

Burundi: Fifth Review Under the Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of a Performance Criterion—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi

In the context of the fifth review under the arrangement under the Poverty Reduction and Growth Facility and request for a waiver of a performance criterion, the following documents have been released and are included in this package:

- the staff report for the Fifth Review Under the Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of a Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on December 6, 2006, the officials of Burundi on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 23, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;
- a Press Release summarizing the views of the Executive Board as expressed during its March 9, 2007 discussion of the staff report that completed the request and review; and
- 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*
Poverty Reduction Strategy Paper
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
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.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

BURUNDI

**Fifth Review Under the Arrangement Under the Poverty Reduction and
Growth Facility and Request for Waiver of a Performance Criterion**

Prepared by the African Department
(In consultation with other departments)

Approved by Jean A.P. Clément and Mark Plant

February 23, 2007

- **Discussions** for the fifth review under the PRGF arrangement were held in Bujumbura October 1–18 and November 29–December 6, 2006. The mission consisted of Mr. Mathieu (head), Mr. Manoel, Mr. Basdevant (all AFR), and Mr. Dicks-Mireaux (PDR). Mr. Engström, the Resident Representative for Burundi, based in Kigali, joined the mission. Mr. Nintunze, advisor to Executive Director Gakunu, also participated in the discussions, as did World Bank staff.
- **Macroeconomic performance under the PRGF-supported program in 2006 was broadly in line with the program.** All end-June and end-September 2006 quantitative performance targets were met except there was a temporary accumulation of external arrears; but structural reforms lagged in mid-2006, and the structural performance criterion at end-September and the structural benchmarks were missed. The measures covered by the performance criterion and three of the benchmarks were implemented by early 2007.
- **In the attached letter of intent and memorandum of economic and financial policies.** The authorities review performance under the PRGF-supported program through September 2006 and set out policies and program monitoring issues for 2007. They request completion of the fifth review and waiver of a structural performance criterion.
- **Policy issues:** The program seeks to strengthen the macroeconomic environment, while buttressing public financial management, accelerating structural reform, and improving governance. Public expectations of a peace dividend, especially as expressed in public sector wage pressures, need to be carefully managed.

Contents	Page
Executive Summary	3
I. Introduction	4
II. Macroeconomic Developments in 2006 were Broadly in Line with Program Objectives....	4
III. Policy Discussions on the 2007 Program.....	8
A. The 2007 Macroeconomic Program.....	8
B. Sound Fiscal Policy and Public Financial Management	8
C. Strengthening Monetary Policy and the Financial System	9
D. Reforms to Benefit from Globalization and Sustain Economic Recovery	9
E. National Statistics and Technical Assistance	10
IV. Program Monitoring and Risks.....	10
V. Staff Appraisal	10
Figure: Recent Economic Developments	7
Tables	
1. Selected Economic and Financial Indicators, 2004–10	12
2. Balance of Payments, 2005–10.....	13
3. General Government Operations, 2005–10	14
4. Monetary Survey and Central Bank Accounts, 2005–10.....	16
5. Schedule of PRGF Disbursements and Reviews, 2004–07	17
6. Indicators of Fund Credit, 2005–10	18
7. External Financing Requirements and Sources, 2005–07	19
Appendix I	
Letter of Intent	20
Attachment I. Memorandum of Economics and Financial Policies for 2007.....	22
Attachment II. Technical Memorandum of Understanding.....	42

Executive Summary

- **In a difficult post-conflict environment Burundi made steady but uneven progress in 2006 and early 2007.** Political tensions surfaced in mid-2006 and again in early 2007; the government was reshuffled in September 2006 and in February 2007. The security situation improved with a cease-fire agreement with the last remaining rebel movement (FNL) in September. The first full PRSP was published in September. Burundi's admission to the East Africa Community in late November bolsters the medium-term economic outlook.
- **Though the macroeconomic program remained on track, structural reform lagged, primarily because of the mid-year political tensions, weak implementation capacity, and delays in receiving technical assistance.** The structural performance criterion and benchmarks were missed; most have been implemented or are in process. Long delays in disbursement of external budget support, in part owing to governance concerns, severely affected implementation of macroeconomic policy. The authorities responded by cutting spending significantly and delaying the clearance of domestic arrears.
- **Prospects for 2007 are for continued real growth of 5–6 percent and single digit inflation.** The pace of structural reform is being raised with strengthened public financial management and reinforced monetary policy and financial sector supervision. A privatization agenda, especially for coffee, has been elaborated, to begin in 2007. The managed floating exchange rate regime has so far served Burundi well. Burundi is expected to accept its obligations under Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement in the near future.
- **Risks to the program** are primarily associated with a still fragile security situation, the need for timely and adequate disbursements of external support, and public expectations of a peace dividend, notably for public sector wage increases.
- **Staff recommends completion of the fifth review under the Poverty Reduction and Growth Facility,** given the strength of the program and the demonstrated commitment of the authorities to implement sound macroeconomic policies, and supports Burundi's request for waiver of a structural performance criterion.

I. INTRODUCTION

1. **Burundi's first full year under a democratically elected government proved eventful.** Political tensions emerged in the summer of 2006 with the arrest of the former president and vice-president for an alleged coup attempt.¹ The second vice-president in charge of social and economic sectors resigned abruptly and the cabinet was reshuffled in September. In February 2007, in response to rising concerns on political and economic governance, the ruling political party elected a new president and the cabinet was reshuffled. Burundi's first full PRSP was finalized in September 2006. Burundi was admitted to the East Africa Community (EAC) in November.

2. **The security situation improved further in early September when the government signed a long-awaited cease-fire with the last rebel movement, the FNL.** Nonetheless, human rights groups and the United Nations cautioned on rights abuses by security personnel and emphasized the importance of the rule of law. The UN peacekeeping operation was wound down, in favor of an integrated office in 2007. A contingent of troops, under the African Union, remained to support the peace process with the FNL. In October 2006, the UN launched a Peace Building Commission, which began discussions with Burundi to support progress in rebuilding a peaceful democracy.

II. MACROECONOMIC DEVELOPMENTS IN 2006 WERE BROADLY IN LINE WITH PROGRAM OBJECTIVES

3. **The quantitative performance targets for end-June and end-September 2006 were observed,** and performance appears to be on track to meet the end-December targets, except for a temporary accumulation of external arrears (MEFP, Table 1).² GDP growth recovered as coffee production rebounded and inflation remained below 10 percent (Table 1). The external current account deficit, including grants, is expected to have widened further in 2006, although by less than projected, on account of the impact of lower-than-expected coffee exports and continued strong growth in imports (Table 2). Gross official reserves fell steadily through November before recovering to 3.2 months of 2007 imports at year-end. The nominal exchange rate depreciated gradually during the year against the US dollar but recovered sharply in December; in real effective terms the exchange rate depreciated moderately (through October). The differential between the official and parallel exchange rates remained negligible.

¹ Five of the seven accused, including the former president and vice-president were acquitted by the supreme court in January 2007 and released.

² There were instances of late payments in 2006 to the OPEC Fund and the Arab development bank, BADEA. Also, the authorities have disputed interest claims by BADEA, related to the arrears rescheduling agreement of 2003.

4. **Structural reform lagged in 2006, due in large measure to political tensions, weak implementation capacity, and delays in the provision of technical assistance and disbursement of foreign aid.**³ The structural performance criterion (PC) and the benchmarks were missed (MEFP, Table 2), but the PC and three of the benchmarks were met by early 2007. The other benchmarks are being implemented or have been rephased (coffee sector reform and privatization) (MEFP, Table 4). Progress was made in the following areas:

- For the first time coffee marketing credit was negotiated directly with banks, without government intervention or guarantee. The state coffee marketing board strengthened its financial management, reduced marketing delays, and introduced weekly cash flow management. However, preparations for a strategy to sell washing stations and for a new regulatory framework were delayed but are near completion. In November, with support from the World Bank, the authorities adopted a coffee sector privatization plan for 2007–08.
- The government relaunched work on a privatization program, with technical support from the World Bank.
- A new statistical law was submitted to parliament and an action plan for national statistics development was adopted.
- Coordination with donors on public financial management (PFM) reforms and budget support was reinforced.

5. **Shortfalls in disbursements of external budget support of 4.7 percent of GDP were offset by significant spending cuts (3½ percent of GDP of nonwage primary spending) and by higher domestic financing** (MEFP, para. 6; and Table 3).⁴ Wage expenditure increased above the indicative program target, following the harmonization of pay scales for the newly integrated police and army at mid-year. As overall revenue remained on track, the 2006 primary deficit and domestic financing were expected to be well below the program targets, adjusted for external financing shortfalls.

6. **Monetary policy played a key role in maintaining macroeconomic stability.** The Central Bank (BRB) continued its regular sales of foreign exchange and conducted active liquidity management operations (Table 4). Credit to government was contained well below

³ Disbursement delays reflected donor concerns about irregularities in the sale of the presidential jet. An external audit of the transaction, requested by the World Bank, found strong evidence of misconduct and the former minister of finance was dismissed.

⁴ External budget support was also significantly delayed in 2006. Of the 12 percent of GDP assumed in the program only 0.3 percent of GDP had been disbursed by late November. The bulk of the assistance of 7 percent of GDP arrived in December.

the adjusted ceiling under the program. The monetary aggregates grew much less than expected, reflecting the sharp decline in net foreign assets. Bank credit to the economy recovered modestly through September, expanding by about 10 percent (on a 12-month basis), excluding coffee (30.4 percent, including coffee credit). Interest rates declined, following the elimination of the 7 percent tax on banking transactions.

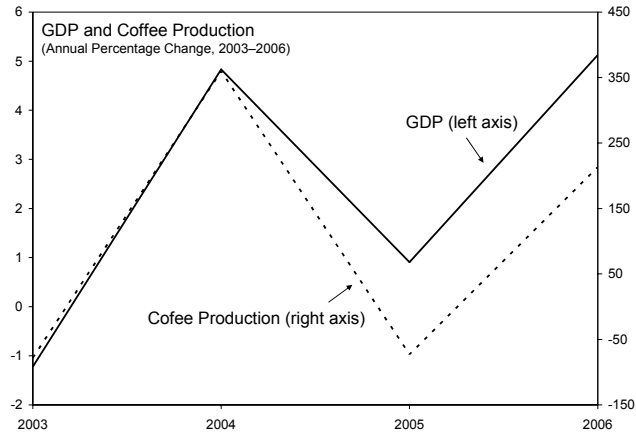
7. The new unified foreign exchange regulation, published by the BRB in December 2006, codified previous reforms and further liberalized the foreign exchange regime.

8. Progress was made in addressing vulnerabilities in the banking system. Four small weak banks (together representing about 24 percent of deposits) were required to prepare restructuring plans; one of them later had its license revoked. Nonperforming loans began to be reduced, reflecting the government's domestic arrears clearance operation launched in the fourth quarter. Finally, the first auction of the new standardized and tradable treasury securities was launched in late December 2006.

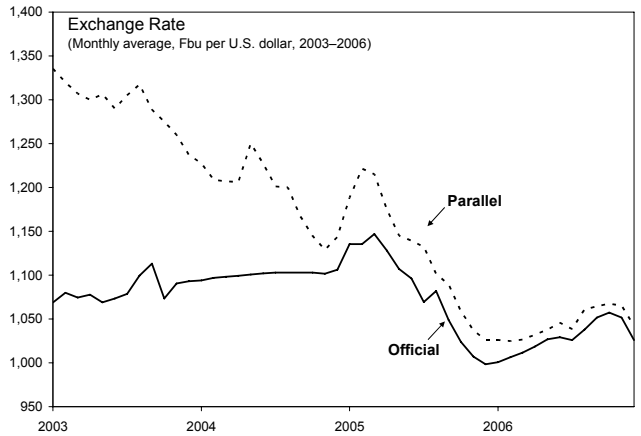
9. The authorities began discussions with non-Paris Club bilateral creditors on debt relief comparable to the Paris Club agreement, but made only limited progress in strengthening debt management.

Figure. Recent Economic Developments

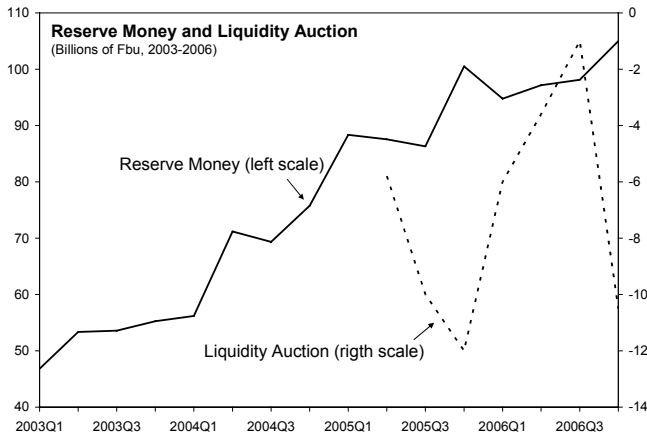
Growth recovered with a rebound in coffee production.



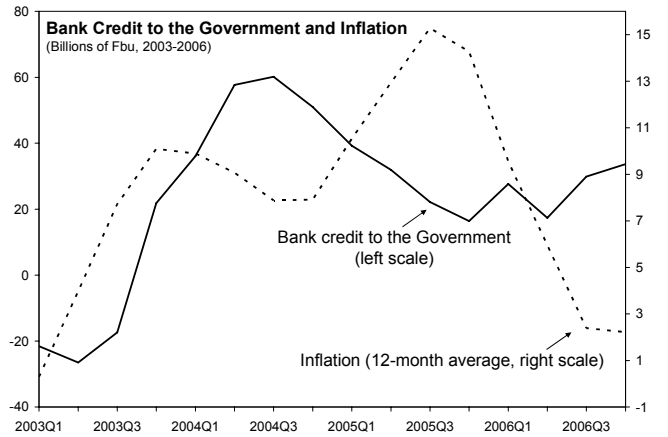
Foreign exchange liberalization led to a reduction in the spread between official and parallel exchange rates.



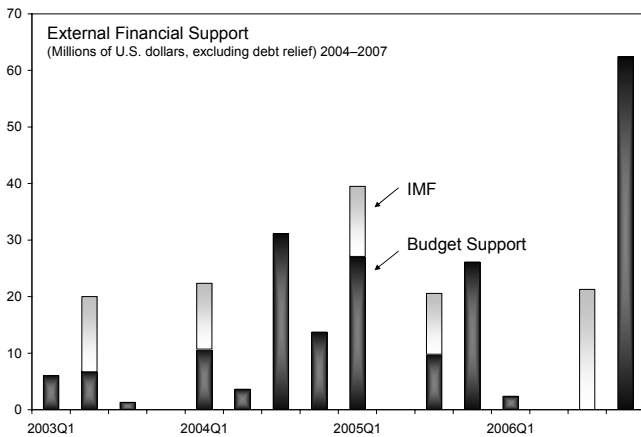
An active monetary policy ...



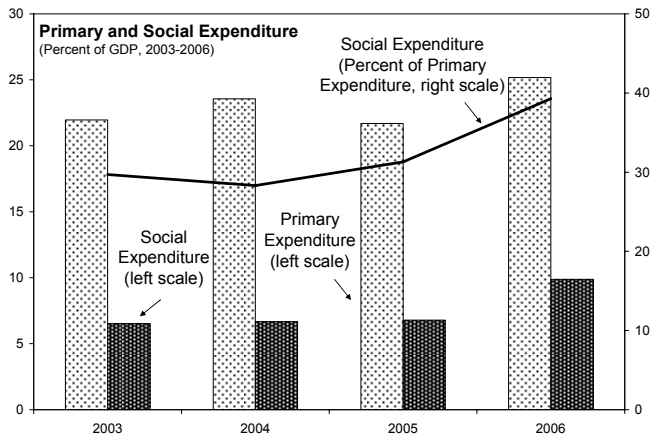
... and a prudent fiscal policy led to lower inflation.



Despite unpredictable budgetary aid flows...



... social expenditure is increasing.



Source: The Burundi authorities and Fund staff estimates.

III. POLICY DISCUSSIONS ON THE 2007 PROGRAM

10. **Policy discussions focused on maintaining sound fiscal policy in the face of urgent social needs and wage pressures; reenergizing structural reform; reinforcing good governance; and raising economic efficiency.** Managing public expectations of a peace dividend will be critical to securing macroeconomic stability.

A. The 2007 Macroeconomic Program

11. **Real GDP growth is projected to hold at 5-6 percent on continued broad-based recovery, especially in trade, construction, and services.**⁵ Average inflation is expected to remain in the low single digits as liquidity management improves further and bank financing of the budget is limited. With the clearance of domestic arrears, improved security, and privatization, the monetization of the economy is expected to continue. Bank credit to the economy is projected to strengthen in support of higher growth and investment. The external current account deficit, including official transfers, is likely to deteriorate moderately in response to a strong increase in imports for foreign-financed projects. Gross international reserves would rise to about 3.6 months of 2007 imports.

B. Sound Fiscal Policy and Public Financial Management

12. **Fiscal policy in 2007 aims to continue restructuring expenditure from security outlays to address urgent social and infrastructure needs** (MEFP, Paras. 15-19). As discussed in the PRSP, access to social services is very low and service quality is poor. Supported by interim HIPC debt relief, outlays on social services will rise to 10.7 percent of GDP. The budget holds the revenue effort at close to 20 percent of GDP and avoids recourse to domestic financing. The primary deficit is expected to increase modestly to 6.6 percent of GDP, with the overall balance (on a commitment basis), including grants, at 0.7 percent of GDP. Given the volatility of external aid, non-priority expenditure has been back-loaded in the budget and spending of 0.5 percent of GDP is contingent on confirmation of additional budget support. The outlook for external assistance is expected to be firmed up at the UNDP round table expected in March 2007.

13. **Revenue administration is being strengthened to remove distortions and improve efficiency.** This effort is supported by intensified technical assistance (TA) from the Fund, including through the new AFRITAC, and the World Bank. Burundi has a three-year transition period, 2007–09, to implement the EAC free trade area and common external

⁵ Recent very heavy rains and flooding are reported to have destroyed the basic food crop harvest (one of three per year) in parts of the country. The impact on GDP and growth will be assessed at the time of the next review.

tariff; rate changes are to begin in January 2008. Efforts to identify the revenue impact are underway, with World Bank TA. Work has begun to bring the outdated tax code up to standard and to reinforce administration.

14. **Wage bill management is being reinforced.** Increases to security forces and to magistrates (starting in 2007) as well as the continued hiring of school teachers to address the demand backlog will push the wage bill to close to 12 percent of GDP in 2007. The program, with World Bank support, envisages a census of all government employees, the centralization and computerization of wage management at the ministry of finance, and the pursuit of the demobilization program. These measures will contribute to the expected decline of the share of the wage bill in GDP over the medium term.

15. **The government is firming up fiscal governance and transparency.** It has made good progress in enhancing budget classification, accounting, and management. The authorities have adopted a detailed medium-term public financial management action plan prepared with IMF TA, in consultation with donors. A long-term IMF resident public expenditure management expert, is to be posted in early 2007.

