February 2012
IMF Country Report No. 12/28

Burundi: Seventh Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a New Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi.

In the context of the seventh review under the three-year arrangement under the Extended Credit Facility and request for a new three-year arrangement under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the seventh review under the three-year arrangement under the Extended Credit Facility and request for a new three-year arrangement under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on November 22, 2011, with 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 December 27, 2011. 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 supplement on the Joint IMF/World Bank Debt Sustainability Analysis.
- A Press Release summarizing the views of the Executive Board as expressed during its January 13, 2012 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for Burundi.

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

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

*Also included in Staff Report

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

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BURUNDI

Seventh Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a New Three-Year Arrangement Under the Extended Credit Facility

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

Approved by Saul Lizondo and Dominique Desruelle

December 27, 2011

Discussions:	A team comprising Messrs. Williams (head), Boutin-Dufresne, Peña (all AFR), and Mr. Gruss (FAD) visited Bujumbura November 8–22, 2011 to conduct the seventh review of the ECF arrangement and discuss a proposed new ECF arrangement. Mr. Yao (Resident Representative) assisted the mission and participated in the discussions. The staff met with Second Vice-President Rufyikiri, Minister of Finance Nizigama, President of the Senate Ntsizerana, Central Bank Governor Sindayigaya, other senior government officials, and representatives of labor unions, the private sector, CSOs, the donor community, and the media.
ECF Arrangement:	On July 7, 2008, the Executive Board approved a three-year Extended Credit Facility (ECF) Arrangement with access of SDR 46.2 million (60 percent of quota). The sixth review of the ECF-supported program was completed in July 2011 when the arrangement was extended until end-January 2012 and its access augmented by SDR 5 million (6.5 percent of quota). The authorities are requesting the eighth and last disbursement under the current arrangement (SDR 5 million) and the first disbursement under the new arrangement (SDR 1 million).
Successor ECF:	In the attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP), the authorities are requesting approval of the seventh review and a successor three-year arrangement under the ECF, in the amount equivalent to SDR 30 million (39 percent of quota) in support of their strategy to maintain macro stability, increase growth, and reduce poverty.
Publication:	The authorities consent to the publication of this report, the letter of intent, the Memorandum of Economic and Financial Policies (MEFP), and the Technical Memorandum of Understanding (TMU).

Contents Page

Appendix

Acronyms

BRA	Burundi Revenue Authority
BRB	Banque de la République du Burundi
CET	Common External Tariff
CIRR	Commercial Interest Reference Rates
DEMPA	Debt Management Performance Assessment
DFID	Department for International Development
EAC	East African Community
ECF	Extended Credit Facility
FAD	Fiscal Affairs Department
FNL	Forces Nationales pour la Libération
FSAP	Financial Sector Assessment Program
FSRS	Financial Sector Reform Strategy
LEG	Legal Department
MCM	Monetary and Capital Markets Department
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MESD	Marché des Enchères Symétriques en Devises
MEFP	Memorandum of Economic and Financial Policies
NSC	National Strategy Committee
PFM	public financial management
PRSP	Poverty Reduction Strategy Paper
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
VAT	value added tax

EXECUTIVE SUMMARY

Macroeconomic performance was adversely affected by the food and fuel shocks. The economy continues to grow at a slower pace than envisaged owing to the impact of the food and fuel shocks on aggregate demand. Reflecting the impact of these shocks, headline inflation rose from 4.1 at end-2010 to 13.3 percent (y-o-y) in October 2011.

Program performance has been satisfactory despite the difficult post-conflict environment. All quantitative indicative targets for end-June 2011 and all performance criteria for end-September were met. The end-November structural benchmarks related to financial safeguards and to the strengthening of expenditure commitment controls were met.

The macroeconomic outlook remains broadly positive but subject to risks that emanate from the security situation and the external environment. Donor support will become increasingly uncertain in the wake of the Euro Area debt crisis while supply shocks could lead to higher oil prices, further aggravating inflationary and budgetary pressures**.**

Policy discussions focused on the appropriate policy mix and policies which could underpin a proposed new ECF arrangement. Interest rates have risen appropriately in light of the second round effect of the food and fuel shock while revenues have increased substantially, more than offsetting the shortfall in budget support in 2011. Going forward, a new arrangement would emphasize increased revenue mobilization in view of uncertainty surrounding donor support; the strengthening of public financial management in order to improve accountability and transparency; greater exchange rate flexibility; and removing regulations that constrain private sector development.

The success of the program is subject to several internal and external risks. The foremost risks are a decline in donor support, warranting an abrupt fiscal adjustment, and a worsening in the security situation. These risks are mitigated in part by reforms that have improved revenue mobilization and efforts in nation building.

On the basis of the authorities' achievement and the strength of their economic program, staff recommends completion of the seventh and last review under the current ECF arrangement, and approval of a new three-year ECF arrangement.

I. Background

1. **Burundi is emerging from more than a decade of civil conflict**. Against this backdrop, the authorities have achieved some progress with regard to nation building with the establishment of the Office of the Ombudsman and the Human Rights Commission. These two developments were credited as key achievements by the UN's Peace Building Commission (PBC). However, the security situation in the country remains fragile, as evidenced by sporadic incidents of politically-motivated violence. Periodic episodes of regional instability have also forced the country to cope with the influx of refugees.

2. **Despite these challenges, a recent Ex-Post Assessment of IMF longer-term program engagement (EPA) noted that Burundi has made some progress in implementing structural reforms.** Key achievements included a notable increase in revenue mobilization, the implementation of several public financial management reforms, and an increased autonomy of the Central Bank. Progress was also satisfactory regarding reforms to improve the conduct of monetary and fiscal policy, but was much slower in other areas, specifically in the coffee sector. Catalyzed by Fund-supported programs, a massive surge in aid was spent and absorbed, stimulating domestic demand, but the public sector remains vulnerable to uncertain foreign assistance.

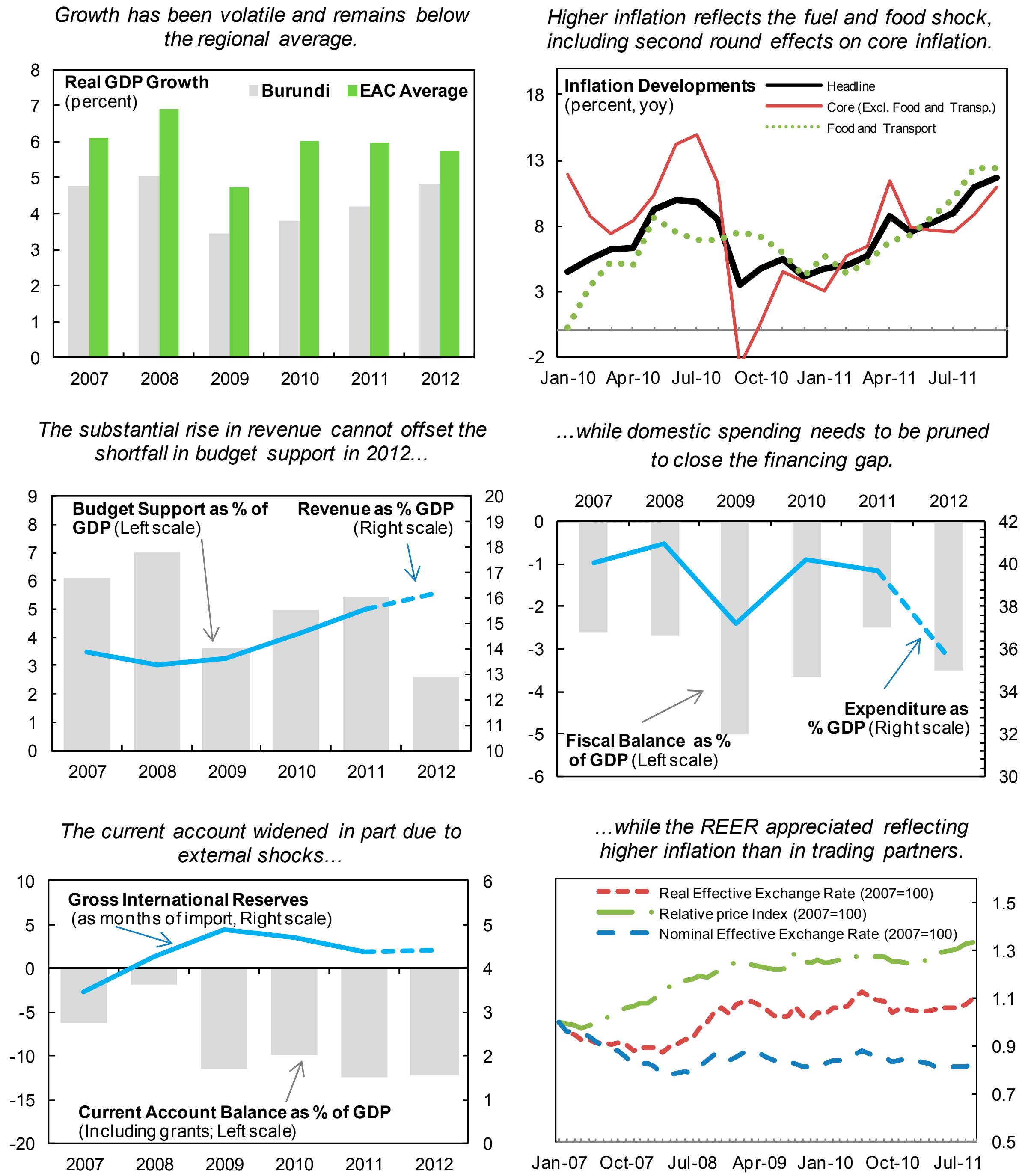
II. Recent Developments and Program Implementation[1]

3. **Real GDP growth** in 2011 is projected at 4.2 percent, somewhat lower than previously envisaged, owing to a weakening in aggregate demand related to the food and fuel price shock and persistent electricity shortages. Headline inflation rose from 4.1 at end-2010 to 13.3 percent (y-o-y) in October 2011, partly because of rising food and fuel prices (Figure 1).

4. **Fiscal performance was good.** The overall deficit in 2011 is projected to be 2.5 percent of GDP, or 0.5 percent of GDP lower than programmed, due to higher revenues and the earlier disbursement of a program grant envisaged for 2012. Revenue collection through end-October was about 34 percent higher than in the same period in 2010, as the result of improvement in revenue administration and better collection of non-tax revenue. The over performance in revenue more than offset the shortfall of 1 percent of GDP in budget support, while current spending was kept in line with projections under the program.

[1] National accounts statistics have changed due to the publication by the government of official data for 2005–08. Numbers in this staff report reflect the new GDP series, and thus may differ from those used in previous staff reports (Box 3).

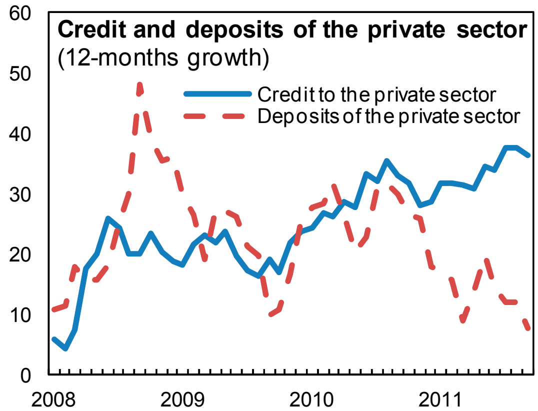
Figure 1. Burundi: Macroeconomic Developments, 2007-2012



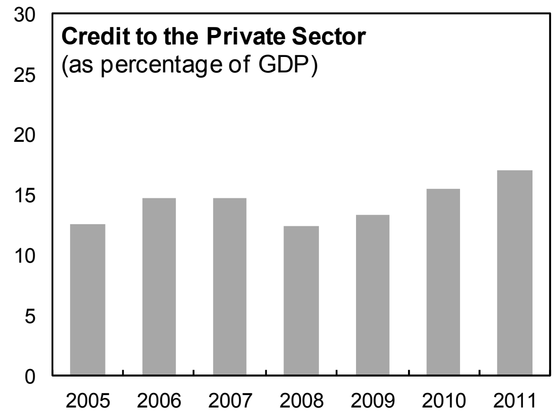
Source: Burundi authortities and IMF staff estimates and projections.

Figure 2. Burundi: Monetary Developments, 2008—2011

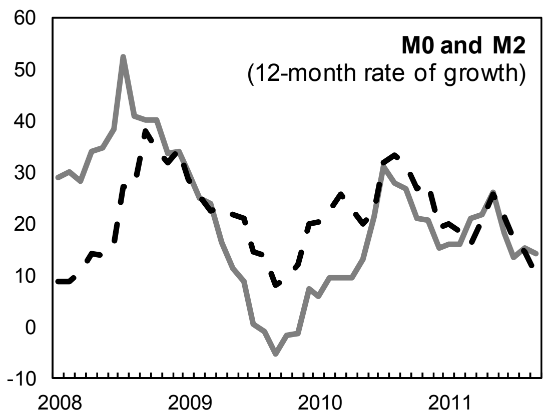
Credit to the private sector has been growing strongly ...



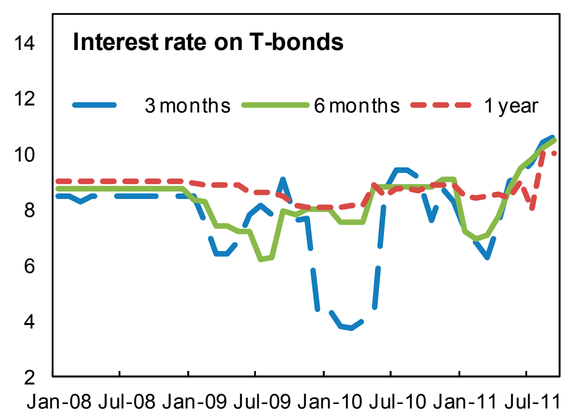
... albeit from a low base



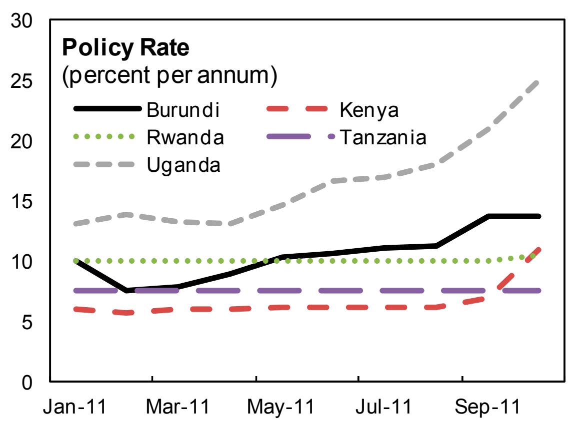
More recently, monetary aggregates have slowed down ...



... as interest rates increased.



With policy rates rising in line with regional trends.



Source: Burundi authorities and IMF staff estimates and projections.

5. **Monetary conditions have tightened through October 2011,** with inter-bank rates increasing by 630 basis points since February 2011 to 10.8 percent. A shortfall in foreign exchange inflows led to downward pressures on the currency, which depreciated by about 5 percent in the year through October (Figure 1).

6. **Program performance has been satisfactory despite difficult economic conditions (MEFP, Tables I.1–I.3).** All quantitative indicative targets for end-June 2011 and all performance criteria for end-September were met. Structural reforms for the seventh review were also implemented. In July 2011, the central bank recruited the international auditor and in November 2011 submitted the report on special audits to the General Council, the Audit Committee, and the Minister of Finance. In November 2011 the Ministry of Finance adopted the procedures to enhance expenditure commitment comptrollers.

III. Proposed New ECF Arrangement—Policies Going Forward

7. **The proposed program for 2012–14 draws on the lessons from the EPA and builds on objectives identified in the new poverty reduction and growth strategy (PRSP-II)**. The EPA highlighted the importance of greater exchange rate flexibility to better absorb terms-of-trade shocks, the rebuilding of fiscal buffers, and the safeguarding of debt sustainability. A key pillar of the new PRSP emphasizes the transformation of the Burundian economy for sustained growth and job creation by alleviating key bottlenecks to growth.

8. **The new ECF program will coincide with the launch of the new PRSP-II**. The 2010 Annual Progress Report (APR) on Burundi's 2006–09 PRSP highlighted progress in most social indicators, governance and security, while indicating that much more needs to be done to stimulate growth, particularly in rural areas.[2] The 2012–14 PRSP , which is expected to be approved at the beginning of 2012, has been prepared in collaboration with civil society, the private sector, and development partners, and focuses on: (i) the strengthening of the rule of law, good governance and promotion of gender equality; (ii) the transformation of the Burundian economy for sustained growth and job creation; (iii) the improvement in the rate of accessibility and quality of basic services and strengthening of national solidarity; and (iv) the promotion of environmental management in harmony with sustainable development (MEFP, ¶3).

9. **The policies under the proposed program under an ECF arrangement take into account Burundi's fragility and should help** (i) increase revenue mobilization; (ii) strengthen public financial and debt management policies; (iii) achieve greater exchange rate flexibility; and (iv) improve the business climate.[3] A recent report by the UN's PBC noted that the security situation has improved somewhat and that further national dialogue would help secure the peace dividend. The proposed ECF dovetails with initiatives of key

[2] Burundi: Poverty Reduction Strategy Paper—2010 Progress Report (IMF Country Report No. 11/53).

[3] This includes aligning income and excise taxes in line with the East African Community guidelines.

development partners, in particular the World Bank in the electricity, education, coffee, and health sectors, the AfDB in infrastructure, bilateral donors in revenue mobilization and governance and the PBC with the reintegration of ex-combatants. The program envisages consolidating quick wins secured under previous arrangements such as social safety net programs in the health and education sectors.

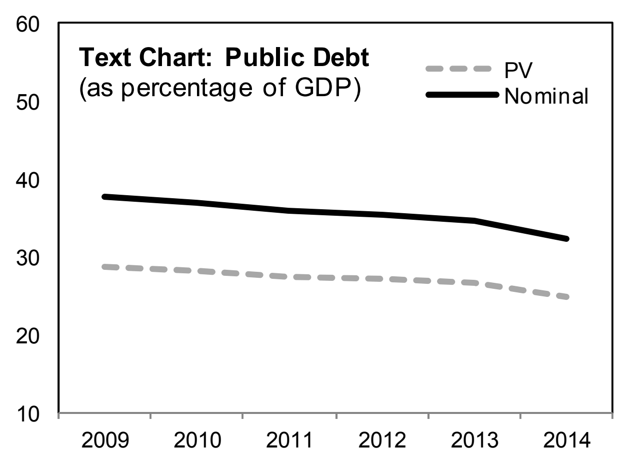
A. Macroeconomic Outlook

10. **The medium-term macroeconomic outlook remains broadly positive.** Real GDP growth, driven by the agricultural, construction and tourism sectors, and improved electricity supply, is projected to rise gradually over the medium term, whereas inflation is expected to decline gradually to single digits as a result of the tightening of monetary policy.[4] The re-launching of the privatization process in the coffee sector and the selling of other government assets (hotels and equity in banks) is also expected to reinvigorate economic activity.

11. **Risks to the outlook however remain elevated** and stem mostly from the security situation and the external environment. The Euro Area debt crisis is likely to engender negative spillovers through the trade channel and is generating uncertainty regarding donor support. Supply shocks could lead to higher oil prices, further aggravating inflationary and budgetary pressures.

B. Fiscal Policy and Related Reforms

12. **The need to achieve debt sustainability will anchor medium-term fiscal policy** (MEFP, ¶24 and 26). To avoid unsustainable debt dynamics, it will be critical that the fiscal stance remains prudent and that the authorities continue to rely mainly on grants and highly concessional loans. Fiscal policy should seek to reduce debt vulnerabilities over the medium term, particularly in light of declining budget support and the shift in donor modalities toward project rather than budget grants. Hence, the fiscal anchor in the proposed program will comprise a zero limit on non concessional external public borrowing and a gradually declining path for domestic debt to GDP, facilitating a reduction of total debt to GDP in PV terms (see Text Chart). Revenues are projected to increase reflecting the benefits of ongoing reforms in revenue administration and tax policy that foster a broadening of the revenue



[4] The tourism sector is emerging as a growth center with key linkages to agriculture.

base. Total expenditure as a share of GDP is set to decline, reflecting lower grants. However, improvements in the composition of spending and the reinforcing of expenditure controls are both expected to lead to lower current expenditure and to a reallocation of resources toward critical capital and pro-poor spending.

13. **The 2012 overall deficit is projected to widen to 3½ percent of GDP, but remains consistent with debt sustainability** (MEFP, ¶28). The higher deficit reflects a decline in program grants (2.8 percent of GDP) that is only partially offset by an increase in revenue and a cut in spending, and the increase in capital spending for the construction of the Kabu 16 hydroelectric plant (0.5 percent of GDP in 2012; see Box 1).[5] The higher spending associated with this project would increase initially the present value (PV) of external debt-to-exports ratio and debt service-to exports ratio, but would not result in a significant and persistent increase in debt vulnerabilities (Country Report No 11/115). Revenues excluding grants are projected to increase by about ¾ percentage point to 16.2 percent of GDP. The composition of spending is projected to shift toward capital spending through a containment of current expenditures (current spending—excluding programs financed by earmarked grants—would decrease by 0.8 percent of GDP).

