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BURUNDI

March 2015

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR EXTENSION AND AUGMENTATION OF ACCESS—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BURUNDI

In the context of the Sixth Review Under the Extended Credit Facility Arrangement and Request for Extension and Augmentation of Access, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 23, 2015, following discussions that ended on December 9, 2014, with the officials of Burundi on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on March 9, 2015
- A **Debt Sustainability Analysis** prepared by the IMF and the International Development Association (IDA).
- A **Press Release** including a statement by the Chair of the Executive Board.
- A **Statement by the Executive Director** for Burundi.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Burundi*
Memorandum of Economic and Financial Policies by the authorities of Burundi*
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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March 9, 2015

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR EXTENSION AND AUGMENTATION OF ACCESS

KEY ISSUES

Context: Corrective revenue measures helped keep the program on track and macroeconomic conditions improved in late 2014 following the decline in oil prices. Uncertainties related to the 2015 general elections weigh on the outlook.

Program: The Executive Board approved the three-year arrangement under the Extended Credit Facility (ECF) on January 27, 2012, with a total access of 39 percent of quota (SDR 30 million). The fifth review was completed on August 25, 2014. For the sixth review, all performance criteria were observed, aided by the revenue measures taken in July to address the fiscal slippage that emerged earlier in 2014. Satisfactory progress has been made on structural reforms. The authorities have requested a one-year extension of the current ECF arrangement, which expires in March 2015, to enable provision of additional Fund resources via an augmentation of access by an amount equivalent to SDR 10 million (13 percent of quota).

Outlook and risks: The macroeconomic outlook is broadly favorable, driven by continued public investment and a gradual recovery in agriculture; however, external vulnerabilities persist due to a protracted decline in coffee exports and high volatility of coffee prices. Under normal harvest conditions, inflation in 2015 is expected to remain in low single digits. Expenditure pressures in the context of the elections constitute a key risk to the fiscal outlook.

Staff views: Staff supports the completion of the sixth review under the ECF and the authorities' requests for an augmentation of access and extension of the current ECF arrangement through March 2016, which will be instrumental to catalyze donor support needed to address Burundi's protracted balance-of-payments problem. Completion of the review will result in disbursement of an amount equivalent to SDR 5 million under the ECF arrangement.

Approved By
Roger Nord and Dhaneshwar Ghura

A staff team comprising Messrs Wieczorek (Head), Dernaoui, Dridi (all AFR), and Ms. Toffano (FAD) visited Burundi from December 4–17, 2014 and a staff team comprising Messrs Wieczorek (Head), Dridi, and Kaffo (all AFR), and Ms. Baum (FAD) visited Burundi from February 23–28, 2015. Both missions were assisted by Mr. Youm (resident representative). Mr. Nord (AFR, Deputy Director) joined the first mission from December 7–9. Mr. Yamuremye (OED) participated in the policy discussions during the December mission. Staff met with His Excellency Second-Vice President Gervais Rufyikiri, Senate President Gabriel Ntsizerana, Minister of Finance Tabu Manirakiza, Central Bank Governor Jean Ciza, other senior government officials, parliamentarians, the private sector, and the donor community.

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RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

1. **The socio-political context remains delicate**. Burundi is a fragile state. The UN Integrated Office in Burundi (BNUB) closed in December 2014 and transitioned to the UN Electoral Observation Mission in Burundi (MENUB) with a mandate to support Burundi's electoral process ahead of the 2015 elections. The authorities have publicly committed to an orderly process but President Nkurunziza has not yet declared whether he would seek a third term. The legitimacy of this prospect is being challenged by the opposition on constitutional grounds. The uncertainty surrounding this issue is a source of political tensions and security clashes. The reintegration of people returning from neighboring countries continues to fuel land disputes and strains the government's capacity to provide jobs and public services. Burundi also faces terrorist threats related to its participation in the peace keeping missions in Somalia.

2. **The economic recovery continues to gain momentum** (Figures 1–3 and Tables 3–7).

- **Growth continued and inflation moderated notably**. Growth reached an estimated 4.7 percent in 2014, underpinned by a rebound in coffee production, strong momentum in the construction sector, and the implementation of major infrastructure projects, including fiber optics, hydropower and roads. Average headline inflation decreased from an average of 9 percent in 2013 to 4.5 percent in 2014, helped by falling international oil prices.

- **The external current account deficit (including grants) narrowed slightly in 2014**. Lower oil prices resulted in a favorable shift in terms of trade. Imports of goods and services to GDP fell by about 2 percentage points, while exports increased by 1 percentage point as coffee exports rebounded. The deficit was financed by foreign direct investment, project grants, and concessional loans. The official foreign exchange reserves remained stable at the equivalent of 3.5 months of imports.

- **Corrective revenue measures adopted in late July 2014 were instrumental to keeping the program on track**. Together with the receipts from telecom licenses, these measures helped reverse the revenue shortfall registered in the first half of the year, and the end-year revenue target was attained. Expenditures were broadly in line with programmed levels, with the wage bill falling from 7 percent in 2013 to about 6.6 percent of GDP; however, the budget deficit at end-December exceeded the level projected in the program by 1.7 percent of GDP, mainly due to a shortfall in the disbursement of program support (i.e., budgetary grants), and domestic public debt increased from 13.1 percent of GDP at end-2013 to 14.1 percent of GDP at end-2014. Nevertheless, the domestic primary balance improved by 0.2 percent of GDP relative to program projection. The financing shortfall was filled by the central bank. The Treasury situation will be regularized in the first quarter of 2015, upon the disbursement of budgetary grants from the AfDB and World Bank. The drop in international fuel prices allowed restoring the petroleum pricing mechanism and eliminating fuel subsidies. However, a net gain from this move (estimated at about 0.5 percent of GDP on an annual basis) barely compensated for a lower-than-expected yield from the July revenue measures.

- **Lower inflation created room for a gradual easing of monetary conditions**. Banking sector liquidity continued to improve in 2014 and the central bank (BRB) policy rate[1] declined from about 11 percent in June to about 8 percent in December. Growth in broad money and credit to the private sector reached, each, about 9 percent (y-o-y) at end-December. The banking sector remains adequately capitalized and profitable although nonperforming loans (NPLs) picked up in 2014 (Table 8).

- **The exchange rate remained stable**. Since March 2013, the BRB has been intervening regularly to maintain the franc relatively stable against the U.S. dollar.

MEFP ¶10 and Tables I.1 and I.2

3. Program implementation has been broadly satisfactory. All end-September performance criteria (PCs) and most end-September and end-December indicative targets were met: the indicative ceiling on reserve money was exceeded at both test dates due to a larger than projected accumulation of net foreign assets by the BRB and the end-December indicative ceiling for net domestic financing of the government was exceeded by a small margin (not exceeding 0.1 percent of GDP). The indicative target for pro-poor spending was observed at end-September, but the end-December target was missed by a large margin because of the reallocation of funds in the supplementary 2014 budget toward other priority spending.[2] Progress on implementing structural reforms has been uneven (Table 1). Three out of seven policy actions that represented structural benchmarks for the sixth review were implemented as planned and one policy action was taken with some delay. Some progress has also been achieved on two further policy actions: (i) conducting an audit of arrears on extra-budgetary expenditures and adopting a payment plan to settle these (domestic) arrears; and (ii) adopting the decree settling the organization chart of the administrative and financial directors in line ministries, but the key decisions have yet not been taken, in part pending the assessment of their budgetary implications. On current plans, the MoF will adopt, by end-April 2015, a payment plan for the settlement of arrears validated in the audit that was completed by the State Audit Court in September 2014, with a view to incorporating it in the 2016 budget. With regard to the latter action, the MoF will issue an instruction, also by end-April, to harmonize the existing practices of delegating the authority for budget management in line ministries. This measure will facilitate further de-concentration of expenditure management in a cost-effective and administratively efficient way. Finally, putting in place an interface between the revenue authority (OBR) and the MoF will not be possible until a new IT system is installed at the OBR, which is part of a multiyear project prepared by the World Bank. Meanwhile, the two institutions have taken steps to improve the sharing of information on a continuous basis. As an

[1] This is a marginal lending facility rate, which is currently set at 300 basis points above the weighted average interest rate on 13-week T-bills.

[2] The authorities propose to change the definition of pro-poor spending in the context of the new PRSP.

intermediate measure, by end-June 2015, a software module will be developed within the new IT system at the MoF to facilitate cash flow projections for budget execution purposes.

OUTLOOK AND RISKS

4. **The macroeconomic outlook is clouded by significant domestic political risks and uncertainties about the external economic environment**. External vulnerabilities persist, although, lower international prices of fuel and food improved the balance-of-payments outlook (related savings are estimated at one percentage point of GDP on an annual basis) and it will be easier to keep inflation at bay. Nevertheless, insufficient revenue effort and election-related spending pressures could undermine the fiscal position, and central bank financing could increase. Slow implementation of structural reforms has contributed to the reduction in budget support commitments for 2015 relative to 2014, with some donors also facing tighter budget constraints.

Table 1. Burundi: Structural Benchmarks: Sixth Review Under the ECF Arrangement

Measures	Implementation Date	Status	Objective
Public financial management			
Adopt the ministerial ordinance on the referential of budget management capacity audit.	Sep. 15, 2014	Met, Ordinance adopted in July 2014	Implement the regulatory framework necessary for the payment orders de-concentration.
Implement a program to unify the current data base of civil servants with that from the 2008 census.	Sep. 30, 2014	Met, Databases unified in September 2014	Reinforce the Ministry of Finance's management of salaries.
Adopt the decree settling the organization chart of the administrative and financial directorate (DAF) within ministries and other institutions.	Dec. 30, 2014	Not met, The issuance of an MoF instruction to harmonize the modalities of expenditure management function in ministries by April 30, 2015 is proposed as a structural benchmark for the seventh review.	Normalize and empower the budget management bodies within ministries and other institutions in order to improve the overall fiscal discipline.
Prepare an audit of arrears on extra-budgetary expenditure (not committed and without payment order) in prior years (to be performed by an independent auditor, for example the State Audit Court or State Inspectorate General; and adopt a payment plan.	Nov. 30, 2014	Not met, Action partially implemented. Audit by the State Audit Court was completed in September 2014. Adoption of a plan to settle arrears that were validated in the audit is proposed as a structural benchmark for the seventh review.	Identify and verify the amounts actually due and disputed invoices.

Table 1. Burundi: Structural Benchmarks: Sixth Review Under the ECF Arrangement (concluded)

Measures	Implementation Date	Status	Objective
Put in place an interface between the revenue authority (OBR) and the Ministry of Finance.	Dec. 30, 2014	Not met, A new IT system has been installed in MoF and is being tested. OBR will adopt a new system under a WB-supported project. This will take several years. Creation of a software module within the new IT system at the MoF to enable the visibility of the revenue flow at the OBR by June 30, 2015 is proposed as a structural benchmark for the eighth review.	Improve budget execution.
Tax policy/revenue administration			
Submit a law on excise taxes in line with IMF Technical Assistance.	Dec. 30, 2014	Met Law on excises submitted to the Council of Ministers in December, 2014. Its main provisions are included in the 2015 budget law. It is expected to be approved and submitted to Parliament by June 30, 2015	Provide an umbrella legal framework clearly spelling out the purpose and scope of the law.
Debt management			
Submit a new law on debt management to parliament.	Sep. 30, 2014	Not met, Action implemented with delay Law submitted to parliament in November 2014	Establish a legal framework governing public debt.

Sources: IMF staff; and Burundi authorities.

POLICY DISCUSSIONS

Discussions focused on expanding the fiscal space and mitigating risks to improve prospects for attaining debt sustainability, and on expediting macro-critical reforms to increase output and exports.

A. Fiscal Policy: Expanding Fiscal Space and Mitigating Risks

Enhancing Revenue Mobilization

MEFP ¶7

5. Corrective revenue measures adopted in July are expected to strengthen budget resources on a durable basis. While their yield was lower than envisaged (Text Table 1) due to the late adoption of the revised budget and administrative implementation difficulties, these measures are expected to have a lasting and growing impact.[3] Their structural nature also constitutes an improvement relative to one-off measures adopted to remedy slippages in recent years. However, domestic revenue still cover less than 50 percent of total spending, highlighting the importance of enhancing revenue mobilization to create fiscal space for development spending.

Text Table 1. Impact of the July 2014 Revenue Measures in 2014–15

	Impact of measures in 2014 (expected)		Impact of measures in 2014 (outturn)		Impact of measures in 2015 (expected)	
	FBu billion	Percent of GDP	FBu billion	Percent of GDP	FBu billion	Percent of GDP
Revenue Measures						
Dividends	10.4	0.2	10.4	0.2	22.0	0.4
Elimination of VAT exemptions on imports	12.0	0.3	0.0	0.0	2.0	0.0
Witholding, arrears, minimum tax and other taxes	21.6	0.5	10.5	0.2	32.3	0.6
Total	**44.0**	**0.9**	**20.9**	**0.4**	**56.3**	**1.1**

MEFP ¶22-¶24

6. The 2015 budget adopted last December includes adequate appropriations for election-related spending without undermining medium-term fiscal sustainability. Relative to the 2014 budget preliminary outturn (adjusted for the shortfall in budget support amounting to 1.3 percent of GDP), the new budget provides for a 0.2 percentage point of GDP widening of the deficit in 2015, mainly to accommodate election-related spending. At the same time, the underlying fiscal stance targeted for 2015 is tighter as indicated by a projected improvement in the domestic primary balance[4] from -2.4 percent of GDP in 2014 to -1.3 percent of GDP.

[3] The reinstatement of the minimum tax on gross sales by companies that registered losses will apply starting in 2015 while the yield from eliminating VAT exemption on imports will take some time to materialize.

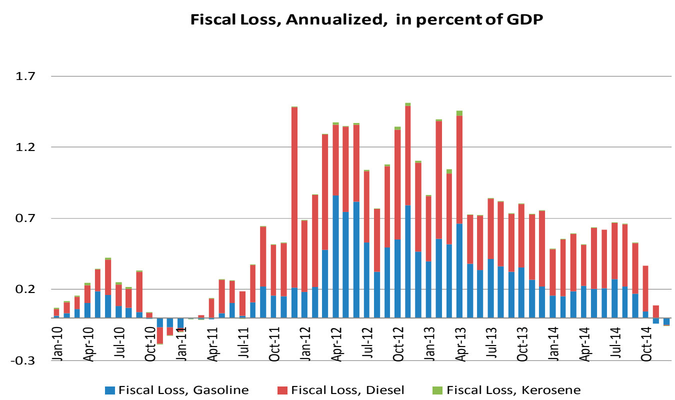
[4] Defined as domestic revenues minus domestically-financed primary expenditures.

MEFP ¶22

7. The implementation of the 2015 budget faces a number of risks. The budget may come under pressure to provide for additional election-related spending, co-finance large infrastructure projects, and tackle liabilities from the under-funded Medical Assistance Program. To hedge against these risks, the authorities will need to resist the temptation to relax the 2015 fiscal stance in the electoral context, strengthen management of tax expenditures, and lock in gains from lower oil prices, including by fine-tuning the domestic price adjustments to build fiscal buffers (Box 1). The authorities should take advantage of low interest rates and ample bank liquidity to step up the issuance of government securities and avoid the recourse to central bank financing or buildup of domestic arrears. To this effect, they also need to strengthen the control of costs related to the use of government vehicles by civil servants and ensure the timely transfer of funds to hospitals to meet health care program obligations.

Box. 1 Burundi: Fiscal Impact of Lower International Oil Prices

Recent declines in international oil prices improved Burundi's terms of trade and helped reduce fuel subsidies. Fuel subsidies built up to nearly 1.5 percent of GDP on an annual basis following the increase in oil prices in 2010–11. In the context of the current ECF, the authorities took steps to realign domestic and international prices as part of fiscal consolidation efforts. They eliminated the explicit price subsidies in September 2013 but maintained subsidies in the form of foregone fiscal revenues (at over 0.7 percent of GDP on an annual basis). Following the sharp decline in international oil prices in the second half of 2014, these subsidies were eliminated starting in December 2014. As a result, foregone revenues in 2014 declined to about 0.5 percent of GDP (less than half the amount foregone in 2013).



The recent decline in international oil prices, which was not fully passed through to domestic prices, improved the fiscal position. Domestic retail prices declined by 8 to 20 percent (Table below). Following a sharp increase in imports in the last quarter of 2014, revenues from fuel products increased by around 0.1 percent of GDP, due to higher revenues from excise taxes and VAT. The combined effects of lower energy subsidies and higher revenues are expected to improve the overall fiscal balance by about 0.3 percent of GDP in 2015 compared to the projection at the time of the fifth review.

	Gasoline		Diesel		Kerosene	
	FBu/Liter	USD equivalent	FBu/Liter	USD equivalent	FBu/Liter	USD equivalent
Jun-14	2,330	1.49	2,210	1.42	2,120	1.36
Jan-15	2,050	1.31	2,050	1.31	1,780	1.13
Percentage change	-13.7	-14.3	-7.8	-8.4	-19.1	-19.8

Considering risks in 2015 and beyond, the authorities should save revenue windfall and build fiscal buffers. The authorities stressed that windfall revenues from lower oil prices would be saved to mitigate risks coming from elections, demographics, natural disasters and contingent liabilities.

MEFP ¶32

8. Improved tax policy design and coordination is critical to reverse durably the decline in the tax-to-GDP ratio. The organic law assigns the fiscal policy formulation to the Tax Policy Department (TPD) at the MoF and its execution to the OBR; however, tax policy measures have often been taken and implemented in an ad hoc manner and consistency between fiscal policy objectives and measures has been lacking. Furthermore, tax policy initiatives can emanate from various governmental agencies without proper coordination and evaluation, which often undermines the overall effectiveness of tax policy. The performance in this area would be enhanced by: (i) promoting greater collaboration between the TPD and the OBR; (ii) providing them with adequate resources; and (iii) ensuring implementation of the recommendations made by IMF technical assistance missions on tax policy and administration. To assist the authorities in attaining these objectives, the World Bank is developing a support program with a large component dedicated to enhancing TPD's capacity.

Strengthening Public Financial Management (PFM) Reforms

MEFP ¶33-¶34,

9. The implementation of the PFM strategy developed in 2012 is encouraging. Key milestones have been: (i) the nomination of expenditure commitment controllers (CED) for all ministries; (ii) the finalization of the budget management capacity audit in the three pilot ministries, to prepare for the effective delegation of expenditure management; (iii) the unification of the data base of civil servants to strengthen the control of the payroll; and (iv) the auditing of arrears on extra-budgetary expenditure in prior years (estimated at FBu 90 bn, the equivalent of 2 percent of GDP) with a view to initiate the clearance of arrears validated by the audit, starting in the 2016 budget.

10. Nevertheless, efforts to remedy remaining weaknesses in key areas need to be stepped up. Weak expenditure control, accounting, budget preparation and execution, and treasury cash flow management continue to constrain the effectiveness of economic. Staff encourages the authorities to: (i) reinforce the management of the Treasury Single Account; (ii) roll out the new integrated public financial management IT system at the MoF; and (iii) work with key donors to implement the interface between the OBR and the MoF.

B. Safeguarding Debt Sustainability

11. Burundi has limited borrowing space and is encouraged to continue to seek maximum concessionality in its external financing. An update of the debt sustainability analysis (DSA) shows some improvements relative to the previous assessment, but the updated external DSA still indicates that Burundi remains at a high risk of debt distress, with one indicator (external debt-to-exports) breaching the sustainability threshold in the baseline and shock scenarios (Figures 1 and 2 and Tables 1–4 of the DSA)[5] and one (debt service-to-exports ratio) breaching it temporarily in the most extreme shock scenario. These results reflect Burundi's narrow export base[6] and indicate that

[5] Burundi: Sixth Review under the Extended Credit Facility, and Request for Extension and Augmentation of Access—Debt Sustainability Analysis Update, March 2015.

[6] Coffee and tea account for about 80 percent of officially-reported exports.

Burundi's prospects for graduating from the high-risk of debt distress category will critically hinge on its ability to improve its export performance. Burundi's overall public sector debt indicators are consistent with sustainability conditions; however, in the most extreme shock scenario, the PV of public debt-to-GDP ratio breaches the sustainability threshold in the short run, which underscores the need for prudent fiscal and debt policies. The authorities also need to address PFM weaknesses that make Burundi prone to debt distress. This requires strengthening debt management capacity by: (i) expediting the parliamentary approval of the new law on debt management; (ii) enhancing the capacity of the Debt Directorate to conduct DSAs (with support from AFRITAC experts); and (iii) developing, with the World Bank's help, an overarching legal framework to contain potential risks from engaging in PPPs.

C. Monetary and Financial Policies: Maintaining Price Stability and Safeguarding Financial Soundness

MEFP ¶29

12. The authorities continue to gear monetary policy toward price stability. Headline inflation falling to single digits created space for monetary policy easing. Core inflation also appears to have been declining, suggesting that the second-round effects from previous inflationary episodes have been contained. This coincided with a gradual improvement in bank liquidity, which enabled a 300 bps decline in the policy rate between June and December 2014. Looking forward, low international food and fuel prices will help keep inflation at bay for some time and interest rates could stabilize at the current level. However, policy slippages and recourse to central bank financing may reignite inflation. Staff cautioned that a further decline in the interest rates would not be warranted until the current low inflation becomes sustained. Staff also encouraged the authorities to enhance monetary transmission mechanisms in line with Fund advice, including through better liquidity management, deepening the domestic financial market, and strengthening market-based operations. There is also room to improve the BRB's modeling and forecasting capacity, for which the authorities have recently received technical assistance from the Fund.