C. Strengthening Monetary Policy and the Financial System

16. **The BRB is working to modernize its operations and strengthen the financial system** (MEFP, Paras. 20–23). It is introducing a risk-based internal audit—an IMF safeguards assessment recommendation—with reinforced TA. A new charter is under preparation to grant the BRB de jure independence. Anti-money laundering (AML/CFT) legislation, drafted with Fund TA, was presented to the Council of Ministers in January 2007.

17. **The financial system is being restructured.** The introduction of new government securities will improve both liquidity management and the efficiency of the financial system. Prudential supervision is being reinforced, with Fund TA, and minimum capital requirements were raised significantly in December 2006.

D. Reforms to Benefit from Globalization and Sustain Economic Recovery

18. **Structural reforms are directed to improving the business climate, launching privatization, and promoting improved governance and transparency** (MEFP, Paras. 24–30). A phased program to privatize selected assets in 2007–08 is being launched with public tenders. As a first step, the authorities are consolidating the extensive cross-holdings in the public sector.

19. **Burundi's membership in the EAC is expected to boost trade in the medium-term while stimulating competition in key sectors.** Links to regional infrastructure investment will be crucial to reducing high transport costs. An Investment and Export Promotion Agency will be established in 2007, with a one-stop business licensing window.

20. **The authorities are committed to pushing ahead with coffee sector reform** (MEFP, Para. 28). An action plan envisages the tender of sector assets mostly from February 2008, although the sale of some individual washing stations could begin by September 2007. During the transition the authorities will seek to minimize financial risks to producers and the government and guard against actions that may impede the introduction of a competitive private coffee sector.

E. National Statistics and Technical Assistance

21. **The authorities have begun a medium-term effort to improve the quality of national statistics** (MEFP, Para. 33). The new statistical law will provide a legal basis for the data collection entities. Metadata meeting the Fund's General Data Dissemination Standard are expected to be submitted shortly.

22. **Burundi needs considerable technical assistance.** Fund TA is being reinforced through the new AFRITAC and the posting of a full-time resident representative. Priority TA needs have been defined with the help of the World Bank.

IV. PROGRAM MONITORING AND RISKS

23. **The prior actions for completion of the fifth review address slippages in implementing structural reforms** (MEFP, Table 4). Structural benchmarks and a structural PC have been set through June 2007. Indicative quantitative targets have been set for 2007. The sixth review will also assess the end-December 2006 quantitative PCs and the structural PC at end-June 2007 (Tables 5 and 6). **Risks to the program** are from the still fragile security situation, the need for timely and adequate disbursements of external support, and the pressure for higher wages.

V. STAFF APPRAISAL

24. **In a difficult post-conflict environment Burundi made steady but uneven progress in 2006 in implementing its PRGF-supported program.** Political tensions that surfaced in mid-2006 eased in the fall and the security situation improved. The macroeconomic program remained on track, with a recovery in real growth and low inflation. However, macroeconomic policy implementation was hampered by delays in aid disbursements, in part reflecting donor's governance concerns. Staff welcomes recent efforts at better coordination with donors to ensure cohesive TA and financial support. Timely and predictable receipt of external financial support is key for macroeconomic stability and program implementation.

25. **The authorities are to be commended for Burundi's strong fiscal performance in 2006.** The cuts in expenditure in the face of delayed disbursement of external support were difficult to implement and demonstrate the authorities' commitment to prudent financial policies. The authorities also continued to strengthen expenditure management from a low

base. These efforts must be extended over the medium term with donor assistance. Staff particularly encourages the authorities to carefully manage public expectations of a peace dividend.

26. **The BRB is strengthening monetary policy.** The clearing of domestic arrears and the introduction of standardized negotiable treasury securities in 2006 will enhance the efficiency and the soundness of the financial system. It is important that the BRB follow through with its efforts to bolster banking supervision and improve its internal operations. Passing an anti-money laundering law and revising the BRB's charter to grant it de jure independence are important measures already underway.

27. **Good governance and transparency practices should be reinforced through the strengthening of public financial management, the reform of public procurement, and the progressive withdrawal of state intervention in the economy.** In this regard, the recovery in the pace of structural reform in autumn 2006 is encouraging. Burundi's membership in the EAC will help stimulate trade, growth, and greater competition in key sectors; but the consistency of overlapping commitments to different economic and trade zones needs to be assured.

28. **There has been commendable progress in liberalizing the exchange regime.** Burundi maintains a multiple currency practice subject to Fund approval under IMF Article VIII, and staff does not recommend its approval. The exchange regime is liberalized for current international transactions and little remains to be done for Burundi to accept the obligations of Article VIII, Sections 2, 3, and 4. Staff supports continuation of the managed-float exchange rate regime, which has served Burundi well so far.

29. **The authorities are encouraged to pursue agreements with non-Paris Club and other creditors that have not yet provided HIPC debt relief.** Debt service payment procedures need to be strengthened to avoid external arrears.

30. **Publication of Burundi's first full PRSP is welcome.** Sectoral action plans for the UNDP round table are being defined. Although social conditions have improved somewhat, challenges remain to meet the MDGs and deliver better social services.

31. **While there are significant risks to the program, on the basis of the authorities' commitment to sound macroeconomic policies and accelerated structural reform, staff recommends completion of the fifth review under the PRGF.** Staff also recommends approval of the authorities' request for a waiver of the structural performance criterion because the nonobservance was temporary.

32. **Staff welcomes the authorities' intention to make public the staff report, the letter of intent, and the MEFP.**

Table 1. Burundi: Selected Economic and Financial Indicators, 2004–10

	2004	2005	2006		2007	2008	2009	2010
	Actual		Prog.	Est.	Prog.	Projections		
IMF Country Report No. 06/311								
(Annual percentage change, unless otherwise indicated)								
National income and prices								
Real GDP growth	4.8	0.9	6.1	5.1	5.5	6.6	6.6	6.6
GDP deflator	8.3	16.6	4.8	3.3	4.6	4.0	4.0	4.0
Consumer prices (period average)	8.0	13.4	2.5	2.8	4.2	4.0	4.0	4.0
Consumer prices (end of period)	11.8	1.1	8.7	9.2	4.1	4.0	4.0	4.0
External sector								
Exports, f.o.b. (U.S. dollars)	27.5	19.5	22.5	6.4	15.1	24.5	16.9	15.0
Imports, f.o.b. (U.S. dollars)	16.1	60.5	31.8	19.6	17.2	5.4	5.3	6.9
Export volume	-10.9	-1.6	22.1	4.7	7.0	27.7	17.2	15.1
Import volume	3.9	46.7	26.9	1.3	15.9	4.9	8.7	9.9
Terms of trade (deterioration = -)	28.1	11.0	-3.3	-14.0	6.4	-2.9	3.0	2.7
Real effective exchange rate (annual average; depreciation = -) ¹	-3.0	10.1	...	-4.5	...	...	...	...
General government								
Revenue	8.0	17.1	5.5	3.7	13.8	12.5	11.3	12.4
Total expenditure and net lending (commitment basis)	29.6	8.7	26.2	19.9	15.2	3.6	9.8	13.0
Noninterest current expenditure (excl. demobilization and elections)	9.5	5.8	51.2	21.5	25.6	17.1	12.7	5.4
(Change in percent of beginning of period M2, unless otherwise indicated)								
Money and credit								
Net foreign assets	-4.1	15.7	-1.3	-7.7	-1.4	...	...	...
Domestic credit	39.8	0.6	22.9	39.9	12.9	...	...	...
Government	34.8	8.1	8.2	13.2	0.4	...	...	...
Private sector	5.0	-6.6	14.7	26.0	12.5	...	...	...
Money and quasi money (M2)	16.7	26.0	20.5	9.6	12.4	...	...	...
Income velocity (=ratio of GDP to M2; end of period)	3.6	3.4	3.1	3.3	3.3	...	...	...
Reserve money (12-month growth rate)	37.2	32.7	10.5	4.4	11.6	...	...	...
Central bank refinancing rate (percent; end of period)	14.5	14.5	...	14.5	...	...	...	...
Commercial bank lending rate (percent; medium term; period average)	19.5	19.2	...	18.4	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
General government								
Revenue (excluding grants)	20.1	20.0	19.0	19.1	19.7	20.0	20.1	20.3
Total expenditure and net lending	39.8	36.8	41.8	40.6	42.4	39.6	39.2	40.0
Primary budget balance (excluding foreign-financed projects)	-3.5	-1.7	-8.9	-6.1	-6.6	-6.2	-6.2	-5.8
Overall balance (commitment basis)								
Excluding grants	-19.7	-16.8	-22.8	-21.5	-22.7	-19.6	-19.1	-19.6
Including grants ²	-4.9	-6.2	-0.4	-2.2	0.7	-1.7	-1.0	-1.0
Saving and investment ²								
Current account balance ²	-8.1	-10.4	-17.5	-13.6	-15.3	-13.1	-13.3	-13.8
Current account balance, excluding official transfers	-25.5	-34.2	-37.9	-36.8	-37.5	-33.3	-31.3	-29.8
Gross investment	13.3	10.8	16.1	16.6	17.9	18.6	19.1	19.5
Government	10.3	6.5	9.6	8.6	8.9	9.1	9.4	9.5
Private	3.0	4.2	6.5	8.0	9.0	9.5	9.8	10.0
Domestic saving	-12.2	-23.4	-21.8	-20.3	-19.5	-14.7	-12.1	-10.3
Government	-9.4	-10.2	-13.2	-12.9	-13.8	-10.5	-9.8	-10.1
Private	-2.8	-13.2	-8.6	-7.3	-5.8	-4.2	-2.4	-0.2
Gross national saving	5.2	0.4	-1.4	2.9	2.6	5.5	5.8	5.8
Government	-3.4	-3.4	3.3	0.9	0.6	-1.4	-1.2	-1.2
Private	8.6	3.8	-4.7	2.0	2.0	6.9	7.0	7.0
(Millions of U.S. dollars, unless otherwise indicated)								
External sector								
Current account, including grants ²	-54.0	-83.1	-166.8	-123.8	-159.9	-144.5	-160.0	-179.3
Overall balance of payments ²	11.0	22.2	4.7	-15.3	4.3	40.8	17.6	3.5
Gross official reserves (end of period)	67.2	112.7	145.0	131.0	159.5	172.1	188.9	186.5
Gross official reserves (months of imports of the following year)	2.2	3.1	3.3	3.2	3.6	3.7	3.8	3.9
Debt-service ratio (scheduled; percent of exports; before HIPC and MDRI relief) ³	109.2	47.1	46.5	53.8	37.5	31.6	30.9	29.8
Debt-service ratio (actual; percent of exports; after HIPC and MDRI relief) ³	99.8	33.4	13.4	17.5	2.0	1.1	1.8	4.2
Stock of debt	1,384.1	1,422.8	1,457.9	1,442.8	1,452.8	412.1	419.3	421.5
External payments arrears	78.7	52.5	0.0	49.9	0.0	0.0	0.0	0.0
Memorandum items:								
GDP at current market prices (billions of Burundi francs)	732	861	957	935	1,031	1,142	1,267	1,405

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

¹ As of November 2006.² Assumes financing gap is covered by grants in 2007–15 and by 50 percent grants thereafter.³ The decision point was reached on August 5, 2005, and it is assumed that the HIPC completion point will reach by the end of 2007.

Table 2. Burundi: Balance of Payments, 2005–10 ¹

	2005	2006		2007	2008	2009	2010
	Actual	Prog.	Est.		Projections		
	IMF Country Report No. 06/311						
	(Millions of U.S. dollars)						
Current account	-83.1	-166.8	-123.8	-159.9	-228.2	-250.9	-271.2
(excluding official transfers)	-273.4	-361.5	-334.2	-375.0	-367.5	-375.1	-388.1
Trade balance	-181.8	-244.7	-225.1	-265.2	-266.0	-269.8	-280.1
Exports, f.o.b.	57.2	70	60.8	70.0	87.2	101.9	117.3
Of which: coffee	40.5	50.7	43.5	54.3	54.9	58.8	62.9
Imports, f.o.b.	-239.0	-314.7	-285.9	-335.2	-353.2	-371.8	-397.4
Of which: petroleum products	-38.3	-52.6	-49.8	-56.0	-62.7	-66.4	-70.1
Services (net)	-89.5	-110.4	-107.6	-110.9	-115.6	-122.0	-126.4
Income (net)	-19.3	-25.6	-20.7	-20.1	-9.6	-9.7	-9.7
Of which: interest on public debt (including IMF charges)	-11.4	-12.8	-12.8	-12.2	-1.6	-1.7	-1.7
Current transfers (net)	207.6	213.9	229.6	236.3	163.0	150.6	145.0
Private (net)	17.3	19.2	19.2	21.2	23.7	26.4	28.1
Official (net)	190.3	194.7	210.4	215.1	139.3	124.2	116.9
Of which: program grants	37.9	103.4	64.8	83.0	0.0	0.0	0.0
Capital account	26.2	131.2	75.7	118.8	1,149.5	112.4	124.4
Of which: HIPC relief	7.4	35.7	35.7	39.4	992.6	0.0	0.0
Of which: MDRI grant	...	...	0.0	0.0	61.6	0.0	0.0
Financial account	66.6	40.3	32.8	38.9	-964.2	65.3	58.4
Direct investment	15.0	8	8.0	15.0	17.3	19.8	22.8
Medium- and long-term official loans (net)	37.7	0.2	-1.0	-11.1	-1,009.6	11.1	11.1
Disbursements	69.3	40.4	39.2	21.5	16.5	11.5	11.5
Project loans	43.1	40.4	39.2	21.5	16.5	11.5	11.5
Program loans	26.2	0	0.0	0.0	0.0	0.0	0.0
Amortization (excluding IMF)	-31.6	-40.2	-40.2	-32.6	-1,026.1	-0.4	-0.4
Other investment	13.9	32.1	25.8	35.0	28.1	34.3	24.5
Errors and omissions	12.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	22.2	4.7	-15.3	-2.2	-42.9	-73.2	-88.4
Financing (increase in assets = -)	-22.2	-4.7	15.3	-4.3	-40.8	-17.6	-3.5
Net change in official foreign reserves (increase = -)	-31.0	-3.6	18.0	-6.9	-43.8	-20.6	-6.5
Gross official reserves	-45.5	-32.3	-18.4	-28.4	-12.7	-16.8	2.4
Liabilities to IMF, net	17.2	30.7	24.6	21.5	-31.1	-3.9	-8.8
Other, net	-2.7	-1.9	11.8	0.0	0.0	0.0	0.0
Change in arrears (increase = +)	-22.2	-5.6	-5.2	-49.9	0.0	0.0	0.0
Exceptional financing ²	31.0	4.5	2.5	52.5	3.0	3.0	3.0
Financing gap ³	0.0	0.0	0.0	6.5	83.7	90.9	91.9
	(Percent of GDP, unless otherwise indicated)						
Memorandum items:							
Trade balance	-22.7	-25.6	-24.8	-26.5	-24.1	-22.5	-21.5
Current account ³	-10.4	-17.5	-13.6	-15.3	-13.1	-13.3	-13.8
Of which: excluding current official transfers	-34.2	-37.9	-36.8	-37.5	-33.3	-31.3	-29.8
Gross official reserves							
Million of U.S. dollars	112.7	145.0	131.0	159.5	172.1	188.9	186.5
Months of following period's imports, c.i.f.	3.1	3.3	3.2	3.6	3.7	3.8	3.9
Imports							
Growth rate	60.5	31.8	19.6	17.2	5.4	5.3	6.9
Percent of GDP	29.9	33.0	31.5	33.5	32.0	31.0	30.5
Exports							
Growth rate	19.5	22.5	6.4	15.1	24.5	16.9	15.0
Percent of GDP	7.1	7.3	6.7	7.0	7.9	8.5	9.0
Debt-service ratio (percent of exports of goods and services)							
Scheduled current maturities (including IMF)	47.1	46.5	53.8	37.5	31.6	30.9	29.8
Actual debt service (including IMF; after HIPC and MDRI)	33.4	13.4	17.5	2.0	1.1	1.8	4.2
Exchange rate (Burundi francs per U.S. dollar; period average)	1,075	...	1,029	...	...	...	...
Nominal GDP (millions of U.S. dollars)	800.5	954.6	908.0	1,000.7	1,103.9	1,199.3	1,303.0

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

¹ Compiled in accordance with *Balance of Payments Manual, 5th edition*.² Includes the March 2004 Paris Club rescheduling on Naples terms, and assumes rescheduling is of current debt service and arrears to non-Paris Club creditors at comparable terms.³ Assumes financing gap is covered by grants.