14. **Over the medium-term, progress in revenue mobilization will be a key priority to cover the urgent needs in infrastructure, increasing social demands, and to reduce aid dependency** (MEFP, ¶28). The creation of the Burundi Revenue Authority (BRA), that became operational in the second half of 2010, has been instrumental in achieving these objectives: revenues excluding grants have already increased by 1.9 percent of GDP between 2009 and 2011. Several other specific reforms on tax and customs administration, following recommendations from FAD, remain to be completed or strengthened.[6] The authorities are committed to implement tax policy reforms that will also play an important role in improving the business climate by aligning income and excise taxes with EAC harmonization guidelines and broadening the tax base by streamlining the tax exemptions regime.

15. **Consolidating the gains from past public financial management reforms** will be critical to improve governance and fiscal transparency and to secure future donor support (MEFP, ¶35). While the outlook for sustained donor support is uncertain given fiscal difficulties in key donor countries, recent successes with basket funds that target support to specific sectors could be replicated. The new PFM organic law approved in 2008 introduced important innovations to be implemented over the medium-term.[7] The authorities plan to

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[5] The decline in foreign grants partly reflects the disbursement in late-2011 of grants envisaged for 2012 (¶4).

[6] Major ongoing reforms include: adopting revised regulations and procedures for petroleum imports, completing a comprehensive registry of taxpayers, completing computerization and connection between BRA offices, implementing risk-based controls, amending the VAT law, and revising the taxation regime for small taxpayers.

[7] Reforms envisaged in the PFM organic law for 2013-2016 include: program budgeting; decentralization of payment authorization; moving towards risk-based controls and implementation of modified accrual accounting. Key steps toward to these medium-term reforms include a decree on budget governance, a new budget

(continued)

complete ongoing public financial management reforms in 2012, including the implementation of management performance contracts with public companies e.g. REGIDESO (see Box 1), and to adopt a new PFM strategy during the first quarter of 2012.

16. **The government is committed to controlling the wage bill over the medium-term**. The 2012 budget envisages recruitment only in the priority sectors of health and education and the wage bill is projected to be contained to about 8.3 percent of GDP, 0.4 percent lower than in 2011. In addition, zero net hiring in non-priority sectors and containment of nominal wage increases are envisaged to keep the wage bill on a sustainable path. Over the medium term, wage demands by critical technical staff might represent a risk to controlling the size of the wage bill, especially if not addressed in the context of a comprehensive reform of the public sector.

17. **Strengthening debt management is critical to developing a sustainable medium-term debt strategy** (MEFP, ¶26). Burundi is still at high risk of debt distress and prudent debt management will be imperative to foster debt sustainability in the medium term. The government will implement medium-term debt strategy based on the results of the Debt Management Assessment Performance (DeMPA) to be conducted by the World Bank. The government is also determined to improve its debt management capacity to lower its risk of debt distress from high to moderate.

18. **The updated debt sustainability assessment (DSA) continues to show Burundi at high risk of debt distress, similar to the scenarios developed a year ago.** The ratios of PV of debt to exports and debt service to exports are projected to remain above the relevant thresholds even under baseline scenarios, while the other external debt indicators are projected to remain below their indicative thresholds. The latter result reflects the upward revision to GDP (which affects debt and debt service to GDP ratios, Box 3). The debt sustainability outlook will depend on sustained fiscal consolidation and sustained economic growth.

IV. Monetary Policy, Exchange Rate Policy, and Financial Sector Issues

19. **Monetary policy will focus on anchoring inflation expectations and reducing inflation.** International food and oil prices remained elevated, pushing inflation to double digits while second round effects have contributed to an increase in core inflation. The authorities are closely monitoring monetary conditions and stand ready to tighten monetary policy further by increasing the interest rate on deposit auctions.

20. **Close collaboration between the central bank and the Ministry of Finance is essential to improving liquidity management and to achieving the inflation target (MEFP, ¶26)**. The Cash Flow Management Committee will hold regular meetings to provide

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classification, clarifying rules for the treasury single account, reorganization of the Ministry of Finance and auditing the IT system.

timely information for liquidity management operations and would focus on how the government's cash outlays affect reserve money and foreign exchange market operations.

21. **Greater exchange rate flexibility will help the economy to better absorb terms-of-trade shocks (MEFP ¶25).**[8] In line with technical assistance provided by the IMF, the authorities will strengthen foreign exchange operations through (i) changing the periodicity of foreign exchange auctions from daily to weekly to allow the development on an inter-bank market and (ii) improving the organization of the foreign exchange market and the calculation of the reference exchange rate to better reflect market conditions.

22. **The central bank is addressing banking sector vulnerabilities drawing on the recently adopted financial sector strategy (MEFP ¶37).** A new banking law and legislation to improve the payments system prepared with assistance from the World Bank, consistent with international standards, are also expected to be approved in 2012. A more modern and developed payments system will give a renewed impulse to the banking sector, allowing better integration with regional financial markets and to deepen financial intermediation in the country. Banking supervision has also been strengthened through on-site inspections in accordance with risk-based supervision procedures (Table 9).

23. **The central bank will continue to strengthen its internal controls and safeguards (MEFP, ¶18).** The special audit of domestic disbursements and transfers executed by the BRB on behalf of the government or its creditors will continue through 2012. Similar to what was done previously, the government will recruit an international auditor to (i) monitor the full implementation of all recommendations made by the 2011 special audit, (ii) verify on a test basis the controls on important domestic disbursements and transfers executed during the period from July 2011 through March 2012, and (iii) evaluate the effective adoption of the new decree that was recently approved to replace the outdated General Regulation on Public Accounting (RGCP 1964) as the referential procedures governing the disbursements of public expenditures. In light of the recent augmentation of access and the proposed successor program, a safeguards assessment mission from the IMF is also expected to be conducted, and an update safeguards report finalized, before the first review of the proposed ECF arrangement.

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[8] The de facto exchange rate arrangement is classified as "stabilized" and the jure exchange rate is "floating".

Box 1. Electricity Sector Challenges in Burundi

Energy shortage constitutes a major bottleneck that hampers economic growth in Burundi. With a demand for energy estimated at 52 MW compared to a supply of 30MW, the energy deficit constitutes a major hindrance to growth and, as a consequence, the country must cope with frequent and long blackouts. The World Bank *Doing Business* reports note that 72 percent of businesses cite unreliable electricity supply as being a main impediment. Less than two percent of the country's households currently have access to electricity, with an average household consumption of electricity of only 23 kWh/per capita per year, amongst the lowest in Africa. The sector has seen no investment since the beginning of civil war in 1993 and, as a result, access to electricity in major cities halved despite the doubling of the country's urban population.

Three organizations are involved in the supply and distribution of electricity and water. REGIDESO, a public utility, operates under the supervision of the Ministry of Water, Energy and Mines. The "Direction Générale de l'Hydraulique et de l'Electricité Rurale," an autonomous entity, is responsible for the provision of electricity and water in rural areas. A third organization, SINELAC (Société Internationale d'Énergie des Pays des Grands Lacs) is an important regional supplier of electricity to REGIDESO. Established as a joint venture by Burundi, Rwanda and the Democratic Republic of Congo, SINELAC's mandate is to develop and operate regional electricity projects. Electricity supply in Burundi is generated mostly by seven hydroelectric plants with a combined capacity of about 28.7 MW, and partly from a 5.5MW thermal generator.

Several projects are envisaged to address the energy deficit. Studies suggest, Burundi could have up to 300MW of hydropower potential should the country fully leverage its water endowment. The current supply deficit varies between 13 MW to 23.5 MW, seasonally. To address the energy shortage, the authorities envisage commissioning the Kabu 16 hydroelectric plant, a 20MW project which could be developed in the next 3 years to help bridge the gap before regional hydroelectric plants e.g. Rusumo, Mpanda, and Rusizi come on line. In addition, REGIDESO intends to source some power from thermal energy providers, albeit at cost three times higher than from hydro sources.

The authorities with assistance from the World Bank are implementing measures to strengthen the financial operations of REGIDESO. Reforms aim to strengthen REGIDESO's financial management, including cost recovery measures, which are essential to reinforce safeguards designed to limit the degree of budget transfers. These measures include a series of tariff adjustments reflective of operational costs, the implementation of a fuel cost pass-through mechanism, and an increase in the revenue base (through pre-paid cards and metering systems) from 50 percent for both public and private subscribers to about 80 percent in 2012. An independent auditor has been recruited to oversee the implementation of a five-year performance contract between the electricity company and the government as part of the World Bank's supported restructuring and recapitalization of REGIDESO.

V. Other Macro-Critical Reforms–Relaxing Constraints to Growth

24. **The swift implementation of growth enhancing reforms is key to maximizing growth prospects in the medium term (MEFP ¶33 and ¶38).** These include measures to improve the business climate, structural reforms in the electricity and coffee sectors, and the re-launching of the privatization process of coffee washing stations with World Bank assistance which commenced in late 2011(see Box 2). The success of the privatization process of the coffee washing stations and hotels will be vital in attracting new investment, accelerating efforts toward rebranding Burundian coffee in the gourmet segment, and developing the tourism sector.[9]

25. **Improving the regulatory environment is central to fostering growth (MEFP ¶42–¶43).** Burundi was ranked as one of the top reformers in the 2012 *Doing Business* Report prepared by the World Bank improving its ranking by 8 positions albeit from a very low level as result of the authorities' efforts in protecting investors. However, the country still ranks at the bottom of most categories. The authorities, in collaboration with the World Bank, have identified several reforms that are key to improving the business environment, including the protection of investors through amendments to the "Company Code" and steps to reduce lags in the number of procedures required for (i) obtaining a building permit; (ii) transferring property; and (iii) creating a business.

VI. Statistical Issues

26. **The low statistical capacity of the Burundian government limits the authorities' ability to develop sound economic and social policies (MEFP ¶46).** The production of reliable national accounts halted with the civil conflict in 1993, and has only resumed recently with the production of revised GDP figures for the 2005–08 period in line with SNA 93 (Box 3).[10] In order to improve the government's statistical capacity, the national Statistical Agency plans to recruit and deploy more staff in different ministries to increase the breadth of data useful to policymaking. The authorities also plan to review the basket used to calculate the consumer price index which is to be based on the nationwide household survey to be rolled out in mid-2012.

VII. Program Modalities and Risks

27. **The new three-year arrangement would be supported by access to SDR 30 million (39 percent of quota).** Such an amount would be disbursed in seven installments (Table 7), to help maintain foreign exchange reserves at around 4½ months of imports and thus serve as a buffer against external shocks. The proposed access, which is below the access norm, reflects Burundi's vulnerabilities and, concomitantly, expectations of a

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[9] Hilton and Serena groups acquired privatized properties, increasing existing capacity by 150 rooms.

[10] The government released national accounts data for 2005–08 on November 18th during a national conference on statistics.

sustained Fund Engagement. The proposed new arrangement would enter into effect after the current arrangement expires at the end of January 2012. It would have semi-annual reviews. The 2012 program will be evaluated based on performance criteria (PC) at end-March 2012 and end-September 2012, continuous PCs, and indicative targets for end-June 2012 and end-December 2012 (MEFP, Table I.2) and structural benchmarks in areas that are critical for the program's success (MEFP, Table I.4). The PCs and indicative targets are defined in the Technical Memorandum of Understanding (TMU).

28. **Burundi's capacity to repay the Fund is adequate.** Burundi's risk of debt distress is assessed to be high due to its narrow export base. This said, outstanding and prospective obligations to the Fund, measured in relation to official reserves or exports of goods and services, do not pose apparent solvency or liquidity risks (Table 6).

29. **The ceiling on nonconcessional borrowing was raised on an exceptional basis in 2011 to accommodate a key infrastructure investment.** On October 21, the IMF Executive Board approved the modification of nonconcessional external debt limit under the ECF arrangement allowing the government to ratify a loan with a grant element of about 32 percent for the construction of a hydroelectric plant.[11] Investment in the energy sector is seen by the government as critical to support economic growth due to the energy needs. The World Bank has indicated that the project is economically viable and that the authorities are implementing measures to strengthen the financial operations of the electricity company (REGIDESO) (MEFP ¶40). Staff however emphasized the need to continue to rely on grants and highly concessional loans and to include the electricity company in the coverage of external debt.

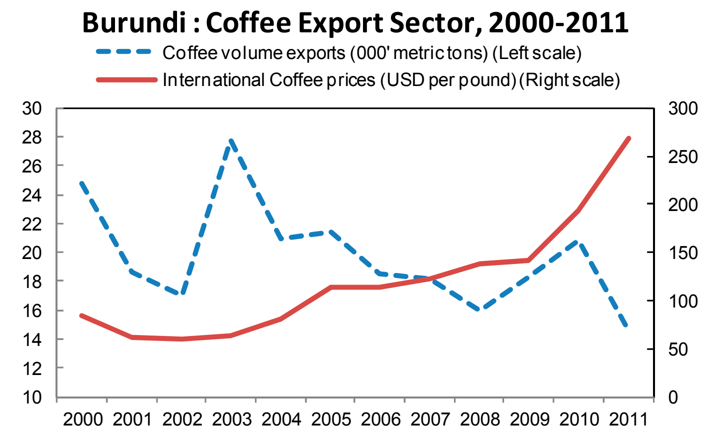
30. **The success of the proposed program under an ECF is subject to several internal and external risks.** Internal risks include the potential slippages in the security situation and on the government's ability to implement program reforms. External risks emanate from a worsening of the global environment, including the uncertainty in donor flows and supply shocks that could lead to higher oil prices. In the event of shortfalls in budget support further fiscal consolidation and a reprioritization of spending would be warranted.

[11] IMF Country Report 11/315.

Box 2: The Coffee Sector in Burundi: Challenges and Opportunities

Coffee is the backbone of Burundi's formal economy. It is the dominant crop produced by about 800,000 households and accounted for 70 percent of the country's export revenues (3.3 percent of GDP) in 2011. Given its potentially high impact on growth and poverty reduction, the coffee sector has been historically targeted by the Burundian state as a growth enhancing sector, in light of the country's natural endowment of an ideal climate for the cultivation of high quality Arabica coffee.

Despite its potential for becoming high value and volume exporter, Burundi is still struggling to reap to full benefits of its coffee sector reforms. In a decade where world coffee prices have more than tripled, Burundi's coffee exports were almost halved following the impacts of the civil war, drought and, most importantly, an incomplete restructuring of the sector. Research institutes, farmers, and industry participants estimate that Burundi could potentially export 60,000 tons of fully washed coffee during peak production years (compared to 15,000 tons in 2011) with improvements in productivity along the value chain. While international buyers prefer stable sources of supply, production has been volatile, owing to inadequate cultivation practices (poor use of fertilizers, sub-optimal maintenance of coffee trees, and soil deterioration).



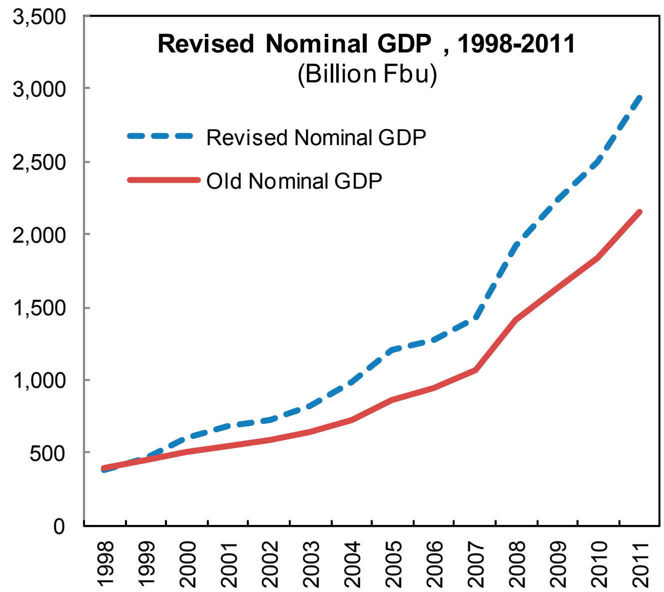
The sector is still structured around three state-owned pillars: the coffee washing stations, the dry-mill company, and a State Coffee Board. The slow implementation of reforms, including the delayed privatization of coffee washing stations in the last decade, has constrained the revitalization of the sector. The initial privatization process launched in 2009 revealed an initial lack of interest from international investors owing to the difficult local business climate and security concerns in the run up to the 2010 elections. Only 13 stations out of a total of 117 stations offered were sold during the last round (2009).

The sector could have a strong impact on economic growth and poverty reduction. Reforms to increase the productivity of the sector are under way. The second round of privatizations to sell 104 coffee washing stations through an international bidding process is scheduled to start in 2012. The process envisages joint ventures between foreign and local firms, and permits local producers to buy a 25 percent stake in the coffee washing stations. Other reforms include the repealing of the 30-year lease convention between the corporations managing washing stations and the State Coffee Board, which is expected to further liberalize the sector and encourage private investment. The Board plans to streamline the regulatory framework of the industry and will propose measures to improve the sector's overall efficiency. Together with other reforms to improve the investment climate, the rebranding coffee in the gourmet segment could attract a premium for Burundian coffee and spur improvements along the value chain.

Box 3: Revision of Burundi's 2005–08 National Accounts

In December 2011, the Burundian government adopted a new set of macroeconomic accounts for the 2005–08 period. As the production of reliable GDP statistics was interrupted by the civil conflict, GDP levels were estimated based on 1998 estimates and revised annually based on the UN's System of National Accounts 1993. The revision of the accounts was done with the help of technical assistance by the African Development Bank.

Nominal GDP was revised upward by about 36 percent over 2005–08. In 2012, the national statistical agency (ISTEBU) plans to release revised GDP figures for 2009 and 2010 and review the composition of the CPI based on a household survey. The survey will enable the ISTEBU to rebase its CPI on a more current consumption basket and extend the geographical coverage of the CPI basket.



VIII. Staff Appraisal

31. **Burundi has made steady progress in implementing reforms under successive IMF programs.** Progress has been notable in increasing revenue mobilization, the implementation of several public financial management reforms, and in the conduct of monetary and fiscal policies.

32. **The achievements under the current program lay the foundation for a successor arrangement.** Sustained revenue mobilization will be critical to bolster public finances in an uncertain environment for budget support. Furthermore, ongoing reforms in PFM will underpin transparency and accountability which are essential to safeguarding continued donor support for the future program.

33. **Compliance with the medium-term fiscal anchor constitutes a key pillar to ensure debt sustainability.** Staff encourages the continued reliance on grants, highly concessional loans, and containing recourse to domestic financing in order to place debt sustainability on a sound footing. Implementation of a medium-term debt management strategy should strengthen the authorities' capacity to contain potential fiscal risks including those that could arise from the electricity sector.

34. **Staff underscores the need for improved coordination between monetary and fiscal policies.** Such collaboration will be crucial in light of uncertainties in budget support and to improving the efficiency in liquidity management. In addition, a further tightening of monetary policy will be necessary to reduce inflationary pressures and to anchor inflation expectations in light of the contribution of second round effects of the food and fuel shocks to an increase in core inflation.

35. **Staff recommends completion of the seventh review under the ECF arrangement and approval of a new three-year ECF arrangement based on Burundi's performance and the strength of the program.** The current ECF arrangement will expire at the time of the last disbursement is made. Because a member cannot have two arrangements effective at the same time under the PRGT Instrument, a draft proposed decision approving the new ECF arrangement will be circulated to the Board for adoption after the current ECF arrangement has expired.