MEFP ¶30

13. Greater exchange rate flexibility will help adjust Burundi's economy to shocks while safeguarding international reserves. Fiscal adjustment and the availability of external financing have alleviated pressure on the exchange rate. The franc has appreciated somewhat in real effective terms; however, the underlying data quality does not permit to ascertain whether this represents a deviation from the equilibrium. External reserves are broadly adequate by traditional metrics, but a stronger buffer would be helpful, given Burundi's narrow export base and dependence on donor support. Burundi's productivity relative to trading partners has been declining, yet its business environment has been improving and foreign investors have shown increased interest in its sizeable nickel deposits. The authorities are concerned that allowing greater exchange rate flexibility in the context of a shallow foreign exchange market could lead to significant exchange rate volatility. They also expressed concern about upside inflation risks associated with exchange rate depreciation given the relatively high import content of the CPI basket. While acknowledging these concerns, staff argued that the ongoing fiscal adjustment, the declining oil prices and the appreciation of the U.S. dollar offer an opportune juncture to allow the franc to move more flexibly in response to market conditions. Also, strengthening the monetary policy framework and improving the functioning of the interbank foreign exchange market would help reduce the need for the central bank's interventions to smooth exchange rate volatility.

MEFP ¶31

14. The banking system is well-capitalized, liquid and profitable at the aggregate level. The repatriation of coffee export revenues, donor inflows, and the presence of regional banks with access to cross-border financing, contributed to further improvement in liquidity conditions in 2014. As a result, overall liquidity ratios improved, mostly driven by larger banks. However, the quality of banks' loan portfolios deteriorated and NPLs increased to 12.5 percent in September 2014, mainly due to unresolved domestic government arrears and problems with the recovery of collateral from private borrowers.[7] Rising NPLs, together with a subdued demand for credit and a lack of enforcement mechanism for NPL recovery, started to create a drag on bank lending and put pressure on banks' profits. Staff encouraged the authorities to expedite efforts to establish a credit bureau, a collateral registry, enhance the supervision of microfinance institutions, and implement regulatory changes to facilitate leasing.

D. Other Macro-Critical Reforms

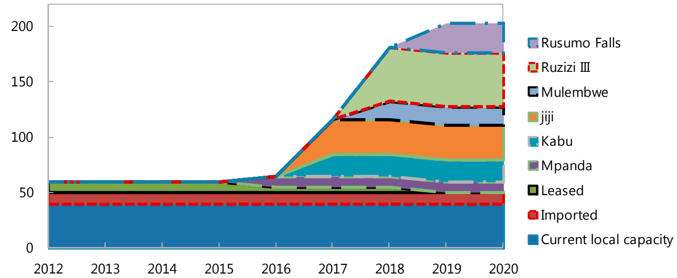
MEFP ¶39-¶40

15. Ongoing efforts to unlock Burundi's growth potential and improve the competitiveness of the economy are promising.

- To address low productivity in the agriculture sector, including by supporting the **coffee sector reform**, the World Bank is launching an assistance program that places emphasis on increasing productivity while continuing the privatization of coffee washing stations.

- Several **infrastructure projects** are underway to reduce Burundi's energy deficit and foster the emergence of non-traditional exports. Country's capacity is expected to more than double by 2018 (Text Figure 1).

Text Figure 1. Burundi power supply capacity



Source: Regideso and staff estimates.

- To tap in the country's large **mineral potential**, the Burundi Musongati Mining company, in which the government holds a 15 percent share, has begun a pilot phase. At full capacity, nickel mining would provide significant benefits for the Burundi economy; however, significant investments to develop the mine as well as the energy and transport infrastructure at the local and the regional level would be required for the nickel sector to reach an economically viable scale.[8]

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[7] In some cases, NPLs were revised upwards based on the definition harmonized with regional standards.

[8] The mining sector accounts for about 2 percent of GDP; however, its size is likely to be under-reported. Anecdotal evidence suggests that artisanal mining of gold has grown substantially in recent years.

- Reforms aimed at improving the **business environment** advanced. It has become easier to establish businesses, deal with construction permits, register property, pay taxes, trade across borders and get electricity. Outstanding challenges for businesses include poor infrastructure, still insufficient energy provision and political instability.

MEFP ¶18

16. The authorities reiterated their commitment to the EAC integration. Key initiatives encompass the elimination of non-tariff barriers, the harmonization of laws, monetary and fiscal policies, and ease-of-doing business frameworks, and the pursuit of joint large infrastructure projects. The latter include the construction of hydroelectric dams with Rwanda and Tanzania, improvements in major road networks, and the creation of several one-stop border posts. Benefits of integration have also started to accrue through cross-border investments in financial services and labor mobility in the tourism sector.

E. Strengthening Economic Statistics

MEFP ¶38, ¶41

17. Data weaknesses continue to hamper the staff's ability to conduct surveillance and monitor the economy's response to ongoing reforms. While progress in improving data quality has been made, further improvements are needed. Balance of payments (BoP) coverage remains week, especially with respect to data on foreign trade, services and income flows, and the financial and capital accounts. National accounts are produced with long delays and their coverage is incomplete, while short-term economic indicators are not compiled. The authorities agreed with staff on the need to strengthen balance of payments data and expedite the rebasing of the national accounts and the development of quarterly national accounts. Fund TA is being provided to support the authorities' efforts.

PROGRAM ISSUES

18. The authorities have requested a one-year extension of the ECF arrangement to lock in the gains to date and complete key reforms, particularly in the fiscal area. The continuation of the current program would also help the authorities to build policy buffers in the uncertain domestic and global environment and provide them with the time needed after the elections to articulate policies that could be supported by a new arrangement. Since the beginning of the arrangement in January 2012, the authorities have met nearly all PCs and implemented (although usually with delays) most policy actions pertaining to the structural benchmarks under the program. The extension of the current arrangement, which is requested to allow for an augmentation of access and maintaining an unchanged level of financial support from the Fund through March 2016 (Table 9), would be instrumental to catalyze the donor support that Burundi needs in view of its protracted BoP problem (with the current account deficit expected to exceed 12 percent of GDP over the medium term).[9] Moreover, Burundi's economic and social fragilities highlight the importance of maintaining program continuity during the potentially difficult period ahead.

19. Program modalities under the proposed ECF extension would be the same as under the current arrangement. Quarterly indicative targets with semi-annual PCs and reviews will continue to be used to monitor program implementation. Staff reached understandings on PCs for end-March and end-September 2015, and on indicative targets for end-June and end-December 2015. Structural benchmarks for the extended period of the ECF arrangement include three actions that had to be re-phased from the sixth review, re-formulated to ensure their feasibility within the proposed program horizon, and several additional measures that were identified as subsequent macro-critical steps in the reforms initiated under the current ECF. These benchmarks are deemed feasible within the program extension, taking into account Burundi's implementation capacity. Among others, additional benchmarks include measures intended to address the deficiencies in the provision of data that are critical to informing policy decisions (Table 2 and MEFP Table I.3).

MEFP ¶16, ¶37

20. Burundi's capacity to repay the Fund is adequate. Obligations to the Fund based on existing and prospective credit, measured in relation to official reserves or exports of goods and services do not show solvency or liquidity risks. Also, the requested augmentation of access (SDR 10 million), which would be disbursed in two equal tranches, would not materially affect Burundi's capacity to repay the Fund. Outstanding Fund credit would continue to decline from the peak of 117.8 of quota in 2014 to below 50 percent over the medium term (Table 10). Implementation of the 2012 update safeguards assessment continues, albeit with delays. The FY2014 audit of the central bank is underway and the BRB intends to publish audited financial statements by mid-2015. Staff also encouraged the continuation of submitting the quarterly report on foreign reserves management to the Board of the BRB. A safeguards assessment update will be conducted in connection with Burundi's request for the extension and augmentation of access under the current ECF arrangement. The draft banking law, which was reviewed by the Fund, was approved by the Council of Ministers, and has been submitted to the Parliament for adoption.

[9] The duration of the current ECF arrangement was extended by an LOT decision on November 4, 2014 with the expiration date moved from January 26, 2015 to March 31, 2015.

Table 2. Burundi: Structural Measures: Seventh and Eighth Reviews Under ECF Arrangement

Measures	Implementation Date	Proposed Structural Benchmark for Review	Target
Measures re-phased from the sixth review (re-formulated to ensure their feasibility)			
MoF to issue an instruction to harmonize the modalities of delegating the expenditure management within ministries and other institutions.	April 30, 2015	Seventh	Normalize and empower the budget management bodies within ministries and other institutions in order to improve the overall fiscal discipline.
Adopt a plan to settle arrears on extra-budgetary expenditure (not committed and without payment order) in prior years, which have been validated in the audit performed by the State Audit Court in September 2014.	April 30, 2015	Seventh	The clearance plan should be incorporated in the 2016 budget.
Create a software module within the new IT system at the MoF to enable the visibility of the revenue flow at the OBR.	June 30. 2015	Eighth	Improve budget execution.
Tax policy and administration			
Increase by at least 15 percent the number of registered taxpayers relative to their number registered at end-December 2014.	September 30, 2015	Eighth	Create a reliable central taxpayer database and expand the tax base.
Public financial management			
Finalize the audit on budget management capacity in three pilot ministries (education, health, agriculture); the final version should include observations by audited ministries.	March 31, 2015	Seventh	Adopt the regulatory framework necessary for decentralizing expenditure commitment.

Table 2. Burundi: Structural Measures: Seventh and Eight Reviews Under ECF Arrangement (concluded)

Measures	Implementation Date	Proposed Structural Benchmark for Review	Target
Central bank and safeguards			
Adopt the draft law on establishing a credit bureau.	March 31, 2015	Seventh	Facilitate financial intermediation. Modernize the regulatory banking framework.
Submit to the Council of Ministers legislative amendments to the BRB charter (after consultation with IMF staff).	September 30, 2015	Eighth	Modernize the BRB's legal framework and reinforce the BRB's autonomy and accountability.
Macroeconomic data			
The National Committee for Aid Coordination (CNCA) will provide users, including the IMF, with complete data on external assistance in 2014.	June 30, 2015	Eighth	Strengthen the provision of data on aid and the implementation of projects involving external financing.
Finalize and publish the final accounts for 2012 and provisional accounts for 2013 following the recommendations from the technical assistance provided by AFRITAC Central and develop a plan for changing the GDP base and preparing quarterly accounts.	September 30, 2015	Eighth	Improve the annual national accounts data and short-term economic indicators.

Sources: IMF staff; and Burundi authorities.

STAFF APPRAISAL

21. **The macroeconomic situation has improved over the last three years, and growth has picked up**. Prudent fiscal and monetary policies helped bring inflation down to single digits and the external position has stabilized. The financial sector is expanding and the banking system remains sound.

22. **The 2015 budget provides an adequate basis for fiscal policy during a challenging electoral year**. Nevertheless, the authorities will need to remain vigilant to execute the budget as planned and resist the temptation to relax the fiscal stance in the electoral context, while greater attention should be paid to proper budgeting and execution of pro-poor spending.

23. **Improved coordination between tax policy design and its implementation is critical to reverse the decline in the tax-to-GDP ratio on a sustainable basis**. To this effect, the authorities are encouraged to enhance the capacity of the Tax Policy Department, further strengthen the revenue authority, and improve collaboration between the two institutions, drawing on Fund technical assistance.

24. **Progress toward regularizing domestic arrears is encouraging**. To prevent the recurrence of domestic arrears, the authorities should implement the Treasury Single Account and put in place a commitment and control plan to avoid persistent strains on the Treasury cash position. Timely issuance of government securities will help eliminate the recourse to central bank overdraft.

25. **Monetary policy should be geared toward maintaining a low inflation environment**. The recent qualitative changes, including lower inflation and stable exchange rate, offer a good opportunity to reform the monetary policy framework and enact market-based instruments. Staff encourages the central bank to step up efforts to improve liquidity forecasting, promote the interbank market, and to enhance the effectiveness of monetary operations.

26. **Development of the monetary policy framework and favorable macroeconomic conditions will facilitate greater exchange rate flexibility**. The recent improvement in the terms of trade neutralized the competitiveness effects of the recent appreciation of the franc in step with the U.S. dollar. Going forward, the authorities should pursue efforts to develop the interbank foreign exchange market to ensure more effective price discovery and pave the way to greater exchange rate flexibility in the future. Meanwhile, the central bank should stand ready to provide price signals to the foreign exchange market, while continuing to accumulate reserves.

27. **Burundi remains at high risk of debt distress, underscoring the importance of enhancing debt management**. The authorities should continue to rely on concessional loans and grants to meet their financing needs, and improve debt management practices to strengthen the country's capacity to service future debt obligations.

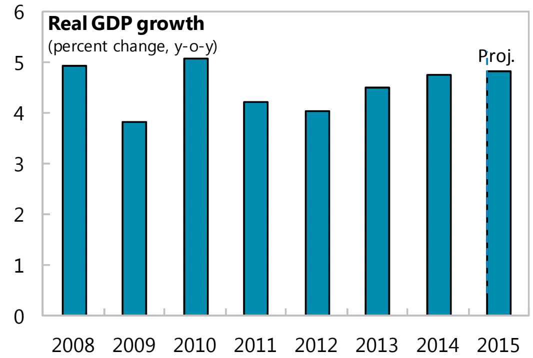
28. **Political tensions in the context of the 2015 national elections coupled with an uncertain external environment pose important downside risks**. The authorities are encouraged to build fiscal buffers to respond to the contingencies that could emanate from these risks. Strong

policy commitments under the program will be needed to safeguard macroeconomic stability during this period.

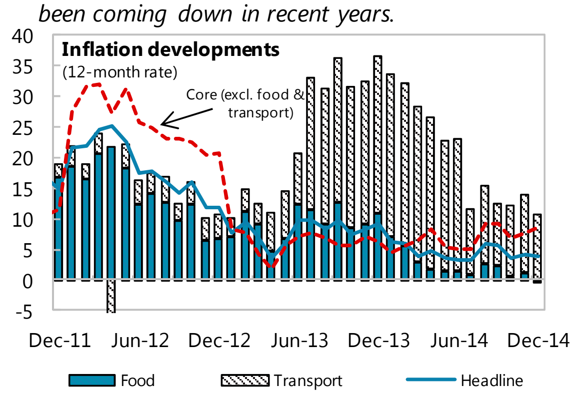
29. Staff recommends the completion of the sixth review under the ECF Arrangement and the associated disbursement of an amount equivalent to SDR 5 million. Staff also supports the authorities' request for a one-year extension and augmentation of access by 13 percent of quota.

Figure 1. Burundi: Recent Developments, 2008–2015

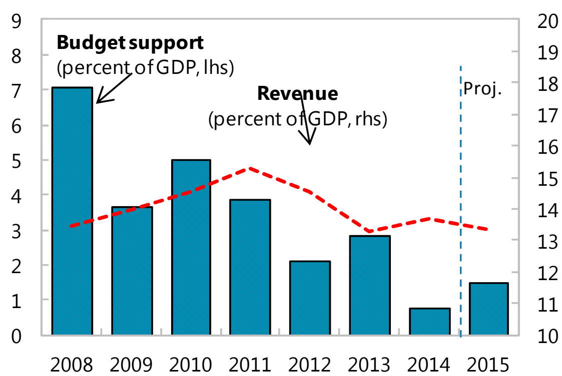
Growth has been picking up gradually.



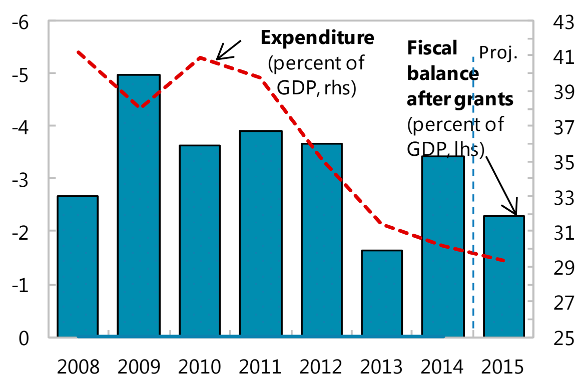
Headline and core measures of inflation have been coming down in recent years.



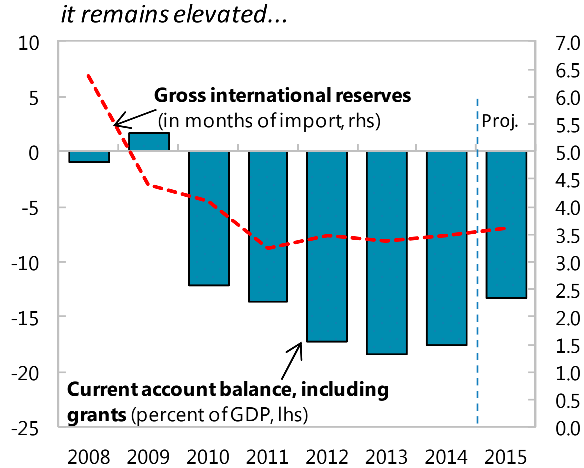
Revenues have stabilized in 2014 after adopting corrective measures.



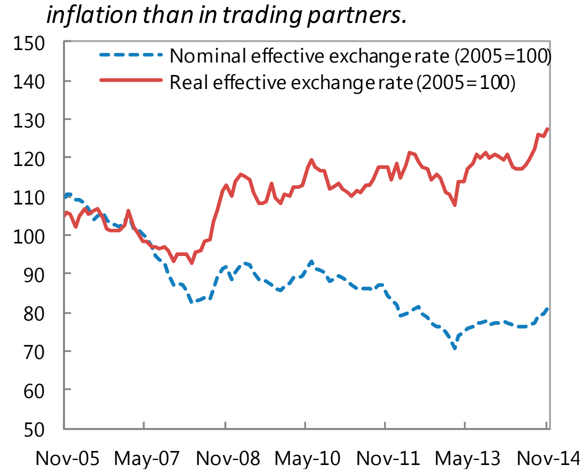
Spending has been contained; in 2014, deficit widened due to the shortfall in grants.



The current account improved in 2014, but it remains elevated…



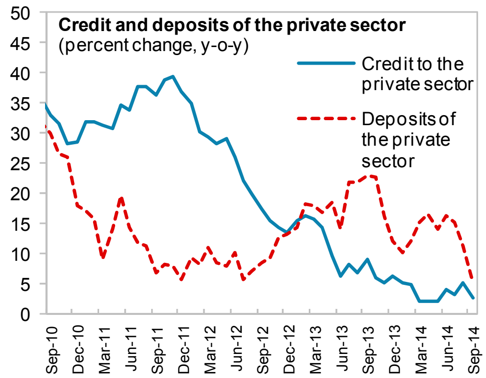
… while the REER appreciated reflecting higher inflation than in trading partners.



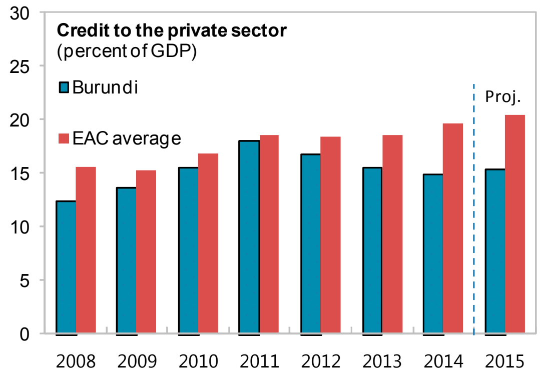
Sources: Burundi authorities; and IMF staff estimates and projections.

Figure 2. Burundi: Monetary Developments, 2008–2014

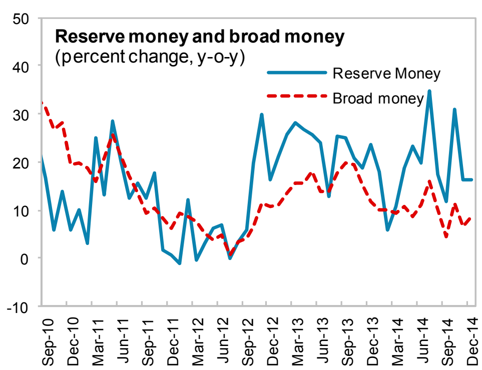
Credit growth to the private sector remains subdued …



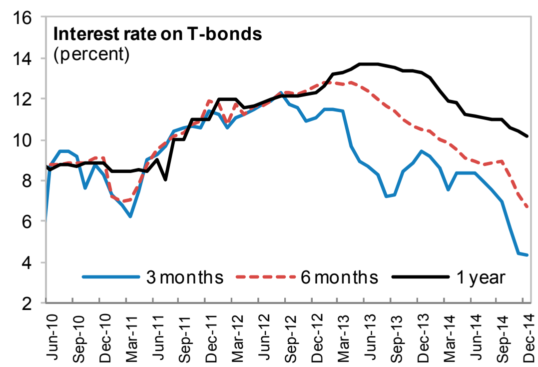
… and low as a share of GDP.