Table 3. Burundi: General Government Operations, 2005–10

	2005	2006		2007				2008	2009	2010	
	Act.	Year		Mar.	Jun.	Sep.	Dec.	Year	Projections		
		Prog.	Est.			Prog.					
		IMF									
		Country									
		Report									
		No.									
		06/311									
	(Billions of Burundi francs)										
Revenue	172.1	181.5	178.4	48.4	56.9	47.5	50.3	203.0	228.3	254.2	285.7
Tax revenue	158.9	165.6	162.2	47.0	44.9	45.9	47.4	185.2	209.9	233.8	263.0
Income tax	41.8	41.2	43.8	15.1	12.9	8.1	12.0	48.1	57.3	65.5	75.7
Taxes on goods and services	78.3	84.9	82.9	22.8	22.7	26.9	24.8	97.2	108.4	120.3	135.0
Taxes on international trade	38.4	36.6	33.2	8.6	9.2	10.7	8.9	37.4	39.9	43.2	47.0
Other tax revenue	0.3	2.8	2.3	0.5	0.2	0.2	1.6	2.5	4.3	4.8	5.3
Nontax revenue	13.2	16.0	16.1	1.4	11.9	1.5	2.9	17.8	18.5	20.5	22.7
Expenditure and net lending	316.4	399.7	379.3	98.9	117.6	116.7	103.6	436.8	452.5	496.8	561.4
Current expenditure	200.6	252.1	226.9	61.8	69.8	72.0	64.5	268.2	279.0	306.2	334.2
Salaries	72.6	94.8	96.6	28.3	30.8	31.3	31.3	121.7	130.1	139.3	150.7
Civilian	41.9	56.9	58.5	17.2	19.7	19.0	19.0	74.9	81.5	88.9	98.3
Military	24.0	21.6	23.0	6.4	6.4	7.1	7.1	27.1	28.5	29.9	31.4
New police force (SSR program)	6.7	16.2	15.1	4.7	4.7	5.2	5.2	19.7	20.1	20.5	20.9
Goods and services	65.7	81.1	62.2	12.4	21.5	23.2	14.1	71.3	79.7	89.0	98.6
Civilian	26.7	38.2	27.1	7.0	10.0	10.8	7.8	35.5	42.8	49.9	57.4
Military	29.6	28.6	23.0	3.5	7.5	8.1	4.1	23.0	23.5	23.9	24.4
New police force (SSR program)	9.5	14.3	12.1	2.0	4.1	4.4	2.3	12.8	13.4	15.1	16.9
Transfers and subsidies	30.3	48.8	40.6	11.6	11.6	11.6	11.6	46.5	52.0	59.2	66.8
Interest payments (due)	32.0	27.5	27.5	9.4	5.9	5.9	7.5	28.7	17.3	18.7	18.1
Domestic	19.4	16.1	16.1	6.5	2.5	3.4	4.9	17.3	15.6	16.8	16.2
Foreign	12.6	11.4	11.4	2.9	3.3	2.5	2.6	11.3	1.7	1.8	1.9
DDR project	8.7	20.0	35.0	9.3	8.3	7.8	7.8	33.0	20.0	15.0	0.0
Elections	24.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.0
Project expenditure	84.1	129.6	119.4	28.4	40.1	37.4	31.8	137.6	155.5	177.7	200.2
Domestic resources	19.5	43.7	37.8	2.2	14.4	11.4	5.8	33.8	39.8	46.8	53.7
External resources	64.5	85.9	81.5	26.2	25.7	26.0	26.0	103.8	115.7	130.9	146.5
Net lending	-1.4	-2.0	-2.0	-0.5	-0.5	-0.5	-0.5	-2.0	-2.0	-2.0	-2.0
Overall balance (commitment basis)	-144.3	-218.2	-200.9	-50.5	-60.8	-69.2	-53.2	-233.8	-224.2	-242.6	-275.7
(after grants) ¹	-53.7	-3.4	-20.2	6.6	20.0	-25.0	5.3	6.9	-19.0	-12.8	-13.6
Of which: primary balance	-14.6	-84.8	-56.8	-5.7	-21.0	-29.6	-12.0	-68.3	-71.2	-78.0	-82.2
Change in arrears (reduction -)	-10.8	-27.9	-23.2	-4.3	0.0	0.0	0.0	-4.3	-1.0	0.0	0.0
External (interest)	-10.7	-2.2	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.1	-25.7	-21.4	-4.3	0.0	0.0	0.0	-4.3	-1.0	0.0	0.0
Overall balance (cash basis)	-155.1	-246.0	-224.1	-54.8	-60.8	-69.2	-53.2	-238.1	-225.2	-242.6	-275.7
(after grants) ¹	-64.5	-31.3	-43.4	2.3	20.0	-25.0	5.3	6.9	-20.0	-12.8	-13.6
Financing (identified)	165.4	246.0	224.1	54.8	60.8	69.2	53.2	238.1	138.6	146.6	176.7
External grants	100.8	214.7	180.6	57.2	80.9	44.2	58.4	240.7	1,209.6	133.8	163.1
Program support	40.0	113.6	67.6	15.3	42.2	5.2	22.8	85.5	0.0	0.0	0.0
HIPC relief (IMF, WB, AfDB, PC)	8.0	35.8	36.8	12.1	10.1	10.7	7.7	40.6	1,027.2	0.0	0.0
MDRI grant (IMF, WB, AfDB, PC)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	63.7	0.0	0.0
Project grants	19.7	45.4	41.2	20.6	20.2	20.6	20.2	81.7	98.6	118.8	134.1
Special programs	33.2	20.0	35.0	9.3	8.3	7.8	7.8	33.0	20.0	15.0	29.0
DDR	8.7	20.0	35.0	9.3	8.3	7.8	7.8	33.0	20.0	15.0	0.0
Elections	24.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.0
External borrowing	53.7	4.8	3.5	-1.3	-1.9	-2.6	-2.5	-8.3	-1,044.8	11.7	12.0
Program loans	29.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	44.9	40.5	40.3	5.6	5.4	5.3	5.7	22.1	17.1	12.1	12.4
Amortization (due)	-34.0	-40.3	-41.4	-7.5	-8.3	-8.5	-9.2	-33.6	-1,061.9	-0.4	-0.4
Change in amortization arrears	-14.9	-3.4	-3.5	0.0	0.0	0.0	-51.1	-51.1	0.0	0.0	0.0
Debt relief (rescheduling; cancellation)	28.7	8.0	8.1	0.6	0.9	0.6	52.0	54.2	0.0	0.0	0.0
Privatization proceeds	0.4	3.6	4.2	1.0	1.0	2.0	1.6	5.6	6.0	5.0	4.0
Domestic	10.4	22.9	35.7	-2.0	-19.1	25.6	-4.4	0.1	-32.2	-3.9	-2.4
Banking sector ²	16.4	20.9	33.7	-2.0	-19.1	25.6	-4.4	0.1	-32.2	-3.9	-2.4
Nonbank sector	-6.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	86.6	96.0	99.1

continued

Table 3. Burundi: General Government Operations, 2005–10 (concluded)

	2005	2006		2007	2008	2009	2010
	Act.	Prog.	Est.	Prog. ⁴	Projections		
	IMF Country Report No. 06/311						
	(Percent of GDP, unless otherwise indicated)						
Revenue	20.0	19.0	19.1	19.7	20.0	20.1	20.3
Tax revenue	18.5	17.3	17.4	18.0	18.4	18.4	18.7
Income tax	4.9	4.3	4.7	4.7	5.0	5.2	5.4
Taxes on goods and services	9.1	8.9	8.9	9.4	9.5	9.5	9.6
Taxes on international trade	4.5	3.8	3.5	3.6	3.5	3.4	3.3
Other tax revenue	0.0	0.3	0.2	0.2	0.4	0.4	0.4
Non-tax revenue	1.5	1.7	1.7	1.7	1.6	1.6	1.6
Expenditure and net lending	36.8	41.8	40.6	42.4	39.6	39.2	40.0
Current expenditure	23.3	26.4	24.3	26.0	24.4	24.2	23.8
Salaries	8.4	9.9	10.3	11.8	11.4	11.0	10.7
Civilian	4.9	5.9	6.3	7.3	7.1	7.0	7.0
Military	2.8	2.3	2.5	2.6	2.5	2.4	2.2
New police force (SSR program)	0.8	1.7	1.6	1.9	1.8	1.6	1.5
Goods and services	7.6	8.5	6.7	6.9	7.0	7.0	7.0
Civilian	3.1	4.0	2.9	3.4	3.7	3.9	4.1
Military	3.4	3.0	2.5	2.2	2.1	1.9	1.7
New police force (SSR program)	1.1	1.5	1.3	1.2	1.2	1.2	1.2
Transfers and subsidies	3.5	5.1	4.3	4.5	4.6	4.7	4.8
Interest payments (due)	3.7	2.9	2.9	2.8	1.5	1.5	1.3
Domestic	2.3	1.7	1.7	1.7	1.4	1.3	1.2
Foreign	1.5	1.2	1.2	1.1	0.1	0.1	0.1
DDR project	1.0	2.1	3.7	3.2	1.8	1.2	0.0
Elections	2.8	0.0	0.0	0.0	0.0	0.0	2.1
Project expenditure	9.8	13.5	12.8	13.4	13.6	14.0	14.3
Domestic resources	2.3	4.6	4.0	3.3	3.5	3.7	3.8
External resources	7.5	9.0	8.7	10.1	10.1	10.3	10.4
Net lending	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1
Overall balance (commitment basis)	-16.8	-22.8	-21.5	-22.7	-19.6	-19.1	-19.6
(after grants) ¹	-6.2	-0.4	-2.2	0.7	-1.7	-1.0	-1.0
Of which: primary balance	-1.7	-8.9	-6.1	-6.6	-6.2	-6.2	-5.8
Change in arrears (reduction -)	-1.3	-2.9	-2.5	-0.4	-0.1	0.0	0.0
External (interest)	-1.2	-0.2	-0.2	0.0	0.0	0.0	0.0
Domestic	0.0	-2.7	-2.3	-0.4	-0.1	0.0	0.0
Overall balance (cash basis)	-18.0	-25.7	-24.0	-23.1	-19.7	-19.1	-19.6
(after grants) ¹	-7.5	-3.3	-4.6	0.7	-1.7	-1.0	-1.0
Financing (identified)	19.2	25.7	24.0	23.1	12.1	11.6	12.6
External grants	11.7	22.4	19.3	23.4	105.9	10.6	11.6
Program support	4.6	11.9	7.2	8.3	0.0	0.0	0.0
HIPC relief (IMF, WB, AfDB, PC)	0.9	3.7	3.9	3.9	89.9	0.0	0.0
	0.0	0.0	0.0	0.0	5.6	0.0	0.0
Project grants	2.3	4.7	4.4	7.9	8.6	9.4	9.5
Special programs	3.9	2.1	3.7	3.2	1.8	1.2	0.0
DDR	1.0	2.1	3.7	3.2	1.8	1.2	0.0
Elections	2.8	0.0	0.0	0.0	0.0	0.0	2.1
External borrowing	6.2	0.5	0.4	-0.8	-91.5	0.9	0.9
Program loans	3.4	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	5.2	4.2	4.3	2.1	1.5	1.0	0.9
Amortization (due)	-3.9	-4.2	-4.4	-3.3	-93.0	0.0	0.0
Change in amortization arrears	-1.7	-0.4	-0.4	-5.0	0.0	0.0	0.0
Debt relief (rescheduling; cancellation)	3.3	0.8	0.9	5.3	0.0	0.0	0.0
Privatization proceeds	0.0	0.4	0.4	0.5	0.5	0.4	0.3
Domestic	1.2	2.4	3.8	0.0	-2.8	-0.3	-0.2
Banking sector ²	1.9	2.2	3.6	0.0	-2.8	-0.3	-0.2
Nonbank sector	-0.7	0.2	0.2	0.0	0.0	0.0	0.0
Financing gap and errors and omissions	-1.2	0.0	0.0	0.0	7.6	7.6	7.1
<i>Memorandum items:</i>							
Primary spending (billions of Burundi francs)	186.7	266.3	235.2	271.3	299.6	332.3	367.8
Military and security spending (billions of Burundi francs)	69.7	80.7	73.2	82.6	85.5	89.5	93.6
Primary expenditure (program definition) ³	21.7	27.8	25.2	26.3	26.2	26.2	26.2
Military and security expenditure	8.1	8.4	7.8	8.0	7.5	7.1	6.7
Percent of current expenditures	34.8	32.0	32.3	30.8	30.6	29.2	28.0
Percent of primary expenditures	37.4	30.3	31.1	30.5	28.5	26.9	25.4
Social expenditure	6.8	8.9	9.8	10.7	10.8	10.8	10.9
Poverty reduction expenditures	7.3	...	9.9	11.4	11.5	11.6	11.8
Poverty reduction expendit. in percent of primary expendit.	33.6	...	39.3	43.3	43.7	44.4	45.2
GDP at current market prices (billions of Burundi francs)	860.8	956.6	934.6	1,030.7	1,142.4	1,267.1	1,404.6

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

¹ Assumes 100 percent of grants financing of the gaps.² Includes the impact of IMF debt stock relief under HIPC and MDRI in 2008.³ Current expenditure, excluding interest, and domestically financed project expenditure.⁴ Expenditure for 2007 excludes a FBu 4.7 billion contingency, subject to the confirmation of additional external budget support to that assumed in the program.

Table 4. Burundi: Monetary Survey and Central Bank Accounts, 2005–07

	2005				2006				2007			
	Act.	Prog.	At Prog.	Dec.	Act.	Prog.	At Prog.	Dec.	Act.	Prog.	At Prog.	Dec.
	IMF Country Report No. 06/311	IMF Country Report No. 06/311	Exch. Rate	Exch. Rate	IMF Country Report No. 06/311	IMF Country Report No. 06/311	Exch. Rate	Exch. Rate	IMF Country Report No. 06/311	IMF Country Report No. 06/311	Exch. Rate	Exch. Rate
(Billions of Burundi francs)												
Monetary survey												
Net foreign assets	69.7	53.8	32.9	33.9	59.9	18.2	19.3	49.8	49.9	39.6	59.4	46.0
Central bank	48.8	37.8	8.5	8.7	44.9	-14.1	-14.9	29.9	29.9	25.6	45.4	32.0
Deposit money banks	21.0	16.0	24.4	25.1	15.0	32.4	34.2	20.0	20.0	14.0	14.0	14.0
Net domestic assets	228.5	289.5	271.9	272.3	277.1	295.3	297.4	288.6	288.6	304.3	304.0	340.0
Domestic credit	280.1	339.7	313.1	313.1	328.8	357.6	381.9	381.9	381.9	396.5	386.4	414.8
Net claims on the government	123.0	124.1	133.1	133.1	159.7	145.3	145.3	156.7	156.7	155.7	136.6	162.2
Credit to the economy	157.1	215.5	180.1	180.1	169.1	212.3	212.3	225.2	225.2	240.8	249.7	280.3
Other items, net (assets = +)	-53.7	-50.2	-41.2	-40.8	-51.8	-62.3	-60.2	-93.4	-93.3	-92.2	-82.3	-78.2
M3	296.2	343.3	304.9	306.2	337.0	313.5	316.6	338.4	338.5	343.9	363.5	386.0
Foreign currency deposits	40.7	41.5	46.9	48.2	41.9	54.9	58.0	58.4	58.6	61.5	64.6	71.2
M2	255.5	301.7	257.9	257.9	295.0	258.6	258.6	279.9	279.9	282.4	298.9	314.8
Currency in circulation	67.9	77.2	66.0	66.0	75.7	68.2	68.2	72.0	72.0	71.0	75.0	77.2
Local currency deposits	187.6	224.6	191.9	191.9	219.3	190.4	190.4	208.0	208.0	211.4	230.0	237.6
Demand deposits	113.7	126.0	115.7	115.7	123.0	112.2	112.2	122.5	122.5	124.6	131.9	140.0
Quasi-money	73.9	98.6	76.3	76.3	96.2	78.3	78.3	85.5	85.5	86.9	92.0	97.6
Central bank												
Net foreign assets	48.8	37.8	8.5	8.7	44.9	-14.1	-14.9	29.9	29.9	25.6	45.4	32.0
Foreign assets	114.3	121.8	75.6	77.7	128.9	77.1	81.5	131.9	132.2	141.0	160.8	165.1
Of which: official reserves	112.4	119.9	75.0	77.0	127.0	76.3	80.7	131.0	131.4	140.1	160.0	157.7
Foreign liabilities	65.5	84.0	67.1	69.0	84.0	91.3	96.5	102.0	102.3	115.4	115.4	133.1
Of which: use of Fund resources	58.0	77.8	59.0	61.9	77.8	79.7	85.8	79.7	82.9	96.4	96.3	114.4
Net domestic assets	51.7	69.7	88.7	88.4	62.8	112.3	113.1	75.1	75.0	81.8	67.6	85.2
Domestic credit	105.6	121.7	134.6	134.6	116.8	157.8	157.8	155.3	155.3	164.9	144.7	166.2
Government (net)	113.7	116.0	134.0	134.0	114.0	154.7	154.7	161.7	161.7	159.7	140.6	161.8
Nongovernment credit	-8.2	5.6	0.5	0.5	2.7	3.1	3.1	-6.4	-6.4	5.2	4.0	4.4
Of which: liquidity auction	-12.0	2.4	-3.6	-3.6	-0.4	-1.0	-1.0	-10.5	-10.5	1.1	-0.1	0.3
Other items, net	-53.8	-52.0	-45.9	-46.1	-54.0	-45.5	-44.7	-80.2	-80.3	-83.1	-77.1	-81.1
Reserve money	100.5	107.4	97.2	97.2	107.6	98.1	98.1	105.0	105.0	107.4	113.0	114.9
Memorandum items:												
Gross international reserves	112.7	119.9	75.0	75.0	127.0	76.3	76.3	131.0	131.0	136.0	153.1	159.5
Millions of U.S. dollars	3.1	2.7	1.8	1.8	2.9	1.8	1.8	3.2	3.2	3.1	3.5	3.6
Months of imports f.o.b.	26.0	25.0	3.5	3.5	23.6	20.5	20.5	9.6	9.6	9.2	15.9	12.4
M2 growth (12-month percent change)	19.3	18.8	3.1	3.1	19.7	12.6	12.6	14.3	14.3	13.3	18.7	14.0
M3 growth (12-month percent change)	-8.8	31.0	8.8	8.8	4.6	30.4	30.4	43.4	43.4	43.0	38.7	15.6
Credit to the economy (12-month percent change)	32.7	22.7	11.0	11.0	24.7	13.7	13.7	4.4	4.4	13.3	16.3	11.6
Reserve money (12-month percent change)	2.9	3.2	3.2	3.2	3.2	3.2	3.2	3.3	3.3	3.4	3.4	3.5
Money multiplier (M3/reserve money)	3.4	3.0	3.4	3.4	3.1	3.5	3.5	3.1	3.1	3.4	3.2	3.3
Velocity (GDP/M2; end of period)	2.9	2.6	2.9	2.9	2.8	2.9	2.9	2.8	2.8	2.8	2.7	2.7
Velocity (GDP/M3; end of period)												

Sources: Banque de la République du Burundi (BRB), and IMF staff estimates and projections.

Table 5. Burundi: Schedule of PRGF Disbursements and Reviews, 2004–07

Date	Disbursement (In millions of SDRs)	Conditions
Executive Board consideration, January 23, 2004	26.40 ¹	Executive Board approval; Disbursed.
January 19, 2005	7.15	Completion of first review, based on observance of performance criteria at end-June 2004; Disbursed.
July 27, 2005	7.15	Completion of second review, based on observance of performance criteria at end-December 2004; Disbursed.
July 14, 2006	7.15	Completion of third review, based on observance of performance criteria at end -June 2005.
July 14, 2006	7.15	Completion of fourth review, based on observance of performance criteria at end-December 2005.
March 2007	7.15	Completion of fifth review, based on observance of the structural performance criterion at end-September 2006.
August 2007 ²	7.15	Completion of sixth review, based on observance of the quantitative performance criteria at end-December 2006 and the structural performance criterion at end-June 2007.

¹ Of which, SDR 19.25 million was for the early repayment of outstanding drawings under the Post-Conflict Emergency Assistance Policy.

² The PRGF arrangement was extended until end September 2007 at the time of the third and fourth reviews.

