

- **Mop up liquidity tenders**

This instrument is to suggest the banks by way of tender, place within the Central Bank cash deposits paid for the time specified in the tender.

When the tender is fixed and if the sum of bids is less than or equal to the amount that the BRB has decided to withdraw, the offer of each bank is total. If the total of bids is greater than the amount set by the BRB, the respective offers are made pro rata on the basis of a percentage equal to the ratio between the amount awarded and the total amount offered.

When the tender is at variable rates, bids are ranked in order of increasing rate and are satisfied starting with those that are accompanied by the lowest interest rates until the total amount of cash to withdraw. If, at the highest interest rate chosen, called marginal rate, total bid exceeds the remaining amount to withdraw, it is allocated pro rata among the bids according to the ratio of the remaining amount and the total bids at the marginal rate.

Once the allocations, the BRB can apply either single rate auction method or the method to multiple rates (as it is announced in the invitation to tender. In the first case, all successful bids are taken at the same rate, in principle, the marginal rate of the tender. In the second case, the banks are paid at rates corresponding to each of their bids.

After opening of tenders and tender, the BRB notify each bidder bank amounts it can deposit and the interest rate that will be applied. The total amount is debited from the current account on the date value specified in the tender. At redemption date announced in the tender, the current account of the bank will be credited the full amount of the deposit plus interest.

- **Quick tenders**

At its own initiative, the BRB can lend or resume liquidity to banks by means of quick tenders which all the steps are performed on the same day. The duration of these operations is determined by the BRB. Participation in quick tenders may be limited to certain banks.

2.2.2. Marginal lending facility

BRB provides banks a permanent marginal lending rate at which they can use in their initiative to get cash overnight in money market interest rates (currently the weighted average interest rate on Treasuries to 13 weeks in the previous issue) plus a previously announced margin (currently three percentage points). This facility is granted, if at the end of the day, the current account balance from one bank to the debtor BRB is provided it has provided adequate security to the BRB.

The amount allocated under this facility is credited the same day informed of the bank account. The repayment of this amount and the interest payments occur on the next business day. If deemed necessary, the BRB may set limits to use this facility. These limits can be global or bank and focus on their loan amounts or the number of days of use per week.

In addition to these instruments, the BRB may exceptionally grant a loan to a bank or a financial institution in the framework of bilateral agreements.

3. OVERVIEW OF INTERNATIONAL AND EAST AFRICAN COMMUNITY

ECONOMIC ENVIRONMENT

3.1. International Economic Environment

According to the publication of the IMF in July 2013, the growth rate of world production fell in 2012 to stand at 3.1%, compared with 3.9% in 2011.

Table1. Evolution and prospects for economic growth

	2011	2012	Forecast for 2013
mondial Global GDP growth	**3.9**	**3.1**	**3.1**
Developed countries	1.7	1.2	1.2
United States	1.8	2.2	1.7
Euro zone	1.5	-0.6	-0.6
Japan	-0.6	1.9	2.0
Emerging and developing countries	**6.2**	**4.9**	**5.0**
Asia excluding China and India	6.1	6.1	5.9
China	9.3	7.8	7.8
India	6.3	3.2	5.6
Latin America and the Caribbean	**4.6**	**3.0**	**3.0**
Brazil	2.7	0.9	2.5

Sub-Saharan Africa	5.4	4.9	5.1
South Africa	3.5	2.5	2.0

Source : *IMF, World Economic Outlook, An update of the key WEO projections, July 2013*

In all developed countries, growth has decelerated in 2012, standing at 1.2% against 1.7% in 2011. In particular, the countries of the Eurozone experienced the recession and economic activity declined, with a growth rate of 0.6% against 1.5% in 2011. Germany has also been affected by the debt crisis in Europe and the growth rate declined, falling to 0.9%, compared with 3.1% in 2011.

Contrary to the decrease observed in the Eurozone, Japan performed well, the growth rate has improved and stood at 1.9% while it was 0.6% in 2011. Similarly, the United States recorded a growth rate of 2.2% in 2012 against 1.8% achieved in 2011.

As for emerging and developing economies, the rate of growth has also slowed down and is 4.9% against 6.2% in 2011. In 2012, the growth rate was 7.8% against 9.3% in China and 3.2% against 6.3% in India. Asia excluding China and India kept its dynamic economy with a growth rate of 6.1% mainly due to the expansion of exports of manufactured goods.

The countries of Latin America and the Caribbean have experienced deceleration in the rate of economic growth, reaching 3.0% against 4.6% in 2011. This slowdown in growth is mainly due to lower commodity prices on international markets. In Brazil, the economy recorded a growth rate of 0.9% in 2012 when it stood at 2.7% the previous year. Sub-Saharan Africa has experienced a slowdown in growth (4.9% against 5.4%) which is explained by the decline in commodity prices.

During the first half of 2013, the U.S. economy recorded a growth rate of 1.1% and 1.7% respectively in the first and second quarter. It is expected that the U.S. will experience a growth rate of 1.7% in 2013. This projected decline is largely explained by the fiscal contraction and poor performance in the international environment.

In the Eurozone, the economy is still constrained by the debt crisis with weak demand and the credit market. During the first quarter of 2013, the growth rate fell by 1.1% while it fell by 0.9% in the second quarter. It is expected a growth rate of -0.6% in 2013 due to the lingering effects of the crisis.

The Japanese economy recorded growth rates of 4.1% and 2.9% in the first and the second quarter of 2013 respectively. It is expected a growth rate of 2.0% in 2013 and recorded performances are mainly resulting from the rising private consumption and net exports following the implementation of an accommodative monetary policy, a stimulating fiscal policy and structural reforms conducive to the acceleration of economic growth.

In emerging and developing countries, growth is driven primarily by economic activity in developing countries in Asia with expected growth rate of 6.9% in 2013 thanks to strong performances by China and India.

During the first half of 2013, China's economy grew by 7.7 and 7.6% in the first and second quarter. It is expected an annual growth rate of 7.8% in 2013.

In India, the growth rate was 4.8% and 5.1% in the first and second quarter respectively. Projections show that economic activity will record a growth rate of 5.6% in 2013. The Outlook for the year 2013 shows that emerging and developing countries will experience a growth rate of 5.0% against 4.9% in 2012.

In emerging economies, this growth will be mainly influenced by the Chinese economy through the growth of exports and rising domestic demand, as well as the good performance expected in India (5.6 vs. 3.2%), in the Brazil (2.5 versus 0.9%).

However, at the time where growth continues in some developing Asian countries, it manifests a turbulence of financial markets partially caused by the slackening in policies of quantitative easing by the *Federal Reserve Bank*.

In sub-Saharan Africa, improved economic policies and investment levels have promoted the dynamics of economic activity despite lower commodity prices on international markets and the decline in external demand. The growth rate expected in 2013 is 5.1% thanks to the expected development in the field of infrastructure, services and industries.

3.2. Evolution of economic activity in the EAC countries

3.2.1. Economic growth

Compared to the year 2011, economic growth in 2012 has improved slightly to Kenya with a rate of 4.7 compared to 4.4% and Tanzania with a rate of 6.9 against 6.4 per cent. In Burundi, the growth rate in 2012 remained at 4.2% as in 2011. On the other hand, it has declined in Uganda and settled at 2.6 against 6.7% and in Rwanda with a rate of 7.7 against 8.3% in 2011.