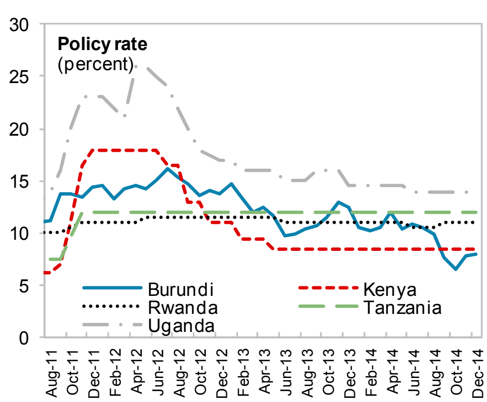
Monetary aggregates rose with greater recourse to domestic financing…



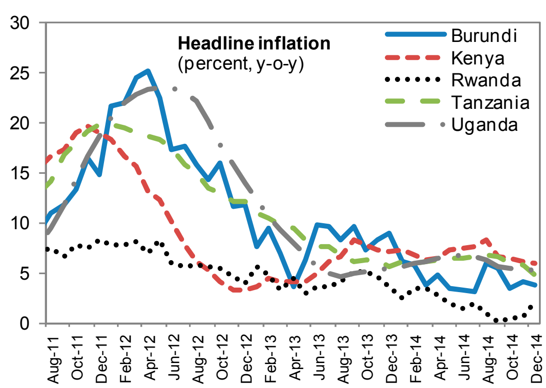
Interest rates declined as inflation subsided and bank liquidity improved.



Regionally, policy rates have declined…



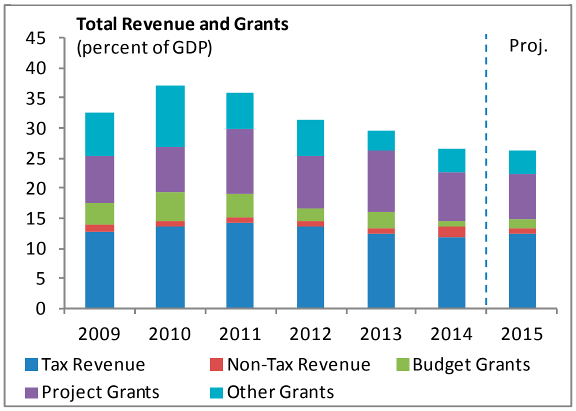
…as inflationary pressures have receded.



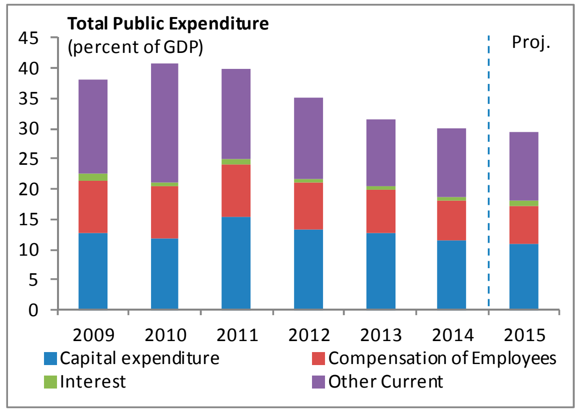
Sources: Burundi authorities; and IMF staff estimates and projections.

Figure 3. Burundi: Fiscal Developments, 2009–2015

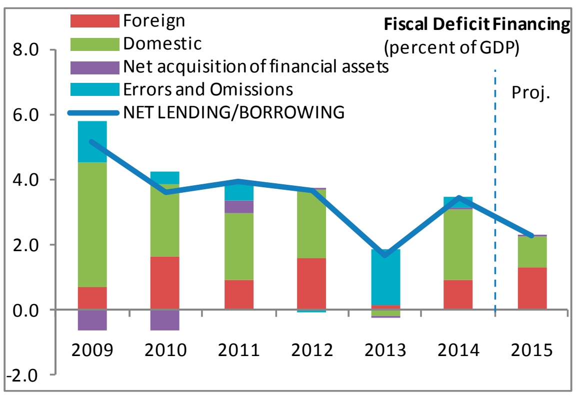
Since peaking in 2009, both revenues and grants have declined...



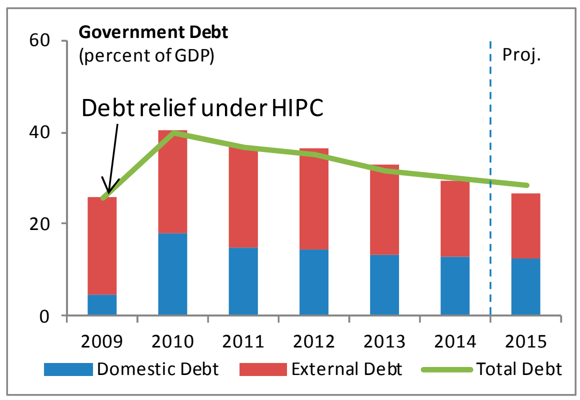
...constraining spending...



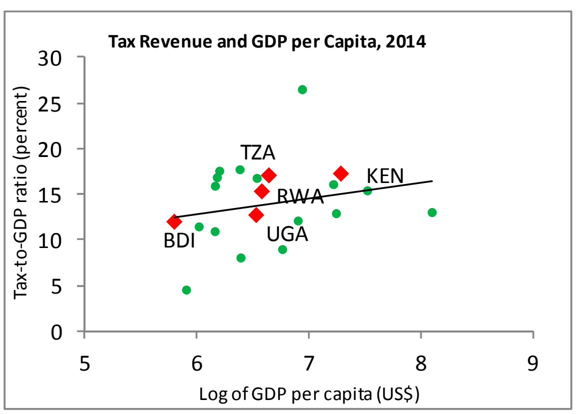
... and contributing to ongoing fiscal adjustment.



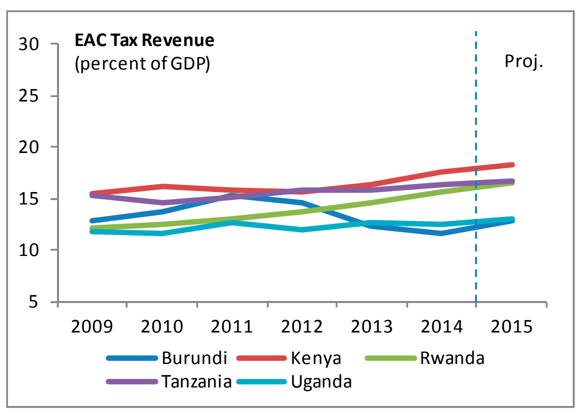
Debt relief has provided some fiscal space.



More revenues need to be mobilized...



... to keep up with EAC peers.



Sources: Burundi authorities; and IMF staff estimates and projections.

Table 3. Burundi: Selected Economic and Financial Indicators, 2012–18

	2012	2013	2014		2015	2016	2017	2018
		Act.	Prog	Prel.		Proj.		
		(Annual percentage change, unless otherwise indicated)						
Output, prices, and exchange rate								
Real GDP	4.0	4.5	4.7	4.7	4.8	5.0	5.2	5.4
GDP deflator	16.4	11.7	8.1	8.1	6.6	5.5	5.4	5.5
CPI (period average)	18.2	7.9	7.5	4.4	5.0	5.3	5.2	5.1
CPI (end of period)	11.8	9.0	7.0	3.8	7.9	5.8	4.7	5.4
Core inflation (end of period) 1/	20.7	6.2	…	8.5	…	…	…	…
Terms of trade (deterioration, -)	-20.6	-10.1	3.8	15.1	9.4	-0.9	-1.4	1.0
Exchange rate (Burundi Franc/US$)	14.4	7.6	…	-0.4	…	…	…	…
Real effective exchange rate (depreciation, -)	-2.7	7.7	…	3.5	…	…	…	…
Money and credit								
Broad Money (M2)	10.9	11.9	13.2	8.7	11.7	10.8	10.9	11.2
Credit to non-government sector	12.4	8.3	9.2	8.8	14.8	4.4	6.5	6.6
Policy Rate (percent; end-period) 2/	13.8	12.5	…	8.0	…	…	…	…
M2/GDP (percent)	20.6	19.7	19.7	18.9	18.9	18.9	18.9	18.9
NPLs (percent of total loans) 3/	8.7	10.3	…	12.5	…	…	…	…
		(Percent of GDP, unless otherwise indicated)						
Central government budget								
Revenue and grants	31.4	29.7	28.3	26.7	27.0	26.7	27.0	26.7
of which : grants	16.9	16.4	14.7	13.0	13.7	12.9	12.9	12.7
Expenditure	35.1	31.4	29.9	30.1	29.3	28.3	28.6	28.2
Current	17.1	15.3	18.9	15.0	13.5	14.0	13.4	13.1
Capital	13.2	12.0	11.0	11.4	10.8	10.8	11.4	11.4
Primary balance	-3.0	-0.2	-0.8	-2.6	-1.4	-0.8	-1.5	-1.5
Overall balance	-3.7	-1.7	-1.7	-3.4	-2.3	-1.6	-1.6	-1.5
Excluding grants	-20.6	-17.4	-16.4	-16.1	-15.0	-14.5	-14.4	-14.1
Net domestic borrowing	1.8	0.8	0.9	1.2	1.1	0.8	0.8	0.7
Public debt								
Public gross nominal debt	36.1	32.7	29.8	31.1	30.4	28.9	27.4	26.1
of which : external public debt	21.7	19.6	17.4	17.1	18.0	16.7	15.4	14.5
Investment and savings								
Investment	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Public	8.8	8.1	7.4	7.6	7.2	7.3	7.7	7.7
Private	11.2	11.9	12.6	12.4	12.8	12.7	12.3	12.3
Savings	2.7	1.6	2.8	2.4	6.7	7.1	7.6	8.0
Public	5.2	6.4	5.7	4.2	4.9	5.7	6.1	6.1
Private	-2.4	-4.8	-2.9	-1.8	1.8	1.4	1.5	1.9
External sector								
Exports (goods and services)	8.7	8.2	8.5	9.4	7.8	8.3	8.2	8.2
Imports (goods and services)	43.4	39.2	36.8	37.0	32.2	30.7	29.8	29.0
Current account balance (including grants)	-17.3	-18.4	-17.2	-17.6	-13.3	-12.9	-12.4	-12.0
Current account balance (excluding grants)	-30.1	-26.4	-24.7	-23.4	-20.3	-18.5	-17.8	-17.1
Gross international reserves								
In billions of US$	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.4
In months of next year imports	3.5	3.4	3.6	3.5	3.6	3.7	3.8	3.9
Memorandum items:								
GDP at current market prices								
Billion of Burundi Francs	3621	4227	4785	4785	5344	5923	6566	7304
US$ billion	2.5	2.7	3.1	3.1	3.4	3.7	4.0	4.2
GDP per capita (Nominal US$)	286	303	328	336	360	381	405	419
Population (million)	8.8	9.0	9.2	9.2	9.4	9.6	9.9	10.1

Sources: Burundi authorities; and IMF staff estimates and projections.

1/ Defined as excluding food and transportation.
2/ The policy rate is the discount rate on the central bank's overnight lending facility.
3/ The latest figure refers to September 2014.

Table 4. Burundi: Central Government Operations, 2012–18

	2012	2013	2014		2015	2016	2017	2018
			Prog.	Prel.	Proj.			
	(BIF billion)							
Revenue and grants	1,136.9	1,255.5	1,351.9	1,277.1	1,443.6	1,581.7	1,771.4	1,949.8
Tax revenue	491.8	522.3	573.6	571.9	658.8	757.1	858.1	954.6
Taxes on income, profits, and capital gains	155.9	146.0	162.6	133.4	159.6	192.8	213.8	237.8
Taxes on goods & services	286.2	327.0	351.9	383.6	439.3	496.6	567.0	630.8
Taxes on international trade & transactions	49.7	49.3	53.9	54.9	59.9	67.7	77.3	86.0
Nontax revenue [1]	34.9	39.1	75.2	83.7	54.8	57.7	64.0	71.2
Grants	610.2	694.1	703.1	621.6	729.9	766.9	849.3	924.0
Program support	75.3	120.4	125.2	37.5	78.7	113.7	110.7	105.2
Project support	321.8	430.6	382.9	387.3	398.1	450.0	508.8	564.1
Other grants and transfers [2]	213.1	143.1	195.0	196.8	253.1	203.2	229.7	254.7
Total expenditure	1,269.8	1,325.7	1,431.3	1,442.2	1,566.6	1,675.9	1,874.6	2,062.2
Expense	792.2	786.2	904.7	897.2	988.7	1,035.0	1,124.1	1,227.2
Compensation of employees	282.2	295.9	322.3	314.4	339.5	370.2	403.6	444.6
Regularization of compensation arrears [3]	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases/use of goods & services	103.8	117.9	113.0	114.6	114.1	148.8	168.3	191.1
Subsidies and Social benefits	163.2	183.5	206.9	211.6	206.2	248.5	251.2	259.5
Interest	26.7	29.6	40.8	33.7	52.6	59.3	56.4	62.3
Of which: Domestic	23.3	25.2	34.7	30.4	44.3	52.7	49.4	55.1
Other expense	210.4	159.2	221.7	222.9	276.3	208.2	244.7	269.7
Of which: Domestically financed	11.3	18.5	29.7	29.1	26.2	5.0	15.0	15.0
Net acquisition of nonfinancial assets	477.6	539.5	526.5	545.0	577.9	640.9	750.5	835.0
Of which: Domestically financed	91.1	94.3	100.1	102.7	97.1	134.3	172.7	190.7
Net lending (+) / borrowing (-)	-132.9	-70.2	-79.4	-165.0	-123.0	-94.1	-103.2	-112.4
Errors and omissions	-0.6	71.8	0.0	15.3	0.0	0.0	0.0	0.0
Of which: change in the treasury float	...	...	...	15.3	...	...	...	...
Net acquisition of financial assets [4]	-0.1	1.1	-4.5	-1.1	-3.0	-13.5	-9.1	-8.8
Deposits	9.0	2.7	0.0	0.0	0.0	-2.0	-2.0	-2.0
Policy lending	-1.0	0.0	0.0	0.0	0.0	-1.0	-2.1	-1.8
Shares and other equity	-8.1	-1.6	-4.5	-1.1	-3.0	-10.5	-5.0	-5.0
Net incurrence of liabilities	133.5	-0.5	74.9	148.6	120.0	80.6	94.1	103.6
Domestic	75.2	-7.7	42.7	104.0	49.9	47.8	47.7	47.7
Foreign	58.2	7.2	32.2	44.6	70.1	32.9	46.4	55.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue and grants	1,136.9	1,255.5	1,351.9	1,277.1	1,443.6	1,581.7	1,771.4	1,949.8
Total expenditure	1,269.8	1,325.7	1,431.3	1,442.2	1,566.6	1,675.9	1,874.6	2,062.2
Of which: Compensation of employees	282.2	295.9	322.3	314.4	339.5	370.2	403.6	444.6
Memorandum items:								
Net domestic financing	66.3	-6.6	42.7	104.0	49.9	49.8	49.7	49.7
Domestic primary balance	-130.9	-148.8	-123.2	-116.8	-69.4	-92.0	-88.6	-75.1
Revenues on account of Burundi's participation in peace keeping missions [5]	75.1	118.4	…	77.5	…	…	…	…
GDP at current market prices (BIF billion)	3,621	4,227	4,785	4,785	5,344	5,923	6,566	7,304

Sources: Burundi authorities; and IMF staff estimates and projections.

[1] Sale of fixed capital assets included in nontax revenue rather than under expenditure.

[2] Includes reimbursement for the Africa Mission to Somalia (AMISOM Fund); on a net basis.

[3] Compensation due to the repayment of wage arrears and arrears in payments to ONATEL.

[4] A negative sign denotes a reduction of financial assets.

[5] Gross basis: mainly related to reimbursements of costs, including equipment and compensation of participating personnel.

Table 4. Burundi: Central Government Operations, 2012–18 (concluded)

	2012	2013	2014		2015	2016	2017	2018
			Prog.	Prel.	Proj.			
	(Percent of GDP, unless otherwise indicated)							
Revenue and grants	31.4	29.7	28.3	26.7	27.0	26.7	27.0	26.7
Tax revenue	13.6	12.4	12.0	12.0	12.3	12.8	13.1	13.1
Taxes on income, profits, and capital gains	4.3	3.5	3.4	2.8	3.0	3.3	3.3	3.3
Taxes on goods & services	7.9	7.7	7.4	8.0	8.2	8.4	8.6	8.6
Taxes on international trade & transactions	1.4	1.2	1.1	1.1	1.1	1.1	1.2	1.2
Nontax revenue [1]	1.0	0.9	1.6	1.7	1.0	1.0	1.0	1.0
Grants	16.9	16.4	14.7	13.0	13.7	12.9	12.9	12.7
Program support	2.1	2.8	2.6	0.8	1.5	1.9	1.7	1.4
Project support	8.9	10.2	8.0	8.1	7.4	7.6	7.7	7.7
Other grants and transfers [2]	5.9	3.4	4.1	4.1	4.7	3.4	3.5	3.5
Total expenditure	35.1	31.4	29.9	30.1	29.3	28.3	28.6	28.2
Expense	21.9	18.6	18.9	18.7	18.5	17.5	17.1	16.8
Compensation of employees	7.8	7.0	6.7	6.6	6.4	6.3	6.1	6.1
Regularization of compensation arrears [3]	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases/use of goods & services	2.9	2.8	2.4	2.4	2.1	2.5	2.6	2.6
Subsidies and Social benefits	4.5	4.3	4.3	4.4	3.9	4.2	3.8	3.6
Interest	0.7	0.7	0.9	0.7	1.0	1.0	0.9	0.9
Of which: Domestic	0.6	0.6	0.7	0.6	0.8	0.9	0.8	0.8
Other expense	5.8	3.8	4.6	4.7	5.2	3.5	3.7	3.7
Of which: Domestically financed	0.3	0.4	0.6	0.6	0.5	0.1	0.2	0.2
Net acquisition of nonfinancial assets	13.2	12.8	11.0	11.4	10.8	10.8	11.4	11.4
Of which: Domestically financed	2.5	2.2	2.1	2.1	1.8	2.3	2.6	2.6
Net lending (+) / borrowing (-)	-3.7	-1.7	-1.7	-3.4	-2.3	-1.6	-1.6	-1.5
Errors and omissions	0.0	1.7	0.0	0.3	0.0	0.0	0.0	0.0
Of which: change in the treasury float	...	...	...	0.3	...	...	...	...
Net acquisition of financial assets [4]	0.0	0.0	-0.1	0.0	-0.1	-0.2	-0.1	-0.1
Deposits	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Policy lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.2	0.0	-0.1	0.0	-0.1	-0.2	-0.1	-0.1
Net incurrence of liabilities	3.7	0.0	1.6	3.1	2.2	1.4	1.4	1.4
Domestic	2.1	-0.2	0.9	2.2	0.9	0.8	0.7	0.7
Foreign	1.6	0.2	0.7	0.9	1.3	0.6	0.7	0.8
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Net domestic financing	1.8	-0.2	0.9	2.2	0.9	0.8	0.8	0.7
Revenues on account of Burundi's participation in peace keeping missions abroad [5]	2.1	2.8	…	1.6	…	…	…	…
Domestic primary balance	-3.6	-3.5	-2.6	-2.4	-1.3	-1.6	-1.3	-1.0
Public debt	36.1	32.7	29.8	32.3	30.4	29.0	27.6	26.4
of which: domestic debt	14.4	13.1	12.4	14.1	12.4	12.2	12.0	11.6
GDP at current market prices (BIF billion)	3,621	4,227	4,785	4,785	5,344	5,923	6,566	7,304

Sources: Burundi authorities; and IMF staff estimates and projections.

[1] Sale of fixed capital assets included in nontax revenue rather than under expenditure.

[2] Includes reimbursement for the Africa Mission to Somalia (AMISOM Fund); on a net basis.

[3] Compensation due to the repayment of wage arrears and arrears in payments to ONATEL.

[4] A negative sign denotes a reduction of financial assets.

[5] Gross basis: mainly related to reimbursements of costs, including equipment and compensation of participating personnel.