Table 6. Burundi: Indicators of Fund Credit, 2005–10

	2005	2006	2007	2008	2009	2010
	Actuals		Projections			
	(Millions of SDRs, unless otherwise indicated)					
Fund credit outstanding (end of period) ¹						
Millions of SDRs	40.7	55.0	69.3	69.3	66.7	60.7
Millions of U.S. dollars	58.2	82.7	104.3	104.3	100.3	91.3
Percent of quota	52.9	71.4	90.0	90.0	86.6	78.8
Fund obligations	0.3	0.1	0.8	0.8	3.5	6.8
Fund total charges and interests	0.3	0.1	0.8	0.8	0.8	0.8
SDR periodic charges	0.0	0.0	0.5	0.6	0.6	0.5
PRGF interest repayments	0.3	0.1	0.3	0.3	0.3	0.2
Fund total repayments/repurchases	0.0	0.0	0.0	0.0	2.6	6.0
Fund credit outstanding as percent of:						
Exports of goods and services	63.8	84.0	87.4	71.8	60.2	48.0
Gross official reserves	51.6	63.1	65.4	60.6	53.1	48.9
Fund obligations as percent of:						
Exports of goods and services	0.3	0.1	0.7	0.6	2.1	3.6
Gross official reserves	0.2	0.1	0.5	0.5	1.8	3.6
	(Millions of U.S. dollars)					
<i>Memorandum items:</i>						
Actual/projected PRGF disbursements	17.2	21.0	21.0	0.0	0.0	0.0
Exports of goods and services	91.2	98.5	119.3	145.2	166.5	190.0
Gross international reserves	112.7	131.0	159.5	172.1	188.9	186.5

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

¹ Includes the prospective disbursements under the current Poverty Reduction and Growth Facility arrangement for a total of SDR 69.3 millions (90 percent of quota).

Table 7. Burundi: External Financing Requirements and Sources, 2005–07

	2005	2006		2007
	Act.	Prog.	Est.	Proj.
		IMF Country Report No. 06/311		
	(Millions of U.S. dollars)			
External resources (identified)	362.2	439.5	417.3	470.3
Exports of goods and services	91.2	114.0	98.5	119.3
Income (credits)	3.1	3.3	5.3	7.5
Private transfers (net)	17.3	19.2	19.2	21.2
Current official transfers (excluding program grants; net)	152.4	91.3	145.6	132.0
Capital transfers (net)	26.2	131.2	75.7	118.8
<i>Of which</i> : Enhanced (Interim) HIPC relief	7.4	35.7	35.7	39.4
Foreign direct investment	15.0	8.0	8.0	15.0
Medium-and long-term official (project) loans	43.1	40.4	39.2	21.5
Other investment	13.9	32.1	25.8	35.0
Use of resources	-487.0	-578.2	-509.2	-633.9
Imports of goods and services	-362.6	-469.1	-431.2	-495.4
Income (debits, excluding interest on public debt)	-11.1	-16.1	-13.2	-15.4
Debt-service payments (including IMF charges)	-65.2	-58.6	-58.1	-94.7
<i>Of which</i> : net accumulation of arrears (+)	-22.2	-5.6	-5.2	-49.9
Net change in reserves, excluding IMF (- increase)	-48.2	-34.3	-6.6	-28.4
Errors and omissions	12.5	0.0	0.0	0.0
Financing need	112.4	138.6	91.8	163.5
Program loans and grants	81.3	134.1	89.4	104.6
<i>Of which</i> : IMF PRGF disbursements	17.2	30.7	24.6	21.5
Debt relief (under existing mechanisms)	31.0	4.5	2.5	52.5
<i>Of which</i> : on current maturities	5.1	2.0	2.5	3.0
Residual financing need	0.0	0.0	0.0	6.5

Sources: Burundi authorities, and IMF staff estimates.

APPENDIX I— REPUBLIC OF BURUNDI: LETTER OF INTENT

Bujumbura, February 21, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

1. On behalf of the authorities of the Republic of Burundi, we hereby transmit the attached memorandum of economic and financial policies (MEFP) for 2007 for the program supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) approved in January 2004. The attached technical memorandum of understanding (TMU) sets forth the terms and conditions of the implementation of the program, as well as the definitions and calculations of the criteria and objectives.
2. The indicative quantitative targets at end-June and end-September 2006 were observed (Table 1), except for a temporary accumulation of external payment arrears. We request a waiver for the nonobservance of the structural performance criterion (end-September 2006) regarding the tendering of negotiable treasury securities. This measure was implemented on December 29, 2006 (Table 2). The structural benchmarks were not observed or were observed with delay. The launching of the coffee sector privatization program by issuing tenders for sale of the washing stations and shelling factories (structural benchmark for end-October 2006) did not take place, and has been reprogrammed following consultations with the World Bank.
3. In support of the macroeconomic and financial objectives set for 2007, we hereby request approval of the fifth review under the PRGF and disbursement of SDR 7.15 million (9.3 percent of quota).
4. The objectives and measures in the MEFP for 2007 are consistent with the Poverty Reduction Strategy Paper (PRSP) approved by the government and published in September 2006.
5. The economic and financial policies set forth in the MEFP should ensure that the objectives of the 2007 program are met. If needed, the authorities will take any further measures that may be necessary. Burundi will consult with the Managing Director on the adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

6. The quarterly quantitative performance criteria and indicative targets for 2006 and 2007 are shown in Tables 1 and 3, respectively. The prior actions for the fifth review as well as the structural performance criterion and benchmarks for 2007 are shown in Table 4. The sixth review of the PRGF arrangement with the Fund will be based on meeting the quantitative performance criteria for end-December 2006 and the structural performance criterion at end-June 2007

7. The Burundi authorities wish to make this letter, the attached MEFP, the TMU, as well as the staff report on the fifth review of the program under the PRGF arrangement, available to the public. We hereby authorize their publication and posting on the Fund's website subsequent to Executive Board approval. We will do the same on the official websites of the Burundi government.

8. The authorities will provide the IMF Managing Director with all the information he may request as necessary to monitor program implementation and achieve program objectives on schedule.

Sincerely yours,

/ s /

Denise Sinankwa
Minister of Finance

/ s /

Dr. Isaac Bizimana
Governor, Bank of the Republic of Burundi

/ s /

Gabriel Ntisezerana
Second Vice-President, Republic of Burundi

Attachments: Memorandum of Economic and Financial Policies for 2006-07
Technical Memorandum of Understanding

APPENDIX I—ATTACHMENT I

REPUBLIC OF BURUNDI
MEMORANDUM OF ECONOMICS AND FINANCIAL POLICIES FOR 2007

I. INTRODUCTION

1. This memorandum summarizes progress under the program implemented by the government through end-September 2006 and sets out the authorities' economic and financial policies for 2007. On the basis of these policies, the authorities request Fund support through approval of the fifth review under the Poverty Reduction and Growth Facility (PRGF) arrangement. The policies and objectives of the program are consistent with the Poverty Reduction Strategy Paper (PRSP) published in September 2006.

2. Public safety has further improved, in particular with the cease-fire agreement signed on September 7, 2006 with the FNL, the last rebel group. Implementation of the disarmament, demobilization, and reintegration (DDR) program for former combatants and the armed forces has progressed well, with the support of the World Bank-led Multi-Country Demobilization and Reinsertion Program (MDRP). The full PRSP was presented to Parliament on August 28, 2006 and was sent to the IMF and World Bank in mid-September. On November 30, 2006, Burundi and Rwanda were admitted to the East African Community (EAC).

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

3. **Macroeconomic performance through end-September 2006 was positive.** Drought continued to negatively affect agricultural production of food crops (excluding coffee) in the northern part of the territory, while industrial production also remained weak (2.2 percent through end-September 2006). Coffee production rebounded strongly to 31,000 metric tons. Drought also had a negative impact on water levels in dams, further constraining energy production (down 13 percent through September). Inflation over the past 12 months, as measured by the consumer price index (CPI), was limited to 3.4 percent at end-September 2006. The Bank of the Republic of Burundi (BRB) has maintained an active monetary policy. The monetary aggregates increased slightly, by 8.5 percent (M2) and 12.6 percent (M3) over the twelve months through end-September, well below program projections, mostly because of the decline in net foreign assets.

4. Data at end-September 2006 indicate that **the external position weakened considerably in 2006 over the first nine months.** Major delays in foreign aid disbursements led to a significant reduction in the level of gross official reserves, from US\$112.7 million at end-December 2005 to US\$76.3 million at end-September 2006, the equivalent of 1.8 months of 2007 imports. Imports sharply increased (mostly equipment and intermediate goods) while coffee exports stagnated, despite very strong production, as electricity outages slowed considerably the production of coffee milling operations. The

nominal exchange rate depreciated (by 5.9 percent against the U.S. dollar from the start of the year to end-September 2006), and the real effective exchange rate remained stable.

5. **The program remained broadly on track in 2006**, with the exception of a generalized delay in implementing structural reforms. All of the quantitative targets for end-June and end-September 2006, after adjustment, were observed (Table 1), except for a temporary accumulation of external payment arrears. However, the structural performance criterion and structural benchmarks were not. The measures relating to the structural performance criterion and three of the structural benchmarks were observed with delays, and three others deferred to the first quarter of 2007 (Table 2). That on coffee sector privatization was intended to begin before end-October 2006, and has been rephased for 2007–08 in agreement with the World Bank.

6. **Fiscal performance in 2006, as of end-September, was better than expected.** Tax receipts were in line with projections while nontax revenue exceeded them, in particular owing to the payment of central bank dividends. A revised budget law for 2006, consistent with program understandings, was promulgated in late June. A 15 percent wage increase for government employees, excluding bonuses and allowances, was granted with effect from July 1, 2006, consistent with program understandings. However, in the context of the integration and harmonization of pay grades, the pay scales of the army and the national police were revised upwards by about 45 percent on average. Following significant delays in the disbursement of external budgetary support (US\$68 million or 7 percent of GDP), spending was cut (by about 3½ percent of GDP) and domestic budgetary arrears were accumulated (1.3 percent of GDP). The clearing of domestic arrears from previous fiscal years (representing 2.7 percent of GDP) had to be postponed to the fourth quarter. On a commitments basis, the overall deficit, including grants, amounted to FBu 5.5 billion (as compared to the objective of FBu 18.4 billion).

7. **The partnership framework between the donors providing budgetary aid and the Ministry of Finance was reactivated in October.** This strengthened both the dialogue with donors and the monitoring of public finance reforms.

8. **Monetary policy played a key role in maintaining macroeconomic stability despite the delays in foreign aid disbursements.** The program targets have been adjusted to reflect these delays. The BRB continued its sales on the foreign exchange market. Credit to government was contained and remained well below the adjusted ceiling under the program. The monetary aggregates grew much less than expected, reflecting the sharp decline in net foreign assets and the limited growth in net domestic assets. Credit to the economy recovered modestly, expanding by about 10 percent (on a 12-month basis), excluding coffee (30.4 percent, including coffee credit). Interest rates dropped slightly following the elimination of the 7 percent tax on banking transactions. The BRB strengthened banking supervision, in particular by approving recovery plans for four small banks and then closing one of them.

9. **The implementation of structural reform lost its initial momentum during the summer of 2006.** However, some progress was made, especially in strengthening the monitoring of reforms and financial management in the coffee sector. OCIBU introduced weekly cash flow management and began to recover outstanding financing balances from the previous crop year and the arrears of the SOGESTALs. For the first time, bank loans were obtained without the government's guarantee in order to finance the 2006/07 coffee crop. A number of measures were taken to minimize the costs of, and delays in, marketing coffee. Lots not sold at the weekly auctions were sold at the New York benchmark price. Stakeholders in the coffee sector reached agreement on ways of dealing with the frequent electricity outages. Preparations for a strategy on the privatization of the washing stations and coffee factories and the introduction of a new legal and regulatory structure were delayed.
10. **The preparation of the privatization program was reactivated by the Public Enterprise Unit (SCEP),** supported by technical assistance on the financial appraisal of the enterprises (in July) and the evaluation of offers to buy (in October).
11. **The quality of statistics is being improved.** With technical assistance from the IMF, a priority action plan for the development of statistics was prepared and a summary of these actions was included in the PRSP published in September 2006. The National Statistical Development Strategy (SNDS) is currently being finalized. It defines a strategy for improving statistics and includes an evaluation of implementation costs. The return to regular production of national statistics is well under way, as is the expansion of CPI coverage. A draft law organizing statistical activities was approved by the Council of Ministers on September 15, 2006 and sent to Parliament in December. The implementing provisions for the new law, which will incorporate a new institutional framework for the National Statistical Institute (ISTEEBU) as well as personnel regulations, are expected to be completed in the first quarter of 2007.
12. **Macroeconomic and structural policy in the fourth quarter of 2006 aimed to make up the delays in implementing the structural reforms and to restore balance in the budget following the disbursement of three-fourths of the external budgetary support expected for the year.** Macroeconomic performance for 2006 remains overall in line with the objectives of the program, and the performance criteria for end-December 2006 are expected to be observed. Real GDP growth on the order of 5 percent and an inflation rate of 9.2 percent (CPI on a 12-month basis) are anticipated.
13. **The primary deficit would be well below the program objective (6.1 percent of GDP as against the targeted 8.9 percent) following the cut in budgeted spending.** The overall budget deficit on a commitments basis, including grants, should be slightly higher than the program objective, or about 2.2 percent of GDP (as compared with a projected 0.4 percent). The domestic payments arrears accumulated during 2006 were fully repaid before the end of the year, and the clearing of the balance of domestic arrears from prior fiscal years will be completed. Domestic financing of the budget will be limited to FBU

35.7 billion, including FBu 18 billion from Treasury securities issued in the context of clearing earlier arrears. The second tranche of the Economic Reform Support Grant (ERSG) from the World Bank (US\$25 million) and a variable tranche from the EU will be pushed forward to the fiscal year 2007.

III. PROGRAM FOR 2007

A. MACROECONOMIC OBJECTIVES

14. **The authorities' strategy for 2007 is to continue macroeconomic stabilization, overcome the delays in implementing some structural reforms, and continue the strengthening of public finance management and the reorientation of expenditure.** Structural reforms are focused on improving the business climate, relaunching the privatization process, and reinforcing good governance. The economic program targets continued real economic growth on the order of 5-5½ percent in 2007, principally reflecting the positive impact of the structural reforms, while containing inflation. Monetary policy will continue to be based on a managed floating exchange rate regime, with reserve money as the nominal anchor. The external current account deficit, including grants, is expected to increase slightly from 13.6 percent of GDP in 2006 to 15.3 percent in 2007.

B. Fiscal Policy

15. **The 2007 budget will continue to reorient expenditure toward poverty reduction while containing the primary deficit at 6.6 percent of GDP.** Total revenue is expected to increase to about 20 percent of GDP, in part reflecting the effect that the clearing of domestic arrears will have on profits and, in consequence, on income tax collections and the strengthening of revenue administration. Burundi's accession to the EAC and the adoption of the common external tariff will take place over three years and is not expected to have any direct effect on revenue in 2007. To support the inflation target and allow space for bank credit to the private sector, the state will refrain from any net bank financing in 2007. In view of the unpredictability of such external financing, the 2007 budget calls for a prioritization of expenditure and for making nonpriority expenditure (FBu 4.7 billion) contingent on the disbursement of external budgetary aid. A UNDP-sponsored donors' roundtable is planned for the first quarter of 2007 to identify the external financing available to support the objectives of the PRSP.

16. **Control of the wage bill, which will amount to close to 12 percent of GDP in 2007, is a priority.** This will depend in large measure on strengthened management of the wage bill, buttressed by continued demobilization. The strengthened management of the wage bill will include a census of all employees, with support from the World Bank (ERSP project), and the transfer of payroll administration to the Ministry of Finance from the Civil Service Ministry. Integration of the payroll into the Integrated Financial Management Information System (IFMIS), a structural benchmark for end-December 2006, has been replaced by the structural benchmark on the establishment of a unified data file for

computerized payroll management at the Ministry of Finance during the first half of 2007. The authorities have eliminated and will avoid granting any compensation in kind, including the provision of electricity or water.

17. The DDR and security sector reform (SSR) programs continue to be essential, not only for public security but also for reorienting expenditure toward the social and poverty-reduction sectors. The government is committed to achieving the objectives set out in its demobilization, reinsertion, and reintegration policy letter to the World Bank of February 2004, and to reducing the size of the army and national police force by implementing the DDR program. The authorities intend to complete a census of security forces by end-June 2007 with technical assistance from the World Bank.

18. In 2007, the government will completely revamp the general tax code and unify the local and national revenue administrations. Following Burundi's accession to the EAC, tax policy will be reviewed, with technical support from the IMF, in order to bring it into harmony with the policies of the other countries in the zone. With technical support from the World Bank (ERSP project), a study will be launched to evaluate the revenue impact of Burundi having joined the EAC. The action plans relating to customs and taxes have been updated and strengthened on the basis of an IMF technical assistance mission in September 2006. All these measures will make it possible to improve the clarity and efficiency of the tax system.

19. The authorities are committed to further improving transparency and public finance management and have requested the assignment of an IMF resident expert to oversee the public finance reforms. The Ministry of Finance has created a unit, attached to the office of the minister, that is responsible for the monitoring and coordination of the public finance reform. The IFMIS will be extended and strengthened, with further technical support from the World Bank. This system is designed to reinforce the monitoring of budget implementation, including of social outlays, and to produce real-time financial operations reports. The cash flow, government accounting, and procurement systems will also be strengthened. The joint structures of the Ministry of Finance and the BRB for cash flow management and liquidity forecasting will be further strengthened.