Table 2 GDP growth in the EAC countries

	Growth rate of GDP in the EAC countries				
Year	Burundi	Rwanda	Uganda	Tanzania	Kenya
2007	4.8	5.5	8.6	7.1	7.0
2008	5.0	11.2	7.7	7.4	1.5
2009	3.5	4.1	7.0	6.0	2.7
2010	3.8	7.2	6.1	7.0	5.8
2011	4.2	8.3	6.7	6.4	4.4
2012	4.2	8.0	2.6	6.9	4.7
2013	4.5	7.5	4.8	6.8	5.8

Source : IMF, World Economic Outlook, April 2013

The outlook for 2013 announces an expansion of economic activity in most countries of the EAC. Despite their decline compared to 2012, Rwanda and Tanzania will experience the highest growth rates of 7.6 and 6.8% respectively in 2013. For Burundi and Kenya, it is expected growth rates of 4.5 and 4.9% respectively.

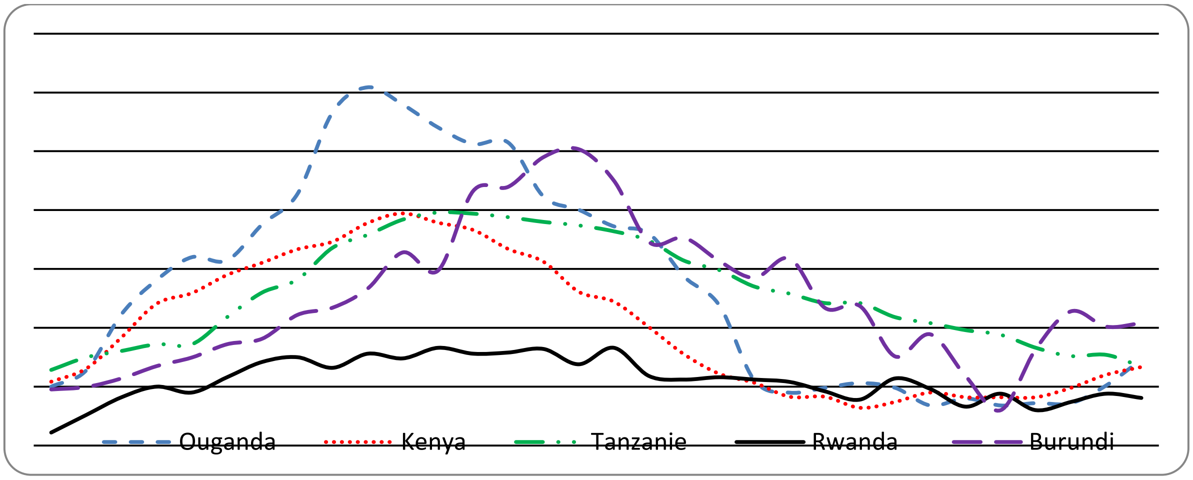
3.2.2. Evolution of inflation

Compared to the last quarter of 2012, the average inflation rate in the first quarter of 2013 decreased significantly for EAC countries except Kenya and Rwanda.

Indeed, during the first quarter of 2013, the average inflation rate fell from 13.1 to 7.6% in Burundi, from 4.9 to 4.1% in Uganda, 12.4 to 10.4 % in Tanzania, from

3.8 to 4.1% in Kenya whereas it stabilized at 4.6% in Rwanda.

Figure1. Evolution of inflation in the EAC countries



Source: EAC Central Banks web sites

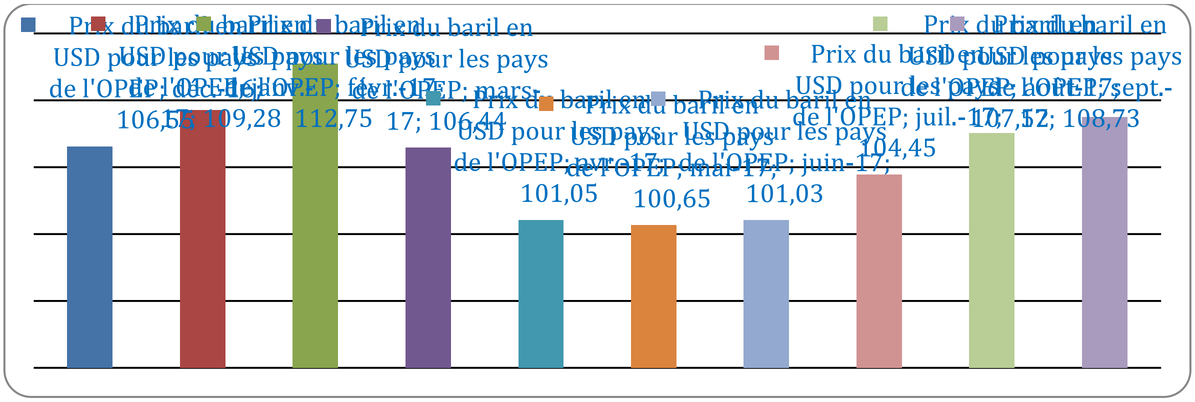
The downward trend observed in the first quarter has continued in the second quarter of 2013, with the exception of Kenya. The average inflation rate stood at 7.5% in Burundi, 3.7% in Rwanda, to 3.5% in Uganda, 4.4% in Kenya and 8.4% in Tanzania.

The decline in inflation observed during the second quarter is related to internal and external factors mainly monetary tightening, the good performance of the agricultural sector in most of the countries of the East African community and the decline in the prices of petroleum products on the international market.

However, the average inflation rate during the third quarter of 2013 increased compared to the second quarter, with the exception of Tanzania. Indeed, the average inflation rate in the third quarter was 4. 5% in Rwanda, 7.0% in Kenya, 6.8% in Uganda and in Tanzania.

This increase in the inflation rate would be consecutive to the evolution of oil prices at its main producers. Indeed, after a decline in prices between February and May 2013 for OPEC countries, the trend then reversed since June and continued until September

Figure 2 : Reference price for oil in OPEC countries (USD)



Source: **Site OPEC**

Expectations of a decline in inflation in the fourth quarter are likely to be compromised by the perturbations observed in the supply of petroleum products in the Middle East and expectations of increased U.S. demand that were at the origin of the evolution observed in the second quarter. In Burundi, this optimism would also be compromised by the revision of administered prices.

3.2.3. Changes in interest rates

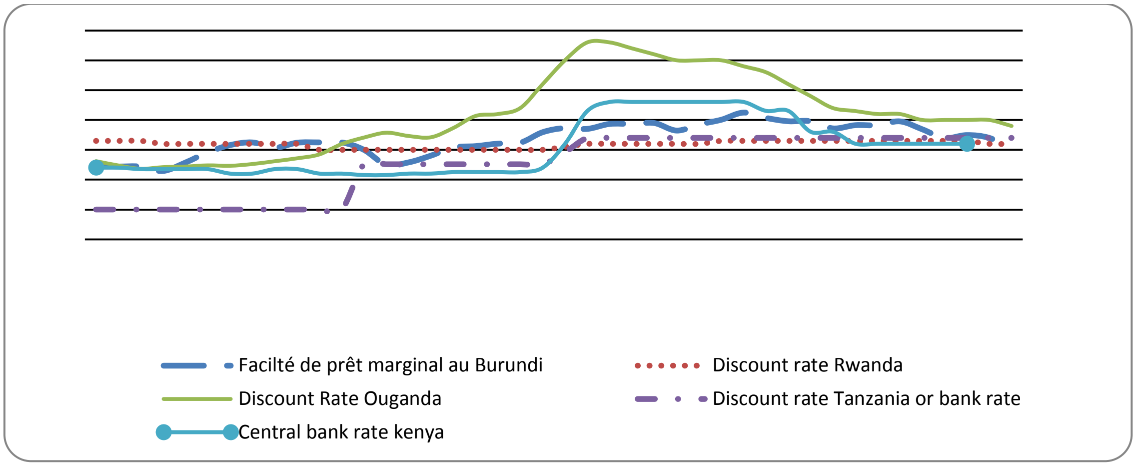
The tight monetary policy adopted by most central banks of the EAC which is evidenced by the increase in the refinancing rate has affected the rates charged by commercial banks.

a. Central Banks rates[1]

In the first quarter of 2013, the Central Bank of Burundi, Kenya and Uganda have slightly increased their intervention rate while these latter remained constant for Rwanda and Tanzania. This rate was averaged at 11.7 against 14.0% in Burundi, to 15.3 compared with 16.5% in Uganda to 11.0 compared to 11.7% in the Kenya. As regards Rwanda and Tanzania, these rates have remained at 11.5 and 12.0% respectively.