Table 5. Burundi: Monetary Survey, 2012–15

	2012	2013	2014		2015
			Prog.[1]	Prel.	Proj.
			(BIF billion)		
Net foreign assets	28.0	24.1	94.3	-40.2	7.8
Central bank	14.0	31.3	76.4	53.9	99.9
Deposit money banks	14.0	-7.1	17.9	-94.2	-92.2
Net domestic assets	916.9	1028.6	1145.3	1196.6	1309.2
Domestic credit	989.3	1088.4	1174.9	1368.3	1496.4
Net claims on the government	354.9	402.0	422.0	641.6	673.8
Of which: on the treasury	403.1	402.7	476.5	414.4	446.7
Credit to the economy	634.4	686.4	752.9	726.7	822.5
Other items, net (assets = +)	-72.4	-59.8	-29.5	-171.6	-187.2
M3	944.9	1052.7	1239.6	1156.4	1317.0
Foreign currency deposits	199.7	218.9	295.7	250.1	304.8
M2	745.2	833.8	943.9	906.3	1012.2
Currency in circulation	173.9	187.5	255.8	199.8	254.9
Local currency deposits	571.3	646.3	688.1	706.5	757.3
Demand deposits	366.5	409.7	420.3	455.7	477.2
Quasi-money	204.8	236.6	267.9	250.8	280.2
	Change as a percentage of beginning period M2				
Net foreign assets	-5.3	-0.5	8.4	-7.7	5.3
Central bank	-1.8	2.3	5.4	2.7	5.1
Deposit money banks	-3.4	-2.8	3.0	-10.4	0.2
Net domestic assets	21.7	15.0	14.0	20.2	12.4
Domestic credit	15.2	13.3	10.6	33.6	14.1
Net claims on the government	1.9	6.3	2.4	28.7	3.6
Credit to the economy	13.3	7.0	8.2	4.8	10.6
Of which: private sector	9.9	6.8	9.2	6.9	11.7
M3	16.4	14.5	22.4	12.4	17.7
Foreign currency deposits	5.6	2.6	9.2	3.7	6.0
M2	10.9	11.9	13.2	8.7	11.7
Currency in circulation	3.1	1.8	8.2	1.5	6.1
Local currency deposits	7.8	10.1	5.0	7.2	5.6
Demand deposits	5.2	5.8	1.3	5.5	2.4
Quasi-money	2.6	4.3	3.7	1.7	3.2
Memorandum items:					
Reserve money (12–month percent change)	16.2	23.6	12.5	16.4	20.7
Velocity (GDP/M2; end of period)	4.9	5.1	5.1	5.3	5.3

Sources: Burundi authorities; IMF staff estimates and projections.

[1] IMF Country Report EBS/14/293.

Table 6. Burundi: Central Bank Accounts, 2012–15

	2012	2013	2014				2015			
	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
			Act.	Act.	Act.	Prel.	Proj.			
	(BIF billion)									
Net foreign assets	14.0	31.3	14.1	25.4	38.6	53.9	80.0	50.0	50.8	90.6
Assets	483.8	500.1	490.4	485.4	523.7	500.0	537.0	507.0	518.9	558.7
Liabilities	469.8	468.8	476.3	460.0	485.1	446.1	457.1	457.1	468.1	468.1
Net domestic assets	231.3	272.0	261.0	308.4	269.2	299.1	318.4	331.5	360.1	324.4
Domestic credit	344.5	351.5	359.1	380.6	335.6	355.6	374.9	388.0	417.2	385.7
Net claims on the government	315.4	317.5	324.5	345.3	300.3	340.6	349.7	362.8	379.9	324.0
Other credit	22.3	36.7	34.7	35.3	35.3	15.0	25.2	25.2	37.4	61.7
Other items, net (assets = +)	-113.2	-79.4	-98.1	-72.3	-66.4	-56.5	-56.5	-56.5	-57.1	-61.4
Reserve money	245.3	303.3	275.1	333.8	307.9	353.1	398.3	381.4	410.9	415.0
Currency in circulation	173.9	187.5	173.2	195.9	190.6	199.8	250.7	223.8	254.4	254.9
Bank reserves	39.9	82.7	70.9	100.7	80.8	120.1	108.5	116.8	118.1	124.0
Cash in vault	24.4	24.2	28.1	27.9	32.1	27.5	20.8	26.8	26.8	26.8
Other nonbank deposits	7.2	8.9	2.9	9.4	4.4	5.6	18.3	14.0	11.7	9.3
Memorandum items:										
Net foreign assets of BRB (US$ million)	9.1	20.3	9.1	16.4	25.0	34.7	51.4	31.9	31.9	55.8

Sources: Burundi authorities; and IMF staff estimates and projections.

Table 7. Burundi: Balance of Payments, 2012–18

	2012	2013	2014		2015	2016	2017	2018
		Est.	Prog.	Prel.	Proj.			
	(US$ million)							
Current account	-433.3	-501.8	-527.8	-544.3	-449.7	-475.1	-495.2	-522.4
(excluding official transfers)	-756.0	-718.9	-757.7	-724.3	-686.5	-679.5	-710.1	-744.9
Trade balance	-751.5	-751.9	-795.6	-782.9	-732.3	-752.3	-815.5	-877.4
Exports, f.o.b.	134.7	91.1	117.3	130.1	116.6	127.1	134.6	146.7
Of which: coffee	70.0	28.7	52.9	64.2	43.6	47.2	47.3	49.7
Imports, f.o.b.	-886.2	-843.0	-912.9	-913.0	-848.8	-879.4	-950.1	-1024.1
Of which: petroleum products	-143.3	-170.9	-179.2	-165.6	-91.8	-111.4	-126.8	-139.7
Services (net)	-118.7	-94.1	-93.0	-71.8	-92.6	-73.9	-50.3	-33.1
Income (net)	-9.0	-1.4	0.1	-0.3	2.3	5.0	8.1	12.2
Current transfers (net)	446.0	345.6	360.7	310.8	372.8	346.2	362.4	375.9
Of which: official (net)	322.7	217.1	229.9	180.0	236.7	204.4	214.9	222.6
Capital account [1]	223.1	257.7	243.0	250.4	252.3	279.7	310.0	337.1
Financial account	181.2	219.9	321.9	291.2	219.4	224.0	218.6	227.6
Direct investment	0.6	68.0	71.4	71.4	75.0	78.7	82.7	86.8
Other investment	180.6	151.9	250.5	219.8	144.4	145.3	136.0	140.8
Assets	-48.7	-45.9	-78.1	-38.2	-66.3	-74.6	-83.3	-95.3
Liabilities	229.3	197.9	328.6	258.1	210.7	219.9	219.3	236.1
Errors and omissions	39.7	35.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	10.7	11.6	37.1	-2.6	22.0	28.6	33.4	42.4
Financing (increase in assets = –)	-10.7	-11.6	-37.1	2.6	-22.0	-28.6	-33.4	-42.4
Of which: change in official reserves	-13.2	-12.7	-37.1	4.4	-22.2	-28.7	-33.5	-42.5
Fund Purchases and loans	15.4	15.4	15.6	14.6	14.4	7.3	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)							
Memorandum items:								
Current account	-17.3	-18.4	-17.2	-17.6	-13.3	-12.9	-12.4	-12.0
Gross official reserves								
US$ million	309	321	359	317	339	368	402	444
Months of imports	3.5	3.4	3.6	3.5	3.6	3.7	3.8	3.9
PV of external debt (percent of exports of GS)	187	159	248	129	152	135	127	117
Government external debt (percent of GDP)	22	20	18	18	18	17	16	15
Coffee price (US cents per lb)	188	141	186	203	184	189	190	190
Oil (US$/barrel)	105	104	104	96	51	59	64	67
Nominal GDP (US$ million)	2,510	2,723	3,068	3,094	3,388	3,680	4,000	4365

Sources: Burundi authorities; and IMF staff estimates and projections.

[1] Based on preliminary information provided by donors.

Table 8. Burundi: Banking Systems Soundness Indicators, 2010–14

(percent, unless otherwise indicated)

	2010 Dec	2011 Mar	2011 Jun	2011 Sept	2011 Dec	2012 Mar	2012 Jun	2012 Sep	2012 Dec	2013 Mar	2013 Jun	2013 Sep	2013 Dec	2014 Mar	2014 Jun	2014 Sep
Capital Requirement																
Capital requirement over weighted assets (solvency ratio)	19.7	21.7	20.7	20.0	19.8	19.8	18.9	19.7	20.2	21.1	21.8	19.9	22.3	21.9	21.3	18.1
Core capital (Tier 1 capital) over weighted assets	16.9	18.9	18.1	17.6	17.3	17.3	16.6	17.5	18.0	18.9	19.6	17.8	19.2	19.5	19.1	16.2
Quality of assets																
Nonperforming loans (percent of total gross loans granted)	10.0	8.8	7.6	7.3	7.7	8.1	7.3	8.0	8.7	9.6	10.1	9.9	10.3	11.7	12.7	12.5
Provisions (percent of nonperforming loans)	87.6	90.5	90.6	81.9	83.3	76.7	83.1	78.0	77.8	72.8	74.5	78.8	84.1	81.2	80.1	81.1
Nonperforming loans net of provisions (percent of capital)	4.3	2.8	2.6	5.0	4.9	7.1	5.0	6.7	7.1	9.4	8.7	7.3	5.2	7.2	8.8	8.7
Large exposures (percent of capital)	28.6	25.8	27.3	21.7	23.5	20.8	23.4	20.8	22.9	23.8	22.4	23.3	51.5	58.2	58.7	78.4
Profitability rates																
Return on assets	2.5	1.0	1.9	2.9	3.2	0.7	1.1	1.5	1.5	0.3	0.8	1.2	1.4	0.4	0.1	0.5
Return on equity capital	21.8	6.7	13.2	20.3	23.0	4.6	8.0	10.2	10.1	2.0	5.0	7.6	8.7	2.8	1.1	3.5
Net interest (percent of gross results)	191.3	168.3	164.8	165.7	175.6	176.9	184.9	192.7	197.8	204.1	275.7	86.9	82.9	55.4	47.8	50.3
Costs excluding interest (percent of gross outturn)	143.4	101.4	100.0	121.4	114.0	128.6	112.1	153.7	241.0	199.1	248.7	77.7	77.0	64.1	68.2	66.2
Liquidity																
Liquid assets (percent of all loans granted)	90.5	77.7	55.8	49.5	59.5	56.0	45.8	26.7	52.6	52.5	52.8	58.0	66.7	72.9	71.5	68.1
Liquid assets (percent of short-term commitments)	153.5	133.0	91.2	79.4	93.1	88.6	70.8	74.2	85.5	103.9	86.6	90.4	67.5	73.6	74.1	69.8

Source: Burundi authorities.

Table 9. Burundi: Tentative Schedule of ECF Disbursements and Reviews, 2012–16

Date	Disbursement (SDR million)	Percent of quota	Conditions
February 9, 2012	1.00	1.3	Executive Board approval.
August 6, 2012	4.00	5.2	Completion of first review, based on observance of performance criteria at end-March 2012.
February 22, 2013	5.00	6.5	Completion of second review, based on observance of performance criteria at end-September 2012.
September 17, 2013	5.00	6.5	Completion of third review, based on observance of performance criteria at end-March 2013.
March 10, 2014	5.00	6.5	Completion of fourth review, based on observance of performance criteria at end-September 2013.
September 2, 2014	5.00	6.5	Completion of fifth review, based on observance of performance criteria at end-March 2014.
March 30, 2015	5.00	6.5	Completion of sixth review, based on observance of performance criteria at end-September 2014.
<u>Proposed augmentation</u>			
July 15, 2015	5.00	6.5	Completion of seventh review, based on observance of performance criteria at end-March 2015.
January 15, 2016	5.00	6.5	Completion of eighth review, based on observance of performance criteria at end-September 2015.
Total for the ECF arrangement	40.00	51.9	

Source: IMF staff estimates.

Table 10. Burundi: Indicators of Capacity to Repay the Fund, 2015–26

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projections						
Fund obligations based on existing credit												
(SDR million)												
Principal	12.5	13.0	12.0	12.5	11.8	10.6	8.0	5.4	3.5	1.5	0.0	0.0
Charges and interest	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit												
(SDR million)												
Principal	12.5	13.0	12.0	12.5	11.8	11.1	9.0	6.4	4.5	2.5	0.5	0.0
Charges and interest	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit												
SDR million	12.7	13.2	12.2	12.6	11.9	11.2	9.0	6.4	4.5	2.5	0.5	0.0
Percent of exports of goods and services	6.9	6.2	5.4	5.1	4.4	3.9	2.9	1.9	1.2	0.6	0.1	--
Percent of debt service[1]	50.1	48.4	48.0	47.8	42.7	40.3	33.5	25.4	18.9	11.8	2.3	--
Percent of gross official reserves	5.4	5.2	4.4	4.1	3.5	2.9	2.1	1.4	0.9	0.4	0.1	0.0
Percent of GDP	0.5	0.5	0.4	0.4	0.4	0.3	0.2	0.2	0.1	0.1	--	--
Percent of quota	16.5	17.1	15.8	16.4	15.4	14.5	11.7	8.3	5.9	3.2	0.6	0.0
Outstanding Fund credit												
SDR million	88.2	80.2	68.2	55.8	44.0	32.9	23.9	17.5	13.0	10.5	10.0	10.0
Percent of exports of goods and services	48.0	38.0	30.3	22.7	16.5	11.4	7.6	5.1	3.5	2.6	2.3	2.1
Percent of debt service[1]	347.6	294.8	269.2	211.6	158.4	118.3	88.6	69.3	54.4	49.7	46.7	50.5
Percent of gross official reserves	37.4	31.5	24.7	18.3	13.1	8.7	5.6	3.8	2.5	1.8	1.6	1.5
Percent of GDP	3.8	3.2	2.5	1.9	1.4	0.9	0.6	0.4	0.3	0.2	0.2	0.2
Percent of quota	114.5	104.2	88.6	72.4	57.1	42.7	31.0	22.7	16.9	13.6	13.0	13.0
	108.0	97.7	82.1	65.9	50.6	36.2	24.5	16.2	10.4	7.1	6.5	
Net use of Fund credit (SDR million)	-2.5	-8.0	-12.0	-12.5	-11.8	-11.1	-9.0	-6.4	-4.5	-2.5	-0.5	0.0
Disbursements	10.0	5.0	--	--	--	--	--	--	--	--	--	--
Of which: possible ECF augmentation	5.0	5.0	--	--	--	--	--	--	--	--	--	--
Repayments and repurchases	12.5	13.0	12.0	12.5	11.8	11.1	9.0	6.4	4.5	2.5	0.5	0.0
Memorandum items:												
Exports of goods and services (US$ million)	264.7	304.8	327.8	357.5	388.1	421.4	457.8	497.9	541.8	590.8	645.1	708.2
Debt service (US$ million)	36.6	39.3	36.9	38.4	40.4	40.4	39.2	36.7	34.8	30.7	31.1	28.8
Gross official reserves (US$ million)	339	368	402	444	489	553	626	666	766	828	896	970
Nominal GDP ((US$ million)	3,387.5	3,680.4	4,000.4	4,364.8	4,732.8	5,131.6	5,566.4	6,048.4	6,576.4	7,159.6	7,804.9	8,517.0
Quota (SDR, million)	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0

Source: IMF staff estimates and projections.

[1] Total debt service includes IMF repurchases and repayments.

Appendix I. Letter of Intent

Bujumbura, March 4, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Ms. Lagarde:

The Executive Board of the International Monetary Fund (IMF) approved on January 27, 2012 a three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi. This arrangement supports our medium-term program and aims to consolidate the process of macroeconomic stability, accelerate growth, and reduce poverty. In accordance with this arrangement, the government of Burundi, with the help of an IMF mission, has examined the implementation of the program for the sixth review under the arrangement, as well as the prospects and economic and financial measures to be implemented in 2015.

Burundi remains vulnerable to the persistent effects of external shocks from commodity prices and the decrease in the tax efforts which has been ongoing for more than two years. Moreover, while the country is preparing for general elections in May–July 2015, social and political tensions may develop that, coupled with external shocks, could undermine the significant progress made toward macroeconomic stabilization. For this reason, we have stepped up efforts to mobilize additional revenues, including exceptional revenue measures, which could help in responding to potential contingencies related to the upcoming elections.

The strengthening of tax administration will supplement the measures included in the July 2014 supplementary budget to compensate for revenue losses arising in part from harmonization of the tax regime within the East African Community. Increased efforts to control expenditures starting in the second half of 2014 helped mitigate the effects of these shortfalls and contributed to satisfactory execution of the program during the period under review. All quantitative performance criteria related to the sixth review were met. The end-September and end-December indicative quantitative targets were also met, except for the ceiling for reserve money, which was exceeded at both test dates due to a larger than expected accumulation of net foreign assets, and the end-December ceiling for net domestic financing of the government that was exceeded by a very small margin (less than 0.1 percent of GDP). The indicative target for pro-poor spending was observed at end-September, but the end-December target was missed because of the reallocation of funds in the supplementary 2014 budget toward other priority spending. For the most part, the structural benchmarks under the sixth review were also met. The government is firmly committed to pursuing implementation of the program in order to preserve the viability of public finances and debt, and to restore economic growth over the medium term. To this end, it will maintain prudent fiscal and monetary policies to anchor inflation expectations at levels generally compatible with price stability.

With regard to progress made in implementing the program supported by the ECF arrangement, the Government is seeking the completion of the sixth review of the program, and the disbursement of SDR 5 million, thereby raising the cumulative disbursements under the current ECF arrangement to SDR 30 million. To consolidate progress made and continue the implementation of reforms, particularly strengthening the management of public finances, the Government is seeking extension of the current ECF arrangement to March 31, 2016 and augmentation of the resources available under this arrangement by SDR 10 million.

The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF on the adoption of these measures and in advance to the revisions to the policies contained in the MEFP in accordance with the IMF's policies on such consultation.

The Government will communicate to the IMF all the information necessary to ensure the implementation and regular monitoring of the program. This information, as well as the follow-up modalities related to the implementation of the program and the performance criteria, quantitative targets, and structural benchmarks are specified in the Technical Memorandum of Understanding (TMU), also attached to this letter. The seventh review will focus on the performance criteria of March 31, 2015 and the eighth review will focus on the performance criteria of September 30, 2015.

The Burundian authorities wish to make this letter available to the public along with the attached MEFP and TMU as well as the IMF staff report on the sixth review. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the government of Burundi.

Sincerely yours,

/s/

Tabu Abdallah MANIRAKIZA
Minister of Finance and
Economic Development Planning

/s/

Jean CIZA
Governor, Bank of the Republic of Burundi

/s/
Gervais RUFYIKIRI
Second Vice-President, Republic of Burundi

Attachments: Memorandum of Economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

Attachment I. Amendments to the Memorandum of Economic and Financial Policies

March 4, 2015

I. INTRODUCTION

1. Burundi adopted an economic and financial program supported by an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) to consolidate economic and political gains, promote inclusive economic growth, curb inflation, and strengthen policies designed to combat poverty. This Memorandum supplements the December 2011, July 2012, January 2013, August 2013, December 2013, and July 2014 versions. It reports on the implementation of the program's quantitative targets for the period under review and the structural benchmarks for the sixth review and defines the Government's economic policies and reforms to achieve the 2015 targets of its economic and financial program. The program's measures and objectives go hand in hand with the reforms articulated in the Poverty Reduction and Growth Strategy Paper (PRSP-II).

2. The combined effects of the external shocks to which Burundi remains vulnerable and the risk of social and political tensions during the pre-election period call for particular vigilance to preserve the significant progress made toward macroeconomic stabilization. Moreover, the negative effects on public finances and the external position resulting from the drop in direct budget support are compounded by insufficient mobilization of domestic resources, particularly due to the narrow tax base. Thus, Burundi still needs to seek support from technical and financial partners for its efforts to transform its economy and strengthen its political institutions.

3. During the Burundi development partners' conference held in Geneva in October 2012, the government presented the considerable progress made, particularly in the areas of good governance, peace consolidation, and improved public access to basic social services. In the wake of the Geneva conference, the government organized two sectoral conferences in July and October 2013 and a roundtable in December 2014 for mid-term evaluation of progress made in implementing the PRSP-II. The targeted sectors are in line with the main pillars of the PRSP-II and pertain to: (i) transport infrastructures and information and communication technologies (ICT); (ii) energy; (iii) private sector and tourism development; (iv) governance, the rule of law, and gender; (v) education; (vi) health; and (vii) the environment, water, and sanitation. The Government is aware of how much remains to be done in these areas. This is why the authorities have sought continued political support and additional financial assistance to promote sustainable economic growth, and reduce unemployment and poverty.

II. ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE ECONOMIC PROGRAM IN 2014

4. Macroeconomic developments remained broadly in line with program objectives. GDP growth continued its trajectory, increasing from 4.5 percent in 2013 to an estimated 4.7 percent in 2014, a trend that is expected to continue in 2015 owing to investments in infrastructure, particularly the new technologies supported by fiber optics, transport, and hydroelectric dams. Inflation fell sharply, from an average of 9 percent in 2013 to 4.4 percent in 2014, driven by favorable developments in international petroleum and food product prices and, the resumption of agricultural production.

5. The external position improved slightly with the external current account deficit (including transfers) falling from 18.4 percent of GDP in 2013 to an estimated 17.6 percent of GDP in 2014. This improvement was driven by favorable developments in the terms of trade. Imports as a percentage of GDP fell by about two points while exports increased by one percentage point of GDP, in large part reflecting renewed coffee exports. Official foreign exchange reserves remained stable at the equivalent of 3.5 months of imports at end-2014.