Measure	Timetable	Status
Reform of tax system		
<ul style="list-style-type: none"> Strengthened management of exemptions, with specific procedures established in the 2007 budget law. 	2007 budget	Completed. Budget Law 1/38, December 30, 2006
<ul style="list-style-type: none"> Unification of local and national revenue administrations and adoption of an automatic revenue allocation key. 	2007	
<ul style="list-style-type: none"> Harmonization of tax system with those of EAC countries. 	2007	
<ul style="list-style-type: none"> Eliminate all exemptions from indirect taxes and maintain time limits on tax exemptions in the investment code. 	2007	

Measure	Timetable	Status
<ul style="list-style-type: none"> Eliminate the 7 percent transaction tax on real property transfers and update and simplification of the valuation scale effective January 1, 2007. 	2007 Budget Law	Completed. Budget Law 1/38, December 30, 2006
<ul style="list-style-type: none"> Initiation, with World Bank support, of work to revamp the legislative provisions on taxation. 	October 2006	In process
<ul style="list-style-type: none"> Prepare simulations of the impact of entry into the EAC: (a) of the implementation of the common external tariff; (b) of eliminating transport costs within the Union and air freight from the taxable base; and (c) of complete trade liberalization within the zone (ERSP project). 	March 2007	
<ul style="list-style-type: none"> Develop a tax policy on the exploitation of natural resources, with technical support from the IMF and the World Bank. 	2007	
Reform of customs		
<ul style="list-style-type: none"> Updating and implementation of the action plan for strengthening customs, based on the IMF technical assistance report of September 2006, in particular by: <ul style="list-style-type: none"> Strengthened monitoring and control of the SGS component in order to improve its effectiveness and yield. 	Beginning in November 2006	In progress
<ul style="list-style-type: none"> Use the risk evaluation system (PROFILER) in order to clear through the green channel at least: <ul style="list-style-type: none"> - 30 percent of import operations - 50 percent. 	Second half of 2006 2007	In progress
<ul style="list-style-type: none"> Set up and utilize a system for selecting import consignments to be examined, using criteria determined by the import inspection system. 	2006-07	In progress
<ul style="list-style-type: none"> Operationalize an enhanced ex post monitoring system. 	2006-07	In progress
Taxes		
<ul style="list-style-type: none"> Updating and implementation of the action plan on strengthening tax administration on the basis of the IMF technical assistance report of September 2006, with the technical and material support of donors, in particular by: <ul style="list-style-type: none"> Improve the efficiency of tax collection by replacing the tax current account by a computer application that permits the secure monitoring of collection. 	Beginning in November 2006	
<ul style="list-style-type: none"> Introduce a modern computer system at the DGE and the DPME. 	2007	
Expenditure		
<ul style="list-style-type: none"> Limit recruitment to 3,000 teachers in primary education and 1,200 in secondary education. 	2007	
<ul style="list-style-type: none"> Continue the demobilization program. 	2006-07	In progress
<ul style="list-style-type: none"> Ban any compensation or indemnification in kind of government employees. 	2006-07	In progress

Measure	Timetable	Status
Reform of public finance management and fiscal policy		
<ul style="list-style-type: none"> Establishment in the Ministry of Finance of a public finance reform unit in the minister's office, which will be responsible for the programming, coordination, and monitoring of public finance reforms. 	November 2006	Completed in November 28, 2006.
<ul style="list-style-type: none"> Return payroll management to the Ministry of Finance (Presidential Decree). 	Beginning January 1, 2007	Completed in January 2007.
<ul style="list-style-type: none"> On a priority basis, strengthen the management of the civil service in 2007, with support from the World Bank's ERSP project, through: <ul style="list-style-type: none"> Introduction of a central data file and single identification number for all government employees (teachers, civil servants, army and police); A physical census of all employees; and The issuance of personal identity cards with photos and signatures. 	First half of 2007	
<ul style="list-style-type: none"> Streamlining of public accounts, moving toward a unified Treasury account. 	2006-07	80 accounts eliminated in 2006. The remaining accounts will be eliminated following the promulgation of the organic budget law, scheduled for the first quarter of 2007.
<ul style="list-style-type: none"> Strengthen the financial control of public enterprises by the Ministry of Finance, in particular by implementing action plans aimed at strengthening the Administrative and Portfolio Revenue Directorate in the Ministry of Finance and by establishing clear guidelines for the government's representatives on public enterprise boards. 	March 2007	
<ul style="list-style-type: none"> Submission to Parliament of a revised public procurement code. 	February 2007	Submitted to Council of ministers in November 2006.
<ul style="list-style-type: none"> Integrate the payroll into the IFMIS. 	December 2006	Completed
<ul style="list-style-type: none"> Establish a unified data file for computerized payroll management at the Ministry of Finance. 	June 2007	
<ul style="list-style-type: none"> Prepare monthly reports on external public debt, including projections of debt service for the next three months. 	March 2007	
<ul style="list-style-type: none"> Prepare a report on the cross-debts of the budget and the oil sector, including a settlement plan proposal. 	January 2007	
<ul style="list-style-type: none"> Produce quarterly tables of government finance operations (TOFEs) based on the IFMIS starting with the outturns at end-June 2006, with technical assistance from the World Bank. 	September 2006	Completed

C. Monetary and Exchange Policies

20. **Monetary policy is based on a medium-term strategy aimed at strengthening the market orientation of policy and containing inflation.** The growth of broad money is expected to be 12.4 percent (M2) and 14.0 percent (M3) in 2007, significantly above nominal GDP growth (10.1 percent), reflecting the monetization of the economy. Domestic financing of the budget will henceforth be provided principally through the issuance of new Treasury securities (bonds and bills) rather than by recourse to central bank advances. The measures to develop financial instruments should contribute to a revival of credit to the private sector in 2007. A prudent and proactive management of foreign exchange reserves will allow continued sales of foreign exchange throughout the year. Gross international reserves of the BRB are expected to increase to US\$159.5 million at end-2007, or about 3.6 months of 2008 imports.

21. **Monetary policy instruments will be based progressively more on market mechanisms.** The BRB will continue the evolution toward an interbank foreign exchange market with technical assistance from the IMF. New unified exchange regulations published on December 12, 2006, allow the unrestricted convertibility of the currency for current transactions. The BRB continues to limit its intervention in the foreign exchange market to those needed to achieve its international reserves objectives and to avoid excessive exchange rate volatility.

22. **The BRB will continue to strengthen its governance.** The results of the external audit of the BRB's accounts and all monetary and exchange policy decisions are posted on its website. A preliminary draft BRB charter has been provided to the IMF and will be submitted to the Council of Ministers in the first quarter of 2007. A project to computerize BRB operations will be initiated in 2007 with assistance from the FIRST Initiative. The IFRS accounting standards will be used by the BRB in 2007, after it has received technical assistance. These standards will be extended to the banking system in the context of a new bank chart of accounts in 2007.

23. **The BRB will continue to strengthen banking supervision.** The BRB is committed to enforcing prudential regulations scrupulously, and will impose sanctions on banks which fail to do so. These measures will enable the banks to better play their part in financing growth.

Measure	Timetable	Status
Monetary policy		
<ul style="list-style-type: none"> Launch auctions of new negotiable Treasury securities by the BRB on the account of the government, with IMF technical assistance. 	September 2006	Completed on December 29, 2006
<ul style="list-style-type: none"> Weekly updating of foreign exchange cash flow forecasts, in collaboration with the support unit in the Ministry of Finance. 	Starting in December 2006	In progress
<ul style="list-style-type: none"> Preparation by the monetary policy committee of a monetary intervention policy that is consistent with the 	March 2007	

Measure	Timetable	Status
international reserves management policy.		
<ul style="list-style-type: none"> • Creation of a joint BRB-Banker's Association working group for the development of money and financial markets. 	November 2006	Completed on November 29, 2006
<ul style="list-style-type: none"> • Adoption of an action plan for developing the money and financial markets. 	March 2007	
<ul style="list-style-type: none"> • Adoption of a BRB policy on communication with the financial markets. 	December 2006	In progress
<ul style="list-style-type: none"> • Update regularly the liquidity forecasting framework. 	First quarter of 2007	
<ul style="list-style-type: none"> • Preparation of a framework for short- and medium-term forecasting of inflation, the exchange rate, and monetary aggregates. 	First quarter of 2007	
Good governance		
<ul style="list-style-type: none"> • Reactivation of the audit committee. 	January 2007	
<ul style="list-style-type: none"> • BRB to continue implementing the reforms recommended by the auditor and to put in place procedures to monitor the reforms. 	2006-07	In progress
<ul style="list-style-type: none"> • Continued implementation of the recommendations of the safeguards assessment. 	2006-07	In progress
<ul style="list-style-type: none"> • Adoption of a risk-based audit methodology. 	January 2007	In progress
<ul style="list-style-type: none"> • Implementation of a first annual internal audit plan following its approval by an independent audit committee. 	September 2006	March 2007
<ul style="list-style-type: none"> • Launch of the first risk-based internal audit. 	March 2007	
<ul style="list-style-type: none"> • Submission to the Council of Ministers of the revised BRB charter in order to strengthen its independence and legal base, consistent with IMF recommendations. 	September 2006	First quarter of 2007
<ul style="list-style-type: none"> • Establishment of the national Financial Intelligence Unit to support the application of legal provisions for combating money laundering, with technical support from the IMF. 	June 2007	
Exchange regime		
<ul style="list-style-type: none"> • Adopt and publish a single exchange system regulation. 	June 2006	Completed on December 12, 2006
<ul style="list-style-type: none"> • Move toward an interbank exchange market, with IMF technical assistance. 	2007	

Measure	Timetable	Status
Financial sector		
<ul style="list-style-type: none"> • Strengthened banking supervision and prudential regulations: <ul style="list-style-type: none"> - Gradual increase in the minimum capital of banks from FBu 1 billion to <ul style="list-style-type: none"> - FBu 2.5 billion - FBu 3.5 billion - Strengthened policy to sanction the failure to observe prudential standards, including through the preparation of a matrix of infractions and fines. Communication of this matrix to the banks; - Revision of the banking law; - Preparation of a new bank chart of accounts consistent with IFRS accounting standards. 	<p>January 1, 2008 January 1, 2009</p> <p>March 2007</p> <p>December 2007 December 2007</p>	
<ul style="list-style-type: none"> • Creation of a financial training structure in the Bankers' Association, with support from the BRB. 	2007	

D. Structural Reforms

24. The authorities are committed to **strengthening the implementation of the structural reforms** needed for economic recovery. Key steps for 2007 include, in particular, the launching of the privatization of state assets in the financial and coffee sectors, and further progress in governance and transparency. The reforms will also include a component aimed at improving the performance of the sugar and petroleum products sectors.

25. **Burundi joined the EAC on November 30, 2006, which will promote the development of trade and investment.** The harmonization of Burundi's legal and regulatory framework with that of the EAC will help bring about liberalization in a number of sectors, notably in sugar and petroleum. Economic integration will stimulate competition and economic efficiency.

26. **In the context of the investment promotion efforts,** an investment and export promotion agency is to be established in 2007. The agency will include a one-stop shop for obtaining business licenses. Exemptions from indirect taxation will be avoided and tax advantages strictly controlled.

27. **The privatization program will be relaunched with a transparent procedure for public tenders, with the goal of a progressive withdrawal of the government from involvement in the productive and financial sectors of the economy.** To facilitate the privatization process, the government first intends to consolidate its various assets and to dismantle the cross-shareholdings in the public sector. A law on privatization establishing effective and transparent procedures will be promulgated in the first quarter of 2007.

28. Implementation of the **coffee sector reform strategy**, with the support of the World Bank, remains vital for poverty reduction in Burundi, and in particular for the approximately 800,000 small producers. The reforms aim to establish competition at all levels in the coffee sector and to private the sector in order to enable producers to operate freely and to attract private investors. An action plan setting forth a precise timetable for implementation of the reform strategy was adopted by the government in November 2006. It is expected that tenders for the sale of some of the washing stations will be launched in 2007. The authorities will ensure that the regulatory powers of OCIBU do not impede private investment and that the risks to the objectives of the reform which emerge during the transition to a privatized sector are carefully contained. OCIBU will make every effort, in collaboration with its partners in the sector, to minimize marketing costs and recover payments arrears from the SOGESTALS.

29. **As regards other sectoral reforms**, the authorities have requested support from the World Bank to conduct a study on the development of the sugar sector by end-April 2007. They will also request technical assistance from the World Bank to conduct a study on the petroleum sector by end-June 2007.

30. The government recognizes the importance of a rational and sustainable management of its **natural resources** within a legal framework that ensures transparency and respect for the environment. The authorities will be requesting technical assistance from the IMF and World Bank on formulating a legal and tax framework that is consistent with international best practices.

Measure	Timetable	Status
Privatization		
<ul style="list-style-type: none"> Dismantling by SCEP of cross-shareholdings in the public sector and consolidation of public shares in government's hands 	First half of 2007	
<ul style="list-style-type: none"> Strengthen the capacity of the state privatization agency (SCEP), with World Bank technical assistance, in particular to: <ul style="list-style-type: none"> Carry out financial appraisals of enterprises; Reform, restructure, and privatize companies with public equity interests; and Provide training in the evaluation of offers to buy. 	Beginning in June 2006	In progress.
<ul style="list-style-type: none"> Launch tenders for the sale of OCIBU assets not directly related to coffee marketing, namely the former CEDUCA, ICB, and UNICAFE factories. 	January 2007	In progress
<ul style="list-style-type: none"> Privatization of APB, OPHAVET, and COTEBU, and of management of the Source du Nil hotel. 	First half of 2007	
<ul style="list-style-type: none"> Launch tenders for the sale of Bujumbura Port Enterprises (EPB), BCC, and SIP, following the consolidation of public sector shares with the government. 	First half of 2007	
<ul style="list-style-type: none"> Promulgation of the privatization law, with effective and transparent procedures. 	Early 2007	
<ul style="list-style-type: none"> SCEP will implement the privatization of state assets in the banking sector, in close consultation with the BRB to avoid 	2007	

further concentration in the sector. The authorities will seek IFC support in this area.		
Coffee sector reform strategy		
<ul style="list-style-type: none"> Pursuit and reinforcement of the management of coffee marketing by the coffee reform monitoring committee in order to minimize delays, costs, financing requirements, and financial risks both for producers and for the government. 	2006-08	In progress
<ul style="list-style-type: none"> Weekly cash flow management, including that of the OCIBU Stabilization Fund, of the crop financing. 	2006-08	In progress
<ul style="list-style-type: none"> Collection of payments arrears for prior crop years from SOGESTALS and factories. 	2006-08	In progress
<ul style="list-style-type: none"> Prohibition on the SOGESTALS to declare or distribute dividends until their arrears have been cleared and debts repaid. 	2006-08	In progress
<ul style="list-style-type: none"> Financial audit of the coffee sector's 2005/06 crop year, with the support of the World Bank. 	February 2007	Terms of reference in preparation
<ul style="list-style-type: none"> Preparation of a strategy for the privatization of the 133 washing stations and the shelling factories. 	March 2007	
<ul style="list-style-type: none"> Prohibition on the building of new washing stations by SOGESTALS. 	2006-08	In progress
<ul style="list-style-type: none"> Adoption by the government, with the assistance of the World Bank, of the recommendations of the study on the legal, regulatory, and institutional framework of the coffee sector. 	March 2007	
Other structural reforms		
<ul style="list-style-type: none"> Study on the sugar sector, with support from the ERSP project (World Bank). 	First half of 2007	
<ul style="list-style-type: none"> Study on the oil sector, with support from the ERSP project, with the aim of liberalization. 	First half of 2007	
<ul style="list-style-type: none"> Develop a legal and fiscal framework for the exploitation of natural resources in keeping with international best practices, with technical support from the World Bank and the IMF. 	2007	

E. Transparency, Good Governance, and National Statistics

31. In an effort to enhance **transparency** and allow the public to better understand and follow the economic reforms, the government and the BRB publish decrees, laws, decisions, as well as economic reform strategies and, in particular, the Memorandum on Economic and Financial Policies addressed to the IMF Managing Director, on the government, BRB, and REFES websites, which are kept up to date. The budget and operations of the *Bulletin officiel du Burundi (BOB)* will be strengthened. The **Audit Court** will continue to strengthen its activities. The government is convinced of the importance of protecting the independence of the magistrates of the Audit Court.

32. An **Anti-Money Laundering (AML)** law, prepared with IMF technical assistance, was approved by the council of ministers in February 2007 and is expected to be promulgated in the first half of 2007.

33. The authorities are committed to continue their efforts to improve the quality of **national statistics** and, with support from AFRISTAT, intend to resume the regular production of the national accounts and improve the reliability and coverage of the consumer price index. Support for the development of national statistics will be sought at the next UNDP-sponsored donors' roundtable.

Measure	Timetable	Status
Transparency and good governance		
• Audit of government accounts by the Audit Court.	2006-08	In progress
• Publication on official websites of decisions, ordinances, decrees, laws, and reform strategies, including the Memorandum on Economic and Financial Policies, once it is approved by the IMF Executive Board.	2006-08	In progress
• Creation (with support from the ERSP project) of a website that brings together all laws, regulations, ordinances, and implementing provisions, at the legislation unit of the Ministry of Justice.	2007	
Legal framework		
• Submit a draft anti-money laundering law to the government.	December 2006	Completed, February 2007
• Publish the Investment Climate Assessment produced with the support of the World Bank.	April 2007	
• Prepare an action plan for improving the business climate.	June 2007	
Statistics		
• Approval of the National Statistical Development Strategy (SNDS) and implementation of the roadmap.	March 2007	
• Implement the measures from the statistics action plan that can be achieved with identified available resources.	2007	
• Promulgation of the accession treaty for AFRISTAT.	First quarter of 2007	Awaiting Parliamentary ratification

Measure	Timetable	Status
<ul style="list-style-type: none"> Promulgation of the statistics law. 	First quarter of 2007	A draft law was submitted to Parliament on December 21, 2006
<ul style="list-style-type: none"> Adoption of the implementing provisions of the statistics law, which establish a new institutional framework for ISTEERU and a new code for ISTEERU employees. 	March 2007	
<ul style="list-style-type: none"> Resume the regular production of national accounts and publish a series based on the methodology of the <i>System of National Accounts 1993 (SNA93)</i> for 1999-2005. 	2007	
<ul style="list-style-type: none"> Update the metadata for participation in the IMF's GDDS initiative. 	March 2007	
<ul style="list-style-type: none"> Expand the coverage of the CPI: <ul style="list-style-type: none"> Expand the coverage of the new index to include the provinces for which regular data collection already exists; Conduct a survey on household consumption budgets; and Update the weights of the items included in the CPI consumption basket, following the survey on household consumption budgets. 	March 2007 June 2007 2007	

F. Program Financing and External Sector Policies

34. The external financing of the program, excluding projects, is estimated at US\$148 million, and includes disbursements from the IMF under the existing PRGF arrangement; the World Bank (US\$25 million; under the second tranche of the ERSG); the European Union (US\$2 million from the last variable tranche of the ninth FED and US\$20 million in new support); bilateral donors (US\$36 million), and traditional debt relief on current maturities (US\$3 million) and under the HIPC Initiative (US\$39.4 million). The residual financing gap of US\$ 6.5 million could be covered by a possible new PRGF arrangement (in line with access norms).

35. The authorities have initiated discussions with non-Paris Club creditors with a view to benefiting from debt relief on terms similar to those granted by bilateral creditors in the Paris Club. The authorities intend to strengthen their external debt management capacity with technical assistance from the African Development Bank with the aim to beginning the production of monthly reports, including debt service projections for the three following months.

G. The PRSP

36. **The PRSP was finalized and published in September 2006.** It presents a medium- and long-term development vision for Burundi and sets poverty reduction targets consistent with the Millennium Development Goals (MDGs). The PRSP is built around the following principles: (i) refocusing the role of the state to favor private sector development; (ii) maintaining peace and security; (iii) capacity building; (iv) resuming

economic growth; (v) strengthening community involvement; (vi) affirming the central role of women; and (viii) promoting a new partnership with donors. The sectoral programs and macroeconomic framework are oriented around four strategic axes: the improvement of governance and security; the promotion of sustainable and equitable economic growth; the development of human capital; and combating HIV/AIDS.

37. **Following the publication of the PRSP, the authorities will implement the measures needed to reach the HIPC completion point by end-2007.** The building of PRSP monitoring capacities will be undertaken with the support of the international community. In addition, budget tracking exercises for the education, health, and justice sectors, as well as a user assessment of the quality of services provided, are planned for the first half of 2007. In support of PRSP implementation, the government is preparing a UNDP roundtable in the first quarter of 2007. In October 2006, Burundi began discussions with the United Nations Peace building Commission on multisectoral assistance.

H. Technical Assistance

38. Burundi has extensive **technical assistance** needs. The authorities will continue to work closely with multilateral partners, in particular through the World Bank's ERSP project, and bilateral partners to strengthen the administrative capacity of Burundi's institutions. IMF technical assistance will continue in the areas of tax policy and tax administration, public expenditure management, monetary and exchange policy, banking supervision, and economic statistics. This assistance will be reinforced through the creation of the new AFRITAC centre in early 2007, of which Burundi is a member.