[1] For reasons of comparability of instruments, the levels considered are those used by central banks for refinancing operations on a daily basis. This is the rate on the marginal lending facility in Burundi, the discount rate for Uganda, Tanzania and Rwanda and the Central Bank Rate for Kenya.

Figure 3. Evolution of Central Banks rates for EAC countries



Source : Websites of Central Banks of the EAC

During the second quarter of 2013, the refinancing rate of the Central Banks declined slightly for all EAC countries except Kenya and Tanzania where they remained constant. he average refinancing rate stood at 11.5% in Burundi, 11, 2% in Rwanda, 14.7% in Uganda, 12, 0% in Tanzania and 11.0% in Kenya.

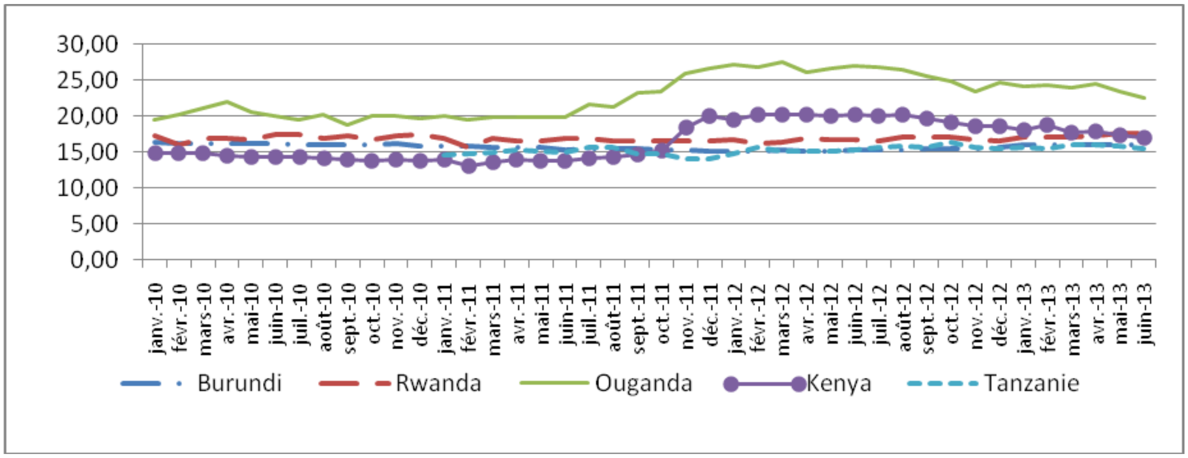
In Burundi, the outlook for the fourth quarter of 2013 show that the rate of the marginal lending facility will continue its downward trend due to the ease of liquidity of commercial banks.

b. commercial Banks interest rates

1. Lending interest rates

Compared to the last quarter of 2012, average lending rates declined slightly in the first quarter of 2013 with the exception of Burundi and Rwanda. Indeed the average lending rate stood at 24.2 against 24.4% in Uganda, 18.2 against 18.8% in Kenya and 15.7 against 15.9% in Tanzania when it was 16.0 compared with 15.6% in Burundi and 17.1 against 16.8% in Rwanda.

Figure4. Changes in lending rates in the EAC



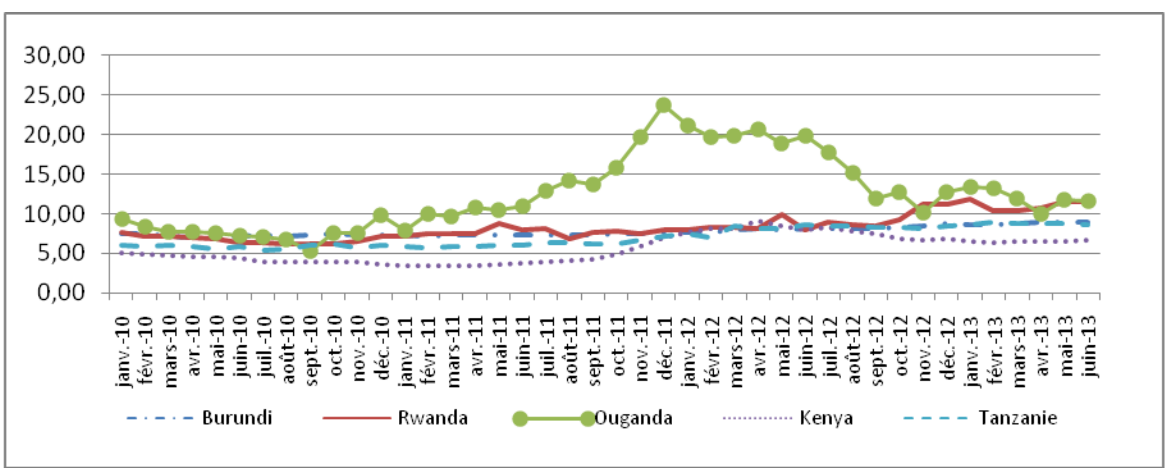
Source : websites EAC Central Banks

While the average debtor interest rates continued the uptrend in Burundi and Rwanda, they showed a slight decrease in Uganda, Tanzania and Kenya in the second quarter of 2013. End of June 2013, the average borrowing interest rates were 16.08% in Burundi, to 17.5% in Rwanda, to 22.6% in Uganda, to 16.9% in Kenya and 15, 5% in Tanzania.

b.2. deposit interest rates

Compared to the level of the first quarter of 2013, credit rates increased slightly during the second quarter for all of the countries of the East African community.

Figure5. Evolution of deposit rates



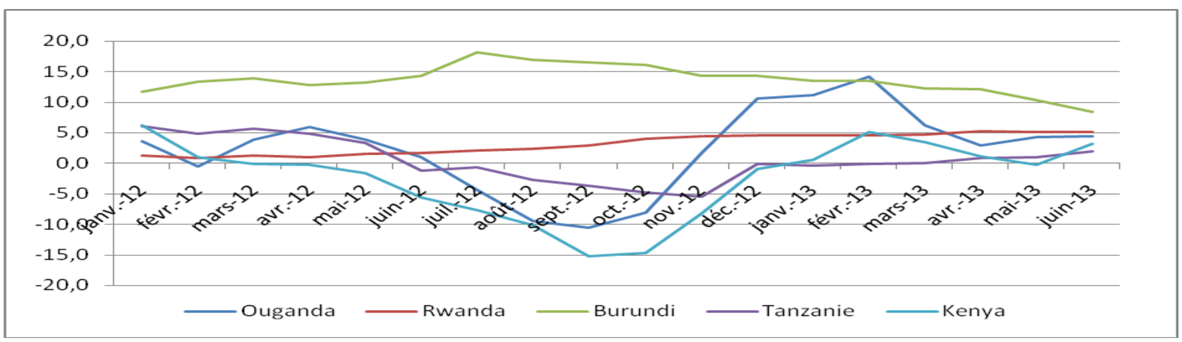
Source : websites EAC Central Banks

From March to late June 2013, the average deposit rate increased slightly from 8.86% 8.95% in Burundi, 10.35 to 10, 38% in Rwanda and 6.54 to 6.65% to Kenya. On the other hand, the average deposit rate declined slightly, falling from 11.87 to 11.57% and 8.79 to 8.65% respectively for Uganda and Tanzania.