6. Monetary policy in 2014 continued to be guided by the two-fold objective of price stability and strengthening of the external position. Improved liquidity conditions allowed the Central Bank of Burundi (BRB) to reduce its intervention rate from 10.95 percent in June 2014 to 8 percent in December 2014. Growth in broad money and credit to the private sector reached, each, about 9 percent (y-o-y) at end-December. The Monetary Policy Committee has continued to publish its quarterly reports since 2013, each of which is accompanied by a monetary policy statement publicly announcing the monetary authority's intentions for the future. This innovation enhances the transparency and credibility of the monetary policy. Following the BRB's interventions to dampen exchange rate volatility in 2013, the Burundian franc has remained relatively stable against the U.S. dollar.

7. Budget execution during the first half of 2014 was affected by significant losses in the mobilization of revenue, leading to the adoption of a revised (supplementary) budget to reverse the downward trend in the tax effort and strengthen expenditure controls. On the whole these measures made it possible to achieve the program objectives, despite the delay in adoption of the revised 2014 Budget and the delayed effect (until 2015) of some tax revenue recovery measures. Thus, domestic resources reached FBu 411.9 billion at end-September and FBu 655.6 billion at end-December 2014, or an increase of 16.8 percent over 2013. However, the tax effort fell by 0.4 percentage point of GDP, which grew by 9.5 percent in nominal terms. In sum, the increase in revenues was the result of the combined effect of redoubled efforts to mobilize revenues undertaken by the Burundi Revenue Authority (OBR), non-tax revenue from the sale of a telephone license, and corrective measures intended to offset the revenue losses recorded during the first half of the year. However, the delayed adoption of these measures and administrative difficulties in their implementation meant that their impact on revenues (about 0.3 percent of GDP) was no more than half the amount anticipated in the July 2014 supplementary budget.

8. During the fourth quarter, the government made an effort to benefit from the decline in international oil prices. The average international price (FOT) of petroleum products began to fall in August for Burundian importers.[1] The government used this decline to increase taxes on petroleum products, thus reducing subsidies, while allowing for a slight reduction in fuel prices at the pump. Thus, these measures allowed for increasing revenues to the public treasury due to reduced subsidies, while allowing lower fuel prices for consumers. Moreover, the average price at the pump is now nearly equal to the average unsubsidized price.

9. The government continued its policy of expenditure restraint, as evidenced by the continued decline in the wage bill relative to GDP. This fell to 6.6 percent of GDP in 2014 or a decline of 0.4 percentage points of GDP compared to 2013. The roll-out of the payroll software (OPEN PRH) and the adoption of a unified registration procedure for civil servants cleared up the civil service database and payroll system by virtually eliminating duplicates and ghost records. The new OPEN PRH system also considerably reduced payroll processing times. The system made it possible to unify the current database with the database drawn from the 2008 biometric census; extending database access to include Ministry of Finance staff will guarantee better management of the payroll, which is one of the largest items in the government's budget. To the same end, training was provided to the Ministry of Civil Service and Ministry of Finance staff on modern wage bill forecasting methods.

10. In sum, program execution during the period under review was satisfactory overall. In particular, all the quantitative performance criteria at end-September 2014 were met. All the end-September and end-December indicative targets were also met, except for the reserve money target and the end-December ceiling on domestic bank financing of the government, which was exceeded by a margin less than 0.1 percent of GDP. The reserve money ceiling was exceeded due to the accumulation of net foreign assets, which exceeded their targets (floors) with no counterpart in the development of net domestic assets. The end-September indicative target on pro-poor expenditures was met despite cash flow problems, demonstrating the government's determination to continue its efforts to protect vulnerable sectors of the population; however, the end-December target was missed as spending reallocations in the supplementary budget, while mostly oriented to meeting social goals, were not aligned with the program definition of pro-poor spending.

11. As indicated in table Table I.2, key structural measures related to the sixth review were implemented as agreed. Delays in some areas have been primarily due to delays in obtaining the required technical assistance.

12. Lastly, significant progress was made in strengthening the management of public finances. Thus, as part of efforts to put in place the government's rationalized expenditure chain (chaîne

[1]All the averages in this text refer to unweighted averages for petroleum products, including gas, oil, and diesel.

rationalisée de la dépense), the Minister of Finance issued an ordinance delegating expenditure commitment authority to ministries and other institutions with expenditures controllers. The Council of Ministers discussed the decree defining the place of administrative and financial divisions in the ministries' organizational charts. It is expected that the expenditure chain and the production of financial data will be made more effective and reliable with the deployment as of January 1, 2015 of an integrated public financial management software package accessible in all the ministries. This system is expected to enable secure, on-line monitoring of all budgetary transactions, the introduction of credits, up to the issuance of Treasury payment balances, and the automated production of financial reports such as the government flow-of-funds table (TOFE). The new software package should also be a "living" tool and be interconnected with other expenditure chains, particularly civil service wages and salaries, as well as the OBR's computer system. However, the interface between the new IT system at the MoF and the IT system at the OBR can only be achieved once both systems become operational. In the meantime, modules are being developed allowing the MoF to have online access to revenues collected by OBR and OBR to access the MoF's IT system to assess taxes on government transactions with domestic suppliers.

13. The BRB continued to implement a prudent monetary policy during 2014, in a macroeconomic environment characterized by fairly comfortable liquidity, moderate economic growth, weak external inflation, and declining domestic inflation. The BRB continued to implement projects to modernize the financial sector, one of the components of the financial sector development project (PSD). In this context, it is working on: (i) strengthening the supervision of banks, nonbank financial institutions, and microfinance institutions; (ii) modernizing payment systems (ACH/RTGS, e-money, and central securities depository) through a more robust IT infrastructure; and (iii) making use of new information and communications technologies (NTIC) by the banking system more widespread, modernizing the national payments system, and introducing the associated legal and institutional framework. Much headway has been made in these areas. The law on the National Payment System was finalized and introduced in the legislative agenda while the interbank electronic payment agreement protocol is currently being reviewed for signature by the parties involved.

14. The bank supervision department has carried on its mission to ensure the stability and soundness of the banking sector through off-site and on-site audits, regulations, and approvals, and monitoring of exchange regulations. It has also continued to update its legal and regulatory mechanism to align it with best practices and international standards. The unit has developed the risk-based supervision methodology, which was approved by the management of the BRB in January 2014, and improved its bank rating system. The manual of procedures, including risk-based supervision, was also validated.

15. The draft banking law, on which the IMF and the National Bank of Belgium had made comments, was finalized, approved by the Council of Ministers, and submitted to the Parliament for adoption. In accordance with the provisions of this draft law, four circulars were revised and issued as follows: (i) the circular on capital to conform with Basel; (ii) the circular on the solvency ratio to align it with Basel II and III; (iii) the circular on the distribution of risks, introducing the concept of large exposures as well as the limit on assistance to staff and related parties; and (iv) the circular on the adequacy of resources for their use, which has been revised. Three other laws were also discussed by the Council of Ministers; they relate to the credit information bureau, leasing, and the personal property securities registry.

16. Notable progress was made regarding implementation of the recommendations from the internal audit of the BRB and safeguards. In line with the 2012 safeguards recommendations, the BRB continues to submit a quarterly report to its Board of Directors on reserves management. A comprehensive process is underway to identify articles in the BRB charter to be amended, including through an explicit provision specifying that the BRB is the sole holder of official foreign reserves of the country. Pursuant to current law, the BRB also issued instructions to all banks urging them to apply the ministerial ordinance forbidding them to open accounts for government entities and projects. Pursuant to the agreement on consolidation of BRB advances to the Public Treasury, the Ministry of Finance (MoF) regularly makes interest payments as they become due. The BRB also scrutinizes all payments in foreign currency (particularly amounts exceeding the threshold of US$50,000) made in the name of the Public Treasury in order to limit the risk of fraud.

17. Several sizeable investments now being implemented are expected to stimulate exports. In the coffee sector, the government relies on support from the World Bank to boost productivity, while pursuing the program to privatize washing stations. The government recognizes the preponderant role the private sector should play in the coffee sector as part of its strategy to boost production and minimize the cyclical nature of coffee production. In the extractive industries sector, the Burundi Musongati Mining company, in which the government holds a 15 percent share, has begun a pilot phase on operations to extract nickel. At full capacity, which will require significant investments to develop the mine as well as investments in energy and transport, nickel mining is expected to provide significant benefits for the Burundian economy within five to seven years.

18. The government is continuing reforms to make the business climate more attractive to private investors. To this end, it adopted a draft revised investment code consistent with community provisions within the East African Community (EAC) and sent it to Parliament for adoption. Substantial progress has been made in eliminating constraints related to: (i) business start-ups; (ii) the issuance of building permits; (iii) property transfers; and (iv) regional trade, which no longer pose an obstacle to entrepreneurship. Owing to the government's efforts to improve the business climate, Burundi is ranked among the 29 most reform-oriented countries in the World Bank's 2015 Doing Business report. While the country has dropped two spots on the ranking, from 150th in 2014 to 152nd in 2015, this resulted more from a change in the methodology that had put the African countries at a disadvantage than to an actual deterioration in the business climate.

III. ECONOMIC AND FINANCIAL OUTLOOK AND POLICIES FOR 2015

A. Macroeconomic Framework

19. The economic outlook for Burundi remains challenging. The GDP growth rate is expected to rise gradually over the medium term, driven by a recovery in agricultural activity, investments in mining sector development and in the new information and telecommunications technologies, construction, and execution of hydroelectric projects. Integration within the EAC should spur investment in the tourism, wholesale and retail, financial, and telecommunications sectors.

20. GDP growth should thus rise slightly to 4.8 percent in 2015 compared to 4.7 percent in 2014, driven by infrastructure works, particularly the rehabilitation of roads damaged by rains in 2014 and the construction of hydroelectric dams. Inflation, measured by the household consumer price index, should not exceed 5.5 percent in 2015 and should stabilize at about 5 percent as an annual average in the medium term, helped by a prudent monetary policy and a drop in international food and petroleum product prices. Despite the anticipated reduction in coffee exports, the current account deficit of the balance of payments should fall below 15 percent of GDP, reflecting the decline in the oil bill, and should continue to fall over the medium term owing to higher exports and a weaker expansion of imports against the backdrop of a slowdown in the flow of humanitarian aid. A slight improvement in official foreign exchange reserves is expected and should reach the equivalent of 3.6 months of imports in 2015, aided in part by reduced BRB interventions on the foreign exchange market, and should continue to improve over the medium term.

B. Fiscal Policy

21. The prudent fiscal policy followed in recent years was marked by good control of expenditures, which helped offset reductions in domestic revenues and budget grants. However, budget execution was affected by lower-than-expected budget support in 2014. As a result, the recourse to domestic financing increased from 1.8 percent of GDP in 2012 to 2.2 percent in 2014 at a time when the overall deficit narrowed from 3.7 percent of GDP to 3.4 percent. The effort to contain expenditures too often called for budget adjustments at the expense of investment spending using the country's own resources. Capital expenditure is primarily financed by project grants and is executed according to the pace of their disbursements.

22. The government's policy as reflected in the budget for 2015 adopted this past December is on the whole consistent with the program. Compared to the program, the aggregate budget balance shows a slight deterioration (a deficit of 2.3 percent of GDP compared to only 2.1 percent in the original program) to allow the government to finance its portion of costs associated with the upcoming elections. This slight increase in the aggregate budget deficit will be reversed in 2016 due in part to the improvement in the tax effort. The structural revenue measures adopted in the 2014 supplemental budget act will benefit the budget in later years. However, budget execution could be compromised by the uncertainty of foreign aid and pressure to finance the Medical Assistance Program (CAM). The government's efforts to lock in gains resulting from reduced oil prices, including by delaying adjustments in domestic prices, could help to minimize the negative impact of these uncertainties.

23. Total (non-grant) budget revenue is projected to reach FBu 713.7 billion (or 13.4 percent of GDP) compared to FBu 655.6 billion (or 13.7 percent of GDP) in 2014. To reach this target, the full effect of tax measures introduced by the supplemental budget act of August 2014 should make it possible to generate additional revenues equal to about one percentage point of GDP and to reverse the continued downward trend in the tax effort since 2012. These measures, coupled with the expected outcome of efforts to strengthen tax administration, excise duties on petroleum products, and the elimination of subsidies on these products, will make it possible to protect priority expenditures and to place government finances in a less precarious position in this election year.

24. Total expenditure could reach FBu 1567 billion (or 29.3 percent of GDP) in 2015. The wage bill is expected to be FBu 339.5 billion, or 6.4 percent of GDP, making it possible to respond to human resource needs in the key sectors of education, health, and agriculture. The reduced wage bill is basically due to limits on hiring in the priority sectors and to salary increases being kept at a level clearly below the nominal GDP growth rate. Electoral expenses financed with own resources should be kept to about FBu 15 billion (or 0.3 percent of GDP), representing about one-third of electoral expenses, which will be primarily financed with support from the external partners. Investment spending financed with own resources should amount to FBu 97.1 billion, or about 2 percent of GDP, close to the level reached in 2014.

25. In the health sector, the government will continue to provide free healthcare for children under five years of age and to cover the cost of childbirth. The rate of assisted childbirth was assessed at 73 percent in 2013 against 70 percent in 2012. The health insurance program, which gives vulnerable segments of the population access to health services, is increasingly successful. To ensure long-term viability, the government has embarked on reforms of the program to better target beneficiaries and enhance complementarity with other medical insurance plans, particularly the care for indigents provided by the Ministry of Solidarity, community-based mutual health insurance plans, medical coverage for civil servants, and private medical insurance. The 2015 budget takes into account the efforts undertaken by the government to protect the country against Ebola.

26. In the education sector, the government will continue its successful program of providing free primary school education, which includes free meals for students served by school cafeterias. Between 2013 and 2014, the completion rate of the primary education thus improved from 70 percent to 74 percent for girls and from 66 percent to 68 for boys.

27. In the agricultural sector, the government, in close collaboration with technical and financial partners, seeks to improve productivity in order to: (i) combat the high cost of living; (ii) eliminate food insecurity; and (iii) increase coffee production while improving its quality so as to promote the label "Burundi coffee" on international markets. In the same context, the government developed and implemented a program encouraging the use of fertilizer by rural producers. The purpose of this program is to achieve significant increases in agricultural productivity, thereby contributing to the fulfillment of objectives under the National Agricultural and Livestock Investment Plan (Plan National d'Investissement Agricole et de l'Elevage).

28. Aware of the fragility of the country's external position, the government will continue with a prudent debt policy to avoid over-indebtedness and therefore intends to seek funds in the form of grants or highly concessional loans with a grant element of at least 50 percent, sufficient to cover its financing requirements. The new law on debt, prepared with IMF technical assistance, [recently transmitted to the Parliament for adoption] will provide an effective framework to guide the debt policy. The government plans to continue strengthening its debt management capacity, including introducing a debt sustainability analysis framework with technical support from AFRITAC Central.

C. Monetary and Exchange Rate Policies

29. The BRB continues to modernize the conduct of monetary policy, which will continue to be guided by the pursuit of price stability. To enhance the effectiveness of this policy, the BRB continues to build its capacity to forecast inflation and analyze the autonomous factors influencing bank liquidity. The decline in the inflation rate enabled the BRB to reduce its interest rates to lower borrowing costs. The BRB will continue to closely monitor the development of the macroeconomic indicators, including inflation, liquidity, and interest rates so as to conduct operations ensuring a rate of growth in the money supply necessary to finance the economy. To this end, the BRB has requested technical assistance from the IMF to build its capacities in macroeconomic forecasting and in the definition and conduct of monetary policy, with a particular focus on identifying instruments to increase the effectiveness of interest rates and other monetary policy signals. In order to promote access to financial services while ensuring the stability and soundness of the financial system, the BRB plans to introduce a regulatory framework to protect consumers of financial services and to join credit institutions in introducing a credit bureau. The BRB will also continue, in the context of coordinating monetary and fiscal policies, to ensure compliance with the ceiling on advances to the government in accordance with the legal limits, the objective being to reduce them to zero in 2016.

30. The exchange rate policy is conducted in a context of weak foreign exchange inflows and a steadily rising demand for imports. To ensure the effectiveness of the exchange rate policy, the BRB is pursuing its active market-making policy for the foreign exchange interbank market so as to minimize, with the required flexibility, the risks of excessive volatility in the exchange rate and to ensure that it remains consistent with the fundamentals of the economy in order to maintain external stability.

31. The BRB is aware of the great importance of monitoring the financial system to bolster its soundness. To that end, it requested technical assistance from the IMF's Monetary and Capital Markets Department. Fund support came in the form of short-term missions. This assistance should significantly reinforce the financial system monitoring mechanism, particularly the BRB's bank supervision unit. The BRB is also receiving technical assistance from the U.S. Department of the Treasury in the area of financial stability.

D. Structural Measures

32. Some progress has been made in strengthening public financial management but the government still faces major challenges, which it is striving to overcome with support from technical and financial partners. To permanently reverse the decline in the mobilization of revenues relative to GDP, the government decided to make available to the OBR the resources it needs to strengthen its capacity to carry out its mission and to give greater impetus to the Tax Policy Department at the MoF. Both units have already undertaken to implement the key recommendations made by the IMF technical assistance mission in terms of tax policy and administration. To this end, each month the OBR sends revenue data to the Tax Policy Department, which has been strengthened with qualified staff in the area of financial programming and estimating the impact of tax measures and tax revenue projections. The World Bank is also developing a support program with a large component devoted to enhancing the capacity of the Tax Policy Department. To enhance fiscal policy formulation and implementation, a formal joint committee for collaboration between the MoF and the OBR, with a secretariat, meets quarterly and the minutes of its meetings are distributed to key stakeholders. The OBR will continue to work on the reliability of the taxpayer database and will aim to increase the number of the registered taxpayers by at least 15 percent by end-September 2015 relative to their number at end-2014.

33. The government adopted the first texts defining the renewed framework for the implementation of the organic law on public finances. To that end: (i) the Minister of Finance signed the ordinance in July 2014 establishing the terms of reference for auditing the fiscal management capacity of ministries and other institutions; (ii) this audit, which is already completed on a preliminary basis, will be finalized, in accordance with best practices, in the first quarter of 2015 once comments from the pilot ministries (education, health, and agriculture) have been considered; (iii) expenditure commitment authority will be delegated to the pilot ministries as of the 2015 budget year once the State Audit Court concludes the audit of their capacity. To support the modernization of public finance management, a new computerized system has been established at the MoF and spending ministries have been connected to the system for the purpose of budget execution. For the use of the new computerized system, the Minister of Finance will issue, by end-April 2015, an instruction harmonizing the modalities of delegating expenditure management authority to associate budget managers designated in line ministries and in other institutions with expenditure controllers appointed by the MoF to conduct all a priori financial controls over budgetary operations. These associate budget managers will be direct contacts of expenditure controllers as legal actors of the expenditure chain and will provide their signature specimen for that purpose.

34. The report on the audit of extrabudgetary domestic arrears conducted by the State Audit Court was completed at the end of September 2014. This provisional report was the subject of confirmation between the MoF and other Ministries and institutions which had arrears, which will allow the State Audit Court to produce a final report. A ministerial ordinance designating the members who will have to work out the plan for the settlement of these arrears was signed on

December 24, 2014. The plan for the settlement of arrears will be elaborated and approved by the MoF by April 30, 2015 and will be incorporated in the 2016 budget.

35. The government is aware of the importance of strict monitoring of the mobilization of financial support from the development partners, which is coordinated by The National Committee for Aid Coordination (CNCA). The CNCA appears to have human resources with considerable qualifications for coordinating aid. The coverage and consistency of information on external aid could be strengthened to allow for better understanding of macroeconomic developments. To this end, the government supports the efforts of the CNCA to develop quality data. To achieve this, starting in June 2015, the CNCA will prepare a biannual report on assistance provided by the five technical and financial partners whose assistance represents at least 90 percent of the resources mobilized (World Bank, African Development Bank, European Union, Belgium, and China). Furthermore, to enhance fiscal transparency, the budget execution report for 2014 will include full data related to revenues and costs incurred on account of Burundi's participation in peacekeeping operations abroad (e.g., AMISOM and MINUSCA).

36. The ISTEEBU has made remarkable progress in compiling the national accounts and in the transition to the 2008 System of National Accounts. Between now and end-September 2015, it will publish the final 2012 accounts and the provisional 2013 accounts. With support from AFRITAC Central, it is developing a new base year for the national accounts while undertaking the preparation of quarterly accounts.

37. To modernize the legal framework of the central bank and reinforce its governance arrangements, draft amendments to the BRB charter, to bring the charter in line with leading practices, will be submitted to the Council of Ministers by September 30, 2015 after consultation with IMF staff. At the same time, the government will continue to reimburse the BCB claims on the Treasury that were rescheduled to January 2015. In particular, the BRB will exercise the required controls over payments (particularly payments of high foreign currency amounts); the BRB will thus be able to meet the formal requirements associated with these operations (to prevent fraud and avoid payment delays in case the BRB application is rejected). The MoF is also committed to involving the BRB in negotiations with the foreign partners, inter alia, in order to be sure that the BRB's foreign exchange reserves are not encumbered (through any forms of guarantees of government commitments or obligations).

