# FINANCIAL SECTOR: CURRENT LANDSCAPE AND VULNERABILITIES[1]

*Financial sector indicators appear healthy, especially given the recent economic downturn. Vulnerabilities, including on account of currency mismatches are low. While a sharp change in the official exchange rate may be disruptive for the trade sector, preliminary information does not show a systemic vulnerability in the financial sector. That said, despite the financial strength, longer term issues regarding the sector's inability to ensure appropriate allocation of credit across sectors and segments of the population remains an area of concern.*

## A. Key Features of the Banking Sector

### Ecosystem and Concentration

1. **The banking sector comprises fourteen commercial banks,** majority of which are either partly or entirely private owned.

2. **Concentration has declined moderately with the entry of three new banks since 2014.** In addition, there has been significant churning in the market shares of individual banks.

3. **Although individual banks have tended to specialize in certain lending sectors to some extent,** their portfolios are well diversified and there are no stark signs of segmentation in the banking sector. Barriers to entry, at least de jure, are minimal.

### Role in channeling foreign exchange.

4. **Commercial banks play an important role in facilitating the flow of foreign exchange across agents in the economy.** But the ultimate control over the official exchange rate at which these flows take place, as well as the sectors and firms that can receive FX via the official foreign exchange market, is heavily regulated by the central bank.

### Banking Health Indicators and Vulnerabilities

5. **Despite the sharp decline in growth induced by the pandemic, the banking sector has remained healthy.** With capital ratios of around 20 percent, a share of non-performing loans of less than 5 percent, and negligible currency mismatches as measured by net open FX positions, vulnerabilities appear to be subdued.

6. **Burundi's banking sector also compares well with regional peers in terms of credit provided** to the domestic private sector as well as the number of bank branches per unit of the population.

[1] Prepared by N. Patel.

## B. Non-Bank Sector Landscape

**7. The non-banking sector includes mainly two types of entities:**

- a single development bank (BNDE), accounting for roughly 4 percent of the total loans in the economy. its regulatory framework is like that of commercial banks, although it is forbidden from accepting short-term demand deposits of less than a year.

- about 60 Microfinance institutions (MFIs). MFIs mainly cater to the housing and trade sectors, which make up more than half of their portfolio.

## C. Efficiency in Financing the Economy

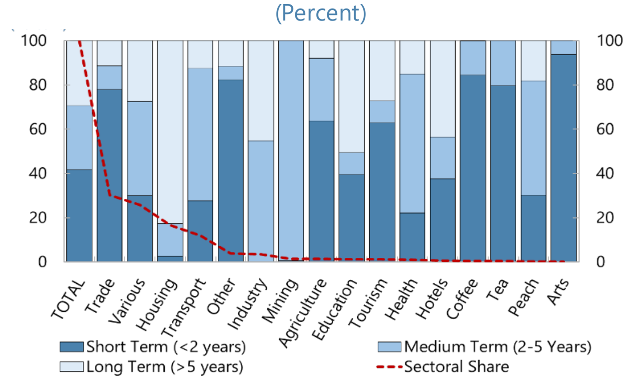
**8. The authorities identified two main shortcomings of the financial sector in Burundi:**

***Credit Allocation Disparities***

- *Sectoral.* Credit does not appear to be allocated efficiently across sectors and individuals. While the trade (30.2 percent of total private sector credit), housing (16.7 percent) and transport (11.8 percent) are well served, others including the agriculture sector (1.4 percent) are credit deprived (Figure 1).

**Figure 1. Sectoral Shares and Maturity Profile of Outstanding Credit, 2021**

(Percent)




Sources: Banque de la République du Burundi

- *Demographics.* Young and women borrowers have been disproportionately underserved. This has recently led the authorities to launch credit funds which can help mobilize collateral to enable these groups to be able to access credit and create banks dedicated to these individuals.

***Low Share of Long-Term Credit***

- Despite a sharp increase over the last decade, the share of short-term credit (less than 2 years) in total credit remains high at around 40 percent (Figure 1). This underscores the difficulty for obtaining credit to finance long-term investment projects that are critical to boosting growth potential.