3.2.4 Evolution of exchange rate

YOY, most of the countries of the East African Community currencies depreciated against the U.S. dollar during the first quarter of 2013 with the exception of the Tanzanian Shilling which appreciated by 0.20%. The Burundian currency depreciated by 13%, that of Rwanda by 4.7%, 3.1% for Kenya and that for Uganda by 10.5%.

Figure6. Rate of depreciation of EAC currencies against the U.S. dollar



Source : websites EAC Central Banks

During the second quarter of 2013, all the EAC currencies depreciated against the U.S. dollar. Year on year, the depreciation rate was 10.2% for the Franc Burundi, 5.2% for the Rwandan Franc, 3.8% for the Uganda Shilling, 1.4% for the Kenyan Shilling and 1.3% for the Tanzanian Shilling.

For the third quarter of 2013, the Burundian currency and the Ugandan Shilling appreciated by 0.8% and 0.3% respectively. On the other hand, the Kenyan Shilling depreciated by 2.3%, the Tanzanian Shilling by 0.5% and the Rwandan Franc by 1.8%.

Against the currencies of the East African Community, the Burundi Franc depreciated in the first quarter, but it appreciated in the second quarter of 2013.

Table n ° 3: Evolution of the exchange rate of the BIF against the currencies of the countries of the EAC.

Year	BIF/KES	BIF / TZS	BIF/UGS	BIF/RWF
-Jan-11	15,22	0.83	0.53	2.1
-Feb-11	15,16	0.82	0.53	2.08
Mar-11	14.7	0.82	0.52	2.09
Apr - 11	14.75	0.82	0.52	2.09
-May - 11	14.51	0.81	0.52	2.09
June-11	13.95	0.79	0.51	2.09
Jul-11	13.87	0.79	0.48	2.1
August-11	13.51	0.78	0.46	2.12
Sept-11	13.15	0.77	0.45	2.14
Oct - 11	12.7	0.75	0.46	2.16
Nov - 11	14.07	0.76	0.51	2.21
Dec - 11	15.57	0.84	0.55	2.26
Average	**14.26**	**0.80**	**0.50**	**2.13**
Jan-12	15.94	0.87	0.57	2.31
Feb-12	16,81	0.88	0.6	2.34
March-12	16.96	0.88	0.57	2.35
Apr - 12	16.77	0.88	0.58	2.34
May - 12	16.61	0.89	0.57	2.35
June-12	16.73	0.9	0.57	2.38
Jul-12	17.31	0.92	0.59	2.42
August-12	17,45	0.93	0.59	2.42
7-12	17.42	0.94	0.59	2.44
Oct - 12	17.46	0.94	0.58	2.42
Nov - 12	17.54	0.94	0.57	2.44
Dec - 12	17.78	0.96	0.57	2.49
Average	**17.6**	**0.9**	**0.6**	**2.5**
Jan-13	18.01	0.98	0.58	2.54
Feb-13	18.69	1.01	0.62	2.64
March-13	18.4	0.98	0.6	2.5
Apr - 13	18.54	0.96	0.61	2.47
May - 13	18.38	0.95	0.6	2.4
June-13	17.98	0.94	0.59	2.37
Jul-13	17.68	0.95	0,59399	2.37
August-13	17.59	0.95	0.596	2.38
Sept-13	17.59	0.95	0.60	2.35

Source: BRB

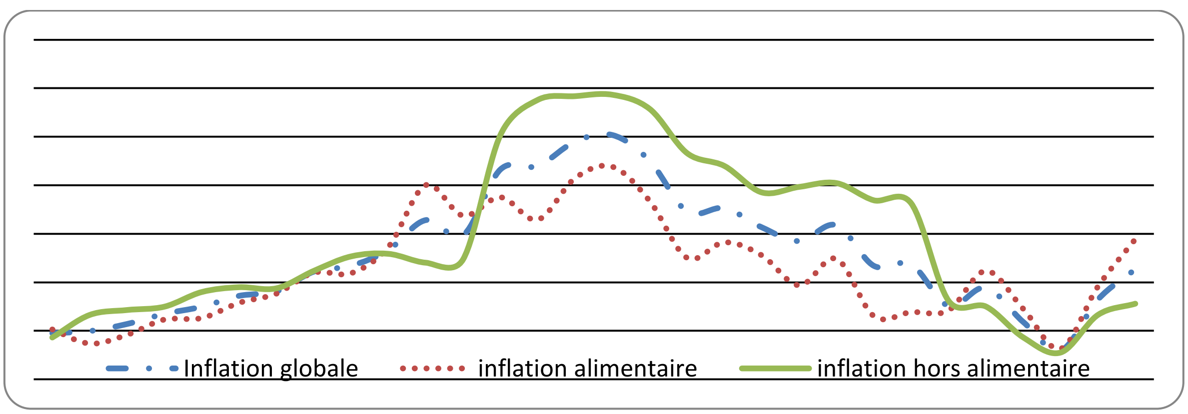
Compared to the last quarter of 2012, the average quarterly rate of depreciation of BIF was 4.6% compared to the Tanzanian Shilling, 4.4% compared to Kenyan

Shilling, 4.7% compared to the Ugandans Shilling and 4.5% compared to the Rwandan franc.

Compared to the first quarter of 2013, BIF has appreciated against all EAC currencies during the second quarter of 2013. Indeed, BIF has appreciated by 0.4% against the Kenyan Shilling, 4.0% compared to the Tanzanian Shilling, 0, 0 9% compared to Ugandan Shilling and 5.7% compared to the Rwandan Franc.

During the third quarter of 2013, BIF has appreciated by 3.7% against the Kenyan Shilling, by 0.002% to the Tanzanian Shilling, 0.6% to Ugandan Shilling and 2.0% from the Rwandan Franc.

Figure 7 : Evolution of the inflation rate YoY



Source: BRB

4. OVERVIEW OF THE FINANCIAL AND ECONOMIC SITUATION IN BURUNDI

The analysis of the national economic situation looks at the evolution of economic activity in the real sector, external sector, monetary sector and public finance.

4.1. Production and prices

In Burundi, the growth of GDP stabilized at 4.2% in 2012.

However, the observed inflationary pressures are eased in 2013. Indeed, the first quarter of 2013 has been characterized by a deceleration of inflation, whose rate stood at 5.9% at end March 2013 compared with 24.5%

observed in the same month of the year 2012. The annual inflation rate dropped significantly in the month of April 2013, at 3.0% compared with 25.2% in the same month the previous year.