38. The BRB continues its efforts to improve the quality of balance of payments data. Thus, in January 2015 it hired three staff members to strengthen personnel in the balance of payments division. To enhance the production of balance of payments data, the BRB, in collaboration with the ISTEEBU and the Investment Promotion Agency (API), updated the foreign direct investment survey conducted in 2013. The BRB has also conducted, in collaboration with the ISTEEBU, an annual survey of cross-border trade. The collection of data on transport fees on goods at the OBR became effective before year-end 2014. Moreover, two projects are being studied on training commercial banks on the geographic distribution of international transactions, which would allow compilation of regional balance of payments of the EAC and the collection of data on insurance premiums from insurance companies. Since mid-2014, the BRB has also started the production of quarterly balance of payments estimates according to the BOP sixth edition.

IV. POVERTY REDUCTION AND GROWTH STRATEGY

39. The first review of implementation of the PRSP-II, published in December 2013, reflects the key areas of progress made and highlights the persistent challenges that marked the year 2012. It stresses that the transformation of the Burundian economy is slower than anticipated due to weak performance in the sectors driving growth and delays recorded in putting supporting infrastructures in place. For this purpose, it is recommended that reforms be expedited aiming at: (i) improving the productivity of cash crops, particularly coffee; (ii) rational exploitation of mining resources; (iii) enhancing the business climate and the competitiveness of companies operating in Burundi; and (iv) continuing programs related to energy, transport, and ICTs.

40. The second report on implementation of the PRSP-II covering 2013 was disseminated in November 2014. Thanks to the support of the World Bank, the Minimum Basket of Care (MBC) Survey provided new data, which will allow analysis of the vulnerability profile, which constitutes one of the key indicators of the evolution of the socio-economic indicators of the PRSP. In addition, it is expected that the poverty line will be updated based on new information from the survey of household living conditions, which includes modules relating to employment, the informal sector, social protection, and the labor force. The next step will be to measure the evolution of the related indicators whose estimates date back to 2006.

41. To improve the production of statistics, the ISTEEBU established a system for compiling provisional national accounts, with support from AFRITAC Central, and finalized this activity in 2014. In addition, with support from AFRITAC Central, it began work to set up a system of quarterly national accounts, to improve the production of its national accounts and to meet the users' needs. The update of the base year is one of the activities contributing to this improvement. Moreover, the ISTEEBU has just conducted a national survey on household living conditions. The survey will make it possible to update a number of indicators needed for the compilation of the national accounts. An agricultural survey is also ongoing.

V. PROGRAM MONITORING

42. Semiannual monitoring of the program by the IMF Executive Board will continue, based on the quantitative monitoring indicators and structural benchmarks set out in Tables I.1 and I.3. These indicators are defined in the attached Technical Memorandum of Understanding (TMU). The semiannual reviews will be based on the data at end-March and end-September. The seventh program review will be based on the performance criteria for end-March 2015 and the eighth program review will be based on the performance criteria for end-September 2015. To ensure the success of the program, the authorities agree to take all the steps necessary to meet the quantitative targets and structural benchmarks on which understandings were reached with the IMF.

Table I.1. Burundi: Performance Criteria and Indicative Targets, 2014–15
(BIF billion, unless otherwise indicated)

	2014													2015			
	Mar.			Jun.[1]			Sep.			Dec.[1]				Mar.	Jun.[1]	Sep	Dec.[1]
	Prog.	Act.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog. Adj.	Prel.	Status	Proj.	Proj.	Proj.	Proj.
Performance criteria																	
Net foreign assets of the BRB (floor; US$ million) [2]	25.0	60.7	Met	33.1	52.9	Met	19.7	91.5	Met	49.0	13.5	82.2	Met	51.4	31.9	31.9	55.8
Net domestic assets of the BRB (ceiling) [2]	216.6	182.4	Met	229.7	308.4	Not met	270.4	168.0	Met	262.7	318.1	227.1	Met	318.4	331.5	360.1	324.4
Net domestic financing of the government (ceiling) [2]	10.7	2.2	Met	21.3	33.3	Not met	39.0	38.4	Met	42.7	98.0	104.0	Not met	13.5	30.0	44.4	49.9
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of the program) [3, 4, 5]	28.0	0.0	Met	28.0	28.0	Met	28.0	28.0	Met	28.0		28.0	Met	28.0	28.0	28.0	28.0
Indicative targets																	
Gross fiscal revenue (excluding grants, floor, cumulative from beginning of calendar year)	151.8	137.3	Not met	267.6	297.4	Met	450.2	463.4	Met	636.6		655.6	Met	157.8	324.0	514.1	706.7
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0		0.0	Met	0.0	0.0	0.0	0.0
Reserve money (ceiling)	257.3	276.2	Not met	282.8	334.9	Not met	302.2	309.7	Not met	339.1		355.0	Not met	398.3	381.4	410.9	415.0
Pro-poor spending (floor; cumulative from beginning of calendar year)	34.5	61.3	Met	118.7	119	Met	189.2	196.3	Met	303.6		252.0	Not met	50.4	130.0	207.2	286.1

Sources: Burundi authorities; and IMF staff estimates and projections.

[1] Indicative targets.

[2] The ceiling or the floor will be adjusted as indicated in the TMU.

[3] Continuous performance criterion.

[4] See definitions in TMU.

Table I.2. Burundi: Structural Benchmarks: Sixth Review Under the ECF Arrangement

Measures	Implementation Date	Status	Objective
Public financial management			
Adopt the ministerial ordinance on the referential of budget management capacity audit.	Sep. 15, 2014	Met, Ordinance adopted in July 2014	Implement the regulatory framework necessary for the payment orders de-concentration.
Implement a program to unify the current data base of civil servants with that from the 2008 census.	Sep. 30, 2014	Met, Databases unified in September 2014	Reinforce the Ministry of Finance's management of salaries.
Adopt the decree settling the organization chart of the administrative and financial directorate (DAF) within ministries and other institutions.	Dec. 30, 2014	Not met, The issuance of an MoF instruction to harmonize the modalities of expenditure management function in ministries by April 30, 2015 is proposed as a structural benchmark for the seventh review.	Normalize and empower the budget management bodies within ministries and other institutions in order to improve the overall fiscal discipline.
Prepare an audit of arrears on extra-budgetary expenditure (not committed and without payment order) in prior years (to be performed by an independent auditor, for example the State Audit Court or State Inspectorate General; and adopt a payment plan.	Nov. 30, 2014	Not met, Action partially implemented. Audit by the State Audit Court was completed in September 2014. Adoption of a plan to settle arrears that were validated in the audit is proposed as a structural benchmark for the seventh review.	Identify and verify the amounts actually due and disputed invoices.

Table I.2. Burundi: Structural Benchmarks: Sixth Review Under the ECF Arrangement (concluded)			
Measures	**Implementation Date**	**Status**	**Objective**
Put in place an interface between the revenue authority (OBR) and the Ministry of Finance.	Dec. 30, 2014	Not met, A new IT system has been installed in MoF and is being tested. OBR will adopt a new system under a WB-supported project. This will take several years. Creation of a software module within the new IT system at the MoF to enable the visibility of the revenue flow at the OBR by June 30, 2015 is proposed as a structural benchmark for the eighth review.	Improve budget execution.
Tax policy/revenue administration			
Submit a law on excise taxes in line with IMF Technical Assistance.	Dec. 30, 2014	Met Law on excises submitted to the Council of Ministers in December, 2014. Its main provisions are included in the 2015 budget law. It is expected to be approved and submitted to Parliament by June 30, 2015	Provide an umbrella legal framework clearly spelling out the purpose and scope of the law.
Debt management			
Submit a new law on debt management to parliament.	Sep. 30, 2014	Not met, Action implemented with delay Law submitted to parliament in November 2014	Establish a legal framework governing public debt.

Sources: IMF staff; and Burundi authorities.

Table I.3. Structural Measures: Seventh and Eight Reviews Under ECF Arrangement			
Measures	**Implementation Date**	**Proposed Structural Benchmark for Review**	**Target**
Measures re-phased from the sixth review (re-formulated to ensure their feasibility)			
MoF to issue an instruction to harmonize the modalities of delegating the expenditure management within ministries and other institutions.	April 30, 2015	Seventh	Normalize and empower the budget management bodies within ministries and other institutions in order to improve the overall fiscal discipline.
Adopt a plan to settle arrears on extra-budgetary expenditure (not committed and without payment order) in prior years, which have been validated in the audit performed by the State Audit Court in September 2014.	April 30, 2015	Seventh	The clearance plan should be incorporated in the 2016 budget.
Create a software module within the new IT system at the MoF to enable the visibility of the revenue flow at the OBR.	June 30. 2015	Eighth	Improve budget execution.
Tax Policy and Administration			
Increase by at least 15 percent the number of registered taxpayers relative to their number registered at end-December 2014.	September 30, 2015	Eighth	Create a reliable central taxpayer database and expand the tax base.
Public Finance Management			
Finalize the audit on budget management capacity in three pilot ministries (education, health, agriculture); the final version should include observations by audited ministries.	March 31, 2015	Seventh	Adopt the regulatory framework necessary for decentralizing expenditure commitment.

Table I.3. Structural Measures: Seventh and Eight Reviews Under ECF Arrangement (concluded)

Measures	Implementation Date	Proposed Structural Benchmark for Review	Target
Central Bank and Safeguards			
Adopt the draft law on establishing a credit bureau.	March 31, 2015	Seventh	Facilitate financial intermediation. Modernize the regulatory banking framework.
Submit to the Council of Ministers legislative amendments to the BRB charter (after consultation with IMF staff).	September 30, 2015	Eighth	Modernize the BRB's legal framework and reinforce the BRB's governance.
Macroeconomic data			
The National Committee for Aid Coordination (CNCA) will provide users, including the IMF, complete data on external assistance in 2014.	June 30, 2015	Eighth	Strengthen the provision of data on aid and the implementation of projects involving external financing.
Finalize and publish the final accounts for 2012 and provisional accounts for 2013 following the recommendations from the technical assistance provided by AFRITAC Central and develop a plan for changing the GDP base and preparing quarterly accounts.	September 30, 2015	Eighth	Improve the annual national accounts data and short-term economic indicators.

Attachment II. Amendments to the Technical Memorandum of Understanding

March 4, 2015

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Extended Credit Facility (ECF) Arrangement. It sets out the definitions of program variables to monitor implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines quantitative performance criteria, indicative targets, and applicable adjustors.

QUANTITATIVE PROGRAM TARGETS

A. Quantitative performance criteria and indicative targets

2. The quantitative performance criteria for the program as shown in the MEFP are as follows:

- net foreign assets of the BRB (floor);
- net domestic assets of the BRB (ceiling);
- net domestic financing of the government (ceiling);
- external payment arrears of the government (ceiling, continuous);
- stock of short-term external debt (maturity of less than one year) of the government (ceiling, continuous); and new nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling, continuous).

3. The quantitative indicative targets for the program, shown in the MEFP, are as follows:

- gross fiscal revenue (floor);
- accumulation of domestic arrears (ceiling);
- reserve money (ceiling), and
- pro-poor spending (floor).

B. Definitions and measurement

4. The net foreign assets of the BRB are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, and liabilities arising from the use of any SDR allocation). The gross official reserves of the BRB are defined as those foreign assets that are liquid and freely available to the BRB.

5. The net domestic assets of the BRB are defined as the difference between (i) reserve money, comprising currency in circulation, reserves of commercial banks, and other deposits held at the BRB; and (ii) net foreign assets of the BRB.

6. The government's gross fiscal revenue is defined as the revenue appearing in the TOFE and includes all tax and non-tax revenue in the national budget, before deduction of tax refunds generated during the year, particularly accumulated VAT credits.

C. Adjustor for changes in the compulsory reserves coefficients

7. The ceiling on net domestic assets of the BRB will be adjusted symmetrically for any change in the compulsory reserves coefficient applied to deposits in commercial banks by the amount of the new coefficient minus that stipulated in the program, multiplied by bank deposits subject to compulsory reserves. The rate stipulated in the program is currently 3 percent.

8. Net domestic financing of the government is defined as the change in (i) outstanding loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) plus the stock of all government securities held by the nonbank public denominated in Burundi francs, including that held by nonresidents; (iii) less government deposits held in the BRB or in Burundi's commercial banks. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position.

9. The stock of external payment arrears of the government for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period defined by a creditor, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. Arrears for which a clearance framework has been agreed with the creditor or which are subject to rescheduling or restructuring are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that have not been paid.

D. Definition of debt

10. The program includes a ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BRB. For the purpose of this program, external debt is defined as all debt contracted in a currency other than the Burundian Franc. This performance criterion applies to the contracting or guaranteeing by the government, local governments, the BRB and REGIDESO of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received (including leases). The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government.

11. For program purposes, the definition of debt is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

12. (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

13. (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

14. (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. The grant element of debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of contracting is calculated by discounting the future stream of payments of debt service due on this debt. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The discount rate used for this purpose is 5 percent.

16. The stock of short-term external debt with a maturity of less than one year owed by the government is to remain at zero under the program. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of one year or more are considered medium-term or long-term loans. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the IMF, and any Burundi franc-denominated treasury securities held by nonresidents. As of December 31, 2014, the stock of short-term external debt outstanding was nil.

17. Consistent with the PRSP, the authorities' definition of pro-poor spending is based on three criteria: (i) social character of spending, based on the administrative classification of spending (this includes "social services" spending and part of "general services" and "economic services" spending if it has a social character component); (ii) consistency with one of the four PRSP pillars; and (iii) pro-poor investment spending, financed by donors.

18. The accumulation of domestic arrears is measured by the accumulation of non-executed payment orders older than 60 days.

External Financial assistance adjustor

19. The program provides for adjusters to allow higher than expected external assistance to be spent (with a cap) and shortfall of external assistance to be financed domestically (with a cap).

20. Any financing excess up to US$40 million will be spent on expenditure priorities defined in the PRSP. The floor on the stock of net foreign assets of the BRB will be adjusted upward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US$40 million.

21. The floor on the stock of net foreign assets of the BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up to a maximum of US$40 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The program exchange rate for end-March 2015 is 1,555.02.

22. External financial assistance (measured in US$) is defined to include the following: (i) nonproject loans and grants to the budget (including payments made through the multi-donor trust fund managed by the World Bank for current debt service to multilaterals); plus (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Donor disbursements into blocked accounts for the purpose of clearing arrears will not be considered foreign assistance for program monitoring purposes.

E. Provision of information to IMF Staff

23. To facilitate the monitoring of program implementation, the authorities will prepare and forward to the IMF African Department a monthly progress report on the program, within six weeks of the end of each month, containing the following weekly data:

- foreign exchange auction market (MESD) transactions;
- the balance sheet of the BRB (weekly statement) (BRB Research Department).

24. The following monthly data, with a maximum lag of six weeks:

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on foreign exchange cash flow (BRB Foreign Banking Operations Department);
- the monetary survey, including the breakdown of the BRB and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including pro-poor spending (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, on interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);
- a detailed breakdown of the stock of domestic payment arrears for the current fiscal year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program (REFES).

25. The following quarterly data, with a maximum lag of six weeks:

- progress reports on the BRB's internal reforms, including each unit's action plans for the coming month (Reform Monitoring Committee, BRB).

26. SP/REFES/Ministry of Finance and BRB will also provide the IMF African Department with any information that is deemed necessary to ensure effective monitoring of the program.

INTERNATIONAL MONETARY FUND

BURUNDI

March 9, 2015

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR EXTENSION AND AUGMENTATION OF ACCESS—DEBT SUSTAINABILITY ANALYSIS UPDATE

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Prepared by the staffs of the International Monetary Fund and the International Development Association (IDA).

This low-income country debt sustainability analysis (LIC DSA) updates the joint IMF/IDA DSA from February 18, 2014. Compared to the previous assessment, public debt levels increase slightly due to a rise in the stock of domestic public debt at end-2014 and higher projected disbursements of loans in 2015. The updated external DSA indicates that Burundi remains at a high risk of debt distress, with one indicator (external debt-to-exports) breaching the indicative sustainability thresholds in the baseline and shock scenarios, and one indicator (debt service-to-exports) breaching the sustainability threshold in the very near term in the most extreme shock scenario. These results are mainly due to Burundi's extremely narrow export base and indicate that Burundi's prospects for graduating from the high-risk of debt distress category will critically hinge on its ability to improve its export performance. All other external debt indicators remain consistent with sustainability conditions in both baseline and shock scenarios. While no significant vulnerabilities related to public domestic debt or private external debt are observed in the baseline, in the most extreme shock scenario, the PV of public debt-to-GDP ratio breaches its benchmark in the short run, which underscores the need for prudent fiscal and debt policies.[1]

[1] The DSA has been produced jointly by Fund and Bank staff, in collaboration with the Burundi authorities. The fiscal year for Burundi is January to December.

BACKGROUND

1. **The Debt Sustainability Analysis update indicates that Burundi continues to face a high risk of debt distress**. While the update of the debt sustainability analysis (DSA) shows some improvements, notably in view of a better coverage of exports of services, Burundi remains assessed as being at high risk of debt distress, with the PV of external debt-to-exports ratio breaching the sustainability threshold in the baseline scenario, and debt service-to-exports as well as the PV of public debt-to-GDP ratios breaching their respective sustainability thresholds in the most extreme shock scenarios (Figures 1–2 and Tables 1–4). The DSA update suggests that Burundi has limited borrowing space, underscoring that loans should continue to be highly concessional given its narrow export base.[2]

2. **Burundi is a weak policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework (DSF)**. Burundi's 2013 rating in the World Bank's Country Policy and Institutional Assessment (CPIA) remained at its 2012 level. A relatively low performance with an average for the last three years—3.20 on a scale of 1 to 6—keeps Burundi in the group of weak policy performers.[3]

3. **In 2012–13, Burundi's debt ratios declined, reflecting real GDP growth (4.5 percent) and a real depreciation of the Burundi franc against the U.S. dollar (about 8 percent)**. The public debt- and external debt-to-GDP ratios declined by about 3 and 2 percentage points to 32.7 and 19.6 percent, respectively. At end-2013, Burundi's public and publicly guaranteed external debt stood at $538 million. About 86 percent of Burundi's outstanding nominal external public and publicly guaranteed (PPG) debt is owed to multilateral creditors, with bilateral creditors accounting for the remainder. The domestic debt stock reached about $359.5 million (FBu 554 billion), 70 percent of which are medium and long-term (30 percent in government securities) at end-2013.

[2] Coffee and tea account for about 80 percent of exports. The current analysis does not include informal exports, notably of gold and other high-value minerals, which are not covered in the official BOP data, but are deemed to have increased to significant levels in recent years, implying that their inclusion could alter the assessment.

[3] A score below 3.25 corresponds to a weak policy performance, according to the LIC Debt Sustainability Framework (DSF).

Text Table 1. Burundi: Stock External Debt, end-2013
(Millions of US dollars)

	Nominal	Percent of Total	Percent of GDP
Total Debt	538	100	19.6
Multilateral	462	85.9	16.8
Bilateral	75	14.0	2.8
Paris club	0	0.0	0.0
Non-Paris club	75	14.0	2.8
Commercial	0	0.0	0.0

Sources: Burundian authorities; and Bank-Fund staff estimates.

UNDERLYING ASSUMPTIONS

4. The baseline macroeconomic assumptions for the current DSA are consistent with the macroeconomic framework underlying the current ECF arrangement. In the short- to medium-term, they are mainly based on the poverty reduction strategy. In the longer run, they reflect: (1) a stable macroeconomic environment, with continued growth momentum, contained inflation, and fiscal consolidation; (2) responsible fiscal policy and prudent debt policy; and (3) continued improvements to the business environment that would promote private sector growth and export diversification. Reflecting these assumptions, the DSA macroeconomic framework shows that all but one principal EAC convergence criteria are met starting in 2014. The reserve coverage in terms of months of imports (4.5 months) is expected to be met starting in 2021. All the indicative criteria are expected to be met starting in 2014, with the exception of the fiscal revenue-to-GDP ratio (set at 25 percent).

Text Table 2. Burundi: Selected Macroeconomic Indicators, 2013–2034

	2013	2014	2015	2015–2034 Average
Real GDP growth (percent)				
Feb 2014 DSA	4.5	4.7	4.8	6.1
Current DSA	4.5	4.7	4.8	6.1
Primary fiscal balance (percent of GDP)				
Feb 2014 DSA	-1.3	-0.7	-1.1	-0.5
Current DSA	-1.0	-2.3	-0.4	-1.1
Non-interest current account balance (in percent of GDP)				
Feb 2014 DSA	-22.9	-21.2	-21.0	-17.5
Current DSA	-18.3	-17.5	-13.2	-12.4
Exports growth (percent)				
Feb 2014 DSA	-35.1	14.6	9.5	11.6
Current DSA	1.9	31.0	-9.2	9.0

Sources: Burundi authorities; and IMF staff estimates and projections.

5. **Risks to the macroeconomic outlook stem mostly from the fragile social and security situation and the external environment**. The protracted Euro Area debt crisis and sluggish economic growth in emerging markets continue to engender negative spillovers through trade and investment channels. High volatility of coffee production and international coffee prices also adds to risks. On the positive side, Burundi is benefiting from a sharp decline in international oil prices, through a lower import bill and inflation; however, these effects may not be long-lasting and are highly dependent on domestic policy response. Meanwhile, the uncertainty in donor support also poses risks. Moreover, reintegrating repatriated refugees is likely to add to unemployment, increase demand for public services, and fuel conflict over access to land. Finally, the socio-political environment surrounding the 2015 election is highly unpredictable.