Table 1. Burundi: Selected Economic and Financial Indicators, 2009–14

	2009	2010	2011		2012	2013	2014
			Rev. Prog[1].	Proj.		Proj.	
			(Annual percentage change)				
National income and prices							
Real GDP growth	3.5	3.8	4.2	4.2	4.8	5.0	6.0
GDP deflator	12.5	7.8	11.9	13.1	9.9	6.7	6.2
Consumer prices (period average)	10.6	6.4	8.2	9.5	11.7	9.3	7.3
Consumer prices (end of period)	4.6	4.1	14.0	14.3	10.3	8.4	6.1
External sector							
Exports, f.o.b. (US$)	-1.8	48.0	3.9	1.4	20.4	26.9	9.8
Imports, f.o.b. (US$)	25.2	16.1	23.0	6.7	0.2	-5.6	9.1
Export volume	4.3	16.4	-22.8	-21.9	27.8	30.7	24.2
Import volume	23.8	-3.5	-1.6	1.3	3.7	-3.1	13.0
Terms of trade (deterioration = –)	19.6	-2.9	7.6	4.6	-2.5	-0.2	-9.5
			(Change in percent of beginning of period M2, unless otherwise indicated)				
Money and credit							
Net foreign assets	3.1	-5.4	-0.5	-2.6	1.0		
Domestic credit	27.8	25.1	13.0	21.3	16.1		
Government	17.1	7.4	2.9	3.9	8.1		
Private sector	13.7	17.0	10.2	17.4	7.9		
Money and quasi-money (M2)	19.8	19.4	10.5	15.8	13.1		
Reserve money (12–month growth rate)	26.6	6.0	9.1	13.5	12.0		
			(Percent of GDP)				
General government							
Revenue and grants	32.1	37.3	32.7	37.9	32.1	32.0	31.7
Tax and nontax revenue	13.6	14.6	14.3	15.5	16.2	16.6	16.7
Total expenditure	37.2	41.0	35.7	40.4	35.6	36.0	35.9
Net lending (+) / borrowing (-)	-5.0	-3.7	-3.0	-2.5	-3.5	-4.0	-4.2
External sector							
Current account balance	-11.5	-9.9	-12.2	-12.5	-12.0	-9.2	-9.1
Overall balance of payments	3.0	0.7	-0.9	-0.8	-0.2	1.9	2.9
Savings-investment balance	-11.5	-9.9	-12.2	-12.5	-12.0	-9.2	-9.1
Private	-6.5	-6.3	-9.1	-9.9	-8.5	-5.2	-4.9
Public	-5.0	-3.7	-3.0	-2.5	-3.5	-4.0	-4.2
			(US$ million, unless otherwise indicated)				
External sector							
Gross official reserves							
US$ million	323	332	319	314	308	299	370
Months of imports	4.9	4.7	4.7	4.4	4.4	4.0	4.5
Debt-service to exports ratio (percent)	1.7	1.4	6.9	4.2	6.0	7.4	9.6
Memorandum item:							
GDP at current market prices (BIF billion)	2233	2495	2901	2933	3367	3771	4233
Nominal GDP per Capita (US Dollars)	224	245	267	269	291	315	346

Sources: Burundi authorities; IMF staff estimates and projections.

[1] IMF Country Report 11/199, rebased on authorities' revision of GDP for the 2005-08 period and rebased GDP deflator on 2005 expenditure composition.

Table 2. Burundi: Central Government Operations, 2009–14

	2009	2010	2011		2012	2013	2014
			Rev Prog.[4]	Proj.		Proj.	
			(Percent of GDP)				
Revenue and grants	32.1	37.3	32.7	37.9	32.1	32.0	31.7
Tax revenue	12.5	13.7	13.4	14.4	15.1	15.4	15.6
Taxes on income, profits, and capital gains	3.8	4.4	4.2	4.7	5.0	5.1	5.1
Taxes on goods & services	6.6	7.8	7.8	8.3	8.6	8.9	9.0
Taxes on international trade & transactions	2.0	1.6	1.4	1.4	1.4	1.5	1.5
Taxes not elsewhere classified	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue [1]	1.2	0.9	0.9	1.1	1.1	1.1	1.1
Grants	18.5	22.7	18.4	22.4	15.9	15.5	15.0
Program support	3.6	5.0	6.5	5.4	2.6	2.0	1.6
Project support	7.8	7.3	6.9	11.0	8.4	9.3	9.3
Other grants and transfers [2]	7.1	10.4	5.0	5.9	4.8	4.2	4.1
Total expenditure	37.2	41.0	35.7	40.4	35.6	36.0	35.9
Expense	24.7	29.0	24.3	24.9	21.5	20.9	20.7
Compensation of employees	8.6	8.6	8.7	8.7	8.3	8.2	8.2
of which: Priority sectors	5.1	5.5	6.1	5.2	5.1	5.2	5.3
of which: Security sectors	2.5	2.1	1.5	2.7	2.4	2.3	2.1
Regularization of compensation arrears [3]	0.0	0.8	0.8	0.8	0.0	0.0	0.0
Purchases/use of goods & services	4.7	4.0	3.7	3.4	2.9	2.8	2.8
Subsidies and Social benefits	4.5	4.1	4.9	5.0	4.8	4.7	4.6
Interest	1.2	0.6	0.9	0.9	1.0	0.9	1.0
of which: Domestic	0.7	0.5	0.8	0.8	0.9	0.8	0.8
Other expense	5.8	10.9	5.3	6.2	4.5	4.2	4.1
of which: Domestic resources	0.0	1.6	0.3	0.3	0.4	0.0	0.0
Net acquisition of nonfinancial assets [1]	12.4	12.0	11.4	15.5	14.1	15.1	15.2
of which: Domestic resources	2.6	2.0	3.0	3.3	3.7	3.5	3.6
Net lending (+) / borrowing (-)	-5.0	-3.7	-3.0	-2.5	-3.5	-4.0	-4.2
Net acquisition of financial assets	0.6	0.6	-0.1	-0.5	-1.0	-0.1	0.0
Deposits	0.6	0.6	0.0	-0.5	-0.8	0.0	0.0
Policy lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	0.0	0.0	0.0	0.0	-0.2	0.0	0.0
Net incurrence of liabilities	4.4	3.9	3.0	2.0	2.5	3.3	3.1
Domestic	3.7	2.2	1.6	1.0	1.0	1.0	1.0
Foreign	0.7	1.7	1.4	1.0	1.5	2.3	2.1
Financing gap/errors and omissions	1.3	0.4	0.0	0.0	0.0	0.7	1.0
			(BIF billion)				
Revenue and grants	717.3	930.6	947.5	1,111.9	1,079.5	1,208.4	1,342.6
Total expenditure	829.7	1,021.7	1,035.9	1,185.4	1,198.1	1,358.9	1,519.1
of which: Compensation of employees	191.8	214.9	252.3	256.6	280.8	309.2	347.9
Financing gap/errors and omissions	28.0	9.0	0.0	0.0	0.0	25.6	41.4
			(Percent of GDP, unless otherwise indicated)				
Memorandum items:							
Net domestic financing	3.1	1.6	1.6	1.4	1.8	1.0	1.0
Propoor expenditure	12.3	13.0	12.8	12.6	11.8	12.5	12.8
Pulic debt	37.8	37.0	34.4	35.9	35.6	34.7	32.4
of which: domestic debt	14.6	15.2	14.1	13.9	13.1	12.7	12.3
GDP at current market prices (BIF billion)	2,233	2,495	2,901	2,933	3,367	3,771	4,233

Sources: Burundi authorities; IMF staff estimates and projections.

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

[2] Includes Amisom Fund.

[3] Corresponds to compensations due to retroactive implementation of the civil servant statutes (IMF Country Report 10/75; MEFP, ¶17).

[4] IMF Country Report 11/199, rebased on authorities' revision of GDP for the 2005-08 period and rebased GDP deflator on 2005 expenditure composition.

Table 3. Burundi: Monetary Survey, 2009–12

	2009	2010	2011		2012
			Rev. Prog[1].	proj.	proj.
	(BIF billion)				
Net foreign assets	168.8	139.9	141.4	123.7	131.3
Central bank	118.7	104.3	97.8	80.0	79.6
Deposit money banks	50.0	35.7	43.7	43.7	51.7
Net domestic assets	500.3	644.9	758.7	790.5	908.3
Domestic credit	559.2	692.4	797.3	827.3	945.1
Net claims on the government	252.4	291.9	301.4	316.5	376.0
Of which: on the treasury	268.8	303.1	312.7	327.8	387.3
Credit to the economy	306.8	400.5	495.8	510.8	569.1
Other items, net (assets = +)	-58.9	-47.5	-38.6	-36.7	-36.7
M3	669.1	784.8	900.1	914.2	1039.6
Foreign currency deposits	138.3	151.4	175.0	180.5	209.9
M2	530.8	633.5	725.1	733.7	829.7
Currency in circulation	120.9	139.1	160.8	162.0	184.3
Local currency deposits	409.9	494.4	564.3	571.7	645.4
Demand deposits	283.5	341.3	391.1	392.2	439.7
Quasi-money	126.4	153.1	173.2	179.4	205.7
	Change as a percentage of beginning period M2				
Net foreign assets	3.1	-5.4	0.2	-2.6	1.0
Central bank	1.3	-2.7	-1.0	-3.8	-0.1
Deposit money banks	1.8	-2.7	1.3	1.3	1.1
Net domestic assets	23.7	27.2	19.1	23.0	16.1
Domestic credit	27.8	25.1	17.4	21.3	16.1
Net claims on the government	17.1	7.4	2.3	3.9	8.1
Credit to the economy	10.6	17.7	15.2	17.4	7.9
Of which: private sector	13.7	17.0	15.2	17.4	7.9
M3	26.8	21.8	19.4	20.4	17.1
Foreign currency deposits	7.0	2.5	3.8	4.6	4.0
M2	19.8	19.4	15.6	15.8	13.1
Currency in circulation	1.9	3.4	3.5	3.6	3.0
Local currency deposits	17.9	15.9	12.1	12.2	10.0
Demand deposits	13.6	10.9	7.9	8.0	6.5
Quasi-money	4.3	5.0	4.2	4.2	3.6
Memorandum items:					
Reserve money (12–month percent change)	26.6	6.0	13.0	13.5	12.0
Velocity (GDP/M2; end of period)	4.2	3.9	2.9	4.0	4.1

Sources: Burundi authorities; IMF staff estimates and projections.

[1] IMF Country Report 11/199.

Table 4. Burundi: Central Bank Accounts, 2010–12

	2010				2011				2012			
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
							Rev. Prog[1].		Proj.			
	(BIF billion)											
Net foreign assets	105.3	67.7	44.0	104.3	107.6	88.8	40.0	80.0	22.4	46.8	24.7	79.6
Assets	394.3	344.1	346.6	416.1	424.4	433.0	393.7	413.0	357.2	381.6	366.7	421.6
Liabilities	289.1	276.3	302.6	311.8	316.9	344.3	353.7	333.0	334.8	334.8	342.0	342.0
Net domestic assets	49.8	107.7	140.2	105.6	86.4	121.9	167.4	158.1	187.3	198.7	223.9	187.2
Domestic credit	136.1	177.8	198.9	182.9	146.8	166.1	217.3	209.4	235.4	232.6	256.0	238.5
Net claims on the government	151.8	171.5	194.7	183.9	144.5	158.8	189.7	196.7	154.0	179.8	213.8	216.3
Other credit	-15.7	6.3	4.2	-1.0	2.4	7.2	27.6	12.8	81.4	52.8	42.2	22.2
Other items, net (assets = +)	-86.3	-70.1	-58.7	-77.4	-60.5	-44.2	-49.8	-51.3	-48.0	-33.9	-32.1	-51.3
Reserve money	155.1	175.4	184.1	209.8	193.9	210.6	207.4	238.1	209.7	245.4	248.6	266.8
Currency in circulation	109.5	131.1	132.5	139.1	132.5	154.7	151.4	162.0	146.8	181.1	166.7	184.3
Bank reserves	26.4	23.7	30.4	45.7	39.3	27.3	33.1	49.8	40.8	35.8	58.9	56.2
Cash in vault	15.9	16.5	16.8	16.7	17.3	17.6	17.1	16.7	17.3	17.6	17.1	16.7
Other nonbank deposits	3.3	4.1	4.4	8.3	4.8	10.9	5.9	9.6	4.8	10.9	5.9	9.6
Memorandum items:												
Net foreign assets of BRB (US$ million)	85.6	55.0	35.7	84.6	87.0	71.4	31.4	62.0	17.1	35.3	18.5	59.3

Sources: Burundi authorities; IMF staff estimates and projections.

[1] IMF Country Report 11/199.

Table 5. Burundi: Balance of Payments, 2009–14

	2009	2010	2011	2012	2013	2014
			Proj.			
	(US$ million)					
Current account	-208.5	-200.4	-282.9	-301.1	-253.7	-281.2
(excluding official transfers)	-481.1	-509.1	-559.7	-528.3	-477.5	-505.1
Trade balance	-384.6	-424.6	-458.4	-438.5	-373.7	-406.5
Exports, f.o.b.	68.4	101.2	102.7	123.6	156.9	172.3
Of which: coffee	39.6	69.7	67.3	86.4	120.4	134.2
Imports, f.o.b.	-453.0	-525.9	-561.1	-562.1	-530.6	-578.8
Of which: petroleum products	-57.4	-98.4	-133.7	-134.7	-139.4	-142.0
Services (net)	-247.3	-188.8	-210.0	-203.4	-223.0	-224.8
Income (net)	-8.4	-10.3	-10.8	-11.6	-12.3	-13.2
Current transfers (net)	431.8	423.2	396.3	352.4	355.2	363.2
Of which: official (net)	272.6	308.7	276.8	227.2	223.7	223.9
Capital account[1]	1249.4	148.2	258.4	215.3	258.4	284.3
Of which: HIPC relief	0.0	0.0	0.0	0.0	0.0	0.0
Of which: debt forgiveness	1057.1	0.0	0.0	0.0	0.0	0.0
Of which: other transfers (MDRI grant)	51.0	0.0	0.0	0.0	0.0	0.0
Financial account	-1007.9	58.1	6.9	79.8	4.2	1.2
Direct investment	0.3	0.8	1.4	35.2	36.9	38.8
Other investment	-1008.3	57.3	5.5	44.7	-32.8	-37.6
Assets	-43.4	-30.0	-30.4	-31.9	-41.0	-42.8
Liabilities	-964.9	87.3	35.9	76.6	8.3	5.2
Of which: SDR allocation	95.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions	22.1	7.7	0.0	0.0	0.0	0.0
Overall balance	55.0	13.5	-17.6	-5.9	8.8	4.2
Financing (increase in assets = –)	-55.0	-13.5	17.7	5.9	-27.8	-34.1
Of which: change in official reserves	-56.4	-9.2	18.3	5.7	-27.9	-34.3
Of which: Use of Fund credit, existing and prospective (net)	-28.3	20.3	18.8	7.9	5.2	-0.9
Purchases and loans	20.9	20.3	21.1	15.9	15.9	15.8
Repayments	49.2	0.0	2.3	8.0	10.7	16.7
Financing gap[2]	0.0	0.0	0.0	0.0	19.0	29.9
Of which: other donors	0.0	0.0	0.0	0.0	19.0	29.9
	(Percent of GDP, unless otherwise indicated)					
Memorandum items:						
Current account	-11.5	-9.9	-12.5	-12.0	-9.2	-9.1
Gross official reserves						
US$ million	323	332	314	308	336	370
Months of imports	4.9	4.7	4.4	4.4	4.5	4.5
PV of external debt (percent of exports of GS)	211	151	174	162	167	170
Total external debt	21	22	22	22	22	22
Coffee price (US cents per lb)	142	194	268	246	245	210
Nominal GDP (US$ million)	1815	2024	2271	2507	2763	3095

Sources: Burundi authorities; IMF staff estimates and projections.

[1] Based on preliminary information provided by donors.

[2] Financing expected from additional donor support.

Table 6. Burundi: Indicators of Capacity to Repay the Fund, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		Projections									
Fund obligations based on existing credit											
(SDR million)											
Principal	0.0	1.4	5.0	6.7	10.6	12.5	13.0	11.4	10.0	7.3	4.6
Charges and interest	0.0	0.0	0.0	0.0	0.2	0.1	0.1	0.1	0.0	0.0	0.0
Fund obligations based on existing and prospective credit											
(SDR million)											
Principal	0.0	1.4	5.0	6.7	10.6	12.5	13.0	12.0	12.5	11.8	11.1
Charges and interest	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Total obligations based on existing and prospective credit											
SDR million	0.0	1.4	5.0	6.7	10.8	12.7	13.2	12.2	12.6	11.9	11.2
Percent of exports of goods and services	0.0	1.3	3.7	4.5	6.5	7.4	7.5	5.9	5.4	4.6	3.9
Percent of debt service[1]	0.4	30.2	63.6	61.7	68.0	59.4	59.6	52.1	49.1	44.6	40.6
Percent of gross official reserves	0.0	0.7	2.6	3.6	4.6	4.5	4.2	3.6	3.4	2.9	2.4
Percent of GDP	0.0	0.1	0.3	0.4	0.6	0.6	0.5	0.4	0.4	0.3	0.3
Percent of quota	0.0	1.9	6.5	8.7	14.0	16.5	17.1	15.8	16.3	15.4	14.5
Outstanding Fund credit											
SDR million	71.2	83.0	88.0	91.2	90.7	83.2	70.2	58.2	45.7	34.0	22.9
Percent of exports of goods and services	60.1	72.8	64.3	60.5	54.2	48.7	40.1	28.1	19.8	13.1	7.9
Percent of debt service[1]	4,313.9	1,748.7	1,115.8	836.9	571.4	389.0	317.5	249.6	178.5	128.0	83.0
Percent of gross official reserves	32.7	42.0	45.5	48.5	38.8	29.5	22.3	17.1	12.5	8.3	4.8
Percent of GDP	5.4	5.8	5.6	5.2	4.6	3.7	2.8	2.0	1.4	0.9	0.5
Percent of quota	92.5	107.7	114.2	118.5	117.7	108.0	91.2	75.6	59.4	44.1	29.7
Net use of Fund credit (SDR million)	13.2	11.8	5.0	3.3	-0.6	-7.5	-13.0	-12.0	-12.5	-11.8	-11.1
Disbursements	13.2	13.2	10.0	10.0	10.0	5.0	--	--	--	--	--
Repayments and repurchases	0.0	1.4	5.0	6.7	10.6	12.5	13.0	12.0	12.5	11.8	11.1
Memorandum items:											
Exports of goods and services (US$ million)	180.7	181.1	217.9	239.8	265.2	270.6	276.4	327.1	365.7	409.1	457.7
Debt service (US$ million)	2.5	7.5	12.6	17.3	25.2	33.8	34.9	36.8	40.5	41.9	43.5
Gross official reserves (US$ million)	332.2	314.0	308.3	298.8	370.5	446.8	498.1	537.9	579.5	649.5	749.6
Nominal GDP ((US$ million)	2,024.0	2,271.4	2,506.7	2,763.3	3,095.2	3,527.7	4007.7	4553.5	5163.2	5854.9	6632.6
Quota (SDR, million)	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0

Sources: IMF staff estimates and projections.

[1] Total debt service includes IMF repurchases and repayments and prospective disbursements under the proposed arrangement.

Table 7. Burundi: Actual and Projected Schedule of ECF Disbursements and Reviews, 2008–12

Date	Disbursement (SDR million)	Conditions
July 15, 2008	6.6	Executive Board approval
February 9, 2009	6.6	Completion of first review, based on observance of performance criteria at end-September 2008.
July 16, 2009	6.6	Completion of second review, based on observance of performance criteria at end-March 2009.
February 12, 2010	6.6	Completion of third review, based on observance of performance criteria at end-September 2009.
August 2, 2010	6.6	Completion of fourth review, based on observance of performance criteria at end-March 2010.
January 15, 2011	6.6	Completion of fifth review, based on observance of performance criteria at end-September 2010.
August 15, 2011	6.6	Completion of sixth review, based on observance of performance criteria at end-March 2011.
January 15, 2012	5.0	Completion of seventh review, based on observance of performance criteria at end-September 2011
Total for the ECF arrangement	51.2	

Table 8. Burundi: Tentative Schedule of ECF Disbursements and Reviews, 2012–15

Date	Disbursement (SDR million)	Percent of quota	Conditions
January 31, 2012	1	1.3	Executive Board approval
July 15, 2012	4	5.2	Completion of first review, based on observance of performance criteria at end-March 2012.
January 15, 2013	5	6.5	Completion of second review, based on observance of performance criteria at end-September 2012.
July 15, 2013	5	6.5	Completion of third review, based on observance of performance criteria at end-March 2013.
January 15, 2014	5	6.5	Completion of fourth review, based on observance of performance criteria at end-September 2013.
July 15, 2014	5	6.5	Completion of fifth review, based on observance of performance criteria at end-March 2014.
January 15, 2015	5	6.5	Completion of sixth review, based on observance of performance criteria at end-September 2014.
Total for the ECF arrangement	30	39	

Table 9. Burundi: Banking System Soundness Indicators, 2009–11

(percent, unless otherwise indicated)

	2009 Dec.	2010 Mar.	2010 Jun.	2010 Sep.	2010 Dec	2011 Mar	2011 Jun	2011 Sept
Capital Requirement								
Capital requirement over weighted assets (solvency ratio	19.1	18.8	18.4	18.0	19.7	21.7	20.7	20.0
Core capital (Tier 1 capital) over weighted assets [1]	15.5	15.4	15.4	15.1	16.9	18.9	18.1	17.6
Quality of assets								
Nonperforming loans (percent of total gross loans grante	13.0	12.7	11.8	10.6	10.0	8.8	7.6	7.3
Provisions (percent of nonperforming loans)	88.7	82.2	80.0	82.5	87.6	90.5	90.6	81.9
Nonperforming loans net of provisions (percent of capital)	5.4	8.4	9.1	7.5	4.3	2.8	2.6	5.0
Large exposures (percent of capital)	28.2	21.3	22.1	27.6	28.6	25.8	27.3	21.7
Profitability rates								
Return on assets	2.6	0.5	1.0	1.6	2.5	1.0	1.9	2.9
Return on equity capital	22.8	4.7	8.4	13.3	21.8	6.7	13.2	20.3
Net interest (percent of gross results)	207.0	219.2	213.3	194.5	191.3	168.3	164.8	165.7
Costs excluding interest (percent of gross outturn)	172.3	174.4	174.8	150.1	143.4	101.4	100.0	121.4
Liquidity								
Liquid assets (percent of all loans granted)	91.4	84.2	77.1	74.4	90.5	77.7	55.8	49.5
Liquid assets (percent of short-term commitments)	168.8	150.9	135.2	124.4	153.5	133.0	91.2	79.4

Sources: Burundi authorities.

