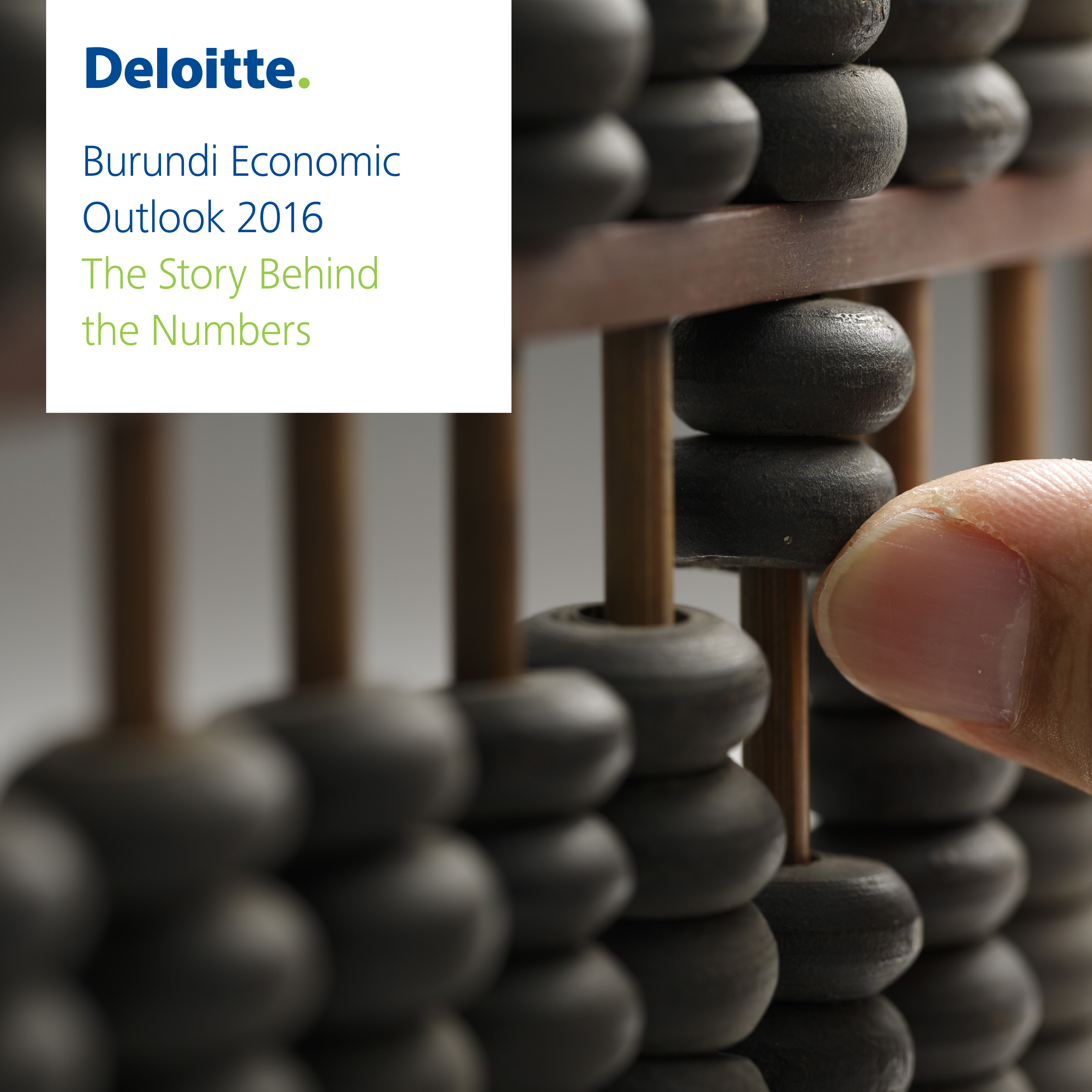
Burundi Economic Outlook 2016

The Story Behind the Numbers



Preamble

The Burundi Economic Outlook 2016 report provides an overview of Burundi's economic environment and key sectors. The report also highlights significant allocations from the 2016/17 budget to various sectors in the country.

June 2016

Burundi Economic Review

Political overview

The Economic Intelligence Unit (EIU) projects political instability in Burundi to continue throughout 2016 and 2017. Civil unrest broke out in the country since the re-election of Pierre Nkurunziza as President in July 2015 for a third consecutive five-year term in office. The unrest is led by armed opposition groups who claim the President's re-election contravenes the two-term presidential limit that was introduced as part of the Arusha Accords which ended the country's 1993-2005 civil war. According to the EIU, violence will escalate in 2016 as the armed opposition groups become better organised.