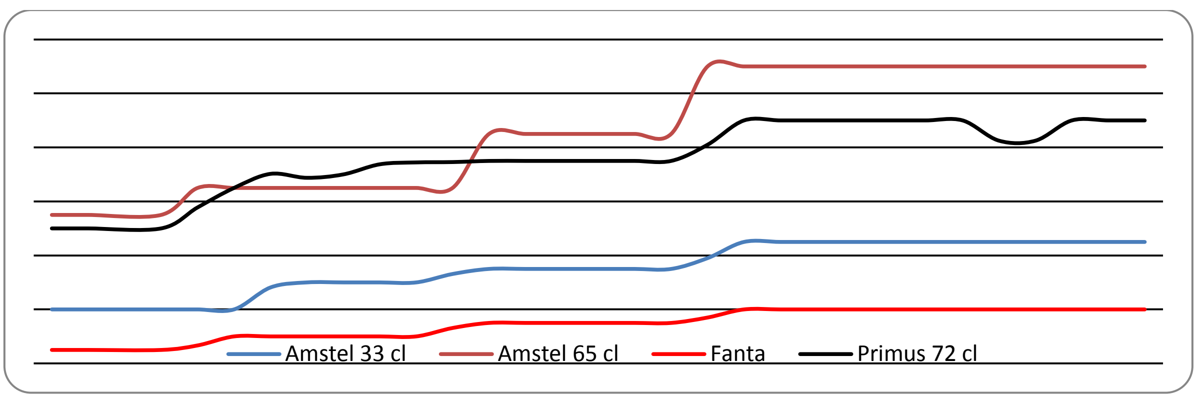
In general, the average inflation rate has declined significantly during the first half of 2013. The rate was 7.6% against 22.7% in the same quarter of 2012. This decrease was largely straight part to the removal of taxes on certain foods.

In addition, some production sectors have performed well during the first half of the year. Despite the decline in coffee production over the previous year, tea production grew by 9.0% in the first half of 2013 due to good rainfall conditions combined with the use of fertilizers.

Economic activity grew at the industry level in the first two quarters of 2013. The average industrial production index rose by 7.4% compared to the same period of 2011. This increase was mainly influenced by the food industry that grew by 8.75% and the industry of building materials with an increase of 28.3%.

However, economic activity in some sectors of the industry notably decreased including the chemical industry, the production of paints, the oxygen and plastic lockers.

Figure7: Evolution of prices of BRARUDI products (in BIF / bottle)



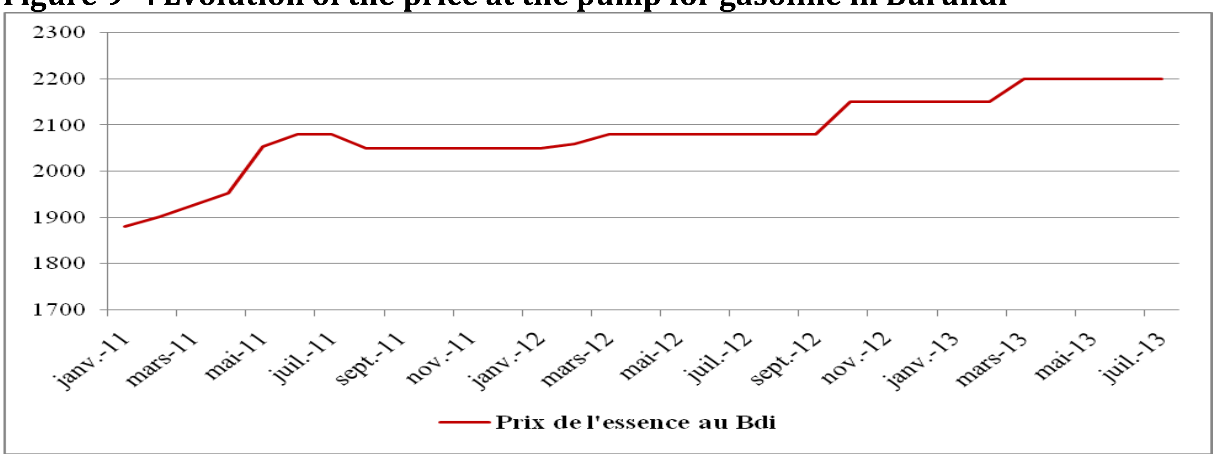
Source : ISTEEBU

Despite the strong growth of domestic production, factors have fueled persistence of inflationary pressures. In this case, the price level has been driven up the increase of the administered prices (products BRARUDI, water and electricity, petroleum products, etc.).

Since the end of May 2013, the average price of Amstel 65cl rose from 1500 to 1700 BIF, the lemonade was increased from 500 to 600 BIF while that of Primus went from 1150 to 1200 BIF, which influenced the rise in prices of certain other consumer products.

In addition, the increase in prices has also been fueled by reviewed upward in October 2012 and March 2013 of the price at the pump for gasoline and other petroleum products

Figure 9 : Evolution of the price at the pump for gasoline in Burundi

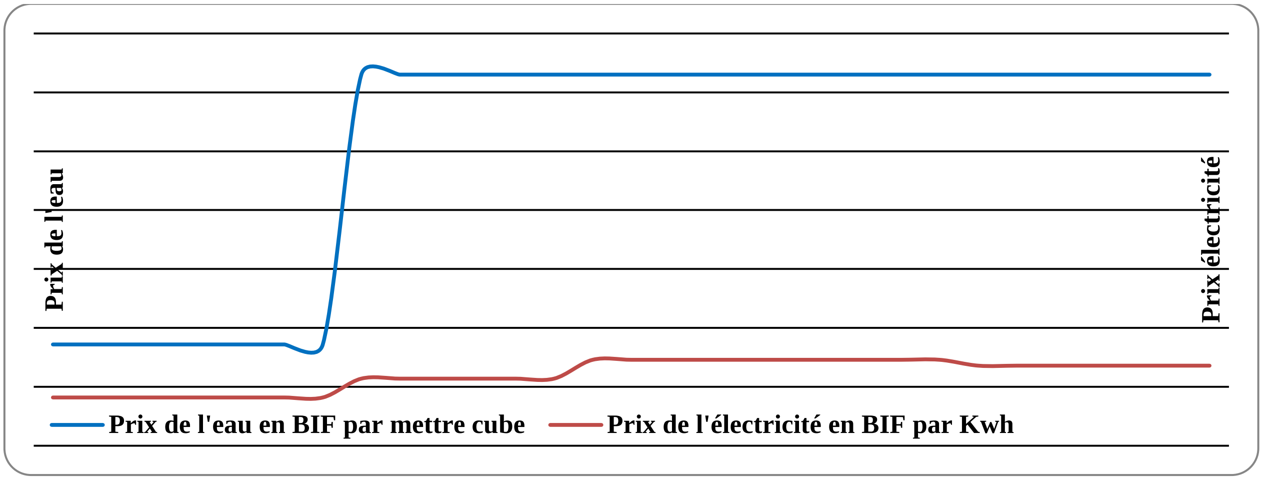


Source : ISTEEBU

The price at the pump has increased in the domestic market while he was down in the international market since the second half of 2012. This revision of the price at the pump has influenced the price level for the first and second quarter of 2013.

Similarly, higher rates of REGIDESO affected the overall level of prices through the housing, heating and electricity

Figure 10: **Evolution of the price of water and electricity**



Source: ISTEEBU

For the first slices of consumption, the price of water has risen from 86 to 315 BIF per m^3 while electricity tariff rose from 41 to 57 BIF per KWh in August to September 2011, and then 73 BIF per KWh in March 2012. This increase in rates by the REGISEDO contributed to the acceleration of the rate of inflation observed in 2012.