APPENDIX. LETTER OF INTENT

Bujumbura, December 19, 2011

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

Dear Madame Lagarde:

1. The government of Burundi welcomes the support of the International Monetary Fund in alleviating the adverse effects on the Burundi economy resulting from the exogenous shocks related to the recent rise in food and energy prices. This additional support made it possible to mitigate the impact of those shocks on government finances, the country's external position, and the most vulnerable groups. The government is also pleased that the IMF Executive Board modified the nonconcessional external debt limit to accommodate a US$80 million line of credit contracted by the government of Burundi with the Export Import Bank of India to finance the Kabu 16 hydroelectric plant.

2. The government has just completed implementation of the second three-year arrangement (2008–11) supported by the Extended Credit Facility, in an unfavorable external environment characterized in particular by the global economic crisis and rising food and energy prices. However, significant progress has been achieved as a result of the fiscal, monetary, and structural reforms that have made it possible to consolidate the gains achieved, in particular with respect to macroeconomic stability.

3. The uncertainty in the global economy, mainly as a result of the sovereign debt crisis in the euro zone, poses serious risks for Burundi’s economic outlook. In order to build on the results achieved and to keep Burundi on track for sustainable growth, the government has prepared a new medium-term economic program for the period 2012–14 in collaboration with IMF staff. The new economic and financial program (2012–14) aims at: (1) further improving fiscal revenue collection; (2) strengthening fiscal management and developing a debt management policy; and (3) allowing greater exchange rate flexibility. This program will also help to improve the business climate and strengthen structural reforms in the medium term in order to increase the competitiveness of the economy. Those priorities are consistent with the guidelines of the new second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II).

4. In view of the considerable progress made in implementing the program supported by the ECF arrangement, the government is: (i) requesting completion of the seventh review and the eighth and final ECF disbursement of an amount equivalent to SDR 5.0 million. In order to

support the economic and financial policies of this medium-term program (2012–14), the government of Burundi is requesting IMF financial support under the Extended Credit Facility for an amount of SDR 30 million, equivalent to 39 percent of its quota, with a first disbursement of SDR 1 million on approval of the program by the IMF Executive Board.

5. The government is of the view that the policies set forth in the attached Memorandum on Economic and Financial Policies are adequate to achieve the objectives of its program. Nevertheless, it is prepared to take any additional measures necessary for this purpose. It will consult with the IMF in advance of the adoption of such measures and/or of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

6. The government of Burundi will provide the IMF with such information as it may request to ensure implementation of the program. That information as well as the arrangements for monitoring implementation of the program and the performance criteria, quantitative targets, and structural benchmarks are detailed in the Technical Memorandum of Understanding, which is also attached to this letter. Burundi will carry out reviews with the IMF every six months. We expect the first review to be completed by July 31, 2012 and the second review to be completed by January 31, 2013.

7. The Burundian authorities wish to make this letter available to the public, along with the attached MEFP and Technical Memorandum of Understanding (TMU), as well as the request for a successor ECF arrangement. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Burundian Government**.**

Yours sincerely,

/s/

Clotilde NIZIGAMA
Minister of Finance

/s/

Gaspard SINDAYIGAYA
Governor, Bank of the Republic of Burundi

/s/

Gervais RUFYIKIRI
Second Vice President, Republic of Burundi

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

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Bujumbura, December 19, 2011

I. INTRODUCTION

1. Burundi is emerging from a lengthy period of conflict thanks to the efforts of the United Nations agencies and other bilateral and multilateral partners, considerable progress has been achieved in the reconstruction of public infrastructure, the disarming of the civilian population, the demobilization and reintegration of ex-combatants, the repatriation of refugees, good governance, the strengthening of justice, and the promotion of human rights. Moreover, the government recognizes the importance of dialogue as a method of conflict management. Nevertheless, considerable challenges remain in the security area, in particular in rural areas where the presence of poorest and vulnerable demobilized combatants is a potential flashpoint.

2. The economic and financial program and the structural reforms under the Extended Credit Facility (ECF) were implemented in a difficult environment characterized by rising food and oil prices and by electricity shortages causing untimely selective power cuts which led to a downturn in industrial production. In spite of those constraints, the government has resolutely pursued the implementation of sound economic policies and economic reforms, thereby preparing the ground for strong, inclusive economic growth.

3. In order to consolidate the gains made and to keep Burundi on the path sustainable growth, the government has prepared a new medium-term economic program for the period 2012-14 in collaboration with IMF staff. This Memorandum presents the economic and financial policies that the government will implement under the new program, which draws on lessons from an ex-post assessment of longer-term program engagement, and analyzes the medium-term macroeconomic framework for government action. The objectives of the program are consistent with the priorities set in the second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II), namely: (i) to promote economic growth and preserve macroeconomic stability, (ii) to mobilize domestic resources, and (iii) to strengthen public financial management and debt management. The program will also help to improve the business climate and strengthen medium-term structural reforms.

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

A. Recent Economic Development

4. Economic recovery has been weaker than expected. Economic growth is projected to be 4.2 percent in 2011—a rate slightly below the initial forecast. This performance is essentially due to a slowdown in domestic demand resulting from higher food and oil prices as well as persistent selective power cuts that have affected industrial production. Coffee production was markedly lower than forecast owing to the cyclical nature of production. As

regards to prices, the growth in the overall index of consumer prices is estimated at 13.3 percent at end-October, and could reach 14.3 percent at year-end as a result of external shocks stemming from higher food and oil prices.

5. Monetary policy has remained prudent and somewhat restrictive during 2011. The monetary situation has been characterized by much weaker broad money growth due to the sharp fall in net foreign assets, which more than offset the expansion of credit to the economy. Moreover, to limit the effects on inflation resulting from rising food and oil prices, the Central Bank has raised the interest rate on the marginal lending facility to curtail private sector demand for credit and stands ready to further tighten the stance of monetary policy should inflationary pressures persist

6. The quality of public financial management is satisfactory overall, despite the delay in disbursement of budget support. Fiscal revenue collected at end-September 2011 grew by around 34 percent at end-October (compared with the results for the same period in 2010) owing to the improved administrative capacities of the Burundi Revenue Authority (BRA) and greater centralization of government revenue, in particular nontax receipts. Moreover, expenditure was contained within the budgetary ceiling, in spite of the adverse effects of the oil and food price shocks on budget execution. The level of current expenditure is in line with program forecasts, with a wage bill that should stand at BIF 278.6 billion compared with a budget forecast of BIF 272.8 billion, including the repayment of salary arrears. Domestically funded capital expenditure is below initial projections, standing at BIF 97 billion, i.e. 76 percent of the rate of execution, owing to weak execution capacity and late disbursement of budget support.

7. The external situation has deteriorated considerably. This development is due to the deterioration in the trade balance as a result of lower coffee exports following poor harvests and higher food and oil prices. Late disbursement of external aid flows has also contributed to the deterioration in the current account balance, estimated at 12.5 percent of GDP, and to the 3.8 percent depreciation of the Burundian franc since the start of the year. Official reserves have also fallen to 4.4 months of imports.

B. Results of the implementation of the program at end-2011

8. Overall, implementation of the program has been satisfactory. All the quantitative performance criteria at end-September (Table I.1) were met: in particular the government (i) has not contracted or guaranteed long-term external debt on nonconcessional terms[1]; nor

[1] The Burundian authorities obtained modification of the zero cap on nonconcessional external debt so that it could ratify the loan from EXIM Bank of India (US$80 million) to finance the construction of the Kabu 16 hydroelectric plant. The loan has a grant element of 31.6 percent, which is below the 50 percent level required for a loan to be considered concessional under the ECF.

(ii) contracted or guaranteed short-term external debt. Quantitative targets have also been met. All the programmed structural benchmarks were achieved (Table I.3).

9. In the area of public financial management, reforms are continuing at a satisfactory pace. The draft Decree on the General Regulation on Public Budget Management has been signed by the President of the Republic. The decree will make it possible to define the rules for executing, recording, and auditing the revenue and expenditure in the budgets of subnational government entities, as well as for managing their assets. It also defines the powers and obligations of any person involved in the management of public budgets, as well as the systems of accountability and penalties applicable to them. Moreover, the budget guidelines for the 2012 Budget Law were prepared in line with a medium-term expenditure framework (MTEF) over three years; finally, a donor-financed basket fund (BF) was created in the education sector. Regarding revenue collection, steps have been taken with a view to improving customs revenues over the long-term. For example, the authorities have conducted an awareness-raising campaign among taxpayers, simplified customs clearance procedures, and introduced petroleum product import controls at entry and departure points from the Petroleum Product Storage Company (SEP) and INTERPETROL. The ASYCUDA++ computer system has been expanded to other customs posts, and the installation of the RADDEX system will allow for better accounting of customs revenues at the level of the East African Community (EAC).

10. In the area of the business climate, appreciable progress has been achieved. As a result of the steering committee chaired by the second Vice-President, with a view to improving the "*Doing Business*" indicators, reforms have been carried out in relation to (i) property transfer; (ii) protection of investments; and (iii) payment of taxes. Those reforms helped Burundi to improve its ranking from 177th to 169th place according to "Doing Business 2011" and "Doing Business 2012" respectively, a gain of 8 positions over the period.

11. In the monetary area, in light of the satisfactory results of the technical training provided to pilot commercial banks, the central bank introduced repo operations in April 2011. Moreover, following the Council of Ministers' adoption of the financial sector reform strategy, steps are being taken to improve the legal framework. In this connection, the central bank has prepared a draft law on the payment system that ensures the finality of the regulations and the protection of compensation rights and financial guarantees. Moreover, it intends to strengthen the financial infrastructure by computerizing its activities and modernizing its payment system (RTGS and electronic clearing for the payments system). Preparation of the Financial Market Development Plan is continuing with the support of development partners.

12. In the context of the strengthening of bank supervision, the central bank is receiving technical assistance from the IMF to train inspectors in risk-based supervision procedures and to prepare the relevant manual. A draft banking law has been prepared as a result of that

technical assistance. A draft regulation on remote banking and money transfers by mobile phone has also been drawn up. Moreover, the central bank is in the process of revising the decree governing microfinance activities to modernize it and adapt it to best international practices while making it more conducive to the orderly development of microfinance activities. The revision will also allow microfinance institutions to expand their clientele and diversify their product ranges. Furthermore, commercial banks will be submitting their simulated financial statements using International Financial Reporting Standards (IFRS) as of end-December 2011, while retaining the existing system as a backup. Final migration to IFRS reporting is scheduled to take place as of June 2012. Lastly, all commercial banks and financial institutions are in compliance with the minimum capital requirement of 10 billion and 6 billion, respectively.

C. Lessons learned

13. Since the end of the conflict, the Burundian authorities have implemented satisfactorily two PRGF/ECF three-year arrangements aimed at reviving economic activity in the country, improving economic governance, consolidating peace, and reducing poverty. In this regard, significant progress has been made in the reforms embarked upon in the budgetary and monetary areas, thereby strengthening the foundations of economic growth and preserve of macroeconomic stability.

14. In spite of the external shocks linked to rising food and oil prices and the global economic crisis, policymakers have managed to maintain macroeconomic stability. Moreover, the downward trend in GDP per capita has been reversed. However, the repercussions of the external shocks for prices could not be entirely eliminated and they occasionally complicated the conduct of monetary and fiscal policy.

15. Budget support from development partners played a decisive role in the macroeconomic stabilization policy and in meeting the government's priorities in the social sectors. However, the fact that disbursements were unpredictable and not spread out over time was a source of cash-flow difficulties in the execution of the budget, which may be exacerbated by the recent decision of donor countries to modify the composition of their financial support in favor of project grants.

16. Significant progress has been made in public financial management. To improve the efficiency of expenditure and respond to the governance concerns of the development partners, priority was accorded to the planning, execution, and transparency of expenditure. At the regulatory level, the 2008 adoption of the new organic budget law introduced many reforms to improve public financial management. Implementation of the budget organic law allowed preparation and implementation of the agreement between the government and the central bank on the "government cashier" function. The Integrated Public Financial Management System was strengthened and considerable efforts were made to rationalize the expenditure cycle. The Decree on the General Regulation on Public Budget Management has just been adopted and will allow for greater transparency in budget execution. Satisfactory

progress has been achieved in management of the government's cash flow and implementation of the single treasury account. Furthermore, a new public procurement code has been adopted. In addition, annual procurement plans have been prepared to facilitate the transparency of budget execution. With regard to the budget nomenclature, a new economic classification was introduced with the 2010 budget in order to bring it into line with the new chart of accounts.

17. The Burundi Revenue Agency is operational and the implementation of reforms aimed at modernizing tax and customs administrations has contributed to a sharp increase in revenue collection. On the taxation front, the tax on transactions has been replaced by VAT. Customs and taxes have been radically reformed. To broaden the tax base, measures have been taken to combat evasion, a taxpayer census program is under way, and the unique tax identification number has been brought into general use. Moreover, the computerization of BRA operations is well under way.

18. In the monetary field, the autonomy of the central bank has been strengthened from a legal point of view and monetary policy has been modernized. The reserve requirement system has been brought into line with good practices while the system of liquidity auctions has been reformed with the lifting of the ceiling on interest rates. Supervision of financial institutions has been reinforced and the minimum capital of banks has been raised in accordance with the Basel Accords. The Central Bank continues to implement major measures aimed at strengthening its financial safeguards, following the recommendations of the latest update safeguards assessment completed by IMF staff in June 2008.

D. Challenges

19. On the economic front, growth has not met expectations. With a GDP growth rate barely above 4 percent, wealth creation has been insufficient to significantly reduce the poverty rate, which is estimated to be 67 percent of the population. Moreover, the primary sector, which provides employment for more than 97 percent of the population, has experienced much more modest growth than expected. Inflationary pressures have been brought under control as a result of prudent monetary policy, but prices remain relatively high because of external shocks.

20. The unpredictability of the amount of external aid remains a cause of concern for public financial management. In this connection, it is essential that in future the authorities advocate implementation of reforms to increase the effectiveness of public spending, in particular harmonization of strategic choices, the program approach, the use of the Medium Term Expenditure Framework, and the strengthening of monitoring and evaluation mechanisms.

21. Burundi's accession to the EAC offers unprecedented opportunities for economic growth, constituting a solution to the country’s landlocked situation and to the small size of

its economy. Membership also gives Burundi access to a much bigger market. In recent years, accession to the EAC has served to anchor reforms such as the application of the protocol of the Customs Union in 2009, which includes application of the Common External Tariff. To benefit from membership, the government will continue the reforms in order to strengthen the credibility of its economic policy by respecting the EAC convergence criteria and improving the business climate by simplifying taxation and regulation.

III. Medium-Term Macroeconomic Framework

22. In the wake of the euro zone's economic and financial crisis, Burundi is faced with a reduction in external aid that could contribute to deterioration of the external situation while weakening government finances. Consequently, the new economic and financial program (2012-14) aims at: (i) further improving fiscal revenue collection; (ii) strengthening public financial management and developing a debt management policy; (iii) permitting greater exchange rate flexibility; and (iv) improving the business climate. In this connection, actions will seek to consolidate the gains made in terms of macroeconomic stability from implementation of previous economic programs and to further assist the government to continue its poverty reduction policy in the framework of the PRSP-II, preparation of which is expected to be completed by end-2011.

23. The economic outlook is favorable, but subject to the downside risk in the short term. Economic growth is projected to reach 6.0 percent in 2014, supported by improved productivity and diversification of agricultural activity, and by increased investment in the electricity and tourism sectors. Slower inflation should bring price rises down to single figures as a result of a prudent demand policy. In the external sector, exports of coffee and other agricultural products should increase strongly and offset the expected increase in imports, in particular petroleum products. Consequently, the external current account deficit is expected to improve and stand at 9.1 percent of GDP in 2014. However, downside risks could affect future economic growth because of the security situation and the external environment characterized by high petroleum products prices, which is likely to persist, with negative consequences for inflation and budget execution. Moreover, the euro zone crisis could increase the uncertainties surrounding budget support.

24. Aware of the Burundian economy's vulnerability to external shocks in view of its heavy reliance on external aid, the disbursement of which has been unpredictable, the government intends to strengthen its capacity to mobilize domestic resources and control expenditure. Thus, tax revenues should increase from 14.4 percent of GDP in 2011 to around 15.6 percent of GDP in the medium term as a result of expansion of the tax base, reinforcement of the tax and customs authorities, control of exemptions, and anti-evasion measures. Consolidation of expenditure should be continued far more rigorously. In this connection, the budget preparation process will be strengthened to improve the effectiveness and transparency of public financial management. Thus, there are plans to contain or even reduce current expenditure in proportion to GDP in order to create the fiscal space for

improving the composition of government expenditure in favor of infrastructure and social expenditure.

25. The government plans to limit the effects of the global crisis on the Burundian economy by adopting a more flexible exchange rate policy combined with prudent fiscal and monetary policies. In close collaboration with IMF staff, the central bank will strengthen foreign exchange operations by calculating a daily reference exchange rate to guide the market by shifting from daily uniform price auctions of foreign currency–symmetrical foreign exchange auctions market (MESD)–to bi-weekly uniform price foreign exchange auctions.

26. In regard to public debt management, the government is aware of the need for a prudent borrowing policy to preserve external debt sustainability. Consequently, it intends to build its debt management capacities within the Ministry of Finance and Economic Development and Planning by calling on the technical and financial assistance of development partners. Moreover, it envisages the creation of a high level committee that will coordinate and ensure that public debt management is in line with the country's macroeconomic objectives. The government will also undertake a capacity assessment of its debt management abilities in cooperation with the World Bank (DeMPA). Following this evaluation, an action plan will be developed to improve debt management capacity of the government. The government will also ensure that the financing of its needs will be in the form of grants or external debt on highly concessional terms (a grant element of at least 50 percent) and it plans to contain the volume of debt within limits compatible with the government's repayment capacity. However, requests for special exemptions would be subject to the prior approval of the IMF with regard to external loans whose conditions would deviate slightly from the level of concessionality (grant element of 50 percent), especially for projects which have a high level of profitability. With regard to the policy of interior debt, the government will reinforce coordination between the monetary policy and fiscal policy to preserve macroeconomic stability. For this purpose, the treasury cash flow plan will be used as the main tool in the active treasury management by the authorities.

IV. Economic and Financial Policies for 2012

27. During 2012, reflecting an improved business climate that will be accompanied by increased private investment, economic growth should accelerate to 4.8 percent, with a slightly declining—albeit relatively high—inflation rate. The external current account deficit may get bigger because of higher imports of petroleum products due to thermal electricity production as part of the Pivotech project. However, official reserves are expected to stabilize at around 4.5 months' imports.

28. Faced with the steep fall in budget support, the government is aware of the need to consolidate the government finance situation. For this purpose, the government plans to continue its efforts to improve revenue collection and public expenditure management. Total

revenue (excluding grants) is projected to be 16.2 of GDP in 2012, which represents an increase of 0.7 of GDP compared with 2011. This increase in revenue would result from consolidation of the administrative reforms introduced during previous years, such as anti-evasion measures, expansion of the tax base, and control of exemptions. Other initiatives will be taken to expand the tax base. Those initiatives comprise the Income Tax law, which should eliminate the inconsistencies between exemptions under the Tax Code and those under the Investment Code, stabilization of taxation on petroleum products, revision of the Excise Duties Code, and creation of a one-stop shop at the border with Tanzania to facilitate the movement of goods. The government will take all necessary measures to contain expenditure within the budgetary ceiling to ensure the sustainability of government finances. Accordingly, total expenditure will represent approximately 35.6 of GDP, or BIF 1198.1 billion. Current expenditure will be kept under control, and there are plans to cut capital expenditure sharply owing to the steep fall in budget support. As a result of the implementation of those measures, the overall deficit is projected to be 3.5 percent of GDP and budget support should be down to 2.6 percent of GDP, which is half of what was forecast in 2011.