The EIU notes that Burundi's relations with Western donors who play a key role in financing its budget and public investment programme have deteriorated in light of the country's civil unrest. The European Union (EU), the country's largest foreign aid donor, announced in March 2016 that it would suspended the direct financial support it gives to Burundi. In April 2016, the permanent council of the International Organisation of La Francophonie (IOF) also suspended aid to the country. The BMI however notes that suspension of donor aid will not necessarily bring the unrest in the country to a stop.

Economic overview

According to the EIU, agriculture is the largest contributor to Burundi's economy, making a contributing 40% of the country's gross domestic product (GDP) and employing more than 80% of Burundians. The EIU notes that political disruption will negatively affect the sector's growth in 2016 but improving security conditions in 2017 could lead to an increase Burundi's overall agricultural output.

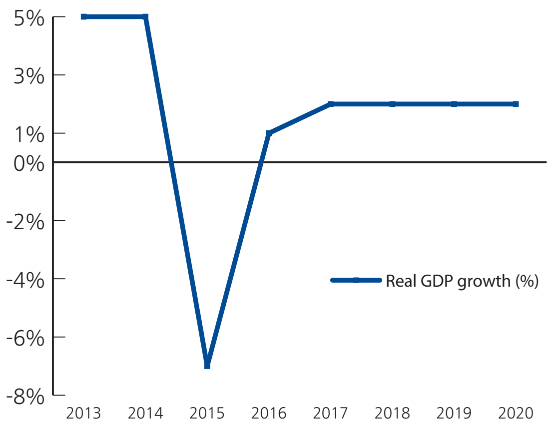
The EIU anticipates industrial growth in Burundi to be supported by nickel production at the Musongati mine but undermined by cuts in donor aid that will reduce construction activity since many of the country's infrastructure projects are dependent on foreign aid.

BMI forecasts the country's fiscal deficit to rise to 5.6% of GDP in 2016 from 1.1% of GDP in 2014 as foreign donors suspend support to the country due to the current political instability. The Burundi government indicated through its draft budget passed in December 2015 that it anticipated a 44% decline in aid grants over 2016. According to the BMI, donor aid represents approximately 50% of the country's budget.

The Bank of the Republic of Burundi (BRB)'s main objective is to maintain price stability and to contributed towards the stability of the country's financial system. The EIU predicts that BRB will maintain a restrictive policy stance in 2016 despite a weakness in economic activity so as to contain inflation and reduce excessive exchange rate volatility.

BMI predicts that the current account deficit in Burundi will increase to 20.8% of GDP in 2016 from 18.1% in 2015 due to suspension of foreign donor aid and the country's weak export base. According to BMI, goods and services exports in Burundi will constitute 10.7% of GDP on average per year over 2016 and 2017 due to an undiversified export offering. The country's goods and services exports are therefore unlikely to boost its declining current account

Chart 1: Real GDP growth rates (%)



Source: Business Monitor International (BMI)

GDP

According to the BMI, Burundi will post an economic growth of 1.1% in 2016 and a growth of 1.5% in 2017 due to subdued private consumption and contraction of fixed investment in the country. Burundi's economic growth contracted by an estimated 7% in 2015 due to the political disruption that affected all sectors of the country's economy. Given that private consumption in Burundi constitutes an estimated 75% of GDP, BMI projects that economic growth in the country will be weighed down by low private consumption that will average of 2.3% in 2016 and 2017 as domestic unrest will reduce employment opportunities of Burundians.

BMI forecasts that fixed investment in Burundi will contract on average by 1.0% per year over 2016 and 2017 as unrest discourages investment by both the public sector and foreign investors. According to the BMI, the government's involvement in the domestic unrest during 2015 and 2016 highlights its stance on opposition and expect it to continue redirecting funds towards recurrent spending in order to maintain control.

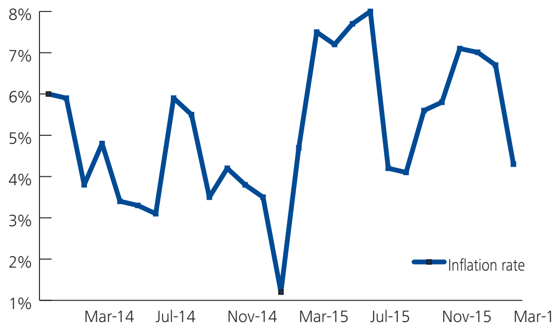
Inflation

Trading Economics reported that Burundi had single digit inflation rates in 2015. Inflation reduced from 4.7% in March 2015 to 4.3% in March 2016.

According to BMI, food, housing and utilities constitute 61.0% of the total consumption basket used in computing Burundi's consumer price index. BMI expect inflation in Burundi to average 7% per year for the next four years as rising food prices stabilise and as low international oil prices keep fuel prices subdued.