EXTERNAL DSA

6. **Under the baseline scenario, one indicator breaches the policy threshold during the medium term**. The PV of debt-to-exports ratio, although gradually declining, is projected to stay above the 100 percent policy threshold until around 2021. Also the debt service-to-exports ratio is projected to breach the sustainability threshold in the short run in the most extreme shock scenario.[4] These results are mostly due to Burundi's narrow export base and the relatively limited export potential at this time. In contrast, the PV of debt-to-GDP ratio, the PV of debt-to-revenue ratio, and the debt service-to-revenue ratio are expected to remain well below the indicative policy dependent thresholds throughout the projection period. Moreover, those indicators are somewhat stabilizing in the medium term and show a declining trend in the long run, indicating an improvement of the debt sustainability profile in the long run (Figure 1 and Table 1). This stems from the intention of the authorities to pursue sound macroeconomic and prudent debt policies. The combination of such policies is expected to alleviate debt burden indicators. In particular, keeping the PV of debt-to-GDP ratio below 10 percent in the long term is essential to bringing the PV of debt-to-exports below the sustainability threshold in the baseline scenario starting in 2020 and converging to the sustainability threshold in the most extreme shock scenario by 2030.

[4] The analysis excludes remittances, which are reported to be insignificant relative to exports. Their inclusion would make the sustainability criteria more stringent; however, without a significant impact on the conclusions.

Box 1. Burundi: Macroeconomic Assumptions, 2015–2034

In the medium term (2015–19), projections are consistent with the macroeconomic framework of the sixth ECF Review. Long-term (2012–2034) projections assume a more stable political environment, continued growth in coffee exports, and positive returns in terms of macroeconomic stabilization and economic growth from increased public investments and policies implemented in previous years under successive IMF programs.

- **Real GDP growth** is projected to accelerate over the period 2015–2034 to about 6 percent per year, exceeding performance over 2005–2014. Growth is expected to be driven by continued macroeconomic stability, improvements in infrastructure, gradual emergence of the nickel sector, and stronger performance of the agricultural sector based on favorable international prices and additional investment. Economic activity would also benefit from continued consolidation of political stability.

- **CPI inflation** over the long-term is projected to remain stable at around 5 percent per year, reflecting improved performance in agriculture and policies geared toward maintaining price stability.

- **Fiscal consolidation is expected to continue over the projection period (2015–2034).** The primary fiscal balance is projected to remain at about 1 percent of GDP from 2015 onwards, providing a strong anchor for long-term fiscal sustainability. This trend reflects: (1) a gradual decline in grants from 13 percent in 2014 to about 8 percent in 2034, improved economic conditions in Burundi and budgetary constraints in donor countries; (2) a domestic revenue-to-GDP ratio stabilized at about 14 percent; and (3) a gradual decline in primary expenditures from 29 percent of GDP in 2014 to 23.4 percent of GDP in 2034. The overall budget deficit is expected to hover at around 2 percent of GDP.

- The **current account deficit (including official grants)** is expected to persist, but would decline gradually to about 12 percent of GDP in 2034. This reflects: (1) the positive impact of an increase in exports of goods and services by about 1 percentage points of GDP over the projection period, with a gradual development of the export potential in mining (especially nickel); (2) the deceleration of imports of goods and services by about 7 percentage points of GDP, in part reflecting the impact of terms of trade improvements and import substitution in agriculture and manufacturing from ongoing and envisaged investments in these sectors; (3) a gradual decline in official transfers, in part due to declining grants; and (4) a gradual increase in FDI, driven by improvements in the business environment and greater regional integration.

- The **cost of new financing** reflects: (1) an increase in highly concessional loans in the short and medium-tem; (2) a gradual decline of external financing from about 60 percent of total financing in 2014 to about 50 percent by 2034; and (3) a gradual decline in highly concessional loans.

7. Alternative scenarios and stress tests highlight the vulnerability of the debt sustainability profile to adverse shocks. Under a scenario of combined adverse shocks on GDP growth, exports, and FDI flow, the debt indicators worsen compared to the baseline scenario; the PV of debt-to-export indicator breaches the threshold in the medium term and return to the baseline in the long run.[5] Also, the indicator of debt service-to-exports worsens and breaches the threshold for one year in the very near term. Under a scenario that assumes continuation of policies during the last ten years, only the PV of debt-to-exports breaches the threshold, but most indicators would increase significantly compared to that under the baseline scenario and would not improve even in the long run.[6] These results underscore the need to foster a sound macroeconomic environment that would promote growth, export diversification, and inflow of foreign direct investment, and to continue the reforms to avoid the return to unsustainable policies of the past.[7]

8. All scenarios suggest that Burundi's narrow export base is the most significant factor that contributes to its vulnerability of debt sustainability. In particular, the PV of debt-to-exports ratio is projected to remain above the policy threshold of 100 percent until 2021 in the baseline scenario, until 2030 in the most extreme shock scenario, and throughout the projection period in the historical scenario.

PUBLIC DSA

9. Public debt indicators, including external and domestic, are expected to gradually improve under the baseline scenario. The improvement is due primarily to a decline in the public sector borrowing requirement, reflecting the widening of the revenue base and the gradual decline in government spending in the post reconstruction period. The ratios of the PV of public debt-to-GDP and public debt-to-revenue remain low, reflecting Burundi's reliance on grants and highly concessional loans to finance reconstruction and poverty reduction.

10. However, public debt indicators are highly vulnerable to shocks. Under a shock scenario that combines a lower GDP growth and a larger primary deficit, the PV of debt-to-GDP ratio is projected to rise by 5 percentage points (above the baseline scenario) throughout the projection period, and the PV of debt-to-revenue ratio by about 20 percentage points.[8] Moreover, the benchmark for the public debt-to-GDP ratio is also breached under the most

[5] The combination of shocks assumes that during 2015–16, GDP growth, export growth, the USD GDP deflator and non-debt creating flows will be at their historical averages minus one-half standard deviation.

[6] The historical scenario assumes that throughout the projection period, key macroeconomic variables will be at their respective last ten-year average levels. Some economic variables in 2009 were adjusted as Burundi benefited from the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative during that year.

[7] If the assumption on coffee production does not materialize and the country falls back into a fragility trap, the debt indicators would significantly worsen.

[8] The scenario assumes that, in 2013–14, GDP growth and the primary balance will be at their historical average minus one-half standard deviation.

extreme shock. These results underscore the need for prudent fiscal policy and show a limited scope for the recourse to additional borrowing in case of a fiscal shock. A swift implementation of a strategy based on the 2012 Debt Management Performance Assessment (DeMPA) would be crucial. The debt service-to-revenue ratio remains subdued in the baseline scenario but is significantly affected by alternative scenarios and shocks, especially in near short term, even though most additional borrowing is expected to be on highly concessional terms.

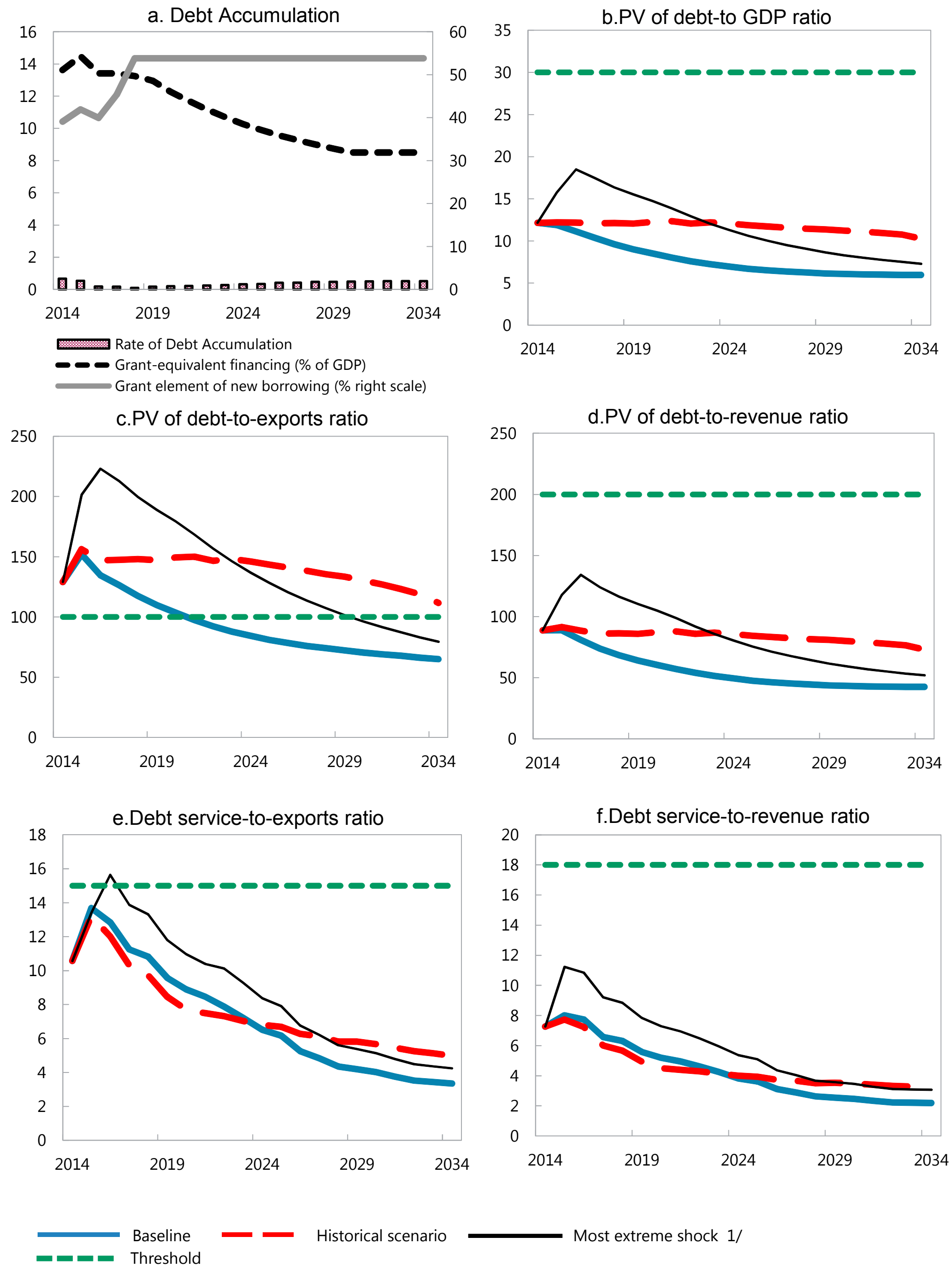
CONCLUSION

11. **Based on this LIC-DSA, staff is of the view that Burundi continues to face a high risk of debt distress**. The debt sustainability indicators improved compared to the 2014 DSA, although not sufficiently to warrant a change in the classification. In particular, as in the 2014 DSA, the PV of debt-to-exports ratio remains for a significant period above the policy threshold under the baseline scenario and deteriorates in the historical and most extreme shock scenarios.

12. **Based on this high risk classification and on the vulnerabilities shown through the alternative and stress tests scenarios, Burundi should pursue sound macroeconomic and prudent debt policies**. In particular, the analysis points to the importance of increasing exports by expanding the export base beyond the traditional coffee sector, and of diversifying export markets. This would include decisive implementation of reforms in the coffee sector, focusing on increasing its productivity and financial health, and unlocking export potential in other sectors (mining, tea, horticulture, and tourism). It is also essential for Burundi to capitalize on its fiscal reforms and macroeconomic stability to continue sound policies and avoid policy reversals, which could, as shown in the analysis, undermine debt sustainability. While the authorities scaled back their plans to engage in PPPs, it is important that any such projects are conducted and financed in a manner that does not jeopardize debt sustainability. Finally, given the high risk of debt distress and the vulnerabilities, staff encourages the authorities to continue to seek maximum concessionality in their external financing, with all nonconcessional borrowing regularly reviewed, monitored, and reported to ensure full transparency and sound governance. Staff encourages the authorities to finalize the new law on public debt, which would provide an overreaching legal debt framework and help determine the objective, strategy, signing authority, and other aspects of debt management. The strengthening of debt management practices now underway is a good step towards reinforcing debt sustainability. Staff encourages the authorities to expedite the implementation of the recommendations of the World Bank DeMPA mission assessment to facilitate putting in place a comprehensive medium-term debt strategy.

13. **The authorities broadly share staffs' assessment**. The authorities are keen to benefit from the recent change in the debt limits policy, notably to increase borrowing for critically important projects in energy, transport infrastructure, and agriculture. Nevertheless, they recognize that scaling up external borrowing for these purposes would require addressing the weaknesses that make Burundi prone to debt distress.

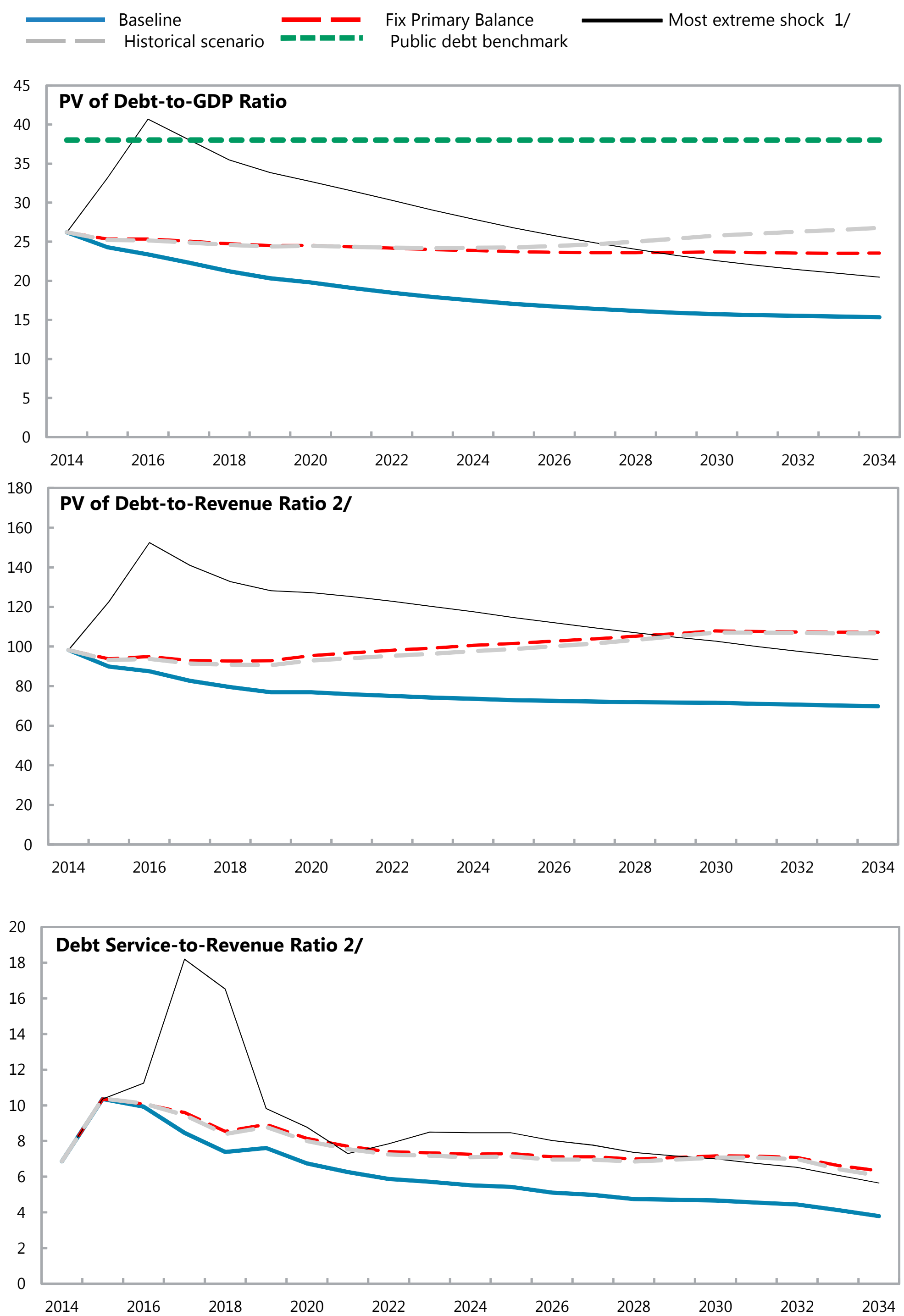
Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.Burundi: Indicators of Public Debt Under Alternative Scenarios, 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2011–2034[1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average [6/]	Standard Deviation [6/]	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**22.2**	**21.7**	**19.6**			**18.2**	**18.0**	**16.8**	**15.7**	**14.7**	**14.0**		**11.7**	**10.7**	
of which: public and publicly guaranteed (PPG)	22.2	21.7	19.6			18.2	18.0	16.8	15.7	14.7	14.0		11.7	10.7	
Change in external debt	-0.3	-0.5	-2.0			-1.4	-0.2	-1.1	-1.2	-0.9	-0.7		-0.3	0.0	
Identified net debt-creating flows	0.5	0.7	-2.5			-0.5	-0.5	-1.4	-1.4	-1.4	-1.2		-0.5	0.5	
Non-interest current account deficit	**13.5**	**17.2**	**18.3**	**9.4**	**8.0**	**17.5**	**13.2**	**12.8**	**12.3**	**11.9**	**12.0**		**13.2**	**11.4**	12.3
Deficit in balance of goods and services	31.5	34.7	31.1			27.6	24.4	22.4	21.6	20.9	20.7		20.3	17.5	
Exports	9.5	8.7	8.2			9.4	7.8	8.3	8.2	8.2	8.2		8.3	9.2	
Imports	41.0	43.4	39.2			37.0	32.2	30.7	29.8	29.0	28.9		28.5	26.6	
Net current transfers (negative = inflow)	-18.7	-17.8	-12.7	-19.9	4.2	-10.0	-11.0	-9.4	-9.1	-8.6	-8.2		-6.6	-5.9	-6.4
of which: official	-11.8	-12.9	-8.0			-5.8	-7.0	-5.6	-5.4	-5.1	-4.8		-3.8	-3.5	
Other current account flows (negative = net inflow)	0.7	0.3	-0.1			-0.1	-0.2	-0.3	-0.3	-0.4	-0.5		-0.5	-0.2	
Net FDI (negative = inflow)	**-9.9**	**-15.3**	**-19.2**	**-7.7**	**8.0**	**-17.3**	**-12.9**	**-13.5**	**-13.0**	**-12.6**	**-12.6**		**-13.2**	**-10.3**	-12.2
Endogenous debt dynamics 2/	**-3.1**	**-1.1**	**-1.6**			**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.6**		**-0.6**	**-0.6**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Contribution from real GDP growth	-0.8	-0.8	-0.9			-0.8	-0.8	-0.8	-0.8	-0.8	-0.7		-0.7	-0.7	
Contribution from price and exchange rate changes	-2.4	-0.4	-0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.8**	**-1.3**	**0.4**			**-0.9**	**0.2**	**0.2**	**0.2**	**0.5**	**0.4**		**0.2**	**-0.5**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
In percent of exports	...	...	159.1			129.1	152.1	134.6	126.5	117.4	109.8		84.3	64.9	
PV of PPG external debt	**...**	**...**	**13.0**			**12.2**	**11.9**	**11.2**	**10.4**	**9.6**	**9.0**		**7.0**	**6.0**	
In percent of exports	**...**	**...**	**159.1**			**129.1**	**152.1**	**134.6**	**126.5**	**117.4**	**109.8**		**84.3**	**64.9**	
In percent of government revenues	**...**	**...**	**97.9**			**88.8**	**89.0**	**81.1**	**73.8**	**68.5**	**64.1**		**49.5**	**42.5**	
Debt service-to-exports ratio (in percent)	**3.2**	**7.2**	**14.5**			**10.6**	**13.7**	**12.8**	**11.3**	**10.8**	**9.6**		**6.5**	**3.4**	
PPG debt service-to-exports ratio (in percent)	**3.2**	**7.2**	**14.5**			**10.6**	**13.7**	**12.8**	**11.3**	**10.8**	**9.6**		**6.5**	**3.4**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**4.3**	**8.9**			**7.3**	**8.0**	**7.7**	**6.6**	**6.3**	**5.6**		**3.8**	**2.2**	
Total gross financing need (Millions of U.S. dollars)	93.5	62.7	8.4			36.5	44.0	14.6	9.2	5.3	11.7		41.8	245.5	
Non-interest current account deficit that stabilizes debt ratio	13.8	17.7	20.4			18.9	13.4	13.9	13.4	12.8	12.8		13.5	11.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.2	4.0	4.5	4.3	0.6	4.7	4.8	5.0	5.2	5.4	5.4	5.1	6.1	6.6	6.4
GDP deflator in US dollar terms (change in percent)	12.0	1.8	3.8	8.6	5.0	8.5	4.5	3.5	3.3	3.5	2.9	4.4	2.6	2.3	2.4
Effective interest rate (percent) 5/	0.6	0.5	0.6	0.6	0.2	0.6	0.7	0.7	0.8	0.8	0.8	0.7	0.8	0.8	0.8
Growth of exports of G&S (US dollar terms, in percent)	25.1	-3.1	1.9	18.7	26.1	31.0	-9.2	15.2	7.5	9.1	8.6	10.4	9.0	11.0	9.8
Growth of imports of G&S (US dollar terms, in percent)	10.2	12.0	-1.8	24.9	33.4	7.3	-4.9	3.8	5.5	6.2	7.7	4.3	15.0	7.6	8.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.1	41.9	40.0	45.3	53.8	53.8	45.7	53.8	53.8	53.8
Government revenues (excluding grants, in percent of GDP)	15.3	14.5	13.3			13.7	13.4	13.8	14.0	14.0	14.0		14.0	14.0	14.0
Aid flows (in Millions of US dollars) 7/	513.5	467.9	456.5			422.3	497.0	494.6	544.3	600.1	637.7		772.1	1549.9	
of which: Grants	487.7	423.0	447.1			401.9	462.7	476.6	517.4	552.2	585.7		693.6	1361.0	
of which: Concessional loans	25.8	44.9	9.4			20.4	34.3	18.1	26.9	47.9	51.9		78.6	188.9	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			13.6	14.5	13.4	13.4	13.2	13.0		10.3	8.5	9.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			93.2	92.7	95.1	95.9	96.3	96.2		95.3	94.4	95.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	2371.0	2509.9	2722.6			3093.9	3387.5	3680.4	4000.4	4364.8	4732.8		7159.6	17209.5	
Nominal dollar GDP growth	16.7	5.9	8.5			13.6	9.5	8.6	8.7	9.1	8.4	9.7	8.9	9.1	9.0
PV of PPG external debt (in Millions of US dollars)			356.8			374.7	391.1	396.9	402.8	406.3	413.5		483.5	997.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.7	0.5	0.2	0.2	0.1	0.2	0.3	0.3	0.5	0.4
Gross workers' remittances (Millions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	159.1			129.1	152.1	134.6	126.5	117.4	109.8		84.3	64.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	14.5			10.6	13.7	12.8	11.3	10.8	9.6		6.5	3.4	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034
(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	12	12	11	10	10	9	**7**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	12	12	12	12	12	12	**12**	10
A2. New public sector loans on less favorable terms in 2014-2034 2	12	12	11	11	10	10	**9**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	12	12	11	10	10	9	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	12	11	11	11	10	9	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	12	12	11	10	9	9	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	12	16	18	17	16	16	**11**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	11	10	10	9	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	12	16	15	14	13	12	**9**	8
PV of debt-to-exports ratio								
Baseline	129	152	135	127	117	110	**84**	65
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	129	156	147	148	148	147	**146**	112
A2. New public sector loans on less favorable terms in 2014-2034 2	129	153	138	134	128	123	**112**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	129	148	130	123	114	106	**82**	63
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	129	144	169	159	148	139	**106**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	129	148	130	123	114	106	**82**	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	129	202	223	213	200	189	**137**	79
B5. Combination of B1-B4 using one-half standard deviation shocks	129	132	128	121	112	105	**80**	60
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	129	148	130	123	114	106	**82**	63
PV of debt-to-revenue ratio								
Baseline	89	89	81	74	68	64	**50**	42
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	89	91	89	86	86	86	**86**	73
A2. New public sector loans on less favorable terms in 2014-2034 2	89	90	83	78	74	72	**66**	67
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	89	87	80	73	68	64	**49**	42
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	89	86	83	76	71	66	**51**	42
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	89	87	79	72	67	63	**48**	41
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	89	118	134	124	116	110	**80**	52
B5. Combination of B1-B4 using one-half standard deviation shocks	89	89	80	73	68	64	**49**	41
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	89	121	110	101	93	87	**67**	58