A. Enhancing governance

29. The government is aware that improving governance is essential to safeguard donor support and to attract private investors. In this connection, on October 20, 2011, the Council of Ministers adopted the National Strategy on Good Governance and Combating Corruption, which seeks to (i) establish a culture of accountability at all levels of responsibility; (ii) improve transparency in the management of government business; (iii) strengthen the rule of law; and (iv) improve the performance of government. Implementation of this strategy would require the technical and financial support of donors. Regarding resolution of the INTERPRETROL case, it has been brought before the Supreme Court, which will give a court ruling on the governance-related issues in which the company has been implicated since 2007. In this connection, the BIF 6 billion belonging to INTERPETROL, taken as security, will remain in escrow with the central bank.

30. In the health sector, the government will continue its policy of free health care for children under 5 and care for women in childbirth. To meet the growing demand for health services, additional infrastructure will be built and priority will be accorded to the recruitment of medical staff. These steps will help to improve the quality of medical care.

31. In the education sector, the government intends to continue its program of free schooling in primary education. It plans to build new classrooms and recruit teachers to reduce the pupil-to-teacher ratio.

32. In the agricultural sector, the government has defined its major priorities in the national investment plan for agriculture and livestock, adopted in 2011. The strategic guidelines are based on the following priorities: (i) sustainable increase in production and

food security; (ii) professionalization of producers and promotion of innovation; (iii) development of agri-business subsectors, including livestock and fisheries; and (iv) institution-building.

33. In view of Burundi's tourism potential, the government plans to make tourism one of the pillars of economic growth and poverty reduction in Burundi. For this purpose, the government has just adopted the National Strategy for the Sustainable Development of Tourism, aimed at promoting the tourism sector by attracting private investors and stimulating demand. In this connection, the government plans to identify and develop new tourist sites, reorganize tours by better targeting the market, promote a more active partnership with tour operators, and initiate measures that are more attractive to private investors. The privatization of Novotel Hotel and the award of the concession for the Source du Nil Hotel to a large group of hoteliers from the region could encourage other private investment in the sector.

B. Structural reforms

34. To benefit from its accession to the EAC, the government plans to improve the competitiveness of the economy by implementing structural reforms that are commensurate with the challenges it faces. The reforms will serve as the basis for sustained and shared growth. Thus, the government is embarking on the following reforms.

35. Reform of public financial management will continue. Following the Decree on the General Regulation on Public Budget Management, the government will introduce implementing regulations. For example, adoption of the Decree on fiscal governance, presentation and implementation of the 2012 Budget Law in accordance with the new budget nomenclature; the signing of an order on expenditure commitment comptrollers, and preparation of a manual of procedures for them with a view to starting the trial deployment of an expenditure commitment comptroller in two pilot ministries at end-September 2012. Moreover, to limit the effects of the reduction in budget support, the government will examine, with its development partners, the creation of basket funds in other sectors such as health and statistics.

36. Regarding financial sector reform, there are plans for the Ministry of Finance, in collaboration with the central bank, to set up a unit to coordinate and monitor the strategy and the action plan. The mission of this unit will be: (i) to monitor and evaluate implementation of the strategy and action plan by drawing up beforehand performance indicators and result verification measures; (ii) to serve as an interface between the sector's institutional stakeholders and as a contact point for donors; (iii) to support the authorities in finding finance and mobilizing resources; (iv) to launch an information and awareness-raising campaign to consolidate the reform through the media and other publications. Supervision of the unit will be entrusted to a steering committee, whose tasks will include setting the main guidelines for the conduct of the strategy and implementation of the action

plan. In this connection, the central bank is continuing implementation of projects to computerize and modernize the payments system.

37. To facilitate increased access to formal financial services for the poor, the central bank plans to conduct a national survey on financial inclusion. The survey will allow the central bank *inter alia* to gain a better understanding of the demand for financial services, to gauge the degree of satisfaction among the population, and to adopt strategies to expand access to financial services tailored to the different needs of the poor and to increase their uptake and quality.

38. In the coffee sector, the government plans to relaunch its washing station privatization program to attract foreign investment in the sector, while ensuring that coffee growers can purchase the reserved shares, as provided in the government's divestment strategy (25 percent of the capital). The draft call for tenders for the relaunch of the sale of the remaining 104 washing stations has just been launched. The government also plans to revive the subsector by implementing reforms designed to increase production and reduce the cyclical nature of coffee production. The private sector will play a leading role in this strategy.

39. In regard to the energy sector, the government intends to adopt a two-pronged strategy to tackle the shortage of electrical energy and the poor state of the distribution network, which constitute major obstacles to the competitiveness of the economy and to attracting private investors. Moreover, the government intends to improve the financial situation of REGIDESO by increasing electricity prices and guaranteeing transparency in the electricity pricing mechanism. To improve bill collection, the prepaid system will be extended to all 45,000 customers, including the public sector. All these reforms will be implemented with the technical and financial support of the World Bank under the performance plan program aimed at improving the governance of REGIDESO. The second component consists in increasing production capacity. For this purpose, the government plans to promote the entry of private operators into the electricity production and distribution sector as part of a private-public partnership. In this connection, the government has guaranteed a contract for REGIDESO to purchase electricity with PIVOTECH, a private company, and has raised a loan from EXIMBANK of India for the construction of a hydroelectric dam (Kabu 16), the management of which will be entrusted to REGIDESO.

40. Conscious of the risk that PIVOTECH and Kabu 16 projects might pose to fiscal stability, the Government intends to make the following provisions: With regard to PIVOTECH, in order to reduce the fiduciary risks associated with the selling of electricity by PIVOTECH to REGIDESO, the REGIDESO will regularly replenish an account dedicated to the payment of the invoices coming from PIVOTECH. The amounts paid on this account will be sufficient to cover the invoices of PIVOTEC. Concerning Kabu 16, given the macroeconomic impact of the loan for the construction of the dam, the concessionality requirement of any new debt should also be extended to the REGIDESO in order to take into

account the potential risks on the budget coming from the electricity sector. Moreover, within the framework of the program of reorganization and recapitalization of the electricity company supported by the World Bank, the implementation of the performance plan established between the government and the REGIDESO shall be continued.

41. Supplying Burundi with petroleum products is another important component of the government's energy strategy. The strategy seeks to avoid supply disruptions and/or price surges on the domestic market due to a sharp rise in oil prices on the international market. In this connection, the government has adopted an automatic pricing mechanism based on a formula agreed with all partners in the sector. Nevertheless, effective implementation of the formula is encountering difficulties owing to the volatility of world prices and the delay in updating some of the parameters of the formula. Consequently, the government plans to review all these questions with all parties concerned, including the development partners.

42. As regards improvement of the legal and regulatory framework, progress relates to: (i) promulgation of the new Code governing private and semi-public companies in May 2011; (ii) preparation of the Law on bankruptcy and bankruptcy protection for companies in distress; (iii) preparation of 10 draft implementing provisions; (iv) preparation of a decree implementing the Competition Law; (v) the setting up of an Advisory Committee with the task of updating the Law on the free trade zone to comply with EAC regulations; and (vi) the forwarding to the Senate of the draft law amending Law 1/03 of February 19, 2009 organizing the privatization of semi-public companies, services and works.

43. The government will strive to improve the business climate and raise Burundi to the level of the countries of the subregion with a view to making the private sector a key player in the revival and modernization of the national economy. Other complementary reforms have already been implemented, such as reducing procedures and the number of days needed to start a business and grant a construction permit. In the coming years, the government plans to improve its strategy for promoting the private sector by: (i) supporting entrepreneurship, in particular for young people and women; (ii) continuing its program of modernization of the legal framework and business law, in particular by harmonizing Burundian tax legislation with that of the member countries of the EAC; and (iii) launching public-private partnerships.

V. Growth and Poverty Reduction Strategy Paper

44. On the basis of the encouraging results of the implementation of PRSP-I and the recommendations emerging from the consultation processes held during the first half of 2011, the government has prepared the PRSP, which dovetails with efforts to consolidate peace and revive economic growth. The challenge is to trigger a growth momentum sufficient to create new jobs and generate incomes, in particular for young people, who are most affected by unemployment and which constitutes a main sources of insecurity. The new strategy emphasizes the new development concerns and new directions expressed at the grassroots level, namely: (i) demographic pressure on resources; (ii) the inefficiency of

agricultural production systems; (iii) the need to improve the performance of public expenditure, including aid; (iv) weak level of development of the private sector; (v) persistent energy deficits; and (vi) limited capacity to steer development. To tackle those concerns, the guidelines identified by the PRSP are structured around four strategic pillars:

- Strengthening of the Rule of Law, Consolidation of Good Governance, and Promotion of Gender Equality;
- Transformation of the Burundian Economy to Achieve Growth that is Strong and Creates Jobs;
- Improvement in the Accessibility and Quality of Basic Services and Strengthening of National Solidarity; and
- Management of Land and the Environment in Harmony with Sustainable Development.

45. As part of the ongoing dialogue with development partners, the draft document has taken their comments into account. Preparations for the macroeconomic framework and the medium-term expenditure framework are well under way. The debriefing sessions in the Policy Forum and the forwarding of the document to the Bretton Woods institutions could take place before end-2011.

A. Improvement of statistics

46. The statistical system is one of the weak links in the Burundian economic development program. To eliminate the constraints and make statistics a planning tool for economic development, the government has developed a National Statistics Development Strategy covering the period 2010-2014 and has set up a national statistical data council chaired by the second Vice-President. The strategy seeks to rectify the financial and organizational problems affecting the management and organization of ISTEEBU and to improve the collection and dissemination of statistical data. In this connection, the government plans to reinforce the statistical services of sectoral ministries and establish close cooperation with development partners so as to obtain the financial and technical support necessary to implement the programs of reforms and activities.

B. Program monitoring

47. The results of the program supported by the ECF will be monitored on the basis of the performance criteria, indicative targets, and structural benchmarks described in Tables I.2 and I.4. The information to be reported to the IMF and the definitions of the relevant variables can be found in the attached Technical Memorandum of Understanding. Program implementation, achievement of the related targets, and attainment of the performance criteria will be examined during the first review. The government also stands ready to adopt any new financial or structural measures necessary to ensure the program’s success, in consultation with IMF staff.

Table I.1 Burundi: Performance Criteria and Indicative Targets for 2011

(BIF billion, unless otherwise indicated)

	2010	2011												
	Dec.	Mar.				Jun.[1]				Sep.				Dec.[1]
	Act.	Prog.	Prog. Adj.	Act.	Status	Rev. Prog.	Prog. Adj.	Act.	Status	Rev. Prog.	Prog. Adj.	Act.	Status	Rev. Prog.
Performance criteria														
Net foreign assets of the BRB (floor; US$ million) [2]	84.6	58.3	37.2	87.0	Met	50.0	43.5	71.4	Met	26.1	26.1	31.4	Met	70.3
Net domestic assets of the BRB (ceiling) [2]	105.6	101.9	129.1	86.4	Met	148.9	157.4	121.9	Met	190.7	190.7	167.4	Met	143.6
Net domestic financing of the government (ceiling) [2]	40.6	36.2	63.4	-8.0	Met	65.2	73.6	-15.1	Met	96.1	96.1	17.2	Met	46.6
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0		0.0	Met	0.0	Met	0.0	Met	0.0		0.0	Met	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0		0.0	Met	0.0	Met	0.0	Met	0.0		0.0	Met	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million) [3, 4, 5]	0.0	0.0		0.0	Met	0.0	Met	0.0	Met	0.0		0.0	Met	80.0
Indicative targets														
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0		0.0	Met	0.0		0.0	Met	0.0		0.0	Met	0.0
Reserve money (ceiling)	209.8	176.9		193.9	Not Met	213.5		210.6	Met	224.9		207.4	Met	235.5
Pro-poor spending (floor; cumulative from beginning of calendar year)	323.8	74.6		64.8	Not Met	125.7		167.3	Met	192.2		266.7	Met	372.6
Memorandum item:														
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	101.3	46.8		25.7		54.9		48.3		54.9		56.0		145.2

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

[1] Indicative targets.

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

[3] Continuous performance criterion.

[4] See definitions in TMU.

[5] This US$80 million is limited to the line of credit agreement between the government of Burundi and the Export Import Bank of India to Finance the Kabu 16 hydro-electric plant.

Table I.2. Burundi: Performance Criteria and Indicative Targets for 2012

(BIF billion, unless otherwise indicated)

	2011	2012			
	Dec.[1]	Mar.	Jun.[1]	Sep.	Dec.[1]
	Proj.	Prog.	Prog.	Prog.	Prog.
Performance criteria					
Net foreign assets of the BRB (floor; US$ million) [2]	62.0	17.1	35.3	18.5	59.3
Net domestic assets of the BRB (ceiling) [2]	158.1	187.3	198.7	223.9	187.2
Net domestic financing of the government (ceiling) [2]	41.8	25.7	61.8	104.1	59.5
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of calendar year) [3, 4]	80.0	0.0	0.0	0.0	0.0
Indicative targets					
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	238.1	209.7	245.4	248.6	266.8
Pro-poor spending (floor; cumulative from beginning of calendar year)	368.2	42.0	144.7	230.6	370.1
Memorandum item:					
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	128.6	9.0	16.6	21.4	66.0

Sources: Burundi authorities; IMF staff estimates and projections.

[1] Indicative targets.

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

[3] Continuous performance criterion.

[4] See definitions in TMU.

Table I.3. Structural **Benchmarks for 2011**

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Approval by the cabinet of the general regulation on public budget management (RGGFP).	March 31, 2011	Met with delay	The new budget law is based on the modern principles of fiscal rules and transparency.
Prepare and adopt procedures for the expenditure commitment comptrollers (contrôleurs des engagements de dépenses) consistent with the RGGFP.	November 30, 2011	Met	Key to implementing the new budget organic law.
Financial Sector			
Adoption by the cabinet of the financial sector reform strategy.	March 31, 2011	Met with delay	To modernize the financial system and broaden access to financial services.
Central Bank and Treasury Safeguard measures			
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2010 special audit reports (consistent with the 2010 agreed-upon action plan between Burundi's Central Bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the Central Bank on behalf of the government or its creditors during the first half of 2011.	June 30, 2011	Met with delay	To enhance the safeguard measures in force at the Central Bank and the Treasury.
Submit to the General Council, the audit committee, and the Minister of Finance the report on special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors— that took place in the first half of 2011.	November 30, 2011	Met	To enhance the safeguard measures in force at the Central Bank and the Treasury.

Table I.4. Structural Benchmarks for 2012

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Adopt decree on budget governance	June 30, 2012		Will facilitate realigning current regulation with organic law
Deploy expenditure commitment controllers in the ministries of health and agriculture.	September 30, 2012		Improve budget discipline in line ministries.
Approve plan for reorganization of Ministry of Finance and Plan.	September 30, 2012		The current allocation of administrative resources is not well-suited for medium-term reforms included in the budget organic law (i.e. program budgeting and medium-term programming).
Tax Policy			
Prepare a report aimed at: i) quantifying foregone revenue by tax exemptions in current legislation; ii) identifying all codes and other legal texts in which tax exemptions need to be removed in the context of passing the new income tax law, consistent with Fund TA	September 30, 2012		Quantify the fiscal cost of tax exemptions in current legislation. Ensure consistency of investment incentive policy across legislation. Align tax exemptions with other EAC countries and minimize revenue loses
Debt Management			
Undertake an assessment of debt management by the World Bank and develop an action plan to improve capacity.	September 30, 2012		Improve debt management capacity of the Finance ministry
Central Bank and Treasury Safeguard measures			
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in GPO Deloitte's 2011 special audit report; (ii) verify on a test basis the controls on significant domestic disbursements and transfers–on behalf of the government or its creditors–that took place in the period from July 2011 through March 2012, and (iii) evaluate the implementation of the new decree on management of public expenditures that was approved to replace the 1964 RGCP.	March 31, 2012		To enhance the safeguard measures in force at the Central Bank and the Treasury.
Submit to the General Council, the audit committee, and the Minister of Finance the report on special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors— that took place in the period from July 2011 through March 2012.	June 30, 2012		To enhance the safeguard measures in force at the Central Bank and the Treasury.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bujumbura, November 23, 2011

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

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

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

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

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

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

Definitions and measurement

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

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

Adjuster for changes in the compulsory reserves coefficients

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

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

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

9. The program includes a ceiling on **new nonconcessional external debt** contracted or guaranteed by the government or the BRB. This performance criterion applies to the contracting or guaranteeing by the government, local governments, the BRB and REGIDESO of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received (including leases). The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government. The term "debt" shall be understood as defined in the Executive Board Decision 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)). 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. The grant element of debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the

debt. The PV of debt at the time of contracting is calculated by discounting the future stream of payments of debt service due on this debt. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. 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 rescheduling arrangements, borrowings from the IMF and any Burundi franc-denominated treasury securities held by nonresidents. A ceiling of US$ 80 million is set forth in Table I.2 which is to be used exclusively for the line of credit contracted by the government of Burundi with the Export Import Bank of India for the financing of the Kabu 16 hydroelectric plant.

10. **The stock of short-term external debt** with a maturity of less than one year owed by the government is to remain at zero under the program. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of one year or more are considered medium-term or long-term loans. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the IMF, and any Burundi franc-denominated treasury securities held by nonresidents. As of September 2007, the stock of short-term debt outstanding was nil.

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

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

External financial assistance adjustor

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

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

15. The floor on the stock of net foreign assets of the BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up to a maximum of US$40 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The program exchange rate for end- December 2011 is 1307.0 and at end-March 2012 is 1311.8.

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

B. Provision of Information to IMF Staff

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

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

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

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on foreign exchange cash flow (BRB Foreign Banking Operations Department);
- the monetary survey, including the breakdown of the BRB and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including pro-poor spending (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt,

including amounts due and paid, on interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);

- a detailed breakdown of the stock of domestic payment arrears for the current fiscal year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program (REFES).

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

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

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

INTERNATIONAL MONETARY FUND

BURUNDI

Seventh Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for a New Three-Year Arrangement Under the Extended Credit Facility

Informational Annex

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

December 27, 2011

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 82.96 million (107.7 percent of quota) at end-Oct 2011.
- **Relations with the World Bank**. Describes the joint World Bank-IMF program.
- **Relations with the African Development Bank**. Describes the AfDB Group's operations and portfolio.
- **Statistical Issues**. Assesses the quality of statistical data. Shortcomings in economic statistics are hampering surveillance.

Contents Page

BURUNDI: RELATIONS WITH THE FUND
(As of October 31, 2011)

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 (Exchange Rate)	76.64	99.53
Reserve Tranche Position	0.36	0.47

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	73.85	100.00
Holdings	85.00	115.10

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	82.96	107.74

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Jul 07, 2008	Jan 31, 2012	51.20	46.20
ECF [1/]	Jan 23, 2004	Jan 22, 2008	69.30	69.30
ECF [1/]	Nov 13, 1991	Nov 12, 1994	42.70	17.21

[1/] Formerly PRGF.

VI. Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	2012	2013	2014	2015
Principal		5.01	6.73	10.56	12.49
Charges/Interest		0.20	0.19	0.16	0.13
Total		5.21	6.92	10.72	12.62

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Safeguards Assessments

An update assessment of the Banque de la République du Burundi (BRB) was completed in June 2008 and found that since the previous assessment certain safeguards had been strengthened (e.g., external audits have been completed on a timelier basis and audited financial statements comply with IFRS and are published). However, the 2008 assessment also identified significant control weaknesses and recommended more robust controls over domestic disbursements to the government and its creditors, including contracting an external auditor to review such controls (Prior Actions for the approval of the arrangement). Other key safeguards recommendations include a system to monitor the status of audit and safeguards recommendations and issuing guidelines for investment operations. The authorities have already taken steps to implement these recommendations.

VIII. Exchange Arrangements

While the de jure exchange rate arrangement is floating, the de facto exchange rate arrangement is classified as a stabilized arrangement against the dollar. The US dollar is the intervention currency. On September 30, 2011, the official exchange rate was BIF 1271.7 to the US dollar. In 2003 the central bank eliminated most remaining exchange restrictions on current international transactions and delegated authority to commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered to 50 percent and in early 2005 it was eliminated. The central bank has admitted foreign exchange bureaus to the weekly auctions. Most external arrears to bilateral and multilateral creditors were cleared by the end of 2005. In December 2006 the government published a new foreign exchange regulation, the Foreign Exchange Regulation of 2006 that liberalized access to foreign exchange for current transactions and removed one multiple currency practice. In June 2010, the government replaced the Foreign Exchange Regulation of 2006 with the Exchange Regulation of 2010. The new regulation became operational in July 2010.

