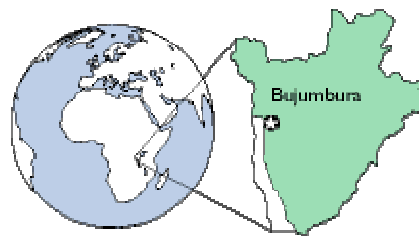


COUNTRY REVIEW

Burundi



26 August 2011

ANALYST: Andrew Atkinson

EULER HERMES COUNTRY RISK GRADE: D

EULER HERMES COUNTRY RISK LEVEL: HIGH

Country Risk Grades are on a scale of AA, A, BB, B, C, D

Country Risk Levels are on a scale of LOW, MEDIUM, SENSITIVE, HIGH

COUNTRY PROFILE

Capital city:	Bujumbura
GDP:	USD1.5bn (2010e)
Population:	8.54mn (2010e)
GDP per capita:	USD175 (2010e)
Currency:	Burundi Franc (BIF)
Form of state:	Republic
Head of government:	President Pierre Nkurunziza
Next elections:	Legislative by July 2015, presidential by June 2015

The country's political background is coloured by the **deep tribal division between the minority Tutsi elite and the Hutu majority**. Clashes between these two groups have been fierce and extremely violent. A decade of civil war, beginning in 1993, resulted in an estimated death toll of 300,000. Pierre Nkurunziza and the Conseil national pour la défense de la démocratie-Forces pour la défense de la démocratie (CNDD-FDD) won elections in 2005 and Nkurunziza became president and the CNDD-FDD formed the dominant force in the government, the National Assembly and the Senate. Opposition forces are largely fragmented, encompassed within government or are periodically purged from office and therefore do not provide a significant threat from within the regime. Accordingly, Nkurunziza and the CNDD-FDD, with renewed electoral mandates in 2010, are likely to remain in power in the short term. However, **the military remains a potential source of regime change**, particularly as Tutsi elements in the Force de défense nationale (FDN or Burundian army) may be disaffected through loss of direct control of political levers. There is an absence of experience in government and the ruling CNDD-FDD is riven by factions with different policy agendas. Perhaps the highest risk is that the CNDD-FDD proves unable to rule and that the country slides back into violent ethnic clashes. However, the international community (donors, as well as UN monitoring forces) is likely to remain engaged and support the political transition with financial and technical assistance and the need for this should moderate extreme policy implementation by the local authorities. The government can expect generous **assistance from the donor community**, conditional on maintenance of a public policy of national reconciliation and continued IMF-inspired economic reforms.

A period of relative peace has existed since 2003, but low incomes (GDP per capita is still below USD200), limited export base (**coffee accounts for around 70% of total receipts**) and **aid dependence** result in a weak economy. For this reason, the government requires the support of the international donor community and the IFIs. The IMF approved a three-year PRGF (superseded by ECF) in January 2004, which has been extended and will now expire in January 2012. The Fund reported in July 2011 that all quantitative performance criteria up to March 2011 had been met and that the reform agenda was on track. Burundi reached its decision point under the HIPC debt relief initiative in August 2005 and its completion point in January 2009, which then permitted USD1.5bn in debt relief. Nevertheless, the government requires further international assistance and **will remain aid-dependent** and thereby there is a continuing need to adhere to an agenda that encompasses economic liberalisation and structural reform.

After outright economic contraction 1991-2000, annual real GDP grew by around 3% in 2002-10 and **annual growth is forecast at around 3-4% in 2011 and 2012**. However, such rates of expansion do not allow for significant improvements in per capita incomes and welfare and GDP needs to grow by at least 5% each year to make positive advancements. Export trade is dominated by commodities (coffee and tea), with Japan (over 20%) representing the principal export market. Key sources of imports are Saudi Arabia (18%, reflecting the need for fuel imports) and Kenya (11%, reflecting **the landlocked nature of the country and an associated and unavoidable structural weakness**). We forecast that the current account will remain equivalent to 10-12% of GDP and represent a key challenge to the government, although donor inflows will provide cover in the ST.

Andrew Atkinson

London: +44 (0)20 7860 2577