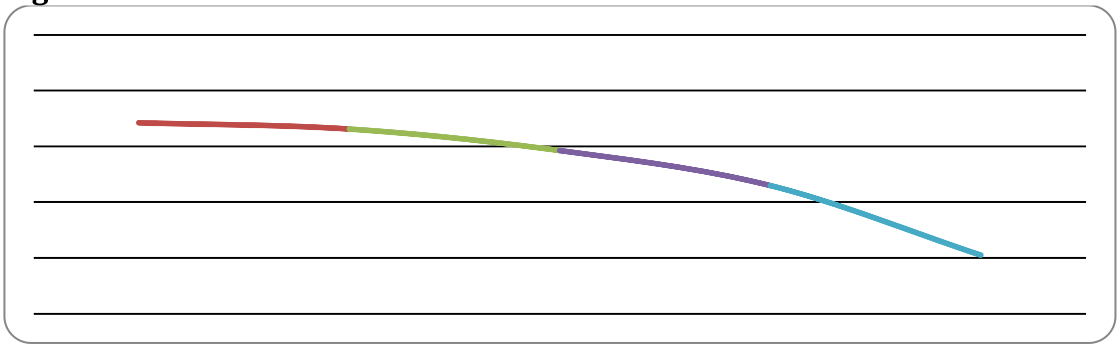
Regarding the outlook for fiscal year 2013, it is expected a real GDP growth of 4.5% registering slightly higher versus 4, 2% in 2012.

Inflation could increase for the fourth quarter of 2013 due to the recent revision of the Finance Act and the lifting of the exemption of basic necessities. According to projections, the average annual rate of inflation end of December 2013 could be around 10%.

4.2. Balance of payments and exchange rates

The current account of the balance of payments is still marked by a structural deficit due to the worsening of the trade balance deficit (-831.4 against - 540.3 BIF bn in 2011). The current account balance stood at -368.0 against -357.8 bn of BIF in 2011

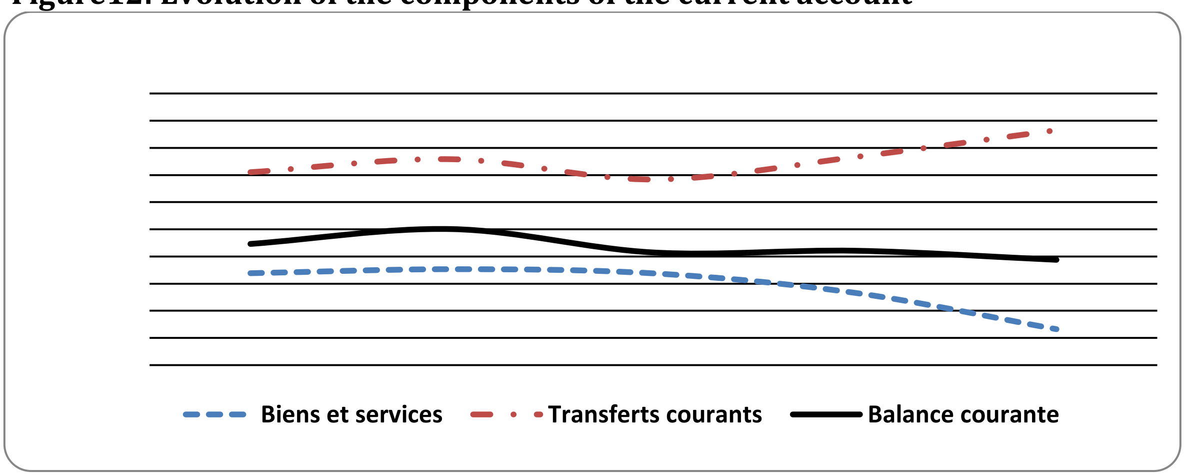
Figure 11 : Evolution of the trade balance



Source: BRB

With regard to external inputs, the balance of current transfers in 2012 improved significantly to stand at 644.1 bn of BIF against 332.3 bn of BIF recorded in 2011.

Figure12: Evolution of the components of the current account



Source : BRB

The increase in current transfer surplus is not yet able to fully finance the deficit of the trade balance of goods and the services. Furthermore, capital and financial transactions that would normally finance the current account deficit of the balance of payments is still very with regard to the magnitude of the latter.

Forecasts for 2013 show that trade balance would show a deficit of 649.1 bn BIF while the deficit of the current account could be at 586.1 bn BIF. Thus, the balance of the current account remains structural deficit and borrowing resulting exerts strong pressure on reserves and the exchange rate.

Similarly, in 2013, capital transfers would display a lower amount compared to that recorded in the year 2012 at 110.8 compared to 85.5 bn BIF respectively. Regarding the exchange rate policy, the national currency depreciated sharply in early 2013. The reference exchange rate reached a peak of 1717.55 BIF / USD on February 28, 2013 while it was 1546.05 on 31 December 2012. Regarding the foreign exchange market, the BRB has taken measures to develop the interbank market and to stabilize the exchange rate. These measures have focused on :

1. the establishment of the Interbank Currency Market (MID);
2. the setting of a fluctuation in the exchange rate of ± 1% around the reference rate on operations of purchase and sale of commercial banks and exchange offices;
3. Liberalization of the foreign currency accounts of residents (deposits and withdrawals unlimited amounts).

Thus, the exchange rate reference which was 1586.7 BIF / USD in February 2013 stood at 1537.6 BIF / USD at the end of June when the rate on the parallel market has returned from 1707.7 BIF/USD in February 2013 to 1548.8 BIF / USD at the end of June 2013.

4.3. Public Finance

The year 2012 was marked by a more pronounced budget deficit than in the previous year (-119.7 bn BIF against -90.1 bn BIF in 2011). At the end of March 2013, the overall balance of State has a surplus of 14.2 against 36.7 bn BIF the same period of 2012. For the second quarter, the balance of the General Treasury Account has an accumulated deficit of $ 35.1 bn BIF against 38, 02 bn BIF recorded in the same period of 2012.

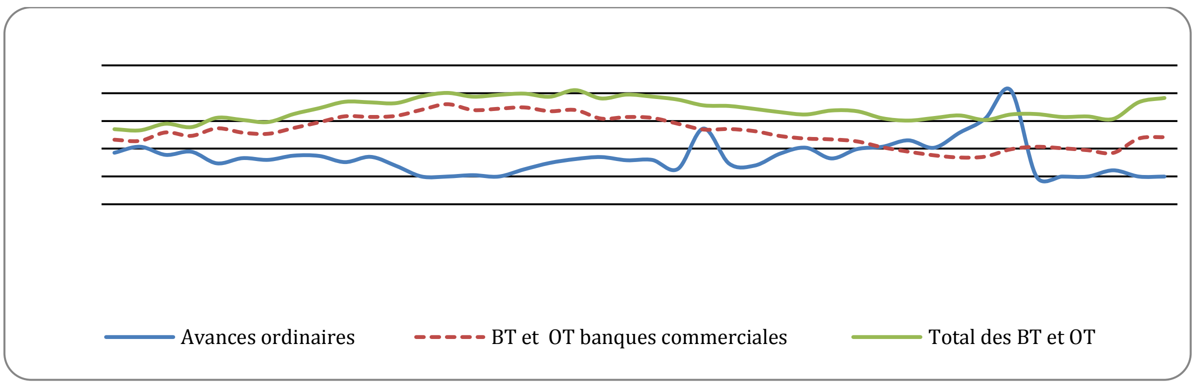
Table 4: Evolution of the budget deficit (in BIF)

	Revenue and Grants	Total expenditures	Deficit
2010	631 243,10	673 537,60	-42 294,50
2011	678 889,40	768 962,40	-90 073,00
2012	705 729.5	825 482,60	-119 753,10
2013	1 314 041,3	1,368 916.2	-54 874,87

Source: BRB

To finance its deficit, the government has resorted to domestic borrowing mainly in the form of Treasury securities and advances from the Central Bank.