Burundi has availed itself of the transitional arrangements of Article XIV since it joined the Fund in 1962 but no longer maintains any exchange restrictions or multiple currency practices that relate to that article. It does have one multiple currency practice that is inconsistent with Article VIII, Section 2(a): the exchange rate used for government transactions differ by more than 2 percent from market exchange rates. Burundi maintains certain foreign exchange restrictions for security reasons and has notified the Fund of those restrictions pursuant to Decision 144-(52/51). Burundi modified the 2010 foreign exchange regulation on March 3, 2011. Consequently the two foreign exchange restrictions mentioned in Country Report No. 11/104 relating to: (i) a tax clearance requirement for certain current international transactions such as payments of moderate amounts for amortization of loans or for depreciation of direct investments by nonresidents and (ii) the limitations on the availability of foreign exchange for the making of payments and transfers for current international transactions based on noncompliance with obligations that are unrelated to such transactions are no longer in place.

IX. Article IV Consultation

In accordance with Decision No. 14747-(10/96), adopted September 28, 2010, Burundi is on the 24-month Article IV cycle. The 2008 Article IV consultation was completed by the Executive Board on July 23, 2010, (IMF Country Report No. 10/313), along with the fourth review of the ECF arrangement.

In concluding the 2010 consultation, Executive Directors acknowledged the commendable progress that Burundi made in implementing its first ECF-supported program in a difficult postconflict environment. They agreed that fiscal sustainability in the face of a heavy debt burden will depend on broadening the revenue base and improving the composition of spending while financing the budget though grants and highly concessional external resources. Directors encouraged the authorities to continue their efforts to reform the financial sector by improving banking supervision, and addressing weaknesses in the banking system, notably concentration risk. Directors also saw the need to accelerate structural reforms, especially in the coffee sector, and welcomed Burundi's membership in the East African Community.

X. Technical Assistance

December 2011	AFRITAC mission on PFM reform
October 2011	AFRITAC mission on PFM reform
July 2011	STA mission on Balance of Payments statistics
March 2011	FAD mission on implementing the organic budget law
January 2011	MCM mission on Foreign exchange operations
September 2010	FAD mission on implementing the organic budget law
November 2010	MCM mission on monetary operations
Oct 2010	FAD mission on Tax administration.
April 2010	MCM mission on Foreign exchange operations.
November 2009	AFRITAC mission on VAT implementation.
September 2009	MCM mission on BRB capacity building and public debt management
June 2009	MCM multitopic mission
April 2009	FAD mission on implementing the organic budget law
March 2009	MCM mission on monetary operations
March 2009	MCM mission on foreign exchange
March 2009	MCM mission on internal audit
March 2009	MCM mission on reserve management
February 2009	AFRITAC mission on banking regulation and supervision
February 2009	FAD PSIA mission on fuel pricing policy and social protection

January 2009	MCM FSAP mission
December 2008	AFRITAC mission on fiscal administration
December 2008	MCM multitopic mission
December 2008	MCM mission on internal audit
August 2008	MCM mission on organizational, human resources, and communication reforms
July 2008	MCM mission on foreign exchange
June 2008	AFRITAC mission on banking regulation and supervision
Oct 2008	FAD mission for installation of a PFM resident advisor
December 2007	AFRITAC statistics mission on national accounts and consumer price index
November/December 2007	STA monetary and financial statistics mission
November 2007	AFRITAC mission on building capacity in banking supervision
November 2007	FAD Tax policy mission
November 2007	STA monetary statistics mission
September 2007	MCM multitopic mission
September 2007	AFRITAC mission on tax revenue administration
September 2007	AFRITAC mission on building the capacity of the central bank
September 2007	FAD public financial management mission
July 2007	AFRITAC PFM mission on payroll control
June 2007	AFRITAC PFM mission on treasury operation and control
June 2007	MCM technical assistance mission
June 2007	AFRITAC mission on building debt management capacity
March 2007	FAD resident expert on public accounting
December 2006	FAD public expenditure management mission
November 2006	MCM banking supervision mission
September 2006	FAD customs and tax administration mission
April 2006	MCM foreign exchange reserve management mission
March 2006	STA mission to prepare the metadata and medium-term action plan
March 2006	MCM/LEG joint Article VIII mission
January 2006	LEG AML/CFT legislative drafting mission

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]	832.6
of which: IMF assistance (US$ million)	27.87

(SDR equivalent in millions)	19.28
Completion point date	Jan. 2009
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	19.28
Interim assistance	0.26
Completion point balance	19.02
Additional disbursement of interest income [2]	3.07
Total disbursements	22.35

[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 cannot 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.

XII. **Resident Representative**:

A part-time resident representative took up the post in Oct 2005 and an office with an administrative assistant opened in January 2006 in Bujumbura. Mr. Koffi Yao has been the resident representative since January 2010.

II. Burundi: Joint World Bank–IMF Work Program, 2011–13

Title	Products	Provisional Timing of Mission	Expected Delivery Date
	A. Mutual Information on Relevant Work Programs		
Bank work program	1. Public Expenditure Review	February 2012 (identification) June 2012 (Main mission)	September 2012
	2. Public Expenditure Review Policy Note		May 2012
	3. ERSG-5 (Budget support)	Dec. 2010 – Jan. 2011 (Identification) June 2011 (pre- appraisal) September 2011 (appraisal)	December 2011
	4. ERSG-6 (Budget support)	January-February 2012 (identification) April 2012 (pre- appraisal) May 2012 (appraisal)	August 2012
	5. Diagnostic Trade Integration Study - Update (DTIS)	November 2011 (Identification) May 2012 (main mission)	June 2012
IMF work program	1. Seventh ECF review 2. 1st Review of New ECF 3. 2nd review of new ECF	Nov 2011 November 2012 June 2012	Jan 2012 Nov 2012 July 2012
	B. Requests for Work Program Inputs		
Fund request to Bank	1. Progress report on reform implementation of reforms in REGIDESO		March 2012
	C. Agreement on Joint Products and Missions		
Joint products	JSAN on PRSP		April 2012

III. BURUNDI: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP
(As of December 6, 2011)

Burundi has been a member of the African Development Bank (AfDB) Group since the group was founded in 1964. AfDB 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 help postconflict countries 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 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 an arrears clearance proposal for Burundi whereby the balance of arrears was settled with the help of donors and the PCCF before the decision point for the enhanced HIPC Initiative.

On April 21, 2009, under the enhanced framework of the Heavily Indebted Poor Countries (HIPC) Initiative, the Board of Directors of AfDB approved AfDB's share of the HIPC debt relief in an amount equivalent to USD 150,200,000 in Net Present Value (NPV) terms as of the end of 2004. The Board of Directors also approved Burundi's qualification for debt relief under the Multilateral Debt Relief Initiative (MDRI), in an amount of US$ 15.38 million, (UA 10.48 million), in nominal terms.

In support of the Government's economic and social program, the Board approved the Country Strategy Paper (CSP) in October 2008. The CSP covers the period 2008 to 2011 and focuses on 2 pillars of the CSLP namely, (i) support to effective government by improving economic governance and the functioning of key public sector institutions, and (ii) increase employment opportunities through developing infrastructure and targeted interventions in the agricultural sector. The Country Strategy Paper Mid-Term Review and Country Portfolio Review have been presented to CODE on 30th of November 2010 and confirmed the relevance of the pillars. The Bank Group intervenes actively in infrastructure (transport, water and sanitation, and energy), agriculture, governance and social sectors. The Bank ongoing portfolio comprises seven (7) national operations for a total UA 112.23 million. The road sector accounts for 58.9% of the portfolio, followed by the social sector (17.7%). There are six (6) active multinational operations for UA 117.7 million, mostly in the road sector (70.1%).The amount of 7 million UA for the fourth phase of Burundi's "Programme d'Appui aux Réformes Economiques" (PARE IV) has been fully disbursed in 2011.

The 2012-2016 CSP will be presented to the Board of Directors on January 11th, 2012. The CSP proposed strategy emphasizes selectivity, with two complementary pillars, namely (i) strengthening state institutions and (ii) infrastructure improvements in order to promote inclusive growth and development. The selection of these pillars is consistent with the Bank's comparative advantage in the infrastructure sector, as well as its value-added in the area of support of reforms, good governance and institutional capacity building. The Bank plans to support Burundi trough infrastructure projects (mainly transport and energy); a two tranches GBS, namely PARE V, amounting of UA 12 million for the period 2012-2013 and capacity building.

The following table provides an overview of AfDB's current operations and pipeline in Burundi.

Sector	Project Name	Amount (*million UA*)
Agriculture	Watershed Development Project	9.00
	Lake Tanganyika Integrated Management Project	4.96
	Bugesera PPF Studies	0.32
Energy	Electricity Infrastructure Rehabilitation/ Expansion	7.32
Water and Sanitation	Water Infrastructure Rehabilitation/ Expansion	12
Social Sector	Multisector Reintegration Project	9.81
	Employment Creation Project	10.00
Multi Sector	Governance Structure Support Project	1.5
	Economic Reform Support Programme III	10
Multinational	Bugesera Multinational Project	15.02
	Kicukiro (Rwanda) – Kirundo (Burundi) Road	14.9
	Isaka-Kigali Railway Feasibility Study Phase II	0.57
	Nyamitanga-Ntendezi-Mwityazo Road	49.38
	NELSAP Interconnection	5.05
Total (Public Sector only)		**64.91**
Total (Public and Multinational)		**159.95**

IV. BURUNDI: STATISTICAL ISSUES
(As of December 6, 2011)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has serious shortcomings that significantly hamper surveillance. The most serious shortcomings affect national accounts, government finance, and balance of payments statistics. Insufficient funding, staffing shortages and lack of equipment, along with coordination difficulties among responsible institutions, impede the timely production and dissemination of macroeconomic statistics.
Real sector statistics: Serious deficiencies in real sector data compilation hamper economic analysis and management. National accounts statistics are compiled infrequently by ISTEEBU, the national statistical office. Source data on agriculture, the most important economic activity, is inadequate. Consequently, there is a high degree of uncertainty regarding estimates of the level and the growth rate of GDP, components of expenditure, and all ratios to GDP. Annual national accounts estimates provided to the Fund, are not compiled, but rather, are derived from a macroeconomic projection model and certain base year estimates for 1998 and 2005. Since 2007, ISTEEBU has started the process for improvement of national accounts statistics with the assistance of AFRITAC. National accounts are now established on the basis of *SNA 1993* (partially) using ERETES software with 2005 as base year. Compilation of GDP estimates for the years 2007 and 2008 is under progress. Data on non-financial corporations is also a major area of concern for national accounts compilers. The monthly consumer price index, features expenditure weights derived from a dated 1991 household expenditure survey and covers only the capital city, leading to inaccurate measurement of inflationary pressure. No producer price indices are compiled. Limited labor market statistics are available, thus hampering surveillance.
Government finance statistics: Burundi has benefitted from technical assistance provided by the World Bank and Fiscal Affairs Department in the areas of public financial management information systems and public expenditure management, as well as Statistics Department (STA) training in the compilation of government finance statistics. Nevertheless, government finance statistics continue to suffer from weaknesses in coverage, accuracy, consistency, and timeliness. Earlier this year, Burundi has accepted to participate in the GFS module under the Enhanced Data Dissemination Initiative – EDDI. The GFS module has as its main objective to improve the quality and dissemination of fiscal statistics using the guidelines of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). The support under the module consists mostly of a series of technical assistance missions over the next 3 to 5 years. The first mission is scheduled to take place in April 2011.
Monetary and financial statistics: The monetary and financial statistics are now compiled following the recommended methodologies of the IMF's *Monetary and Financial Statistics Manual (2000)*, and are broadly adequate for both surveillance and harmonization with the monetary statistics of other East African Community member countries. Transactions with the IMF are reflected incorrectly—the amount of loans received from IMF differs from the IMF records, misrepresenting foreign liabilities of the central bank. STA informed the central bank of the issue, the resolution of which is pending. Because of the current payment system, there are differences between the central bank and other depository corporations (ODC) records. Normally, transactions between the central bank and ODC show up in ODC balance sheet with one-day lag that affects other items (net) (OIN) in the Depository Corporations

<table>
<tr><td colspan="2">survey. The liabilities of three banks in liquidation are shown in the central bank balance sheet; however, the information on these banks is not included in the summary of ODC data.</td></tr>
<tr><td colspan="2">External sector statistics: Annual balance of payments and international investment position statistics are compiled by the BRB according to the fifth edition of the Balance of Payments Manual (BPM5). However, severe coverage and measurement difficulties impart a high degree of uncertainty to external sector statistics and surveillance. For example, there are significant unrecorded imports and exports (particularly coffee and tea) of merchandise and services, and while adjustments are made, the uncertainty remains. For both services and income, the accuracy of the source data is not routinely assessed against other data sources. Similarly, measurement of capital and financial account transactions relies on Burundi's International Transaction Reporting System, which is known to have incomplete coverage. Further actions are required to improve the accuracy and reliability of external sector data.</td></tr>
<tr><th colspan="2">II. Data Standards and Quality</th></tr>
<tr><td>Burundi does not participate in the General Data Dissemination System (GDDS). Burundi could benefit from participation in the GDDS, as a framework to improve its macroeconomic statistics and coordination between institutions.</td><td>No data ROSC is available.</td></tr>
<tr><th colspan="2">III. Reporting to STA</th></tr>
<tr><td colspan="2">Summary government finance transactions data are reported for publication in International Finance Statistics (IFS). The BRB has completed migration to the Standardized Report Forms for the submission of its monetary statistics to the Fund; detailed monetary statistics are published in the IFS. Balance of payments and international investment position data are published in IFS and in the Balance of Payments Yearbook.</td></tr>
</table>

Burundi: Table of Common Indicators Required for Surveillance
(As of December 6, 2011)

	Date of Latest Observation	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2010	Oct 2011	M	M	M
Reserve/Base Money	Nov. 2011	Nov 2011	M	M	M
Broad Money	Nov. 2011	Nov 2011	M	M	M
Central Bank Balance Sheet	Nov. 2010	Nov 2011	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2010	Nov 2011	M	M	M
Interest Rates[2]	Oct. 2011	Nov 2011	M	M	M
Consumer Price Index	Oct. 2011	Oct 2011	M	M	M
Revenue, Expenditure, Balance and Composition of Financing—General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[4]—Central Government	Nov. 2011	Nov 2011	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	NA	NA	NA	NA	NA
External Current Account Balance	2010	Nov2011	A	A	A
Exports and Imports of Goods and Services	2010	Nov 2011	M	M	M
GDP/GNP[6]	2008	Nov 2011	A	A	A
Gross External Debt	2010	Nov 2011	M	M	A
International Investment Position[7]	2010	Oct 2011	A	A	A

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means, as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.

[5] Including currency and maturity composition.

[6] Last observed data was Dec 2008.

[7] Includes external gross financial asset and liability positions vis-a-vis nonresidents.

[8] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

BURUNDI

Joint IMF/World Bank Debt Sustainability Analysis 2011

Prepared by the Staffs of the International Monetary Fund
and the International Development Association

Approved by Saul Lizondo and Dominique Desruelle (IMF) and
Marcelo Giugale and Jeffrey D. Lewis (IDA)

December 27, 2011

Given its narrow export base and low capacity of government institutions, Burundi's risk of external debt distress remain high, unchanged from the 2010 debt sustainability assessment. The present value (PV) of debt-to-exports ratio exceeds the policy dependent threshold in the medium-term, while alternative scenarios and stress tests suggest that two debt indicators will breach indicative thresholds. The public DSA suggests that while Burundi is in a position to service its public and publicly guaranteed debt, a lower growth would lead to a considerable deterioration of debt indicators. Burundi should continue to implement prudent borrowing policies and accelerate structural reforms for private sector led growth, particularly in infrastructure and export diversification, to mitigate risks to debt sustainability.[1]

I. Background

1. **The last Low Income Country Debt Sustainability Analysis (LIC DSA) conducted in 2010 concluded that Burundi would continue to face a high risk of debt distress.**[2] The PV of debt-to-exports ratio exceeded the country-specific policy-dependent threshold by a wide margin throughout the projection period, reflecting the country's narrow export base. In addition, under alternative scenarios and related stress tests, all but one debt indicators exceeded the country-specific debt burden thresholds.

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[1] The DSA has been produced jointly by IMF and World Bank staffs.

[2] See IMF Country Report No.10/313, Sup. 2; and IDA/R2010-0346/1, Annex 2.

2. **Burundi is a weak policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework (DSF).** Burundi's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) averaged 3.07 (on a scale of 1 to 6) during 2008–10, making it a weak policy performer.[3]

3. **Burundi's stock of external public and publicly guaranteed (PPG) debt has declined significantly since 2008.** This reflects debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Nominal external PPG debt amounted to US$455 million or 22 percent of GDP in 2010 while the PV of debt-to-exports ratio stood at 150.8 percent.[4] About 90 percent of Burundi's outstanding nominal external PPG debt was owed to multilateral creditors, with bilateral creditors accounting for the remainder. Efforts to secure HIPC Initiative debt relief from all creditors are continuing.[5]

Text Table 1. Burundi: Public External Debt, 2008-10
(Millions of US dollars)

	2008			2009			2010		
	Nominal Stock	Percent of GDP	Percent of Total	Nominal Stock	Percent of GDP	Percent of Total	Nominal Stock	Percent of GDP	Percent of Total
Total Debt	1,518	98	100.0	376	21	100.0	455	22	100.0
Multilateral	1,313	84	86.5	338	19	89.9	411	20	90.2
Bilateral	205	13	13.5	38	2	10.1	45	2	9.8
Paris club	151	10	10.0	1	0	0.4	1	0	0.3
Non-Paris club	53	3	3.5	36	2	9.7	43	2	9.5
Commercial	0	0	0.0	0	0	0.0	0	0	0.0

Sources: Burundian authorities and Bank-Fund staffs estimates.

[3] Burundi showed a slight improvement in its CPIA score from the 3.05 averaged during 2007–09. A score below 3.25 corresponds to a poor policy performance, according to the LIC Debt Sustainability Framework (DSF).

[4] General government, on a gross basis. As noted in the Technical Memorandum of Understanding, debt contracted by state-owned enterprises (SOEs) with a government guarantee is included in debt limits and therefore in the DSA.

[5] Among multilateral creditors, agreements have been signed with BADEA, the EU, and the OFID Fund, while negotiations are ongoing with IFAD. Among non-Paris Club creditors, agreements have been signed with Kuwait, Libya, Saudi Arabia and the UAE. The People's Republic of China cancelled all of its claims during the interim period. The terms of some of the signed agreements were less favorable than those envisaged under the HIPC Initiative.

4. **Domestic debt comprises a significant component of total public debt.** About 40 percent of Burundi's total public debt was held by domestic creditors in 2010, representing about 15 percent of GDP, up from 11.5 percent in 2008. The main reason for the increasing importance of domestic debt was the cancellation of external public debt as a result of HIPC Initiative and MDRI debt relief. Most domestic public debt is owed to the central bank and has been used to finance the government's treasury needs.

II. Underlying DSA Assumptions

5. **The current macroeconomic outlook takes into account changes in initial conditions (Text Table 2).** Inflation in 2010 was significant below its level previously projected (in the 2010 DSA) as a result of lower food and oil prices. Fiscal deficit was also below initial projections, due to an improved revenue performance and donor support despite a rise in total public expenditure in an elections year. Moreover, the external current account deficit narrowed less than expected due to the negative terms of trade shock driven by lower export prices for coffee, which accounts for about 70 percent of total exports.

Text Table 2. Burundi: Macroeconomic Assumptions and Outcomes, 2009-10

	2009		2010	
	2010 DSA	Act.	2010 DSA	Act.
	(Annual percentage change)			
National income and prices				
Real GDP growth	3.5	3.5	3.9	3.8
Consumer prices (end of period)	4.6	4.6	8.0	4.1
External sector				
	(Percent of GDP, unless otherwise indicated)			
General government				
Revenue (excluding grants)	13.6	13.6	13.5	14.6
Total expenditure and net lending	28.8	32.2	36.5	37.3
Overall balance				
Cash basis, after non-HIPC grants)	-3.8	-3.8	-3.7	-3.3
External sector				
Current account balance	-10.6	-11.5	-6.6	-9.9
Gross official reserves				
End of period (US$ million)	323.0	323.0	310.7	332.0
In months of imports of the following year	6.5	5.0	6.0	4.8

Sources: Burundian authorities and Fund staff estimates.

6. **Provided the security situation continues to improve, Burundi's medium and long-term outlook remains favorable (Box 1).** Real GDP growth is expected to average 6.7 percent over the long term, contingent upon continued consolidation of peace and security, a stable macroeconomic environment, and steadfast implementation of structural reforms in areas including public sector governance, business environment, as well as leveraging Burundi's integration to the East African Community (EAC) as a growth engine. Total investment is expected to average about 18 percent of GDP over the medium-term, a level considered supportive of economic growth. Fiscal policy will be supportive of economic growth and poverty reduction, while safeguarding debt sustainability. The fiscal deficit is expected to gradually decline during the later years. Revenue mobilization, reinforced by ongoing reforms being implemented by Burundi Revenue Authority, will lead to a gradual increase in government revenues, while expenditure will gradually decline to more sustainable levels. Exports of goods and services will be driven by investments in key export sectors over the medium term (coffee, tea, sugar, horticulture, and tourism). The external current account deficit, including grants, will decline over time, despite lower donor support. Financing will continue to be in the form of grants and highly concessional loans.

