

## Recent macroeconomic and financial developments

Burundi fell into a recession in 2020, largely the result of the effects of the COVID-19 pandemic. Real GDP contracted by 3.3%, after growing 4.1% in 2019. The pandemic hit hardest at industry, which saw a 4.5% decline in output, and services, whose output fell 1.8% compared with 2019. On the demand side, investment fell by approximately 3%. A decline in agricultural production combined with rising prices of imported products resulted in a sharp rise in prices. Inflation rose by 8.5 points to 7.6% in 2020, compared with -0.7% in 2019. The budget deficit doubled to 8.7% of GDP in 2020, compared with 4.2% in 2019, as current expenditures shot up about 4%. Because weak global demand caused a 4.4% decline in coffee export prices and a 10.4% decline for tea, trade and current account deficits deteriorated. The current account deficit was 19.1% of GDP compared with a deficit of 17.8% in 2019. That resulted in a reduction in foreign exchange reserves, which could cover less than 30 days of imports at the end of 2020. The exchange rate between the Burundian Franc and the US dollar fell by 3.8% between May 2019 and May 2020.

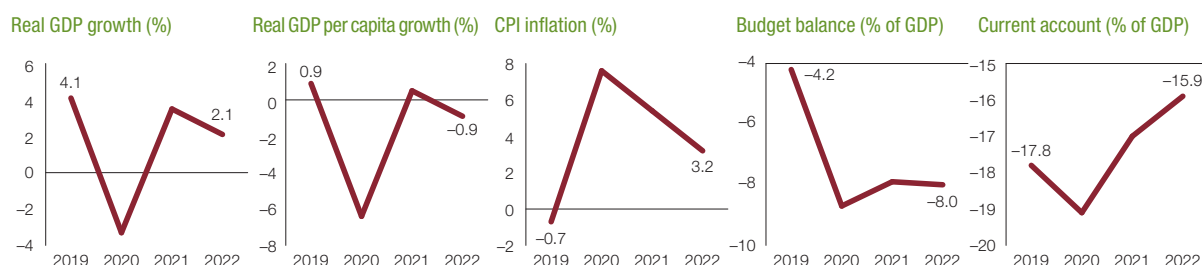
## Outlook and risks

If the pandemic is under control by the second half of 2021, an economic recovery could occur with projected growth rates of 3.5% in 2021 and 2.1% in 2022. Inflation

would come down to 5.4% in 2021 and 3.2% by 2022 from 7.6% in 2020. Thanks to measures to increase tax revenue in the 2020–21 Finance Law and the prospect of a drop in current spending, the overall budget deficit is expected to decrease to 7.9% of GDP in 2021 from 8.7% in 2020. However, the current account will continue to run a large deficit due to the pressure on prices on agricultural raw materials and the revival of imports linked to the economic recovery. The risk factors that could disrupt this scenario include a possible drop in global demand that would hurt coffee and tea exports as well as a decrease in foreign aid grants from donors. Moreover, given the limited size of the formal sector, there are also risks to achieving tax revenue increases.

## Financing issues and options

Burundi's public debt is 70% domestic and has risen sharply since 2015, when civil unrest caused external funding to dry up. In 2020, public debt represents around 63.7% of GDP. External debt is 18.4% of GDP in 2020 compared with 36% in 2012, when Burundi satisfied the criteria for the full amount of debt relief available under the Heavily Indebted Poor Countries initiative (HIPC). Due to the structural trade deficit and the continued increase in domestic debt linked to the persistent budget deficits, Burundi's risk of debt distress remains high. The implementation of a comprehensive reform of public finances aimed at achieving a balanced budget over time is a key priority for public debt sustainability.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.