

**BANK OF THE REPUBLIC OF BURUNDI**

**MONETARY POLICY COMMITTEE**

Bujumbura, August 27<sup>th</sup>, 2014

**PRESS RELEASE**

The report of the Monetary Policy Committee completed August 26, 2014 reviews the international environment, economic and financial situation of Burundi and presents the monetary policy measures envisaged by the Bank of the Republic of Burundi for the rest of the year.

Unlike a decline that was observed in the first quarter of 2014, the global economy experienced a recovery in growth in the second quarter. This recovery is mainly due to the continued accommodative monetary policies and moderation of fiscal consolidation in most developed countries. The forecast for the entire year 2014 are optimistic and indicate an increase in global growth, with an expected rate of 3.4 p.c. against 3.2 p.c. achieved in 2013.

In the countries of the East African Community, the forecast of the International Monetary Fund indicate that it is expected a growth rate of 4.8 p.c. in Burundi, 7.5 p.c. in Rwanda, 6.4 p.c. in Tanzania, 7.2 p.c. in Uganda and 6.3 p.c. in Kenya.

Regarding global inflation, it registered slightly up but projections show that it will remain within acceptable limits in most developed countries, while it is expected to decelerate in emerging and developing countries. In the countries of the East African Community, the inflation rate continued to fall in the second quarter of 2014 in Burundi, Rwanda and Uganda while it has remained stable in Tanzania and has registered a slight increase from the previous quarter in Kenya.

In Burundi, the growth prospects are optimistic for 2014 because of an anticipated increase in secondary and tertiary sectors that will prevail on the deceleration of the primary sector. Inflation fell sharply in the second quarter compared to the first quarter 2014. This rate was indeed to 3.8 p.c. when it stood at 5.2 p.c. in the previous quarter. Projections for 2014 show that the inflation rate will fall compared to the previous year to 7.5 p.c. against 7.9 p.c. in 2013. The external sector remains characterized by a

preponderance of imports relative to exports from Burundi and it is expected a worsening of the deficit of the current account over the previous year, or 16.5 against 9.9 p.c. of GDP. This widening of the current account deficit will be linked to the deterioration of the balance of goods and services and lower current transfers. In the second quarter 2014, the exchange rate recorded a slight depreciation of 0.12 per cent over the previous quarter.

In order to support banks in financing imports and avoid sharp fluctuations in the exchange rate, the Central Bank continued its interventions on the interbank foreign exchange market.

Public Finances remain marked by rigidity spending downward despite improvements in the collection of tax revenues. However, the budget deficit widened due to low disbursement of budget support. With regard to public debt, its viability analysis indicates that it is sustainable.

Monetary policy was conducted in a context marked by the abundance of bank liquidity in the second quarter of 2014. This ease of liquidity limited interventions of the Central Bank to the marginal lending facility, and led to lower interest rates in the interbank market. Monetary base attained exceeded the target of 18.4 pc, mainly in connection with the importance of net foreign assets over the floor level provided in the economic and financial program. The increase in the monetary base has been accompanied by an increase in the money supply with a growth rate of 6.1 per cent over the previous quarter.

The strength and financial stability indicators are generally satisfactory in the second quarter. The banking sector recorded a slight increase in activity and has adequate capitalization. However, the profitability of banks declined from the second quarter of 2013 and the portfolio of banks deteriorated slightly.

In view of these developments, the Central Bank will continue to closely monitor the evolution of macroeconomic indicators to conduct operations to ensure a growth rate of money supply and liquidity necessary and sufficient for the financing of the economy to sustain growth.

**In this regard:**

1. The BRB will intervene in the money market to regulate bank liquidity to contain the growth of the monetary base within the Economic and Financial Program;
2. From the perspective of a forward-looking monetary policy, BRB intends to broaden the range of monetary policy instruments to increase the effectiveness of interest rates and stimulate financing in the medium and long term investments;
3. The BRB will continue to ensure, under the coordination of monetary and fiscal policies committee, respect of the limit on advances to the state within the legal limits, aiming to reduce them to zero by 2016;
4. The BRB will continue to intervene in the foreign exchange market to minimize the risk of volatility in the exchange rate while favoring market mechanisms to determine the exchange rate;
5. The BRB will continue to promote access to financial services while ensuring the stability and soundness of the financial system.

**The Chairman of the monetary policy Committee**

**Jean CIZA**

**Governor**