Investment spending will be critical for achieving higher growth. Important areas of investment include infrastructure renovation (power, transport, and communications) and export-generating activities such as tourism and mining. Key projects to be undertaken over the short to medium term include the development of Burundi's domestic hydroelectric potential (Kaganuzi, Mpanda, Kabu 16) and provision of adequate power lines with necessary substations to all provincial capitals. The rehabilitation and maintenance of national highways and community and rural road networks will also contribute to reducing Burundi's infrastructure gap. Implementing fundamental structural reforms—which has already begun—is needed to facilitate the necessary increase in private investment. These reforms include measures to improve the business regulatory environment and increase competition. There is scope for a significant increase in growth in the medium and long term, should potential investments in the mining sector materialize.[6]

7. **Three essential differences underpin the current macroeconomic framework compared to the one used in the previous LIC DSA: (**i) real GDP and export growth are higher over the medium term, reflecting the impact of reforms in the coffee sector, the spillovers from ongoing energy projects, and investments by the private sector on non-traditional sectors; (ii) official transfers are assumed to decline over the projection period, mostly due to policy changes in development partners assistance modalities; and (iii) nominal GDP is higher as a result of the rebasing of national accounts and also to the increase in inflation in 2011 as well.

8. **Risks to the macroeconomic outlook stem mostly from the security situation and the external environment.** The Euro Area debt crisis is likely to engender negative spillovers through the trade channel and is generating uncertainty in donor support. Supply shocks could lead to higher oil prices, further aggravating inflationary and budgetary pressures.

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[6] As was mentioned in the 2010 DSA citing the World Bank's Country Economic Memorandum (2010), growth was expected to be stronger averaging 8.8 percent over 2011–15 if the various investments in infrastructure (including in roads and energy) in the amount of $556 million were materialized, and improved business environment and public finance management (PFM) reforms were accelerated and translated into a better FDI growth.

Box 1: Burundi: Rebasing of National Accounts

Rebased national accounts for 2005–08 were adopted by the government in November 2011. The revisions included improved data sources, a change in the base year from 1986 to 2005, and updated compilation methodologies (the 1993 UN System of National Accounts).

Under the new data, nominal national incomes have been revised up by an average of 36 percent during 2005–08, while the average real growth rate for these years is about 1.5 percentage point higher than earlier estimated. Using the rebased data, the gross national income per capita is estimated to have reached US$ 245 in 2010.

Official national accounts data have not been released since 1998 due to years of conflict and weak institutional capacity. Since 2006, Burundi has become a member of the *Observatoire économique et statistique d'Afrique Subsaharienne* (Afristat). This membership has benefitted Burundi in several regards, including in terms of technical assistance in updating national accounts. National account data for 2009 and 2010 is planned to be released in 2012.

Box 2: Burundi: Main Macroeconomic Assumptions, 2011–31

Real GDP growth is expected to accelerate to 6 percent over the medium term reflecting the consolidation of peace and security, the easing of infrastructure bottlenecks including higher electricity generation, accelerated implementation of other structural reforms including PFM, investment climate, coffee sector reform, and EAC integration. Average growth over the projection period is expected to be about 6.7 percent, compared with an average of 4.1 percent during 2008–10. Total investment is expected to average about 18 percent of GDP over the medium term, a level considered to be supportive of long-term economic growth. Key areas include infrastructure rehabilitation (power, transport, and communications) to address existing bottlenecks and export-generating activities such as tourism and mining.

Inflation is assumed to decline gradually over the medium term and stabilize at about 6 percent over the long term, in line with the EAC convergence criterion.

Fiscal policy would be supportive of economic growth and poverty reduction, while safeguarding macroeconomic stability in line with EAC convergence requirements and debt sustainability, which carries a high risk. Primary deficit is expected to average 2.3 percent of GDP over the medium term and then decline by 1 percentage point over the longer term.

- **Revenues**, excluding grants, are projected to stabilize at about 17 percent of GDP over the end of the projection period owing to the widening of the tax base through tax administration reforms.
- **Primary expenditure** is expected to gradually decline over time to about 30 percent of GDP by 2016. This path is consistent with a gradual reduction of current spending in favor of higher pro-poor spending. Public investment is expected to gradually decline over time to about 8 percent of GDP on average over the projection period while private investment gradually rises as the private sector becomes the engine of growth.

Exports of goods and services are projected to increase by an average of 7.6 percent over the medium term reflecting the impact of coffee sector reforms; they are projected to increase by 11.1 percent over the longer term as investment in new export sectors (horticulture, mining, and tourism) begins to yield results. In volume terms, exports of goods are projected to stabilize at about 7.5 percent over the medium term, before gradually declining to about 6 percent in the later years.

Imports of goods and services will accelerate from an average of about 5 percent over the medium term to about 8 percent over the longer term driven by strong growth in construction sector with the support of the Burundian Diaspora and as the tourism sector is developing. With emergency and reconstruction-related imports winding down, merchandise import volumes are expected to move broadly in line with real GDP growth in the later years.

The current account deficit, including grants, is expected to stay around 10 percent of GDP over the medium term. It will subsequently deteriorate as official transfers begin to wane, before declining gradually to about 7.5 percent at the end of the projection period. Excluding transfers, the current account deficit is expected to decline from 30 percent of GDP in 2011 to about 12 percent at the end of the projection period. The authorities will rely largely on grants and highly concessional loans to finance the current account deficit. This will require stepped up efforts by the authorities to implement governance reforms. The national governance strategy recently adopted by the Cabinet and the publication of voted and executed budgets demonstrate government's commitment to improved governance.

External financing will rely increasingly on loans in the long term, as grants' share of total financing gradually subsides. Grant support is assumed to decline from 24 percent of GDP in 2011 to about 13.4 percent in 2016 as humanitarian assistance gradually declines. Loans are assumed to gradually decline from about 3 percent of GDP in 2010 to about 1 percent in the later years. New borrowing (excluding EXIM Bank of India for the construction of Kabu 16 hydroelectric plant) is assumed exclusively on highly concessional terms with a grant element of 50 percent until 2017. From 2018 onward and as debt management capacity improve, one-third of the new financing will assumed on less concessional terms (35 percent grant element).

III. EXTERNAL DSA

9. **Under the baseline scenario, there is a breach of the PV of debt-to-exports indicative threshold.** The PV of debt-to-exports ratio will remain above the 100 percent threshold over the medium-term, mostly due to its narrow export base, and decline below its threshold toward the end of the projection period. In contrast, the PV of debt-to-GDP, the PV of debt-to-revenues, the debt service to exports ratio, and the debt service to revenue ratios are expected to remain well below the indicative policy dependent thresholds throughout the projection period (Text Table 3 and Table 1).

Text Table 3. Burundi: Summary of Baseline External Debt Sustainability Indicators

(percent)

	Indicative Threshold	2011	2021	2031	Average 2011-31
PV of debt to GDP	30	13.9	7.4	6.5	9.1
PV of debt to exports	100	174.4	108.1	88.9	123.2
PV of debt to revenue	200	86.8	52.4	53.3	62.5
Debt service to exports	15	3.5	7.9	3.9	6.9
Debt service to revenues	25	1.7	3.8	2.4	3.4

Source: Burundian authorities; Bank-Fund staff estimates and projections.

10. **Alternative scenarios and stress tests highlight the risk of further deterioration in the PV of debt-to-exports ratio.** The most severe breach of the indicative threshold for the PV of debt-to-exports ratio occurs under a decline in export value growth (Table 2, test B2). Under these circumstances, the PV of debt-to-exports ratio at the end of the projection period is higher by about 78 percentage points compared to the baseline scenario. This result underscores the importance of improvements in the business environment to encourage investment flows, and export diversification to reduce vulnerability to shocks. The alternative scenario based on new borrowing at higher interest rates (Table 2, scenario A2) shows that there is a protracted deterioration in Burundi's PV of debt-to-exports ratio compared to the baseline scenario. This result underscores the need for continued reliance on grants and highly concessional financing. Finally, the historical scenario (Table 2, scenario A1) suggests a sizable and protracted deterioration of the PV of debt-to-exports ratio. While important, the results of the historical scenario should be interpreted with caution, given Burundi's history of conflict.[7]

[7] This argument applies also to stress tests. In particular, the standardized stress test assuming export value growth at historical average minus one standard deviation in 2011–12 results in a

(continued)

11. **Alternative scenarios and stress tests suggest that the narrow export base is the most significant factor of vulnerability to Burundi's debt sustainability.** The indicative threshold for the debt service to exports ratio will be breached by a small margin in the medium-term under the combination stress test (Table 2, scenario B5). A similar breach occurs under the historical exports stress test (Table 2, scenario B2).[8] Finally, the indicative threshold for the PV of debt to GDP, PV of debt to revenue, and debt service to revenue ratios are not breached under any alternative scenario and stress test.

12. **In staffs' view Burundi faces a high risk of debt distress.** The preceding analysis suggests there is a breach of the PV of debt-to-exports threshold under the baseline scenario, while alternative scenarios and stress tests suggest that two debt burden thresholds are likely to be breached under less favorable scenarios and shocks.

13. **The authorities broadly share staffs' assessment.** They have expressed their commitment to continue to rely on highly concessional loans and grants to meet their financing needs, while advancing structural reforms to boost export capacity. They plan to request from the World Bank a Debt Management Performance Assessment (DeMPA) technical assistance that will prepare the groundwork for the development of a medium term debt strategy (MTDS).

IV. PUBLIC DSA

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

15. **The alternative scenarios and stress tests show that public debt indicators can worsen rapidly, especially in the absence of fiscal consolidation, and lower economic growth.** Under the scenario of lower GDP growth (Table 4, scenario A3), the PV of-debt-to revenues ratio at the end of the projection period will worsen substantially compared to the baseline scenario. This result highlights the need for fiscal prudence and avoidance of past unsustainable borrowing policies. Preparation of a medium-term debt strategy will be essential

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sharp reduction of exports. The reason is the large standard deviation of exports reflecting the country's conflict, and export cyclicality (primarily owing to the old age of coffee trees).The year 2009 is excluded from the calculation of the 10-year standard deviation and historical average due to the accounting effects of the HIPC debt relief.

[8] See footnote 5.

for anchoring fiscal policy.[9] The debt service to revenue ratio is not significantly affected by alternative scenarios and shocks because additional borrowing is expected to be on highly concessional terms.

V. Conclusion

16. **Burundi will continue to face a high risk of debt distress**. The PV of external debt-to-exports ratio will exceed the country-specific debt burden threshold in the medium-term and is expected to be just below its threshold towards the end of the projection period. In addition, under alternative scenarios (including low growth and higher interest rate new borrowing) and stress tests two debt indicators exceed the country-specific debt burden thresholds. To mitigate risks to debt sustainability, staffs encourage the authorities to continue to rely on grants and highly concessional loans to meet financing needs, and further strengthen debt management. In addition, staffs advise the authorities to intensify structural reforms in order to diversify the export base, address existing infrastructure bottlenecks that hinder growth, and encourage private sector development by improving the business environment. Finally, staffs urge the authorities to continue efforts to improve tax administration and widen the tax base to reduce reliance on foreign financing.

[9] The caveat concerning the suitability of the historical scenario in a country marred by conflict applies.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2008-2031 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-2016 Average	2021	2031	2017-2031 Average
External debt (nominal) 1/	**101.6**	**20.7**	**22.5**			**22.6**	**22.5**	**22.7**	**22.6**	**20.4**	**18.3**		**12.1**	**10.6**	
o/w public and publicly guaranteed (PPG)	101.6	20.7	22.5			22.6	22.5	22.7	22.6	20.4	18.3		12.1	10.6	
Change in external debt	-17.6	-80.9	1.8			0.1	-0.1	0.2	-0.2	-2.1	-2.1		-0.8	0.1	
Identified net debt-creating flows	-29.8	-10.8	0.4			0.2	1.0	-2.5	-2.6	-3.6	-2.8		-1.6	-1.8	
Non-interest current account deficit	**1.2**	**11.0**	**9.8**	**6.3**	**6.3**	**12.4**	**11.9**	**9.1**	**9.0**	**10.7**	**11.2**		**10.8**	**7.5**	9.3
Deficit in balance of goods and services	-49.1	-47.9	-48.2			-45.4	-43.0	-38.9	-37.5	-35.7	-33.7		-31.0	-26.5	
Exports	9.8	6.5	8.9			8.0	8.7	8.7	8.6	7.7	6.9		6.8	7.3	
Imports	-39.3	-41.3	-39.2			-37.4	-34.3	-30.3	-29.0	-28.0	-26.8		-24.1	-19.2	
Net current transfers (negative = inflow)	-27.5	-23.8	-20.9	-18.6	5.5	-17.4	-14.1	-12.9	-11.7	-9.9	-9.0		-6.6	-4.7	-6.1
o/w official	-21.3	-15.0	-15.2			-12.2	-9.1	-8.1	-7.2	-5.7	-5.1		-3.8	-2.7	
Other current account flows (negative = net inflow)	77.9	82.6	78.9			75.3	69.0	60.9	58.2	56.3	53.8		48.3	38.7	
Net FDI (negative = inflow)	**-10.1**	**-7.8**	**-7.4**	**-5.1**	**3.5**	**-11.4**	**-10.0**	**-10.7**	**-10.4**	**-13.3**	**-13.0**		**-11.8**	**-8.5**	-10.5
Endogenous debt dynamics 2/	**-20.9**	**-13.9**	**-2.1**			**-0.8**	**-0.9**	**-0.9**	**-1.1**	**-1.1**	**-1.0**		**-0.6**	**-0.7**	
Contribution from nominal interest rate	0.7	0.5	0.1			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Contribution from real GDP growth	-4.9	-3.0	-0.7			-0.8	-1.0	-1.0	-1.2	-1.1	-1.1		-0.7	-0.8	
Contribution from price and exchange rate changes	-16.6	-11.5	-1.4			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**12.2**	**-70.1**	**1.4**			**-0.1**	**-1.2**	**2.8**	**2.4**	**1.5**	**0.7**		**0.9**	**1.8**	
o/w exceptional financing	-0.3	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	13.5			13.9	14.1	14.5	14.6	13.1	11.7		7.4	6.5	
In percent of exports	...	...	150.8			174.4	162.1	167.2	170.0	171.0	169.4		108.1	88.9	
PV of PPG external debt	**...**	**...**	**13.5**			**13.9**	**14.1**	**14.5**	**14.6**	**13.1**	**11.7**		**7.4**	**6.5**	
In percent of exports	**...**	**...**	**150.8**			**174.4**	**162.1**	**167.2**	**170.0**	**171.0**	**169.4**		**108.1**	**88.9**	
In percent of government revenues	**...**	**...**	**92.3**			**86.8**	**85.3**	**86.6**	**88.4**	**82.0**	**75.0**		**52.4**	**53.3**	
Debt service-to-exports ratio (in percent)	**8.4**	**7.9**	**1.4**			**3.5**	**5.7**	**7.2**	**9.5**	**12.0**	**12.2**		**7.9**	**3.9**	
PPG debt service-to-exports ratio (in percent)	**8.4**	**7.9**	**1.4**			**3.5**	**5.7**	**7.2**	**9.5**	**12.0**	**12.2**		**7.9**	**3.9**	
PPG debt service-to-revenue ratio (in percent)	**5.9**	**3.8**	**0.9**			**1.7**	**3.0**	**3.7**	**4.9**	**5.8**	**5.4**		**3.8**	**2.4**	
Total gross financing need (Millions of U.S. dollars)	-125.4	66.8	52.7			28.8	61.0	-27.1	-20.6	-57.7	-40.3		-35.4	-139.3	
Non-interest current account deficit that stabilizes debt ratio	18.8	91.9	8.0			12.3	12.1	8.8	9.1	12.9	13.2		11.6	7.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.0	3.5	3.8	3.8	1.2	4.2	4.8	5.0	6.0	5.8	5.9	5.3	6.1	7.9	6.7
GDP deflator in US dollar terms (change in percent)	16.2	12.7	7.5	6.8	12.9	7.7	5.3	5.0	5.7	7.8	7.3	6.5	6.0	-1.0	3.7
Effective interest rate (percent) 5/	0.7	0.6	0.3	0.8	0.2	0.1	0.4	0.5	0.6	0.5	0.5	0.4	0.6	0.7	0.7
Growth of exports of G&S (US dollar terms, in percent)	55.4	-22.6	52.7	16.1	29.6	0.2	20.3	10.1	10.6	2.0	2.2	7.6	11.7	9.0	11.1
Growth of imports of G&S (US dollar terms, in percent)	31.7	22.7	5.8	21.7	27.2	7.0	1.2	-2.7	7.2	10.2	8.5	5.2	15.4	4.1	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.8	38.2	35.5	35.8	47.4	51.4	41.5	45.9	45.9	46.3
Government revenues (excluding grants, in percent of GDP)	13.9	13.6	14.6			16.0	16.5	16.7	16.5	16.0	15.6		14.1	12.2	13.5
Aid flows (in Millions of US dollars) 7/	38937.4	17681.6	37360.9			552.1	438.5	467.1	496.2	510.2	562.3		888.2	1815.4	
o/w Grants	438.0	1205.1	460.9			524.2	405.5	432.1	458.2	465.9	513.4		833.0	1699.2	
o/w Concessional loans	38499.3	16476.6	36900.0			27.9	33.0	35.0	38.0	44.2	48.9		55.2	116.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			24.0	17.2	16.7	15.8	13.9	13.4		11.7	9.8	11.1
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			94.9	91.5	89.6	89.9	94.7	95.8		95.1	95.0	95.1
Memorandum items:															
Nominal GDP (Millions of US dollars)	1556.1	1814.7	2024.0			2271.4	2506.7	2763.3	3095.2	3527.7	4007.7		7464.2	18199.8	
Nominal dollar GDP growth	22.0	16.6	11.5			12.2	10.4	10.2	12.0	14.0	13.6	12.1	12.5	6.8	10.6
PV of PPG external debt (in Millions of US dollars)			272.2			306.3	346.4	396.7	442.6	455.2	463.6		544.5	1164.5	
(PVt-PVt-1)/GDPt-1 (in percent)						1.7	1.8	2.0	1.7	0.4	0.2	1.3	0.4	0.5	0.4
Gross workers' remittances (Millions of US dollars)	…	…	…			…	…	…	…	…	…		…	…	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.5			13.9	14.1	14.5	14.6	13.1	11.7		7.4	6.5	
PV of PPG external debt (in percent of exports + remittances)	...	...	150.8			174.4	162.1	167.2	170.0	171.0	169.4		108.1	88.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.4			3.5	5.7	7.2	9.5	12.0	12.2		7.9	3.9	

Sources: Burundian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2a.Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031
(In percent)

	Projections							
	2011	2012	2013	2014	2015	2016	**2021**	2031
PV of debt-to GDP ratio								
Baseline	14	14	15	15	13	12	**7**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	14	13	15	17	18	18	**21**	18
A2. New public sector loans on less favorable terms in 2011-2031 2	14	14	16	16	15	14	**10**	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	14	14	15	15	13	12	**8**	7
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	14	15	18	17	16	14	**9**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	14	15	18	18	16	14	**9**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	14	19	24	23	21	19	**12**	8
B5. Combination of B1-B4 using one-half standard deviation shocks	14	19	26	25	23	21	**13**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	14	19	20	20	18	16	**10**	9
PV of debt-to-exports ratio								
Baseline	174	162	167	170	171	169	**108**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	174	154	178	198	232	263	**300**	252
A2. New public sector loans on less favorable terms in 2011-2031 2	174	165	179	188	196	202	**150**	144
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	174	159	165	167	168	168	**106**	87
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	174	243	362	360	363	363	**230**	167
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	174	159	165	167	168	168	**106**	87
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	174	219	278	272	275	276	**174**	107
B5. Combination of B1-B4 using one-half standard deviation shocks	174	245	342	335	338	339	**214**	136
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	174	159	165	167	168	168	**106**	87
PV of debt-to-revenue ratio								
Baseline	87	85	87	88	82	75	**52**	53
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	87	81	92	103	111	117	**145**	151
A2. New public sector loans on less favorable terms in 2011-2031 2	87	87	93	98	94	89	**73**	86
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	87	86	90	91	84	78	**54**	55
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	87	92	106	106	98	91	**63**	57
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	87	94	107	109	101	93	**65**	66
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	87	115	144	142	132	122	**84**	64
B5. Combination of B1-B4 using one-half standard deviation shocks	87	116	156	153	143	132	**91**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	87	117	120	121	113	104	**72**	73