I. Program Monitoring

39. The quarterly quantitative performance criteria and indicative targets for 2006 and outcomes at end-June and end-September 2006 are shown in Table 1. The situation with respect to structural reforms in 2006 is set out in Table 2. The indicative quarterly quantitative performance criteria for 2007 are shown in Table 3. The prior actions for the fifth review, as well as the structural performance criterion and benchmarks for 2007, are shown in Table 4. The definitions of the program's performance targets, external assistance adjustors, and underlying assumptions, as well as Burundi's reporting requirements, are described in the attached TMU. Burundi will avoid incurring overdue financial obligations to the Fund, as well as introducing new exchange restrictions, multiple currency practices, bilateral payments agreements, inconsistent with Article VIII of the Fund's Article of Agreement, and import restrictions for balance of payments purposes. In addition, the authorities stand ready to adopt any new financial or structural measures, in consultation with Fund staff, which may become necessary to ensure program success.

40. The **sixth and last review** under the current PRGF arrangement is scheduled to be completed by August 2007 and will be assessed through the observance of the quantitative performance criteria for end-December 2006 and the structural performance

criterion at end-June 2007. The sixth review will focus on progress in the privatization of state assets, the strengthening of public financial management, and the continuation of reforms at the BRB. The authorities are interested in a new successor PRGF arrangement, to the current arrangement which expires in September 2007, to avoid any interruption in Fund support.

Table 2. Burundi—Status of Performance Criteria and Structural Benchmarks for 2006 under the Third and Fourth PRGF Reviews

Measure	Timetable (end-month)	Status
Structural performance criterion		
<ul style="list-style-type: none"> Commence tendering of negotiable Treasury securities in standard denominations, managed by the BRB for the account of the government. 	September 2006	Completed. First tender launched December 29, 2006
Structural benchmarks		
<ul style="list-style-type: none"> Adopt and publish the unified exchange system regulation. 	June 2006	Completed. Regulation issued December 12, 2006
<ul style="list-style-type: none"> Approval by the council of ministers of a new institutional framework for ISTEERU and a new code for ISTEERU employees that will allow them henceforth to produce without interruption the principal macroeconomic indicators. 	June 2006	Anticipated with the implementing provisions of the statistics law in the first quarter of 2007
<ul style="list-style-type: none"> Adopt officially, and include in the PRSP the development plan for statistics prepared by the IMF Statistics Department mission of March 2006. 	June 2006	Completed with council of ministers approval of the PRSP on August 17, 2006
<ul style="list-style-type: none"> Submit to the National Assembly the revised BRB charter establishing the independence of the central bank. 	September 2006	First quarter of 2007
<ul style="list-style-type: none"> Submit to the National Assembly the draft Anti-Money Laundering bill incorporating the comments of the IMF. 	September 2006	First quarter of 2007
<ul style="list-style-type: none"> Launch the coffee sector privatization program by issuing tenders for sale of the washing stations and shelling factories. 	October 2006	2007-08
<ul style="list-style-type: none"> Integrate the payroll into IFMIS. 	December 2006	Completed, February 20, 2007

Table 3. Burundi: Indicative Targets for 2007
(Billions of Burundi francs, unless otherwise indicated)

	2006	2007 ^{1/}			
	Proj.	Mar. Proj.	Jun. Proj.	Sept. Proj.	Dec. Proj.
Performance targets					
Net foreign assets of the BRB (floor; millions of U.S. dollars) ^{2/}	29.9	24.8	44.1	24.7	31.1
Net domestic assets of the BRB (ceiling) ^{2/}	75.0	81.8	67.6	89.5	85.2
Net domestic financing of the government (ceiling) ^{2/3/}	35.7	-2.0	-21.1	4.5	0.1
External payments arrears of the government (ceiling; millions of U.S. dollars)	0.4	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; millions of U.S. dollars) ^{4/}	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; millions of U.S. dollars) ^{5/}	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Primary balance of the government (ceiling; cumulative from beginning of calendar year) ^{6/}	-56.8	-5.7	-26.7	-56.3	-68.3
Government's wage bill (ceiling; cumulative from beginning of calendar year)	96.6	28.3	59.1	90.4	121.7
Adjustors					
External nonproject financial assistance (millions of U.S. dollars) ^{6/7/}					
Cumulative from the beginning of the year	67.3	15.7	57.4	63.2	86.0
<i>Of which:</i>					
EU	13.1	2.3	2.3	2.3	21.8
World Bank	35.1	0.0	25.0	25.0	25.0
AfDB	11.0	0.0	0.0	0.0	0.0
France	3.3	2.6	2.6	2.6	2.6
Belgium	2.4	0.0	0.0	0.0	2.6
Netherlands	0.0	10.0	20.0	25.0	25.0
Norway	0.0	0.0	6.0	6.0	6.0
Debt relief (current maturities, excluding HIPC)	2.5	0.8	1.5	2.3	3.0
Net accumulation of fiscal arrears during period	0.0	0.0	0.0	0.0	0.0
Exchange rates					
FBu/US\$ (end-of-period)	1,002	1,030	1,030	1,030	1,030
FBu/US\$ (period average)	1,045	1,025	1,030	1,030	1,030
US\$/Euro (end-of-period)	1.32	1.30	1.30	1.30	1.30
US\$/SDR (end-of-period)	1.49	1.51	1.50	1.50	1.50

^{1/} Indicative targets.

^{2/} The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the table, up to a maximum cumulative adjustment of US \$ 50 million. In case of a financing excess (shortfall), the floors on the net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financing will be converted to Burundi francs at the program end-period FBu/U.S. dollar exchange rate.

^{3/} The ceiling on net domestic financing of the government will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).

^{4/} Excluding short-term, import-related trade credits.

^{5/} With a grant element of less than 50 percent.

^{6/} As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.

^{7/} Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 4. Burundi: Prior Actions for the Fifth Review under the PRGF, and Structural Performance Criterion and Benchmarks for 2007

Measure	Timetable (end-month)	Status
Prior actions		
• Launch tenders for Treasury bills and bonds in standard denominations, managed by the BRB for the account of the government.		Completed. First tender launched December 29, 2006
• Adopt and publish the single exchange system regulation.		Completed. Regulation issued December 12, 2006
• Promulgate the customs code		Completed, January 11, 2007
• Approval by council of ministers of the draft anti-money laundering law in keeping with IMF staff recommendations		Completed, draft AML law approved by the council of ministers on February 14, 2007
• Creation of a unit attached to the office of the Minister of Finance, responsible for the monitoring and coordination of public finance reforms.		Completed, November 28, 2006
• Launch the process of dismantling cross-ownership and consolidation of public sector assets with the government.		Completed, January 29, 2007
• Issue decree transferring payroll management to the Ministry of Finance.		Completed, February 21, 2007
• Submission to Parliament of the draft statistics law.		Completed, December 21, 2006
• Promulgate the 2007 Budget Law in conformity with the program discussed with IMF staff.		Completed, December 30, 2006
Structural performance criterion		
• Establishment of a single data file for the computerized management of the payroll at the Ministry of Finance.	June 2007	
Structural benchmarks		
• Launch of the first risk-based internal audit of the BRB.	March 2007	
• Census of all employees in the civil service, police force, and army.	June 2007	

APPENDIX I—ATTACHMENT II
REPUBLIC OF BURUNDI
TECHNICAL MEMORANDUM OF UNDERSTANDING
February 21, 2007

1. This technical memorandum of understanding sets out the definitions of program variables to monitor the implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines (i) the quantitative performance criteria, indicative targets, and applicable adjusters; and (ii) the key assumptions on which the economic program for 2007 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi is based, which is annexed to the letter of February 21, 2007 from the Second Vice-President, the Minister of Finance and the Governor of the BRB to the Managing Director of the International Monetary Fund.
2. The prior actions, the structural performance criteria, and the structural indicators for 2007 are listed in Table 4 of the MEFP.

A. QUANTITATIVE PROGRAM TARGETS

Quantitative performance criteria and indicative targets

3. Quantitative performance criteria under the program are set on the end-December 2006 stocks as set out in Table 1 of the MEFP, as follows:
 - net foreign assets of the BRB (floor);
 - net domestic assets of the BRB (ceiling);
 - net domestic financing of the government (ceiling);
 - external payments arrears of the government (ceiling);
 - the outstanding stock of short-term external debt (maturity of less than one year) of the government and the BRB (ceiling); and
 - new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB (ceiling).

The quarterly targets on the above variables for 2007 are indicative.

4. Quantitative indicative targets under the program as set out in Table 3 of the MEFP, are as follows:
 - primary budget balance, excluding externally financed projects (floor); and
 - the government's wage bill (ceiling).

Definitions and measurement

5. The **net foreign assets of the BRB** are defined as the difference between (i) foreign exchange assets and gold holdings (valued at market prices); and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). These amounts are valued in terms of U.S. dollars based on the end-June 2006 exchange rate. The net foreign assets of the BRB totaled FBU -13.4 billion, equivalent to US\$ -12.7 million, at end-September 2006, broken down as follows:

	In billions of Burundi francs	In millions of U.S. dollars
Net foreign assets of the BRB	-13.4	-12.7
Foreign assets	81.5	77.1
Official reserves	80.7	76.3
Foreign currency holdings	5.1	4.9
Deposits with correspondents (excluding IMF)	74.2	70.2
SDR holdings	0.2	0.2
Reserve position with the IMF	0.6	0.5
Gold holdings	0.6	0.6
Other claims	0.9	0.8
Foreign liabilities	95.0	89.9
Liabilities vis-à-vis correspondents (excluding IMF)	9.0	8.5
Counterpart of the use of IMF resources	86.0	81.4
Other liabilities	0.0	0.0

6. The **gross official reserves of the BRB** are defined as those foreign assets that are liquid and freely available to the central bank. At end-September 2006, gross official reserves stood at US\$ 76.3 million.

7. 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. Net domestic assets of the BRB totaled FBU 111.6 billion at end-September 2006, broken down as follows:

	In billions of Burundi francs
Net domestic assets of the BRB	111.6
Reserve money	98.1
Currency in circulation	68.2
Reserves of commercial banks	27.7
Other non-bank deposits	2.3
Minus: net foreign assets of the BRB	-13.4

8. **Net domestic financing of the government** is defined as the sum of the flows from (i) loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) the change in the outstanding stock of all government securities held by the non-bank public denominated in Burundi francs, including that held by nonresidents; (iii) less government deposits held in the BRB or Burundi's commercial banks at those institutions. 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. Net domestic financing of the government at end-September 2006 totaled FBu 151.4 billion, broken down as follows:

	In millions of Burundi francs
Total	151.4
Net banking credit to the government	145.3
Central government	160.0
Loans, advances and other credits	199.8
BRB	195.5
Commercial banks (including postal accounts)	4.3
Deposits	39.8
BRB	38.1
Commercial banks (including postal accounts)	1.7
Other administrations (net)	-14.7
Non-bank financial institutions	0.3
Treasury bonds and certificates	0.3
Others	5.8
Treasury certificates	5.8

9. The stock of **external payments arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. 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. The external payments arrears at end-September 2006 are broken down as follows, showing the actual stock under the heading "technical arrears":

External payments arrears	Program	Technical
	definition	arrears
	(In billions of Burundi francs)	
Total	0.6	53.1
Multilateral	0.6	9.7
International Development Association	0.0	0.0
AfDB Group	0.0	0.0

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
African Development Bank	0.0	0.0
African Development Fund	0.0	0.0
Nigeria Trust Fund	0.0	0.0
International Monetary Fund	0.0	0.0
European Union	0.0	0.0
International Fund for Agricultural Development (IFAD)	0.0	0.0
Arab Bank for Economic Development in Africa (BADEA)	0.6	0.6
OPEC Fund	0.0	8.4
Development Bank of the Great Lakes States (BDEGL)	0.0	0.7
Bilateral and commercial	0.0	43.4
Paris Club	0.0	0.0
French Cooperation Agency (AFD)	0.0	0.0
Japan (FCEOM)	0.0	0.0
Russia	0.0	0.0
Other official bilateral	0.0	42.9
Abu Dhabi Fund	0.0	2.5
Kuwait Fund	0.0	18.4
Saudi Arabia Fund	0.0	16.6
Libyan Bank	0.0	5.4
Commercial	0.0	0.5
AD Consultants	0.0	0.0
Kreditanstalt für Wiederaufbau AMSAR	0.0	0.5

10. The **domestic arrears of the government** amounted to FBu 35.7 billion as of end-2004, of which FBu 4.2 billion was to state enterprises. This total was identified by the Ministry of Finance and audited by an external auditor. In 2005, the budget cleared FBu 3.8 billion of these arrears. The outstanding balance (FBu 25.7 billion) will be cleared by end-June 2006, according to the strategy described as follows. An official decision by the government will establish the total amount of arrears, as well as the modalities for their settlement. All individuals and corporations holding arrears claims will receive a cash payment of FBu 100 million upon signing a note liquidating their claim on these arrears (total cash payment estimated at FBu 7.4 billion). For creditors with validated arrears greater than FBu 100 million, a certificate recognizing these debts will be issued for the nominal value of the remaining arrears (FBu 18.3 billion). These certificates will not earn interest but will be freely exchangeable for treasury bonds of about 3–5 years maturity. These bonds will be auctioned by the BRB, on behalf of the government treasury. These certificates can equally be used (100 percent of their nominal value) in the privatization program, to settle winning offers to buy. The payments arrears of public enterprises, as well as the cross-debts of the petroleum sector, are not included in this settlement process and will be dealt with separately.

11. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB, which precludes the contracting of any such debt. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with an original maturity of more than one year, including commitments contracted or guaranteed for which value has not been received. The term debt shall be understood as defined in the Executive Board Decision No. 12274-(00/85) adopted August 24, 2000. Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month average CIRRs, the following margins should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20-29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents.

12. The **stock of short-term external debt**, with a maturity of up to, or equal to, one year, owed by the government is to remain at zero under the program. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of more than one year 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 leasing). Excluded from this performance criterion are rescheduling arrangements, borrowing from the Fund, and any Burundi franc-denominated treasury securities held by nonresidents. As of end-September 2006, the stock of short-term debt outstanding was nil, as was nonconcessional medium- and long-term debt contracted during the year.

13. **Receipts from privatization** are projected to be FBu 4.2 billion in 2006, and 5.6 billion in 2007. 50 percent of receipts above the projected amount will be used to reduce the domestic borrowing requirement. Any privatization receipts over and above this amount will be used to reduce domestic debt.

14. The government's **primary fiscal balance** is defined as the difference between total government revenue, excluding grants, on the one hand, and non-interest current government expenditure and domestically financed capital expenditure (including through the use of counterpart funds), on the other hand. The primary fiscal balance for 2006 projected to FBu -56.8 billion, and the target for 2007 is FBu -68.3 billion, broken down as follows:

	2006	2007
Primary budget balance	-56.8	-68.3
Total revenue	178.4	203.0
Minus:		
Non-interest current expenditure	199.4	239.5
Domestically financed capital expenditure	37.8	33.8
Net lending	-2.0	-2.0

15. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, police and military personnel of the government, including all allowances and bonuses. The government's wage bill is projected to be FBu 96.6 billion for 2006 and FBu 121.7 billion for 2007, broken down as follows:

	2006	2007
Government wage bill	96.6	121.7
Civilian personnel	58.5	74.9
Military personnel	23.0	27.1
National Police Force	15.1	19.7

16. As allowed by article 22 of 2007 Budget Law No. 1/38 (December 30, 2006), the Ministry of Finance, under its powers to implement the budget, will constitute a **contingency of non-priority expenditures** for FBu 4.7 billion. The Ministry of Finance will set monthly ceilings of expenditure commitments in order to contain the spending to the level of available financing. The contingency (FBu 1.9 million in goods and services and FBu 2.8 million in domestically financed capital expenditure) will be released only following confirmation of additional external financial support to the budget to that assumed in the program.

External financial assistance adjustor

17. The program provides for a asymmetrical adjustor for shortfalls or excesses in external financial assistance that is applied to quantitative targets for the net foreign assets and net domestic assets of the BRB, and for net bank credit to the government.

18. External financial assistance (measured in U.S. dollars) is defined to include the following: (i) non-project 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); (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Disbursements into blocked accounts by donors for the purpose of clearing arrears will not be included as foreign assistance for program monitoring purposes. The assumptions for 2006 and 2007 are shown below.

Burundi: External Financing Adjustors of Performance Criteria and Indicative Targets Under the 2006 – 2007 Program

(In millions of U.S. dollars)

	2006						2007			
	Jun.		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
	Prog.	Act.	Prog.	Act.	Prog.	Prel.	Prog.	Prog.	Prog.	Prog.
External nonproject financial assistance (cumulative from the beginning of each calendar year)	63.3	4.9	74.9	4.9	107.8	67.3	15.7	57.4	63.2	86.0
<i>Of which:</i>										
EU	12.5	0.0	12.5	0.0	17.0	13.1	2.3	2.3	2.3	21.8
World Bank	35.0	0.0	35.0	0.0	60.0	35.1	0.0	25.0	25.0	25.0
AfDB	0.0	0.0	11.0	0.0	11.0	11.0	0.0	0.0	0.0	0.0
France	0.0	0.0	0.0	0.0	3.0	3.3	2.6	2.6	2.6	2.6
Belgium	2.4	2.4	2.4	2.4	2.4	2.4	0.0	0.0	0.0	2.6
Netherlands	10.0	0.0	10.0	0.0	10.0	0.0	10.0	20.0	25.0	25.0
Norway	0.0	0.0	0.0	0.0	0.0	0.0	0.0	6.0	6.0	6.0
Debt relief (current maturities, excluding HIPC)	3.4	2.5	4.1	2.5	4.5	2.5	0.8	1.5	2.3	3.0

Sources: Burundi authorities; and Fund staff estimates.

19. The ceiling or floor targets will be adjusted to accommodate 100 percent of any deviation from the projected cumulative external financial assistance. In case of a financing excess (shortfall), the floor on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). In the case of a financing shortfall the adjustment will be limited to a maximum of US\$50 million. External financial assistance will be converted to Burundi francs using the program end-period FBu/US\$ exchange rate.

Domestic payments arrears adjustor

20. The ceiling on net domestic financing of the government will also be adjusted to reflect 100 percent of any deviation from the projected net accumulation of fiscal arrears, as measured by the accumulation of non-executed payment orders older than 30 days. In case of an increase (decline) in fiscal arrears, the ceiling on the stock of net credit from the banking system to the government will be adjusted downward (upward).