Figure13: Evolution of domestic financing of the deficit (in MBIF)



Source: BRB

Outstanding ordinary advances which were 82 billion at end-December 2011 reached 155 billion BIF at end-December 2012 while the ceiling was set at 36 billion BIF.

Surge of advances is related to the low rate of disbursement of budget support (57.4% of expected support) and the lack of liquidity in the market which has resulted in the decrease of subscriptions to the Treasury securities by banks.

For 2013, the new budget law foresees a budget deficit (including grants) of 54.8 billion BIF while the overall deficit excluding grants will total 657.04 billion BIF. To fill this *gap,* the government anticipates net domestic and foreign financing of 24, 2 billion BIF and 30.6

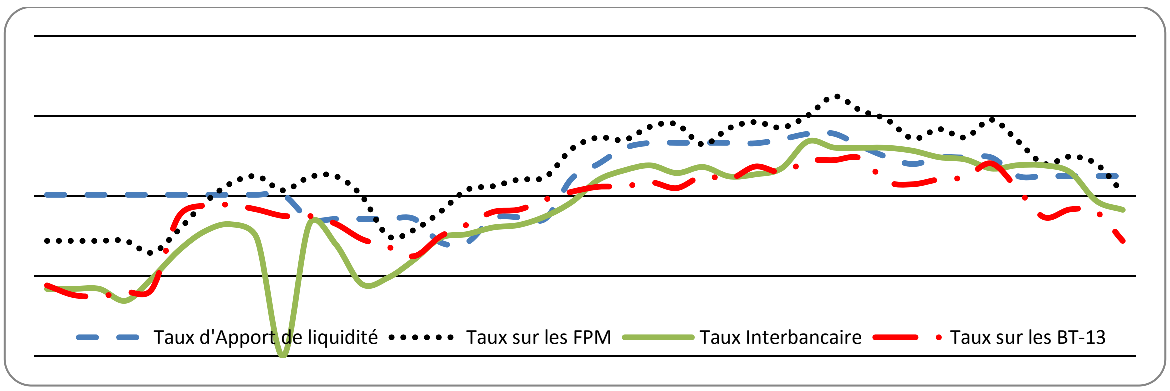
billion BIF respectively. The maximum advance is set at 27.3 billion BIF.

4.4. The money market

The interbank market has been more active in 2012. Indeed, the volume of interbank transactions increased significantly from 59.2 to 72.1 billion BIF the second half of 2011 to the second half of 2012. However, the banking system remained marked by the lack of liquidity which resulted in the more expanded use of the resources of the Central Bank.

However, the situation was reversed in early 2013. Bank liquidity has improved and banks have reduced their use of resources of the Central Bank. As a result, all interest rates in the money market have a downward trend during this period.

Figure14: Evolution of interest rates on the money market

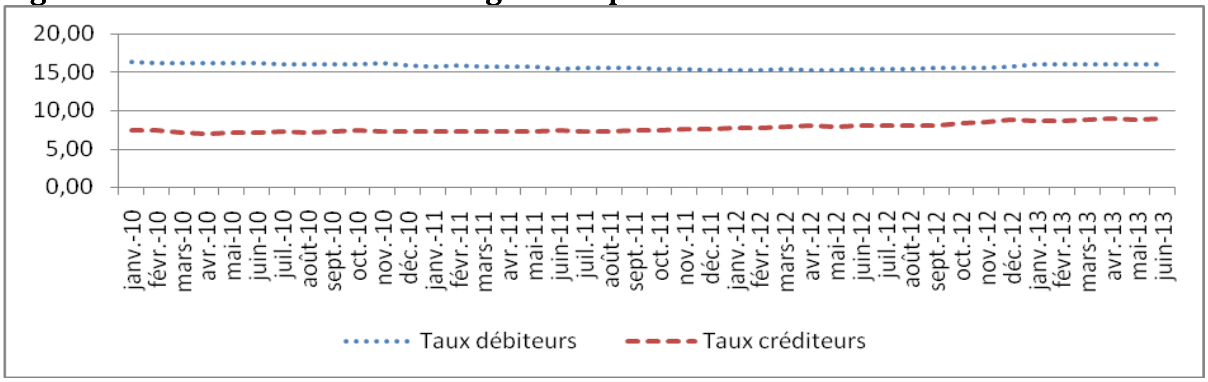


**Source : **BRB

Contrary to the trend observed until June 2012, the weighted average interest rates observed in the money market have trended downward since the third quarter of 2012 and this trend continued into the second quarter 2013 due to improved liquidity.

To meet the financing needs of the 2013-2014 coffee seasons, the BRB eased refinancing terms by extending the maturity of 7 to 14 and 28 days for banks operating in this sector. Despite the improved liquidity and lower interest rates on the money market, the lending and deposit rates have not followed the same downward trend in the banking sector

Figure15: Evolution of the lending and deposit rates



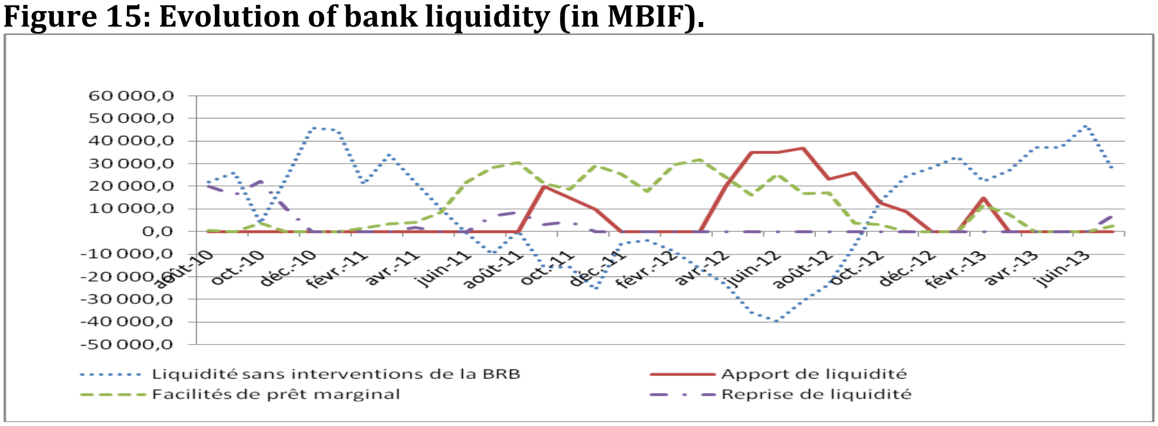
Source: BRB

Lending and deposit interest rates have increased slightly during the first and second quarter of 2013, but the gap between the two has remained an average of 7%

The Central Bank has made massive interventions in 2012 to deal with liquidity pressures. In the year 2013, the BRB has limited its interventions on the money market following the improvement of bank liquidity

4. PERFORMANCE AND OUTLOOK OF MONETARY POLICY

Figure 15: Evolution of bank liquidity (in MBIF).



**Source : **BRB

The coefficient and the period of reserve requirements were respectively maintained at 3% of deposits collected in BIF currency and a calendar month.

Despite the tension of liquidity observed over a large part of the year 2012, the banking system overall met the standard of minimum reserves. A monthly average surplus of 5 495.9 million BIF has been reached by the entire banking system thanks to the interventions of the Central Bank during the period of funding of the coffee year 2012-2013.

For the first half of 2013, banks have largely met the standard of reserve requirements with an average monthly surplus of 16 514,2 MBIF. This situation is the result of an ease of liquidity in the banking sector from the month of April 2013 due to the increase in government expenditure subsequent to the receipt of budget support.