Table 2. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034 (concluded)
(In percent)

Debt service-to-exports ratio								
Baseline	11	14	13	11	11	10	**7**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	11	13	12	10	10	8	**7**	5
A2. New public sector loans on less favorable terms in 2014-2034 2	11	14	13	12	11	10	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	14	13	11	11	10	**7**	3
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	11	13	16	14	13	12	**8**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	14	13	11	11	10	**7**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	14	14	13	12	11	**10**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	11	12	12	11	10	9	**6**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	14	13	11	11	10	**7**	3
Debt service-to-revenue ratio								
Baseline	7	8	8	7	6	6	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	7	8	7	6	6	5	**4**	3
A2. New public sector loans on less favorable terms in 2014-2034 2	7	8	8	7	7	6	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	7	8	8	7	6	6	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	7	8	8	7	6	6	**4**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	7	8	8	7	6	6	**4**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	7	8	8	7	7	6	**6**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	8	6	6	5	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	7	11	11	9	9	8	**5**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	50	50	50	50	50	50	**50**	50

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Burundi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–2034

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	37.2	36.1	32.7			32.3	30.4	29.0	27.6	26.4	25.3		22.2	20.1	
of which: foreign-currency denominated	22.2	21.7	19.6			18.2	18.0	16.8	15.7	14.7	14.0		11.7	10.7	
Change in public sector debt	-2.5	-1.2	-3.3			-0.4	-1.9	-1.3	-1.4	-1.3	-1.0		-0.5	-0.1	
Identified debt-creating flows	-1.4	-0.8	-4.4			-0.6	-1.3	-1.2	-1.2	-1.1	-0.8		-0.2	0.0	
Primary deficit	2.3	2.8	0.2	1.9	14.5	2.3	0.4	0.6	0.6	0.6	0.7	0.9	1.0	1.2	1.1
Revenue and grants	35.9	31.4	29.7			26.7	27.0	26.7	27.0	26.7	26.4		23.7	22.0	
of which: grants	20.6	16.9	16.4			13.0	13.7	12.9	12.9	12.7	12.4		9.7	7.9	
Primary (noninterest) expenditure	38.2	34.2	29.9			29.0	27.4	27.3	27.6	27.3	27.1		24.8	23.2	
Automatic debt dynamics	-3.7	-3.3	-4.5			-2.9	-1.7	-1.6	-1.7	-1.6	-1.4		-1.2	-1.3	
Contribution from interest rate/growth differential	-5.6	-5.8	-4.5			-3.1	-2.4	-2.0	-2.0	-1.9	-1.7		-1.5	-1.5	
of which: contribution from average real interest rate	-4.0	-4.3	-2.9			-1.6	-1.0	-0.5	-0.5	-0.5	-0.3		-0.2	-0.2	
of which: contribution from real GDP growth	-1.6	-1.4	-1.5			-1.5	-1.5	-1.4	-1.4	-1.4	-1.3		-1.3	-1.3	
Contribution from real exchange rate depreciation	2.0	2.5	-0.1			0.1	0.8	0.4	0.2	0.3	0.2		...	...	
Other identified debt-creating flows	0.0	-0.4	-0.1			0.0	-0.1	-0.2	-0.1	-0.1	-0.1		0.0	0.0	
Privatization receipts (negative)	0.0	-0.4	-0.1			0.0	-0.1	-0.2	-0.1	-0.1	-0.1		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.1	-0.4	1.0			0.2	-0.6	-0.2	-0.2	-0.2	-0.2		-0.3	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	26.1			26.2	24.3	23.4	22.3	21.2	20.3		17.5	15.3	
of which: foreign-currency denominated	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
of which: external	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.6	17.2	9.2			7.5	6.3	8.4	8.9	9.2	9.7		10.3	10.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	87.9			98.2	89.9	87.5	82.7	79.5	76.9		73.7	69.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	196.6			191.4	181.9	169.8	158.9	151.1	144.7		124.5	109.3	
of which: external 3/	...	...	97.9			88.8	89.0	81.1	73.8	68.5	64.1		49.5	42.5	
Debt service-to-revenue and grants ratio (in percent) 4/	12.8	36.6	22.6			6.9	10.4	9.9	8.5	7.4	7.6		5.5	3.8	
Debt service-to-revenue ratio (in percent) 4/	30.0	79.0	50.5			13.4	21.0	19.3	16.3	14.1	14.3		9.3	5.9	
Primary deficit that stabilizes the debt-to-GDP ratio	4.8	4.0	3.6			2.8	2.3	1.9	2.0	1.8	1.7		1.5	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.2	4.0	4.5	4.3	0.6	4.7	4.8	5.0	5.2	5.4	5.4	5.1	6.1	6.6	6.4
Average nominal interest rate on forex debt (in percent)	0.6	0.5	0.6	0.6	0.2	0.6	0.7	0.7	0.8	0.8	0.8	0.7	0.8	0.8	0.8
Average real interest rate on domestic debt (in percent)	-8.4	-9.7	-6.2	-4.2	8.7	-2.4	0.0	2.3	1.4	1.4	1.9	0.8	2.6	1.6	2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	10.5	13.6	-0.3	3.7	7.5	0.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	14.7	16.4	11.7	12.6	5.7	8.1	6.6	5.5	5.4	5.5	5.0	6.0	4.7	4.4	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.7	-6.7	-8.7	-1.4	3.4	1.5	-0.9	4.5	6.3	4.2	4.7	3.4	4.3	6.4	5.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.1	41.9	40.0	45.3	53.8	53.8	45.7	53.8	53.8	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4. Burundi: Sensitivity Analysis for Key Indicators of Public Debt 2014–2034

	Projections							
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	26	24	23	22	21	20	17	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	25	25	25	25	24	24	27
A2. Primary balance is unchanged from 2014	26	25	25	25	25	25	24	24
A3. Permanently lower GDP growth 1/	26	24	23	22	21	21	18	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	26	25	24	23	22	21	19	18
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	26	33	41	38	35	34	28	20
B3. Combination of B1-B2 using one half standard deviation shocks	26	29	33	31	30	28	24	20
B4. One-time 30 percent real depreciation in 2015	26	29	28	26	25	23	19	15
B5. 10 percent of GDP increase in other debt-creating flows in 2015	26	30	29	27	26	24	21	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	98	90	87	83	79	77	74	70
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	98	93	94	91	91	91	98	107
A2. Primary balance is unchanged from 2014	98	94	95	93	93	93	101	107
A3. Permanently lower GDP growth 1/	98	90	88	83	80	78	76	78
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	98	91	89	85	83	80	80	80
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	98	123	152	141	133	128	118	93
B3. Combination of B1-B2 using one half standard deviation shocks	98	108	123	116	110	107	102	90
B4. One-time 30 percent real depreciation in 2015	98	108	104	97	92	88	79	68
B5. 10 percent of GDP increase in other debt-creating flows in 2015	98	110	107	100	96	92	87	77
Debt Service-to-Revenue Ratio 2/								
Baseline	7	10	10	8	7	8	6	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	10	10	9	8	9	7	6
A2. Primary balance is unchanged from 2014	7	10	10	10	9	9	7	6
A3. Permanently lower GDP growth 1/	7	10	10	8	7	8	6	4
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	7	10	10	9	8	8	6	4
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	7	10	11	18	17	10	8	6
B3. Combination of B1-B2 using one half standard deviation shocks	7	10	11	14	12	9	7	5
B4. One-time 30 percent real depreciation in 2015	7	11	12	10	9	9	7	5
B5. 10 percent of GDP increase in other debt-creating flows in 2015	7	10	11	14	8	9	6	4

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review under Burundi's ECF Arrangement, Augments Access and Approves US$6.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Burundi's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.[1] The Board's decision enables the immediate disbursement of SDR 5 million (about US$6.9 million), bringing total disbursements under the arrangement to SDR 30 million (about US$41.6 million).

In completing the sixth review, the Board also approved the authorities' request for an extension of the current ECF arrangement to end March 2016 and an augmentation of access by SDR 10 million (about US$13.9 million or 13 percent of quota). The additional financing and time will help strengthen the management of public finances and consolidate the country's economic reform program.

Burundi's three-year ECF arrangement in the amount equivalent to SDR 30 million (about US$41.6 million) was approved by the Executive Board on January 27, 2012 (see Press Release No. 12/35).

At the conclusion of the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, issued the following statement:

"Progress under the ECF-supported program has been broadly satisfactory. Economic growth is estimated to have picked up slightly in 2014, while inflation declined markedly, aided by falling international fuel prices and prudent monetary policy. The near-term economic outlook remains challenging, and prudent policies will continue to be needed in the face of uncertainties in the external environment, and in the run-up to the 2015 national elections.

[1] The Extended Credit Facility (ECF) is the IMF's main tool for medium-term financial support to low-income countries. It provides for a higher level of access to financing, more concessional terms, enhanced flexibility in program design, and more focused, streamlined conditionality. Financing under ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years.

"The 2015 budget provides an adequate basis for fiscal policy in the current election year, and should be implemented with vigilance. Revenue slippages that emerged in early 2014 were addressed through corrective revenue measures, and are expected to have a lasting, positive impact on revenue performance. Strengthening tax administration and improving the coordination between tax policy design and its implementation will be critical to increasing the tax-to-GDP ratio on a sustainable basis.

"Public financial management should be strengthened, to enhance efficiency and mitigate fiscal risks. Efforts are needed to improve cash management by the Treasury and strengthen expenditure controls, while safeguarding pro-poor spending.

"Achieving debt sustainability will help anchor fiscal policy in the medium term. Burundi continues to be at a high risk of debt distress, and it will be important that any future borrowing be done on a concessional basis. Passage of the law on public debt, which would provide a legal framework for debt management, would be important. In this regard, better domestic debt management, notably by aligning the issuance of government securities with government's financing needs, will help prevent recourse to central bank financing and the buildup of arrears.

"Underlying inflation has declined significantly in recent months and low international food and fuel prices will help keep inflation at bay. Nevertheless, it will be important for monetary policy to continue to focus on supporting a low-inflation environment. Financial stability should be strengthened through enhanced banking surveillance, and current plans to establish a credit bureau and a collateral registry.

"A strengthened pace of structural reforms is key to boosting Burundi's external competitiveness, mobilize private sector investment, and lift Burundi's growth potential. Efforts should focus on raising agricultural productivity; alleviating energy and other infrastructure bottlenecks; expanding credit access; and deepening regional integration."

Statement by Ms. Kapwepwe, Executive Director for
Burundi and Mr. Yamuremye, Advisor
March 23, 2015

The Burundian authorities are appreciative of the Fund's constructive engagement and support under the Extended Credit Facility Arrangement (ECF), and thank staff for the helpful policy dialogue and advice. They remain committed to implementing policies and structural reforms under the ECF program to maintain macroeconomic stability, boost inclusive economic growth, lay strong foundation to reduce poverty, and strengthen security and political stability. While the economy is benefiting from the reduction in international oil prices, the authorities are aware that the economy remains fragile due to dwindling donors' budget support and political uncertainty in the run up to 2015 general elections. Against this backdrop, the authorities are committed to safeguard macroeconomic stability by pursuing prudent fiscal and monetary policies, and enhancing political environment.

In spite of the difficult economic environment, the authorities have made an impressive progress in the implementation of the program. All performance criteria and most end September and end December 2014 indicative targets were met. Further, satisfactory progress was made with the structural reforms. Given this strong performance, the authorities are requesting a one year extension of the current ECF program to create a macroeconomic framework for dialogue with their partners, and allow them to complete the ongoing structural reforms. The authorities are also seeking for augmentation of access under the current ECF arrangement to help them mitigate the heightened BOP needs, and catalyze donor support to the budget in the run up of 2015 general election. In addition, it would create room to smoothly negotiate a new program with the authorities after the general elections. Therefore, the authorities seek the support of the Executive Board in completion of the sixth ECF review, and request for extension and augmentation of access.

Program performance

The program remains on track. All quantitative criteria were observed, and indicative targets end September and end December 2014 were broadly met. While the indicative target for pro–poor spending was observed at end September, it was missed at end December 2014 due to the spending cuts related to the 2014 budget adjustment. Progress on the structural reform has been uneven due partially to the delays in technical assistance. Three out of seven structural benchmarks were implemented timely while one was achieved with delay. Satisfactory progress has been made with two other structural benchmarks related to the audit of extra-budgetary arrears and the decree on the organization chart of administrative and financial directors in line ministries. The structural benchmark related to setting of an interface between the Burundian Revenue Authority (OBR), and the Ministry of Finance and Economic Planning was technically impossible until the implementation of the new IT system at OBR is completed. Meanwhile, steps have been taken to improve the sharing of information between the two institutions.

Recent economic developments

Burundi's economic growth continued to gain momentum in 2014 while inflation declined markedly and the current account narrowed slightly. Economic growth was driven by a rebound in coffee production, construction sector, and the implementation of major infrastructure projects, including fiber optics, hydropower and roads. Headline inflation declined owing to the decrease in international oil prices. The latter contributed to improve terms of trade and trade balance by reducing the cost of imports. Notwithstanding this commendable economic performance, poverty and youth unemployment remain high.

The fiscal policy stance remains in line with the program requirements despite the revenue shortfall and dwindling budget support. The authorities endorsed tax measures in July 2014 to address revenue shortfall recorded in the first half of the year to keep the program on track. At the same time, revenue windfall stemming from the removal of fuel subsidies due to the declining international oil prices improved tax collection. However, the delayed disbursement of budget support widened budget deficit at end December 2014 triggering the increase in domestic debt. Nevertheless, it is expected that the situation will be normalized in the first quarter of 2015 upon the disbursement of the budget support from the African Development Bank and World Bank.

With regard to the monetary policy, the Bank of the Republic of Burundi (BRB) utilized the room created by the lower inflation to ease monetary condition. The BRB reduced its policy rate between June and December 2014 to facilitate credit access. The exchange rate remained flexible while the central bank's interventions dampened excess exchange rate volatility. To ensure transparency and credibility of monetary policy, the Monetary Policy Committee has continued to publish quarterly reports since 2013 accompanied by a monetary policy statement announcing the monetary authority's orientation going forward.

Economic outlook and policies

The macroeconomic outlook is favorable due to ongoing public investment in infrastructure which will contribute to boost economic growth. However, notwithstanding the current positive spillovers of low oil prices, external vulnerabilities persist owing to a high volatility of coffee prices, combined with low external financial access. In this regard, the authorities will strive to maintain prudent fiscal and monetary policies to ensure macroeconomic stability. On the structural reforms, more attention will be geared to the main economic growth drivers especially infrastructure, health and education, agriculture, mining sector especially the implementation of nickel project, tourism and regional integration. The authorities will continue to improve business environment to bolster private investment.

Fiscal policy and debt management

In response to lower budget support trend, the authorities will strive to maintain prudent fiscal policy. To that end, the authorities will enhance revenue mobilization and streamline public spending. Although the corrective revenue measures approved in July 2014 are expected to improve domestic resources in the medium term, more efforts are needed to improve the tax ratio to GDP. In this regard, the authorities will continue to strengthen tax administration and widen the tax base, and enhance credibility of the tax policy. Efforts will be made to strengthen the Tax Policy Department in designing and implementing tax policy coherent with the overall fiscal policy objectives. On the expenditure side, the authorities will continue to strengthen expenditure control and seek to create more room to support economic growth. The authorities will also implement the Public Financial Management strategy to strengthen accounting, budget preparation and execution, treasury cash flow management, and management of the Treasury Single Account.

With regard to the debt management, the authorities will strive to source grant and high concessional loans. However, given the scarcity of such resources, the authorities will implement the reforms that will foster the graduation from the high – risk of debt distress. In this regard, the authorities will continue to strengthen debt management capacity, and will make efforts to widen exports base.

Monetary policy and Financial sector development

The central bank will continue to implement monetary policy measures to maintain price stability and exchange rate consistency with the economic fundamentals. In the context of low inflation the authorities will ease monetary conditions while avoiding reigniting inflation pressure. To enhance the effectiveness of the monetary policy instruments, different measures including improving liquidity management, deepening the domestic financial market and enhancing inter – banks monetary market will be taken to reinforce monetary transmission mechanism. Exchange rate flexibility will be maintained while reducing excess volatility through interventions.

The banking system is broadly well capitalized, liquid and profitable. However, given the increased non-performing loans from 10.3 percent in 2013 to 12.5 percent in September 2014, the authorities will strengthen banking surveillance to ensure the soundness of the financial system. Furthermore, in order to enhance intermediation operations and boost credit to the private sector, the authorities will implement measures like the establishment of credit bureau, collateral registry, and improving the supervision of microfinance institutions.

Structural reforms

The authorities will continue to deepen structural reforms to unleash high potential economic growth. They will implement reforms to address the low productivity in agriculture, especially in coffee sector. In addition, to alleviate infrastructure bottlenecks several projects are underway in the energy sector. This will contribute to diversify the economy and develop large country’s mineral potential. Moreover, efforts will also be focused on improving business climate, and enhancing regional integration.

Conclusion

The Burundian authorities are aware that macroeconomic stability is a key pillar to foster economic growth and reduce poverty. In this regard, despite challenging environment, the authorities are committed to maintaining prudent fiscal and monetary policies. In addition, to unlocking the growth potential, they are committed to sustain the momentum to structural reforms to improve productivity, support economic diversification, and enhance regional integration. Further to this, the authorities will mitigate political uncertainty by strengthening the dialogue among key political stakeholders.