B. Key Program Assumptions

21. The main program assumptions are drawn from the WEO projections of December 2006 as follows:

	2005	2006				2007			
		Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
<i>Average export prices</i>									
Coffee (cents per pound)	114.3	105.0	106.0	118.4	108.0	108.1	121.5	120.0	115.0
Tea (dollars per kg)	204.8	212.5	202.7	254.5	239.6	246.9	225.7	215.0	210.0
Oil (US dollar per barrel)	53.4	60.0	56.5	61.0	68.3	68.8	59.0	52.3	53.3
<i>End-period exchange rate</i>									
Dollar / SDR	1.43	1.44	1.48	1.48	1.50	1.51	1.50	1.50	1.50
Dollar / euro	1.18	1.21	1.27	1.27	1.32	1.30	1.30	1.30	1.30
Burundi franc / dollar	997.8	1017.5	1024.9	1038.5	1045.0	1030.0	1030.0	1030.0	1030.0

C. Provision of Information to IMF Staff

22. To facilitate the monitoring of program implementation, the Burundi government will prepare a monthly report within five weeks of the end of each month, which will be sent to IMF staff. In addition, the staff of the monitoring committee (technical bureau of the Secrétariat Permanent de Suivi des Réformes Économiques et Sociales—SP/REFES) will forward to the African Department of the IMF, by facsimile or electronic mail, the data required for program monitoring.

These data will include, in particular, on a weekly basis the following:

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on the foreign exchange cash flow (BRB Foreign Banking Operations Department);
- foreign exchange auction market (MED) transactions;
- the balance sheet of the BRB (weekly statement) (BRB Research Department).

The following data are to be provided on a monthly basis:

- the monetary survey, including the breakdown of the central bank and of commercial banks (BRB Research Dept.);
- the financial position of the government vis-à-vis the banking system (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis (Ministry of Finance);

- a detailed breakdown of the government wage bill on a commitment basis (Ministry of Finance);
- detailed information on government social spending, in particular on the health and education sectors (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, in 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 payments arrears and cumulative flows from January 1, 2004; the accumulation of new arrears is defined as the difference between commitments and actual payments (on a cash basis, as reported in the cash statement summary—*Reddition des comptes*) (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 non-project financial assistance, including new loans and debt relief granted by Burundi's external creditors (Plan/Ministry of Finance);
- an update on the implementation of structural measures planned under the program, as described in the MEFP (REFES).

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

INTERNATIONAL MONETARY FUND

BURUNDI

**Fifth Review Under the Arrangement Under the Poverty Reduction
and Growth Facility (PRGF) and Request for Waiver of a Performance
Criterion—Informational Annex**

Prepared by the African Department
(In collaboration with other departments)

Approved by Jean A.P. Clément and Mark Plant

February 23, 2007

- **Relations with the Fund.** Describes financial and technical assistance by the IMF and provides information on the safeguards assessment and exchange system. At end-December 2006, outstanding PRGF loans amounted to SDR 55 million. Completion of the fifth review would allow a disbursement equivalent to SDR 7.15 million.
- **Relations with the World Bank.** Describes the World Bank Group program and portfolio and provides a statement of IFC investments.
- **Relations with the African Development Bank.** Describes the African Development Bank program and portfolio.

Contents

Page

I. Burundi: Relations with the Fund.....	3
II. Burundi: Relations with the World Bank Group.....	7
A. Partnership in Burundi's Development Strategy	7
B. Bank–Fund Collaboration in Specific Areas.....	7
C. World Bank Group Program and Portfolio	7
III. Burundi: Relations with the African Development Bank Group.....	13

IV. BURUNDI: RELATIONS WITH THE FUND

(As of December 31, 2006)

I. Membership Status: Joined: September 28, 1963; Article XIV

II. General Resources Account:	SDR Million	%Quota
Quota	77.00	100.00
Fund holdings of currency	76.64	99.53
Reserve Position	0.36	0.47

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	13.70	100.00
Holdings	0.22	1.58

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
PRGF Arrangements	55.00	71.43

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Jan 23, 2004	Sep 30, 2007	69.30	55.00
PRGF	Nov 13, 1991	Nov 12, 1994	42.70	17.21
SAF	Aug 08, 1986	Aug 07, 1989	29.89	29.89

VI. Projected Payments to Fund (without HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal			2.64	6.00	8.14
Charges/Interest	0.82	0.83	0.82	0.79	0.75
Total	0.82	0.83	3.46	6.79	8.89

Projected Payments to Fund: (with Board-approved HIPC Assistance)

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Principal			2.64	6.00	8.14
Charges/Interest	0.78	0.83	0.82	0.79	0.75
Total	0.78	0.83	3.46	6.79	8.89

VII. Safeguards Assessments

Under the Fund's safeguards assessment policy, the *Banque de la République du Burundi* (BRB) is subject to a full safeguards assessment with respect to the PRGF arrangement approved on January 23, 2004. The safeguards assessment was completed on January 18, 2006. The assessment identified several vulnerabilities, in particular in the legal and control areas, including the management of foreign reserves, and the internal audit function.

VIII. Exchange Arrangements

Burundi maintains a managed float exchange regime. The U.S. dollar is the intervention currency. On December 29, 2006, the exchange rate was FBu 1002.5 to the U.S. dollar. In 2003, the central bank eliminated most remaining exchange restrictions on current international transactions and delegated authority to the commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered to 50 percent and eliminated in early 2005. The central bank admitted foreign exchange bureaus to the weekly auctions. Most external payments arrears to bilateral and multilateral creditors were cleared by end-2005. In December 2006, the government published a new foreign exchange regulation, which liberalized foreign exchange for current transactions and removed one multiple currency practice.

Burundi availed itself of the transitional arrangements of Article XIV when it joined the Fund in 1962, but no longer maintains exchange restrictions or multiple currency practices under Article XIV. Burundi maintains one multiple currency practice inconsistent with Article VIII, Section 2(a): the exchange rate used for government transactions takes place at a rate that may differ by more than 2 percent from market exchange rates. Burundi maintains certain foreign exchange restrictions for security reasons, and has notified those restrictions to the Fund pursuant to Decision 144-(52/51). The authorities have not requested, and staff does not propose, approval of the multiple currency practice.

IX. Article IV Consultation

Burundi is on the 24-month cycle. The 2006 Article IV consultation discussions were conducted in Bujumbura during the period March 1-18, 2006. The Executive Board discussed the staff report (IMF Country Report No. 6/311) on July 14, 2006, along with the consideration of the third and fourth reviews under the Poverty Reduction and Growth Facility (PRGF). On that occasion, Executive Directors welcomed the commendable progress that Burundi made in 2005 in implementing its PRGF-supported program in a difficult post-conflict environment. They welcome the progress made on the enhanced HIPC Initiative completion point triggers but emphasized the need for the authorities to pay particular attention to reinforcing government's capacity to deliver social services. They noted the need to reinforce good governance and transparency practices, including public financial management and through the progressive withdrawal of state intervention in the economy.

X. Technical Assistance

2006 (Dec.)	FAD public expenditure management mission
2006 (Nov.)	MCM banking supervision mission
2006 (Sep.)	FAD customs and tax administration mission
2006 (Apr.)	MCM foreign exchange reserve management mission
2006 (Mar.)	STA mission to prepare the metadata and medium-term action plan
2006 (Mar.)	MFD/LEG joint Article VIII mission
2006 (Jan.)	LEG AML/CFT legislative drafting mission
2006 (Jan.)	Monetary operations/FOREX/banking supervision mission
2005 (Dec.)	STA balance of payments statistics (external debt accounting) mission
2005-06	MFD resident expert on monetary operations and money markets
2005 (Oct.)	FIN safeguard assessment second step mission
2005 (Oct.)	FAD public financial management mission
2005 (Oct.)	FAD customs administration mission
2005 (Oct.)	MFD expert on monetary operations mission
2004-05	Extended visits by MFD expert on liquidity management
2004 (Nov.)	STA multisector mission
2004 (Nov.)	MFD multitopic mission
2004	FAD public accounting system, three visits by peripatetic adviser.

XI. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Aug 2005
Assistance committed by all creditors (US\$ Million) ^{1/}	826.00
Of which: IMF assistance (US\$ million)	27.84
(SDR equivalent in millions)	19.26
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.17
Interim assistance	0.17
Completion point balance	--
Additional disbursement of interest income ^{2/}	--
Total disbursements	0.17

^{1/} Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

^{2/} Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

XII. Resident Representative

Mr. Lars-Holger Engström took up the post of Resident Representative in May 2005 in addition to his posting as Resident Representative to Rwanda. An office with an administrative assistant started operating in January 2006 in Bujumbura.

V. BURUNDI: RELATIONS WITH THE WORLD BANK GROUP

(As of February 7, 2006)

A. Partnership in Burundi's Development Strategy

Following the establishment of a transitional government in 2002, a new constitution that provides for appropriate ethnic checks and balances was approved in February 2005. Presidential and parliamentary elections were held in August 2005 and a democratically elected government took office in September 2005. In September 2006, a cease-fire accord was reached with the last holdout rebel movement, the FNL-PALIPEHUTU faction. Demobilization and socio-economic reintegration of most FNL combatants is expected to begin during the first quarter of 2007. The peace process has attracted considerable attention and Burundi is one of the pilots for the recently created UN Peace Building Commission.

The preparation of the full PRSP was launched in May 2004 under the leadership of the Head of State. The PRSP builds upon the I-PRSP discussed by the Boards of the IDA and the Fund in January 2004, and was completed and published in September 2006. The strategy focuses on four main priority areas: (i) improved governance and security; (ii) equitable and sustainable growth; (iii) developing human capital by improving the quality of social services; and (iv) reinforcing the fight against HIV/AIDS. The full PRSP, which is expected to be discussed at the IDA and IMF Boards in March 2007, benefited from broad and inclusive consultations with all stakeholders at the national, provincial and communal levels.

B. Bank-Fund Collaboration in Specific Areas

The Bank and Fund teams have been closely coordinating their assistance strategies and policy advice related to the government's implementation of the I-PRSP. There is also good cooperation in the policy dialogue on structural issues, in particular crucial reforms in the coffee sector. The Bank is leading the policy dialogue on structural aspects of the reform program. The Fund is leading the dialogue on macroeconomic and financial issues, in particular fiscal, monetary, and exchange regime policies. Both institutions are providing significant technical assistance. The Fund and the Bank have both contributed to the Diagnostic Trade Integration Study under the Integrated Trade Framework—a review of the policy, regulatory, and institutional framework—with the objective of promoting employment-generating trade. Collaboration was intensified in 2005, as Burundi's full PRSP and the HIPC Decision Point Document were prepared. A Joint Staff Advisory Note (JSAN) was produced on the full PRSP in February 2007. Table 1 summarizes Bank-Fund collaboration in specific areas.

C. World Bank Group Program and Portfolio

A Country Assistance Strategy (CAS) will be undertaken in FY08 following the adoption of the PRSP by the government and the forthcoming Board discussions of the poverty reduction strategy. Recent Bank support has been within the framework of the interim strategy note

(ISN) adopted by the Board in May 2005 and covering FY06 and FY07. The ISN is fully aligned with the priorities of the I-PRSP and aims at (a) addressing the country's social needs, including access to basic services, enhanced employment opportunities, and stronger social capital in particular within rural communities; and (b) creating the basis for a sustained economic recovery and growth. IDA is supporting this strategy with a series of fast-disbursing and investment operations (Table 2).

Based on sound macroeconomic policies and progress in reforming the economy, external financial aid has resumed and culminated with Burundi being granted access to debt relief under the enhanced Heavily Indebted Poor Country Initiative (HIPC initiative) in August 2005. The HIPC debt relief will reduce Burundi's debt by over 90 percent in NPV terms, and scheduled debt service by some US\$30–40 million per year for the next thirty years. The Government has intensively used the full-PRSP preparation process to improve coordination of development efforts in the country, including donor-supported activities. There are ongoing efforts to improve alignment of public expenditures with poverty-reduction priorities. The 2006 budget allocations have been linked to the priorities identified in the full PRSP and recent work in developing sector policies, particularly in health and education. Moreover, allocations to pro-poor programs have increased from 33.6 percent of total expenditure in 2005 to 35.5 percent in the 2006 revised budget law, and increased further in the 2007 budget law. In addition, the military wage bill to GDP ratio has been reduced from about 3.5 percent in 2002 (a peak) to about 2.8 percent in 2005 and 2.3 percent in the 2006 revised budget law, while the civilian wage bill was increased from 3.5 percent in 2000 to 6.0 percent in the revised budget law. One area of concern is the issue of the wage bill, which is expected to account for about 12 percent of GDP in 2007 (from 8-9 percent in 2006).

International Development Agency (IDA) program. As of end January 2007, the active portfolio comprised eight operations with a total commitment value of US\$332 million (of which US\$ 142 million remain undisbursed). IDA has financed projects in (i) post-conflict rehabilitation and reintegration; (ii) education; (iii) health, HIV/AIDS and social policy reforms; (iv) public works (water sanitation and flood protection) and job creation; (v) transportation (roads and highways) rehabilitation; (vi) agriculture rehabilitation; (vii) economic management, and a policy-based quick-disbursing operation (Economic Reform Support Grant).

On August 1, 2006, the Board approved a budget support operation (Economic Reform Support Grant) in the amount of US\$60 million to the Republic of Burundi to help its government carry out a set of reforms in the areas of public finance management, cash crop sectors and private sector development. About 60 percent of the proceeds of this operation financed the country's 2006 budget while the remainder (US\$25 million) will be allocated toward the 2007 budget. The IMF is supporting the Government's program with a PRGF. In practice, there is close collaboration between the Bank and Fund in many areas, particularly those related to growth and poverty reduction.

International Finance Corporation (IFC). Burundi has been a member of IFC since 1975. With the peaceful transition, prospects for IFC involvement in Burundi are improving. An IFC mission in January 2005, followed by a joint IFC-Bank PSD (Africa Region) mission in May 2005 were conducted to discuss two areas of possible IFC intervention: (i) support to the country's privatization program, including possible transaction implementation advice on the privatization of the incumbent fixed-line telecommunications company, ONATEL; and (ii) potential investment in Burundi's largest commercial Bank (*Banque de Crédit de Bujumbura, BCB*). In November 2006, another IFC mission was conducted to discuss with the government the possibility of IFC-Corporate Advisory Services (CAS) to act as transaction advisor for the privatization of ONATEL. IFC is exploring opportunities for Burundi's banks to participate in IFC Global Trade Finance program which presents the best opportunity for IFC to intervene in the country's financial sector. A trade finance assessment and appraisal of 2 leading banks will be conducted by the IFC Global trade finance team in February, 2007. There is potential for IFC participation in the rehabilitation and modernization of Novotel, and the provision of financial assistance to private hotel operators to meet a high demand for quality accommodation in Burundi. IFC is currently considering providing term financing for expansion projects of the following companies: Interpetrol, a logistics company with over 100 haulage trucks, OLD EAST SA, a commercial real estate company, and Brarudi, a brewery jointly owned by the state and Heineken.

Multilateral Investment Guarantee Agency (MIGA). Burundi became a member of MIGA in March 1998. MIGA's outstanding portfolio consists of one contract of guarantee in the infrastructure sector, with a gross exposure of US\$0.9 million, and a net exposure of US\$0.8million. The total estimated amount of foreign direct investment facilitated to-date by MIGA is approximately US\$1.8 million. Currently, there are no active projects in MIGA's pipeline for Burundi. However, one contract with Mauritius Telecom for US\$0.9 million was signed in FY03.

World Bank Institute (WBI): Since July 1, 2006, Burundi became one of 14 African countries out of 44 *focus countries* for WBI programs. These countries are priority countries for WBI. For FY07, the WBI program for Burundi includes (i) a Leadership program; and (ii) an Anti-corruption and Governance diagnostics.

World Bank staff: Questions may be referred to Pedro Alba ((202) 458-2246), and Jean-Pascal N. Nganou ((202) 458-8054).

Table 1: Summary of Bank-Fund Collaboration

Thematic area	Areas of collaboration	Bank	Fund
PRSP process.	Finalization of the full PRSP	Aiding in preparation of participatory consultations and workshops; coordination of donors, poverty survey and analysis; Prepared the Joint Staff Advisory Note (JSAN) on the full PRSP.	Commented on the design of macroeconomic framework in the PRSP; Prepared the Joint Staff Advisory Note (JSAN) on the full PRSP.
Macroeconomic stability and development.	Development agenda in poverty reduction goals.	Complement Fund's macroeconomic policy with various broad structural and sector works through lending and capacity building especially in the areas such as budget management, agriculture, energy, infrastructure, and telecommunications sectors.	Fund leads on the macroeconomic policy dialogue, including on fiscal, monetary, and exchange rate policies. Fund has been supporting Burundi through a PRGF approved on January 23, 2004, extended to end-September 2007. Program measures and TA have targeted improved national statistics.
Public financial management	Collaboration in growth oriented reforms of the Government.	Technical assistance (TA) in macro framework and related issues under the IDA EMSP.	The PRGF supported program, has focus on removing the structural impediments to sustained growth
	Collaboration in institutional and structural reforms including procurement code, a basic computerized financial management information system (IFMIS); investment management system, and budget planning.	TA for: (i) the completion of the Public Expenditure Review (PER) under the Emergency Economic Recovery Credit (EERC); (ii) the Country Financial Accountability Assessment (CFAA), and (iii) Country Procurement Issue Paper (CPIP) and the preparation of a comprehensive action plan to reform procurement. The Bank has also provided under the Economic Management Support Project (EMSP) TA in the computerization of public finance management (IFMIS).	TA has been in the area of expenditure management and control, the introduction of a basic IFMIS, the elimination of extra-budgetary funds, and to a treasury single account. A resident expert is being posted at the Ministry of Finance. The new AFRITAC Center will provide peripatetic technical assistance. The Fund has worked to reinforce donor coordination on budget support and TA.
	Strengthening capacities in the areas of financial accountability and budget monitoring.	Financing and provision of technical assistance in budget management and financial accountability, notably to the National Auditing Court (<i>Cour des Comptes</i>). The Bank has also supported the reinforcement of capacity for the <i>Cour des Comptes</i> judges, parliamentarians, and media through IDA EMSP. The Bank will also strengthen the capacity of the State General Inspectorate (IGE) for internal audit and control. A consultant is being hired to provide support to the PETS.	TA in the areas of: (i) functional classification for expenditure including a sub-classification for poverty related outlays; (ii) a new budget and accounting code; and (iii) expenditure tracking and control
	Reforming revenue policy and administration	The Bank has provided TA to redraft the tax code. The Bank also provided support to customs administration and to the study on the introduction of the VAT.	TA has been provided on customs administration; import tariffs; reinforcement of tax administration; and tax policy reform.
Structural and policy reforms and financial sector.	Collaboration in key institutional and structural reforms legal and judicial reform in establishing commercial courts and other regulatory reforms.	The Bank has provided support in: (i) the restructuring of the banking sector, including privatization, under ERSG; (ii) the creation and the functioning of the Arbitration Center through the EMSP. Support will be given to the Ministry of Justice and Ministry of Commerce for the revision and dissemination of the Commercial code and the bankruptcy code. The Bank is helping the reforms in coffee, tea, and cotton sectors, in addition to micro-finance.	In the structural area the PRGF has focused on the removal of trade restrictions and the freeing of prices and marketing in key sector such as coffee and sugar. TA to the central bank on banking supervision, prudential regulation, reserves management, monetary policy analysis, and liquidity management.