The monetary base has remained within the limits of quantitative targets in the economic and financial program despite massive interventions in favor of commercial banks and major advances granted to the State in 2012.

Table 5: Evolution of the monetary base (in MBIF)

	2010		2011		2012		2013	
	Ceiling	Achievements	Ceiling	Achievements	Ceiling	Achievements	Ceiling	Achievements
March	159 000	155 172	176 900	194 040	209 700	193 418	285,000	248 225
June	155,800	173 561	213 500	210 710	245 400	217 842	310 000	279 126
September	191 600	184 168	224 900	207 464	250 700	219 804	313 700	
December	219 000	209 860	236,800	211 229	249 000	245 341	252 000	

***Source**: BRB*

During the first and second quarter of 2013, the BRB has respected the ceiling of the monetary base fixed in the economic and financial program. Achievements were 248 225 MBIF and 279 126 MBIF against targets of 285 000 MBIF and 279 126 MBIF at end of March and June 2013 respectively

By controlling the monetary base, the Central Bank was able to contain the growth of the money supply to 5.9%.

Table 6: Evolution of the money supply and its counterparts (in BIF)

	2008	2009	2010	2011	2012	March-13	June-13
M2	443 117,80	530 770,30	638 901,10	674 511,30	745 206.50	756 889,90	780 038,20
Net external assets	181 196.60	168 753,00	140 783,00	63 289,90	28 287,30	37 689,30	5 820,50
Domestic credit	448 134.00	569 196.20	699 683,90	889 567.90	976 145,40	966 308,10	1,010 108,60
Other posts	-186 212.80	-207 178,90	-201 565,80	-278 346,50	-259 226.20	-247 107.50	-235 890,90
Growth rate of the counterparties							
		2009	2010	2011	2012	March-13	June-13
M2		19.8	20.4	5.6	10.5	1.6	3.1
Net external assets		-6.9	-16.6	-55.0	-55.3	33.2	-84.6
Domestic credit		27.0	22.9	27.1	9.7	-1.0	4.5
Other net items		11.3	-2.7	38.1	-6.9	-4.7	-4.5

Source*: BRB*

The growth of money supply (10.5%) was mainly caused by the growth of domestic credit (9.7%), which has offset the decline in net foreign assets (-55.3%).

During the first quarter of 2013, growth in the money supply was 1.6%, primarily due to the increase in Net foreign Assets of 33.2% which exceeded the decline in domestic credit by 1.0%. The money supply increased by 3.1% in the second quarter of 2013. Compared to the first quarter of 2013

This increase is mainly explained by growth in domestic credit of 4.5% which has absorbed the decline of net foreign assets of 84.6%.

Table 7: Evolution of the base and the money supply (in MBIF)

	Achievements				forecast			
Monetary aggregate	Dec - 12	March-13	June-13	Sept-13	March-13	June-13	Sept-13	Dec - 13
Monetary base	245 341	248 225	279 126	277 413	284 700	309 600	313 700	252 000
M2	745 207	754 021	780 038	Not available	754 021	780 038	909 730	730 800

Source: Memorandum of economic and financial policy, August 2013

The outlook shows that the Burundian economy may record a rate of 4.5% by 2013. The forecast of the average inflation rate for the second half of the year 2013 show that it could be around 10%.

The monetary base at the end of December 2013 is 252 bn BIF. Over the past two years, the average monetary multiplier for the fourth quarter was 3.2. Considering that this assumption is valid for the fourth quarter of 2013, the money supply would be at 806.4 bn BIF at the end of December. The record shows that the money supply at the end of August was 797.9 bn BIF; this achievement is provisional because it does not account for postal check account.

5. CONCLUSION AND MONETARY POLICY

During the first two quarters of 2013, the BRB was able to contain the monetary base within the limits set in the economic and financial program. The monetary base at end of March was 248 225MBIF for a target of 284 700 MBIF. Similarly, the criterion has been met at the end of June, the monetary base was performed at 279 125.9 MBIF for a target value of 309 600 MBIF.

For the same period, inflation fell significantly due to the exemption of taxes on products of first necessity. The average inflation rate for the first quarter was 7.6% and 7.5% for the second quarter.

Concerning the second half of 2013, inflation is likely to exceed the level achieved in the first half following the lifting of a measure of exemption of taxes on certain commodities and the upward revision of prices of BRARUDI products, sugar and other goods and services provided in the 2013 Budget Review.

In the prospect of the ultimate goal of price stability, the Central Bank will continue to use, during the fourth quarter of 2013, the indirect instruments at his disposal consisting of mandatory reserves, liquidity tenders, and marginal lending facilities. The BRB will also continue its interventions on the foreign exchange market.

In this regard, the Central Bank plans to conduct the following actions during the fourth quarter of 2013:

1. Continue the regulation of liquidity through the operations of tender of liquidity;
2. Maintain the coefficient of reserve requirements to 3%;
3. Keep the rate of the marginal lending facility indexed to the weighted average rate on the 13-week Treasury Bills plus 3 points percentage;
5. Ensure compliance with the ceiling for advances to the State of 27.3 bn BIF;
6. Continue the determination of the Exchange rate by market mechanisms and encourage the development of the foreign exchange market

PRESENTATION OF THE MONETARY POLICY COMMITTEE OF THE BRB

The Monetary Policy Committee (MPC) is, in most modern central banks, the decision making body for monetary and exchange rate policy. Based on economic, monetary and financial analysis, this body makes decisions in relation to monetary policy instruments to implement to effectively achieve the objective.

The BRB Monetary Policy Committee was established by the Service Order No. 38 of 17 December 2012, which defines the mission and composition.

The Monetary Policy Committee's main tasks :

- *Regularly define the monetary policy strategy adapted to the economic situation in Burundi ;*
- *follow the day-to-day implementation of monetary policy and evaluate the results ;*
- *determine the conditions for intervention by the Central Bank on the money market and foreign exchange market*;
- *Constant monitoring of internal and external economic conditions to anticipate shocks that disrupt the macroeconomic framework in order to provide, without delay, adjustment measures to improve the operational framework of monetary policy ;*
- *draft a monetary policy statement for submission to the General Council, tracing the development of the economy, and monetary policy actions envisaged by the Central Bank to achieve the desired level of inflation.*

The Monetary Policy Committee of the BRB is composed by:

- *Governor is the Chairman*;
- 1st *Vice-Governor, who is the Vice-President*;
- *The 2nd Vice-Governor, Member ;*
- *Advisor to the Directorate with communication in its powers, Member;*
- *Head of the Research and Statistics Department, Member*;
- *Head of the Monetary and Financial Markets Service, Member ;*
- *The Head of Service of Supervision of Banking and Financial Institutions and Financial Stability, Member ;*
- *The Head of Supervision of Microfinance Service, Non-Banking Financial Institutions and financial Inclusion, Member ;*
- *The Head of Internal Banking Operations Service, Member ;*
- *The Head of Banking Service with overseas Member ;*
- *The Deputy Head of Research and Statistics Department, Member.*

Besides the members of the Executive Committee, all other MPC members form the Technical Committee of Monetary Policy (TCMP) chaired by the Head of Research and Statistics Department or his Deputy in the absence of the first. The Technical Secretariat of the Monetary Policy Committee is provided by the team of the Research and Statistics Department.

While TCMP must meet at the beginning of each week, the MPC meets at the beginning of each month in regular session convened by the President or Vice President in the absence of the first. Having analyzed and validated the report of the Technical Committee, MPC shall submit to the MPC General Council a draft statement of monetary policy with an update on the economy and monetary policy actions envisaged by the Central Bank to reach the objective of price stability.