BMI anticipates that the low inflationary conditions in Burundi will facilitate an environment in which the BRB will strengthen its policy effectiveness through improved data collection. According to BMI, these improvements will strengthen policy effectiveness but the transmission mechanism will however remain weak due to low banking penetration, thin financial markets and a weak private sector.

Chart 2: Annual consumer price inflation rates (%)



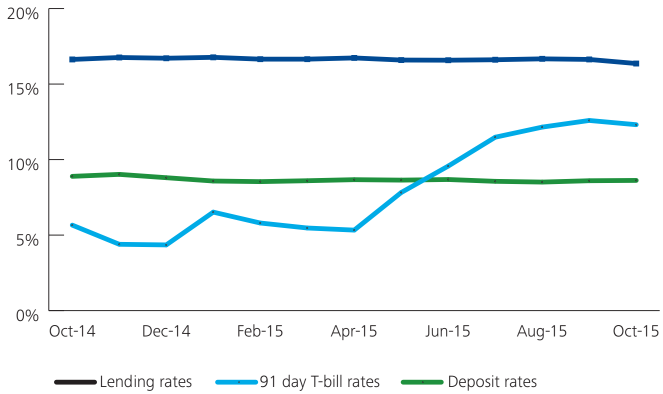
Source: Trading Economics

Interest rates

According to data released by BRB, lending rates in Burundi remained relatively stable between October 2014 and October 2015 averaging 17%. Deposit rates also remained relatively stable in the period averaging 9%.

The 91 day T-bill rates on the other hand averaged 5% between October 2014 and April 2015 before increasing to 12% in October 2015. BMI notes that this increase is consistent with the increase in BRB's operational target of M2 money supply which acts as the its operational target that grew by 6.3% year-on-year in September 2015. BRB makes use of indirect instruments such as T-bills to control money supply within the economy as a means to control inflation.

Chart 3: Interest rates in Burundi (%)



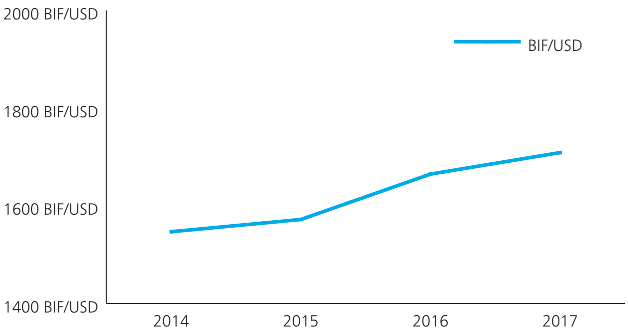
Source: Bank of the Republic of Burundi

Exchange rates

The EIU projects the Burundi franc (BIF) to depreciate by 9% against the US dollar (USD) between 2015 and 2017. EIU anticipates the BIF will weaken to BIF 1,709 against the dollar in 2017 from BIF 1,572 in 2015. The EIU notes that pressure on the BIF reflects Burundi's twin fiscal and current account deficits and the country's reducing foreign aid inflows caused by the ongoing civil strife and political instability.

According to the EIU, the BIF has not depreciated sharply between 2015 and 2016 due to the ability of BRB to smooth exchange rate variations with foreign reserves. EIU however notes that the country's foreign reserves that provide 1.5 months import cover are not sufficient to smooth the country's exchange rates going forward given that the International Monetary Fund (IMF) recommends countries to have a minimum of 3 months of import cover.

Chart 4: Exchange rates in Burundi



Source: Economic Intelligence Unit

Sectoral perspectives

Extractive Industry

The Burundi government is seeking to exploit the country's extensive mineral potential although efforts to do so are constrained by civil strife, significant infrastructure gaps, high electricity costs and inadequate water supply. EIU notes that the government acquired a 15% share in Burundi Musongati Mining, majority-owned by UK-based Kermas Group, which began mining in April 2015 and has plans to produce 1 million tonnes of nickel a year. Burundi holds 6 percent of the world's nickel reserves, with Musongati ranked as one of the 10 largest known deposits of the metal that have yet to be developed, according to the African Development Bank.

The World Bank reports that majority of mineral extraction is carried out by artisanal and small-scale mining (ASM) which is officially structured through cooperatives. Tin, tantalum, tungsten (often referred to as the '3Ts') and gold are the primary minerals mined and exported. The World Bank posits that improvements in the gold sector are where the Burundian Government stands to make the greatest gains though this would be complex to achieve and would need a very practical strategy grounded on market and trade realities.

Technology, Media & Telecommunications

Burundi has an independent industry regulator that is committed to promoting competition within the mobile sector. BMI estimates that following the launch of mobile services by Viettel, Burundi's mobile market grew by over 80% year on year in 2015 to reach 5.575 million subscribers. As a result, Burundi's mobile penetration rate increased to 49.9% at the end of 2015, up from 28.5% in 2014.

