



**BANK OF THE REPUBLIC**

**OF BURUNDI**

**MONETARY POLICY COMMITTEE**

February 14, 2014

**Monetary policy Statement: 1st quarter 2014**

1. The Monetary Policy Committee has just held its second ordinary meeting of the first quarter of year 2014. After reviewing the recent developments on the national and international economic environments as well as the macroeconomic outlook for the year 2014, the Committee reached the decisions of monetary policy for the first quarter 2014.
2. At the international level, the world output growth has decelerated in 2013 compared to the previous year, with a growth rate of 3.0 against 3.2% in 2012. This slowdown in growth is mainly due to the lingering effects of the sovereign debt crisis in the eurozone, budget rebalancing in the United States and a weak recovery of domestic demand in Japan. Global inflation has declined in 2013, mainly related to good performance in developed countries.
3. The outlook for 2014 indicates an improvement in global growth that will reach 3.7%, mainly in association with the strong performance of the US economy and the emerging and developing countries.
4. Overall, the countries of the East African community have experienced an improvement in economic growth accompanied by low inflation. Prospects show that growth will improve further in 2014 and that inflation rate will continue to slow down.
5. Burundi's economy recorded an improvement in growth rate which stood at 4.6% in 2013 compared with 4.2% in 2012 and 2011. In addition to prudent monetary policy of the Central Bank, this improvement in growth has contributed to the slowdown in the inflation rate which stood at 7.9 against 18.2% in 2012.

6. Forecasts for 2014 show that GDP growth will improve to 5.3% and inflation slow further to 6.6%.
7. Public finances have improved in 2013 thanks to better performance in the mobilization of budgetary resources, which allowed the State to repay any overdrafts contracted during the year.
8. Balance of payments remained in deficit due to the predominance of imports relative to exports. However, measures taken on the foreign exchange market in early 2013, and intensified interventions of the BRB on the exchange market helped stabilize the exchange rate at 1538,9 on average in the second half of the year, with an annual average of 1555,05 BIF per U.S. dollar.
9. The money market in 2013 was characterized by an abundance of bank liquidity and lower interest rates, which led the Central Bank to limit its refinancing operations.
10. Consequently, the average interbank market and the marginal lending rates declined, returning respectively from 12.2 to 10.4% and 14.5 to 11.9%. However, the average lending and deposit interest rates have increased reaching 16% against 15.4%, and 8.8% against 8.1%.
11. In 2013, the monetary base was contained within the limits set by the economic and financial programme except for the fourth quarter. It increased by 23.6% against 16.1% in 2012, while money supply grew 11.7% against 10.5% in 2012.
12. Indicators of health and financial stability remained generally solid in 2013 compared to the previous year. Besides that the average return on assets has declined, banks remained sufficiently capitalized and credits to the economy have increased, particularly in the second half of 2013.
13. Given these recent economic developments and prospects that show an improvement in growth and a slowdown in inflation in 2014, the Monetary Policy Committee has decided that monetary policy will continue to be guided by the objective of price stability.
14. In this respect, the BRB will remain vigilant to changes in inflation to gradually release the monetary policy, and thus provide the economy the resources required for its operation without rekindling inflationary pressures.
15. The BRB will expand the range of monetary policy instruments through the introduction of tools to enhance the effectiveness of interest rates and stimulate investments in medium and long term financing.

16. BRB is aware that the balance of payments deficit puts pressure on reserves and increases the risk of depreciation of the national currency. To strengthen the effectiveness of exchange rate policy, while preserving the official reserves and the determination of exchange rate by market mechanisms, the BRB will continue to implement an active policy of animation of the foreign currency interbank market, in order to limit sharp fluctuations in the exchange rate, and will thus reduce the risk of inflation induced by imported products.
17. BRB will ensure, in the context of the coordination of monetary and fiscal policies to the reduction of the State overdrafts and compliance with the overdraft ceiling within the legal limits, with aims to bring them back to zero in 2016.
18. BRB is convinced that the strict implementation of the above measures outlined will achieve the ultimate objective of price stability in 2014 and contribute to macroeconomic stability and the development of the country.

**The Chairman of the Monetary Policy Committee**

**Jean CIZA**

**Governor**