Thematic area	Areas of collaboration	Bank	Fund
Governance and corruption	Collaboration in the: (i) preparation of a national anti-corruption strategy ; (ii) governance diagnostic survey.	The Bank is expected to provide technical assistance for the preparation of a governance diagnostic survey. Also, mindful of the limited human and managerial capacity at the Ministry of Good Governance, the Bank will help in reinforcing the capacity at this line ministry and for anti-money laundering control. The Bank has also contributed and provided support to the audit of domestic arrears and the strategy for their clearance	Under the IMF safeguards policy the central bank has conducted regular external audits, initiated an internal audit, and strengthened governance. TA in drafting the anti-money laundering law (AML/CFT). The PRGF-supported program has also targeted the reinforcement of cash management at the coffee parastatal, OCIBU, and the reinforcement of oversight of the public sector.
Infrastructure and private sector development	Collaboration in business policies especially in the areas of taxation, budget, and legal and institutional development.	The Bank has been supporting this area through its infrastructure projects in road sector, and public works and employment. The Bank will also prepare a privatization program for a number of public enterprises identified in the ERSG grant. Based on the investment climate survey carried out in June 2006, the Bank is preparing an Investment Climate Assessment to identify the constraints to the development and growth of the private sector.	The focus has been on the elimination of distortions in the tax system, clearance of budgetary arrears with the private sector, and support of the privatization effort.
Agriculture and rural development.	Collaboration in restoring the productive ability of the rural sector.	World Bank is supporting this sector through its Agricultural Rehabilitation and Sustainable Land Management Project (ARSLMP), which aims to raise productivity and incomes among rural population, through: (i) investments in production and sustainable land management; (ii) capacity building for producer organizations, and local communities, including war-distressed returnees and internally displaced persons. The Bank will assist in the privatization of the coffee and tea sectors.	
Social sector and community development.	Development agenda in poverty reduction and social sectors.	The Health and Population Project and the multisectoral HIV-AIDS and Orphans Project are supporting the social sector development in the area of HIV-AIDS, population and health.	

Table 2: Status of Active Operations

Project	US\$ mil.	Objective	Approval/ Effectiveness	Disbursed February 07 (%)	Ratings		
					DO	IP	IP
Agricultural Rehabilitation and Sustainable Land Management Project	40	To restore the productive capacity of rural areas, through: (i) investments in production and sustainable land management; (ii) capacity building for producer organizations and local communities, including war-distressed returnees and internally displaced persons.	July 2004/ September 2004	43.4	S	S	S
Emergency Demobilization Reinsertion and Reintegration Program	33	To help consolidate peace in Burundi and the Great Lakes region by: (i) demobilizing soldiers and ex-combatants and providing targeted support to facilitate their return to civilian life; and (ii) contributing to the reallocation of government expenditures from military to social and economic sectors.	March 2004/ September 2004	69.0	MS	MS	MS
Transport Infrastructure Rehabilitation Project	51.4	To contribute to Burundi's post-war revival by restoring part of the priority road network, generating employment for the rural poor, and improving institutional capacity in the road sector.	March 2004/ September 2004	27.0	U	U	U
Economic Management Support Project (EMSP)	26	To increase the efficiency of Burundi's macroeconomic, financial, and administrative management by strengthening accountability and transparency through improved procedures and controls.	January 2004/April 2004	17.0	MS	MS	S
Economic Reform Support Grant (ERSG)	60	To help implement the Government's economic reform program during 2006 and Burundi's Interim PRSP by supporting key policy measures aimed at: (i) improving public expenditure management and their impact on the poor; and (ii) accelerating growth.	August 2006/ November 2006	59.0	n/a	n/a	n/a
Multisectoral HIV/AIDS Control and Orphans Project	36	To support the national program as set forth in its Action Plan for the Struggle against HIV/AIDS for the period 2002-2006, through actions involving in-line ministries, civil society, private enterprises, labor unions, in addition to women and youth, and nongovernmental organizations (NGOs).	June 2002/ October 2002	98.0	S	S	S
Public Works and Employment Creation Project (with additional grant of US\$ 30.6 million approved in December 2005)	70.6	To contribute to the peace process and reconstruction of Burundi through generation of productive and labor-intensive employment.	January 2001/June 2001	75.0	S	S	S
Regional Trade Facilitation Project	15	To contribute to poverty alleviation through private sector led growth by improving access to financing for productive transactions and cross-border trade. It also aims to bring together a group of countries in the Southern and Eastern African region that are willing to address the market's perception of risk in Africa by setting up a credible insurance mechanism.	April 2001/ February 2002	70.1	S	S	S

VI. BURUNDI: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP

(As of December 31, 2006)

Burundi has been a member of the AfDB Group since its foundation in 1964. The AfDB's grant and loan operations with the country were interrupted by the outbreak of civil strife in 1993. On July 19, 2004, the AfDB Boards approved general policy guidelines to assist post-conflict countries to clear their arrears and created a facility, the PCCF, initially funded with about SDR 100 million in AfDB funds, to provide financial assistance to qualifying post-conflict countries. The policy guidelines call for a three-way burden-sharing formula among the country, donors, and the PCCF. On October 27, 2004, the AfDB Boards endorsed a specific arrears clearance proposal for Burundi whereby the balance of arrears was settled with the help of donors and the PCCF before the Decision Point under the enhanced HIPC Initiative.

On November 24, 2005, the Boards of Directors of the African Development Bank (ADB) and the African Development Fund (ADF) agreed that Burundi had effectively met the conditions and reached the decision point under the enhanced framework of the Heavily Indebted Poor Countries (HIPC) Initiative. The Bank Group's share of debt relief will amount to US\$149.35 million in present value terms (US\$226.01 million in nominal terms), which is equivalent to about 21 percent of the multilateral creditors' assistance, and about 18 percent of total assistance from all creditors. This amount will save up to 90 percent of Burundi's debt-service obligations annually until February 2043.

Under its FAD 9 allocation, following the lifting of sanctions in October 2004, on July 7, 2004, the Bank Group approved a grant of SDR 2.13 million to finance training of civil servants and procurement of equipment for institutions in charge of economic management and the civil society. A structural adjustment credit totally SDR 6.72 million, in one tranche, accompanied by a further grant of SDR 1.5 million for institutional support, was approved by the Board on December 2004. A multi-sector project, totaling SDR 9.8 million, was also approved on December 2004. Under its FAD 10 allocation, the Bank Group approved in December 2005 a grant of SDR 12 million to finance rural water infrastructure rehabilitation and, in March 2006, a SDR 9 million to finance the watershed management project. In November 2006, the Bank Group approved one more grant: SDR 7.3 million, in one tranche, to finance economic reforms and governance support program.

African Development Bank Operations in Burundi		
	Outstanding loans (In millions of SDRs)	Past-due obligations
African Development Bank	0.0	0
African Development Fund	147.03	0
Nigerian Trust Fund	0.14	0
Total	147.17	0



Press Release No. 07/43
FOR IMMEDIATE RELEASE
March 9, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Burundi's Poverty Reduction and Growth Facility and Approves US\$10.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Burundi's economic performance under a SDR 69.30 million (about US\$104.1 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see [Press Release No. 04/13](#)), and approved the disbursement of SDR 7.15 million (about US\$10.7 million), which will bring total disbursements under the PRGF arrangement to SDR 62.15 million (about US\$93.4 million).

The Board also granted Burundi a waiver for nonobservance of the end-September 2006 structural performance criterion pertaining to the tendering of negotiable treasury securities managed by Burundi's Central Bank.

Following the Executive Board's discussion on Burundi's economic performance, Mr. Murilo Portugal, Deputy Managing Director and acting Chair, stated:

“Burundi made steady progress in implementing its PRGF-supported program in 2006, notwithstanding a difficult post-conflict environment. The macroeconomic program remained on track with a recovery in real growth and lower inflation and the authorities are to be commended in particular for the strong fiscal performance in 2006, in the face of delayed disbursements of external support.

“The authorities are committed to sound macroeconomic policies and accelerated structural reforms. In this context, reinforced governance and transparency practices, particularly the strengthening of public financial management, the reform of public procurement, and the progressive withdrawal of state intervention in the economy will be central to program implementation.

“The authorities are strengthening monetary policy. The clearing of domestic arrears and the introduction of standardized negotiable treasury securities will help enhance the efficiency and soundness of the financial system. It is important to continue efforts to strengthen banking supervision and revise the central bank charter to grant it de jure independence.

“The managed-float exchange rate regime has served Burundi well so far. Progress in liberalizing the exchange regime is commendable and the authorities are encouraged to complete the liberalization of international current transactions.

“Delays in the disbursement of external support rendered fiscal management more difficult in 2006. In this context, recent efforts at better coordination with donors to ensure cohesive technical assistance and financial support are welcome, as timely and predictable receipt of external financial support is key for macroeconomic stability and program implementation.

“The authorities have made a sound start on their poverty reduction strategy outlined in their first Poverty Reduction Strategy Paper. They are encouraged to further define priority programs and targets to enable the monitoring of its implementation,” Mr. Portugal said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a PRSP. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

**Statement by Peter J. Gakunu, Executive Director for Burundi
and Dieudonne Nintunze, Senior Advisor to Executive Director
March 9, 2007**

Introduction

1. Despite difficulties and challenges associated with a post-conflict environment and exogenous shocks, including the recent flooding in a number of provinces, the Burundian authorities remained steadfast in pursuing prudent economic and financial policies that are consolidating macroeconomic stability. Progress in deepening structural reforms are also commendable, although the pace was slower than envisaged, due to multiple shortcomings, including mainly delays in the provision of technical assistance and budgetary support disbursement, as well as a weak implementation capacity. Notable progress was observed in the main components of the authorities' reform agenda, including improvements on public financial management, strengthening financial sector, advancing productive sector reform, and relaunching the privatization program. Program implementation, supported by the PRGF arrangement remained broadly on track in 2006. All the quantitative performance targets were met, but the structural performance criterion on the launch of tenders for negotiable Treasury Securities was implemented with delay in December 2006. Also, most structural benchmarks were implemented, although some of them with minor delays, and credible corrective measures were initiated for others as prior actions to the completion of this review. All the nine prior actions agreed between the authorities and staff have been implemented in a timely manner. Given the good performance and the continued commitment to successful program implementation, the authorities request the completion of the Fifth Review of the PRGF-supported program and the approval of the associated waiver.

2. Notwithstanding this good progress in program implementation, Burundi's economy is still faced with enormous challenges of sustaining macroeconomic stability and strengthening implementation of structural reforms to achieve high economic growth, which is necessary to reduce the widespread poverty, respond appropriately to the urgent reconstruction and social needs, and make substantial progress in reaching the Millennium Development Goals (MDGs). In this regard, the authorities formulated and launched the full PRSP last September with broad participation of all stakeholders. The main priorities set out in the PRSP are based on: (i) consolidating peace and reinforcing good governance including enhancing rule of law, administrative and economic governance, essential to creating an environment conducive to national reconciliation and socioeconomic recovery; (ii) promoting sustainable and equitable economic growth by consolidating macroeconomic stability, diversifying the sources of growth, stimulating high productivity in rural area, promoting development of a vibrant private sector, upgrading and expanding growth-enhancing infrastructure, and increasing trade benefits from active participation to regional integration and international trade agreements; (iii) developing human capital, improving quality and delivery of social services, and (iv) fighting HIV/AIDS. The full PRSP reaffirms the authorities' commitment to strengthening human and administrative capacity weakened by the long conflict. They have already adopted the "Education for All" framework and are committed to making further progress in improving quality of public expenditure by

substantially increasing social spending. In this connection, the authorities are appreciative of the candid discussions with staff; they welcome the policy advice in the well balanced report on the Fifth Review of their economic program, and are grateful for the continued support from Management and the Executive Board.

Recent economic developments and outlook.

3. The authorities have registered substantial progress in implementing their economic program. They have commendably pursued prudent fiscal and monetary policies which have resulted in improved macroeconomic performance in 2006, with robust growth, low inflation, lower than programmed primary fiscal deficit, and good level of official reserves. Looking ahead, the authorities' objectives are to reach higher and broad-based real GDP growth in 2007 and in the medium-term, especially with notable contribution of agriculture, trade, construction, and services. However, the recent heavy rains and flooding have negatively affected the first of the three seasons of agricultural production resulting in food shortages, that will exert downward impact on the initial GDP growth projections. The inflation rate is expected to remain at low single digits as the Bank of the Republic of Burundi (BRB) is further improving liquidity management, and the bank financing to government would be limited. Bank credit to the economy is expected to increase in support of growth and investment objectives. Due to reconstruction and social rehabilitation activities, imports are expected to increase, and the external current account would widen moderately, but the BRB expects to meet its official reserves level targets.

Fiscal policy

4. The fiscal policy challenge is to maintain a prudent stance, while responding appropriately to the enormous post-conflict reconstruction and social needs. The authorities are committed to continue restructuring public expenditure with a view to creating fiscal space much needed to improve social services delivery and upgrade growth-enhancing infrastructure. They are eager to accelerate implementation of social and development priorities set out in the full PRSP, among which the 2007 budget targets a substantial increase in poverty-reducing expenditure to more than 10 percent of GDP, and this will be funded, in part, by interim debt relief assistance under the HIPC initiative. Progress so far achieved in implementing the action plan for enhancing public finance management is commendable (MEFP, matrix pages 28-30). In particular, the Integrated Financial Management and Information System (IFMIS) has been made operational in the Ministry of Finance with the objective of improving transparency by enhancing monitoring and reporting of budget execution. It has now been extended to cover payroll management and will continue to be strengthened and expanded progressively to line ministries. Domestic revenue collection is projected to remain at a relatively high level around 20 percent of GDP in 2007, supported by strengthened implementation of reforms in the action plan for improving revenue administration and efficiency of the tax system.

Monetary and exchange rate policies, and financial system.

5. The BRB is committed to maintaining a prudent monetary stance and meeting low inflation objectives, while allowing appropriate level of monetization of the economy. In this connection, the authorities have made strong progress in implementing their medium-term action plan aimed at strengthening central bank's internal governance, modernizing monetary instruments to make them more market oriented, and strengthening the financial system (MEFP, matrix pages 31-33). Further progress will be made in strengthening liquidity management, and the recently introduced treasury securities, together with the clearing of domestic arrears, are expected to strengthen the financial system. The BRB will also consolidate the progress made in improving its internal governance, and continue implementing recommendations from external audits and safeguard assessments. In addition, the BRB has made important steps in preparing a new central bank Charter aimed at strengthening its ability to conduct efficient and active monetary policy, and an AML/CFT legislation has been presented to Cabinet. The BRB has also taken commendable steps in enhancing financial sector supervision and has recently, in December 2006, raised minimum capital requirements.

6. The BRB has made impressive progress in liberalizing the exchange rate regime. A unified exchange regulation was made public in December 2006, that reaffirms liberalization of current international transactions. The BRB will maintain the managed floating exchange rate regime which has served the economy well, and pursue the development of interbank foreign exchange market. Its intervention will be limited to achieving NIR objectives, while preventing short-term volatility.

Structural reforms

7. The authorities are convinced that reducing substantially the widespread poverty and improving living conditions in the country - the main objective of the PRSP - require a sustained high economic growth rate in the medium-term. To this end, the authorities are committed to strengthening implementation of their structural reform agenda aimed at enabling an investor friendly environment, promoting private sector development, and making further progress on transparency and good governance. In this regard, the legal and administrative framework regulating business will be improved and streamlined. Reforms in this area will comprise adoption of a bankruptcy law, establishment of an investment and export promotion agency, including one-stop window for obtaining business licenses. The authorities will advance reforms aimed at improving efficiency, productivity and competitiveness in the productive sector, including coffee and sugar, and will carry out required studies aimed at diversifying sources of growth and exports.

8. Burundi, having joined the EAC recently, is committed to taking advantage of regional integration and international trade agreements to stimulate competition of its productive sector and maximize trade opportunities.

PRSP

9. There was consensus from the participatory consultations with all stakeholders, and the authorities concurred that Burundi needs to promote high economic growth as a basis for poverty reduction. They believe that successful implementation of the main priorities of the PRSP, will strengthen the economy to withstand the frequent exogenous shocks, including bad weather conditions, which have compromised development objectives and exacerbated the high levels of poverty. Overall, the authorities agree with the evaluation reported in the JSAN, and are committed to implementing the recommendations and to addressing the challenges and risks identified to enable successful implementation of their poverty reduction and development priorities. In this connection, they are at an advanced stage in developing detailed sectoral action plans, comprising priority actions and programs, with cost estimations and an indicative time table, as well as specific performance indicators and respective entities in charge of implementation.

10. As rightly recommended by staff and other development partners, the authorities are strongly committed to utilize such an action plan as a reference for the PRSP implementation planning, execution monitoring and progress evaluation, as well as prioritization of capacity building programs. On the basis of this action plan and the PRSP the authorities, with the support of the UNDP, are also planning to organize a donors' round-table in May, to mobilize additional resources to strengthen implementation of PRSP priorities.

Capacity building and development of national statistics.

11. The authorities supported by partners including IMF, World Bank and AFRISTAT, have formulated and incorporated in the PRSP priorities a plan to rehabilitate and develop national statistics. They are making enormous efforts to improve Burundi's administrative capacity weakened by the long period of conflict, but the country is still experiencing huge capacity building needs. They are thankful for the very helpful TA provided by development partners, including from BWIs, and call for continued support to complement their efforts and reinforce their ability to implement the reform agenda.

Conclusion

12. Performance under the program has been significant despite the complex post-conflict environment, and the outlook is favorable for consolidating macroeconomic stability and for sustaining growth. The authorities are fully aware of the challenges and risks to their ambitious economic program. They are committed to stepping up implementation of deeper structural reforms in the productive sectors to set the basis for a higher growth path, and increase spending on social sectors and infrastructure, necessary for improved service delivery and to achieving the MDGs. The full PRSP published in September 2006 provides an appropriate framework for consolidating macroeconomic stability, and attaining economic growth and poverty reduction objectives.

13. As staff highlighted, the long delays in disbursement of the programmed external budgetary support have been very damaging to some aspects of macroeconomic policies, and the authorities pleaded for more predictable financial support disbursements. They are determined to review the tax and customs code, with a view to further strengthening tax administration, broadening the tax base, and making the tax system more equitable and efficient. They believe that their growth strategy, premised on diversifying sources of growth and revenue over the medium term, will help them mitigate the risks so that dependence on external support does not jeopardize the successful achievement of their development objectives.

14. The authorities would greatly appreciate the support of the Board for the completion of the Fifth Review under the PRGF arrangement, and granting of the waiver requested.