In August 2015, it was announced that London-based money transfer service WorldRemit had partnered with Zimbabwean EcoCash to offer Burundi its first mobile money platform. An industry first in the country, EcoCash states that more than 2 million clients in Burundi now have access to their new platform.

The official launch of the country's USD25 million fibre optic cable project marks a new era of connectivity in Burundi's internet market. The fibre optic network is set to be linked to submarine cable systems on the east coast of Africa for faster and cheaper international bandwidth. BMI expects broadband penetration to reach 0.4% by 2020.

Agriculture

Agriculture accounts for over 40% of GDP and employs more than 90% of the population. Burundi's primary exports are coffee and tea, which account for 90% of foreign exchange earnings. According to the CIA World Fact book, Burundi's export earnings and its ability to pay for imports, rest primarily on weather conditions and international coffee and tea prices.

The EIU notes that political disruption will negatively affect the sector's growth in 2016 but improving security conditions in 2017 could lead to an increase Burundi's overall agricultural performance supported by rising coffee and tea prices and recent investments in the commercial tea sector. EIU however poses that the growth may be constrained by insufficient access to finance and low productivity levels.

Tourism

According to Euromonitor, Burundi has a great deal to offer tourists, including mountainous landscapes, natural parks, wildlife and access to one of Africa's largest lakes. The country's travel and tourism industry, however, remains undeveloped and only contributes marginally to the country's GDP. Visitor numbers have only increased marginally since the peace agreement was set up in 2001. In comparison with its neighbour Rwanda, a country with a similar sad history of ethnic violence, Burundi is still lingering on the starting blocks when it comes to attracting tourists.

Ecotourism is a niche area of travel and tourism in Burundi but has great potential to attract visitors. The national conservation areas, including Kibira National Park, Ruvubu and Lake Tanganyika, all offer unique natural habitats for wildlife. In addition, the country also holds a number of flourishing wildfowl lakes, such as the Rwihinda Lake Natural Reserve, which is a sanctuary for migratory, aquatic birds and has strong potential to attract many visitors. Plans by the government to boost nature-based tourism will help open up new tourist areas and, as a result, stimulate growth in tourism in Burundi. Poor infrastructure however remains a hindrance to the tourism sector.

Energy

Burundi's Energy and Mines Minister, Côme Manirakiza, in May 2015 broke ground on a USD60 million hydroelectric power plant project in Cibitoke province. The Kagu 006 hydropower plant, which is being developed under the public private partnership model, is part of a government policy to boost energy supplies. BMI reports that the plant will have an installed capacity of 12MW and will be able to produce an annual energy yield of 45-50GWH1.

In early 2015, Gigawatt Global secured grant funding from the US Trade and Development Agency (USTDA) for a feasibility study for a planned 7.5MW solar photovoltaic power plant at Mubuga in central Burundi. According to USTDA, the grant funds would cover a study of key technical and economic aspects, and environmental and social impact assessments, and provide the necessary analysis for the developers to secure financing.

infrastructure and construction

The World Bank, in March 2015, approved a US$25 million International Development Association (IDA) emergency support grant for Burundi to restore key transport and drainage infrastructure after the heavy rains of February 2014 caused extensive flooding and landslides that damaged property in and around the capital city of Bujumbura. It will also promote climate resilient activities and help to prevent or mitigate future natural disasters. The World Bank reported that the financing would support the Infrastructure Resilience Emergency Project that will repair key infrastructure to restore vital intra/inter regional road transport links, which are imperative in protecting the country's competitiveness.

Financial Services

Burundi has a relatively small developing financial sector which is dominated by banking with over 75% of total economy assets. Fortune of Africa reports that there are 10 commercial banks, two semi-governmental institutions, 11 insurance companies, 26 MFIs and National Bank of Economic Development. The Bank of the Republic of Burundi (BRB) regulates the financial sector and the insurance sector albeit small, with private and government owned companies, is regulated by the Insurance Regulation and Control Agency which falls under the Ministry of Finance.

According to Fortune of Africa, Burundi has not yet established a stock market to mobilise funds for investments and it is only BRB which uses 91-day treasury bills to manage liquidity within the sector. Moreover, the national pension system (INSS) covers only 5% of the people and accounts for about 5% of total financial assets.

Microfinance institutions (MFIs) have experienced rapid growth over recent years with 4% of Burundians being members of MFIs. The financial sector in general however faces several challenges such as the need to strengthen the bank supervisory role of BRB, lack of experienced locals to manage the sector, lack of facilities offering capacity building and the need for reforms in the sector to effectively serve the community.

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