Table 2b.Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2011-2031 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	3	6	7	9	12	12	**8**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	3	6	7	10	13	14	**11**	10
A2. New public sector loans on less favorable terms in 2011-2031 2	3	6	7	10	13	14	**8**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	3	6	7	9	12	12	**8**	4
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	3	8	13	18	22	22	**15**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	3	6	7	9	12	12	**8**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	3	6	8	11	13	14	**10**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	3	7	10	14	17	17	**13**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	3	6	7	9	12	12	**8**	4

Debt service-to-revenue ratio

Baseline	2	3	4	5	6	5	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2011-2031 1/	2	3	4	5	6	6	**5**	6
A2. New public sector loans on less favorable terms in 2011-2031 2	2	3	4	5	6	6	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2012-2013	2	3	4	5	6	6	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2012-2013 3/	2	3	4	5	6	6	**4**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2012-2013	2	3	5	6	7	7	**5**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2012-2013 4/	2	3	4	6	6	6	**5**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	2	3	5	6	7	7	**6**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2012 5/	2	4	5	7	8	8	**5**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	44	44	44	44	44	44	**44**	44

Sources: Burundian authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ The standarized stress test of assuming export value growth at historical average minus one standard deviation is not relevant for a country like Burundi which experienced conflict and whose exports suffer from cyclical factors.
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3.Burundi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2008-2031
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2008	2009	2010			2011	2012	2013	2014	2015	2016	2011-16 Average	2021	2031	2017-31 Average
Public sector debt 1/	114.8	35.3	37.8			37.0	35.9	35.6	34.7	32.3	29.9		22.7	18.8	
o/w foreign-currency denominated	101.6	20.7	22.5			22.6	22.5	22.7	22.6	20.4	18.3		12.1	10.6	
Change in public sector debt	-22.9	-79.5	2.4			-0.8	-1.1	-0.3	-0.8	-2.5	-2.3		-1.1	-0.1	
Identified debt-creating flows	-27.3	-111.0	-0.7			-2.0	-1.0	0.2	0.1	-1.7	-1.5		-0.5	0.0	
Primary deficit	-1.0	-44.1	2.3	-4.2	14.1	1.0	2.6	3.1	3.2	2.0	2.0	2.3	1.5	0.7	1.3
Revenue and grants	42.1	80.0	37.4			39.1	32.7	32.4	31.3	29.2	28.4		25.3	21.5	
of which: grants	28.2	66.4	22.8			23.1	16.2	15.6	14.8	13.2	12.8		11.2	9.3	
Primary (noninterest) expenditure	41.1	36.0	39.7			40.1	35.3	35.5	34.5	31.2	30.4		26.8	22.2	
Automatic debt dynamics	-24.0	-19.1	-3.0			-2.9	-3.4	-2.9	-3.0	-3.7	-3.4		-2.0	-0.7	
Contribution from interest rate/growth differential	-33.9	-15.3	-3.1			-4.5	-4.0	-3.0	-3.2	-3.6	-3.2		-2.1	-0.9	
of which: contribution from average real interest rate	-27.3	-11.4	-1.8			-2.9	-2.3	-1.3	-1.2	-1.7	-1.4		-0.7	0.5	
of which: contribution from real GDP growth	-6.6	-3.8	-1.3			-1.5	-1.7	-1.7	-2.0	-1.9	-1.8		-1.4	-1.4	
Contribution from real exchange rate depreciation	9.8	-3.8	0.1			1.5	0.6	0.1	0.2	-0.1	-0.2		...	...	
Other identified debt-creating flows	-2.2	-47.9	0.0			0.0	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-2.2	-47.9	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	4.3	31.6	3.2			1.2	-0.1	-0.5	-1.0	-0.7	-0.8		-0.6	-0.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	28.7			28.2	27.5	27.4	26.7	24.9	23.3		18.0	14.7	
o/w foreign-currency denominated	...	...	13.5			13.9	14.1	14.5	14.6	13.1	11.7		7.4	6.5	
o/w external	...	...	13.5			13.9	14.1	14.5	14.6	13.1	11.7		7.4	6.5	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	4.7	-39.9	5.7			6.4	8.1	9.9	10.8	10.2	10.8		11.4	9.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	76.9			72.2	84.0	84.5	85.4	85.4	82.1		71.1	68.3	
PV of public sector debt-to-revenue ratio (in percent)	…	…	197.0			176.3	166.4	163.4	162.1	155.9	149.6		127.3	120.6	
o/w external 3/	…	…	92.3			86.8	85.3	86.6	88.4	82.0	75.0		52.4	53.3	
Debt service-to-revenue and grants ratio (in percent) 4/	4.1	1.5	1.8			4.3	5.7	6.7	6.9	7.3	6.8		5.1	4.1	
Debt service-to-revenue ratio (in percent) 4/	12.3	8.6	4.5			10.6	11.4	13.0	13.1	13.4	12.4		9.1	7.3	
Primary deficit that stabilizes the debt-to-GDP ratio	21.9	35.4	-0.1			1.8	3.7	3.4	4.0	4.5	4.3		2.6	0.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.0	3.5	3.8	3.8	1.2	4.2	4.8	5.0	6.0	5.8	5.9	5.3	6.1	7.9	6.7
Average nominal interest rate on forex debt (in percent)	0.7	0.6	0.3	0.8	0.2	0.1	0.4	0.5	0.6	0.5	0.5	0.4	0.6	0.7	0.7
Average real interest rate on domestic debt (in percent)	-16.5	-9.3	-3.2	-9.7	6.7	-3.4	-3.4	-0.7	-1.3	-3.2	-2.8	-2.5	-0.6	6.4	1.7
Real exchange rate depreciation (in percent, + indicates depreciation)	11.0	-4.3	0.3	4.9	15.4	7.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	27.3	16.9	7.5	12.6	13.0	9.6	10.8	7.6	8.5	10.6	9.4	9.4	8.2	1.2	5.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	-0.1	0.1	0.1	0.2	0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	40.8	38.2	35.5	35.8	47.4	51.4	41.5	45.9	45.9	46.3

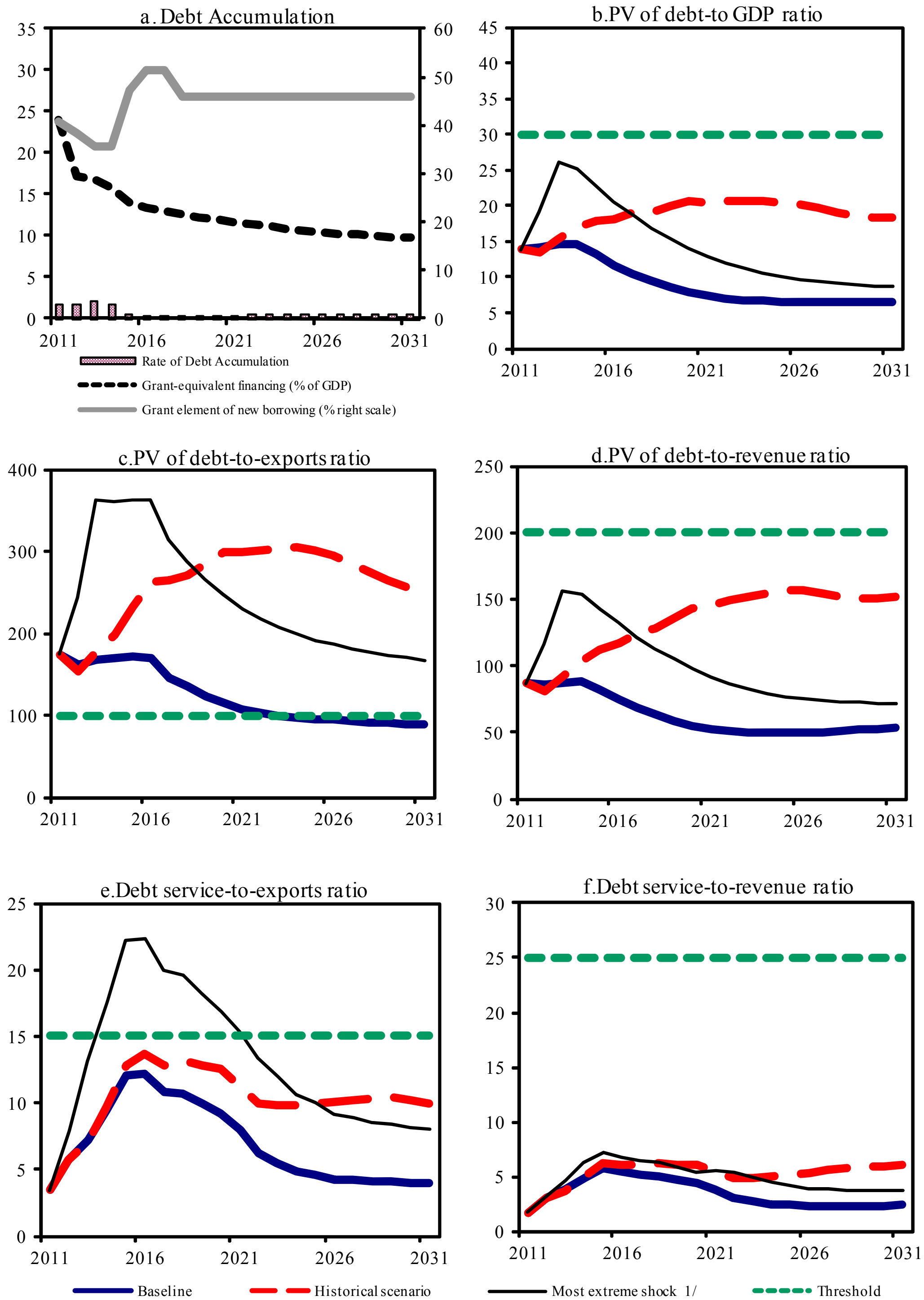
Sources: Burundian authorities; and staff estimates and projections.
1/ General government, on a gross basis.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are derived over the past 10 years.

Table 4.Burundi: Sensitivity Analysis for Key Indicators of Public Debt 2011-2031

	Projections							
	2011	2012	2013	2014	2015	2016	2021	2031
PV of Debt-to-GDP Ratio								
Baseline	28	27	27	27	25	23	18	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	26	25	24	21	20	13	12
A2. Primary balance is unchanged from 2011	28	27	25	24	22	20	14	13
A3. Permanently lower GDP growth 1/	28	28	28	27	25	24	19	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	28	28	29	29	27	26	21	19
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	28	27	26	26	24	23	17	14
B3. Combination of B1-B2 using one half standard deviation shocks	28	27	26	26	25	23	19	18
B4. One-time 30 percent real depreciation in 2012	28	33	32	30	28	26	19	15
B5. 10 percent of GDP increase in other debt-creating flows in 2012	28	33	32	31	29	27	20	16
PV of Debt-to-Revenue Ratio 2/								
Baseline	72	84	84	85	85	82	71	68
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	72	80	77	74	71	66	49	43
A2. Primary balance is unchanged from 2011	72	81	78	76	74	70	56	58
A3. Permanently lower GDP growth 1/	72	84	85	86	87	84	75	83
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	72	86	88	91	92	89	83	88
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	72	83	81	82	82	79	69	67
B3. Combination of B1-B2 using one half standard deviation shocks	72	82	80	82	83	81	75	81
B4. One-time 30 percent real depreciation in 2012	72	101	98	97	96	91	74	68
B5. 10 percent of GDP increase in other debt-creating flows in 2012	72	101	100	100	100	96	81	74
Debt Service-to-Revenue Ratio 2/								
Baseline	4	6	7	7	7	7	5	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	6	7	7	7	7	5	4
A2. Primary balance is unchanged from 2011	4	6	7	7	7	7	5	4
A3. Permanently lower GDP growth 1/	4	6	7	7	7	7	5	5
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2012-2013	4	6	7	7	8	7	5	5
B2. Primary balance is at historical average minus one standard deviations in 2012-2013	4	6	7	7	7	7	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	4	6	7	7	7	7	5	4
B4. One-time 30 percent real depreciation in 2012	4	6	8	8	9	8	6	5
B5. 10 percent of GDP increase in other debt-creating flows in 2012	4	6	7	7	8	7	5	4

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

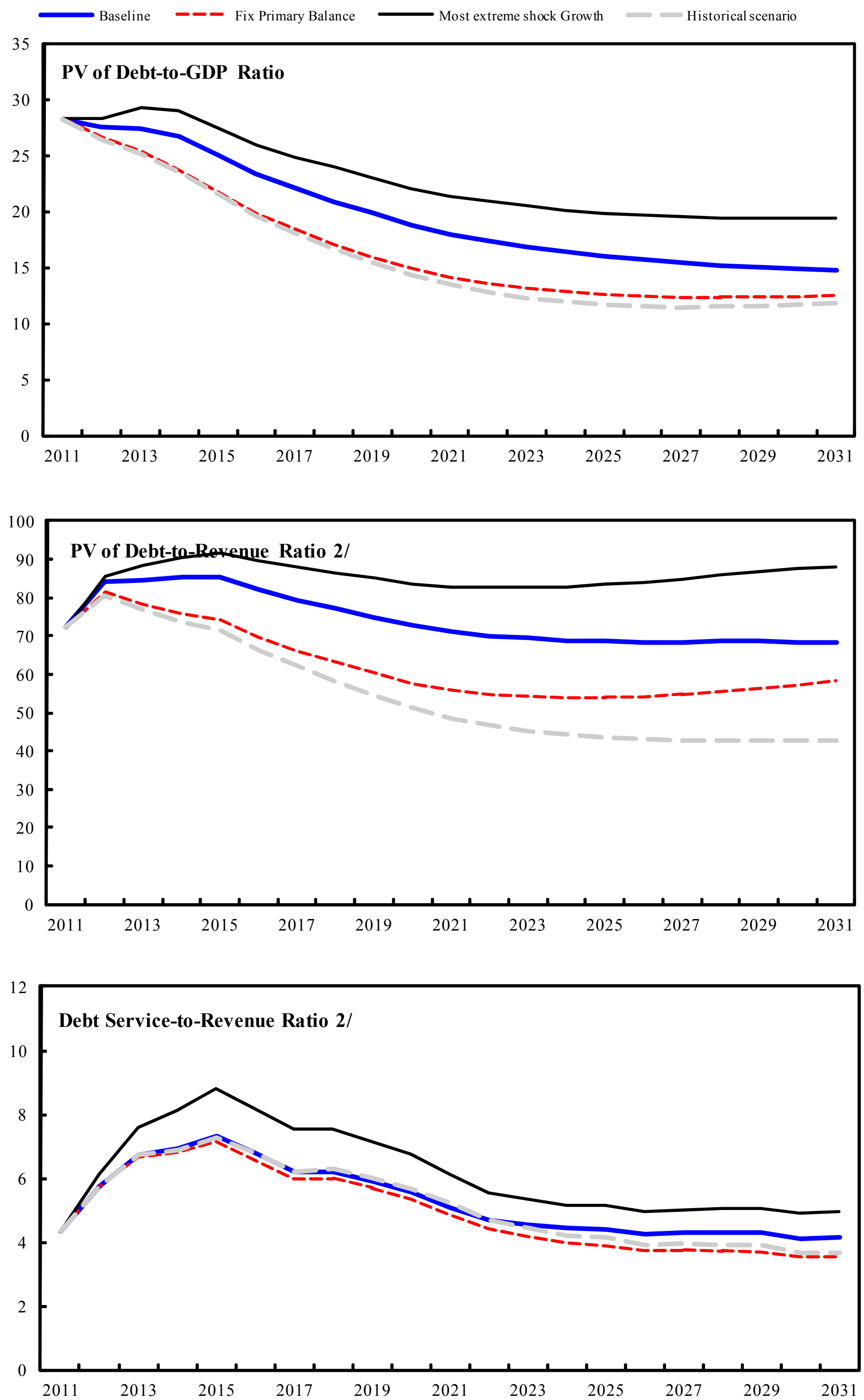
Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt
under Alternatives Scenarios, 2011-2031 1/



Sources: Burundian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2021. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a Combination shock

Figure 2.Burundi: Indicators of Public Debt Under Alternative Scenarios, 2011-2031 1/



Sources: Burundian authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2021.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 12/9
FOR IMMEDIATE RELEASE
January 13, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh and Final Review Under the Extended Credit Facility Arrangement for Burundi and Approves US$ 7.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the seventh and final review of Burundi's economic performance under the economic program supported by the Extended Credit Facility (ECF) arrangement. Completion of the review allows for the final disbursement to Burundi of SDR 5 million (about US$ 7.6 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 51.2 million (about US$ 78.3 million).

The Executive Board also discussed a request by Burundi for a successor three-year arrangement under the Extended Credit Facility (ECF) and expressed general support for such a new arrangement, which would be approved once the existing ECF arrangement expires following the final disbursement thereunder.

The Executive Board approved a three-year arrangement under the ECF on July 7, 2008 (See Press Release No. 08/167). On July 11, 2011, the Board approved an augmentation of access by an amount equivalent to SDR 5.0 million to mitigate the impact of the food and fuel crisis on the balance of payments, and an extension of the ECF arrangement to end-January 2012.

Following the Executive Board discussion on Burundi, Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"Burundi has made steady progress in implementing reforms under successive IMF programs in a difficult post-conflict environment. Against the backdrop of rising food and fuel prices and volatile aid flows, performance under the ECF-supported program was satisfactory.

"Stronger revenue mobilization efforts and public financial and debt management policies should continue to underpin fiscal policy. A broader revenue base should help cover the urgent infrastructure needs and increasing social demands, and reduce aid dependency. To safeguard fiscal and debt sustainability in the medium term, the authorities should continue to rely on grants and highly concessional loans.

“While interest rates have risen appropriately in light of the second round effects of the food and fuel prices shock, a further tightening of monetary policy will be necessary to reduce inflationary pressures and to anchor inflation expectations.

“Accelerating structural reforms focused on improving the business and regulatory climate, and reforming the coffee and electricity sectors, will be vital for enhancing Burundi’s growth prospects and reducing poverty and other vulnerabilities”, Mr. Shinohara added.

Statement by Mr. Moeketsi Majoro, Executive Director for Burundi
January 13, 2012

1. My Burundian authorities have persevered with prudent macroeconomic policies and deepened structural reforms in spite of the challenging external environment. They remain confident that the impacts of the protracted global economic uncertainties on economic growth and balance of payments will be contained and reversed in the medium term as appropriate measures are implemented and external and internal environment improves. However, they concur with staff that the challenging external and internal environment coupled with the country's narrow export base poses considerable risks to growth going forward.

2. My authorities are appreciative of the Fund's constructive engagement and support under the ECF. They thank staff for the candid policy dialogue and advice under the program. The support and dialogue have been invaluable in addressing many of the challenges they face. Going forward, they are determined to further strengthen their macroeconomic framework and deepen their structural reform agenda, and achieve key national and regional objectives as set out in the new PRSP II and the EAC integration protocols.

3. The authorities sound macroeconomic framework and commitment to implement their program under the ECF resulted in very strong program performance. All quantitative indicative targets for end-June 2011 and all performance criteria for end-September were met. Additionally, all end-November structural benchmarks related to financial safeguards and to the strengthening of expenditure commitment controls were met. With the noted strong program implementation, my authorities are requesting Directors' support in concluding the seventh and final review under the ECF. In light of the continued global economic uncertainties and the fact that the economy is now growing at a slower pace, they request Directors' approval of a new three-year Arrangement under the ECF to support their macroeconomic framework going forward.

Recent economic and policy developments

4. Burundi's strong economic recovery that is anchored on deepened structural reforms and sound policy framework is being interrupted by the adverse effects of protracted high fuel and food prices and declining donor aid flows. As a result, growth has been weaker in 2011 than earlier forecast. Inflation that had remained in lower single digits by end-2010, spiked to lower double digits in 2011.

5. The fiscal outturn reflects the authorities' perseverance with prudent spending and the overall expenditure has remained within the program targets. The authorities also made progress in public financial management by improving the expenditure circuit in order to strengthen the planning, execution, and transparency of expenditure. They have also adopted the new organic budget law and its implementation is ongoing while the decree on the General Regulation on Public Budget Management will allow greater transparency in budget execution. Improvement of the government's cash flow and implementation of the single treasury account coupled with the adoption and implementation of a new public procurement code will further strengthen the effectiveness and transparency of budget execution. On the revenue side the authorities have continued to score substantive gains in raising the level of collections owing to improved administrative capacity of the Burundi Revenue Authority (BRA), and greater centralization of government revenue.

6. My authorities' monetary policy framework remained prudent in tandem with the fiscal policy stance. The authorities have strengthened the autonomy of the central bank which has raised the interest rates to rein in inflation, and stand ready to further tighten the stance of monetary policy should inflationary pressures persist. Supervision of financial institutions has been improved and the Central Bank continues to implement measures aimed at strengthening its financial safeguards, in accordance with the recommendations of the latest safeguards assessment up-date completed by IMF staff in June 2008**.**

7. The external balances weakened considerably due to a combination of the deterioration in the terms of trade and poor coffee harvests owing to the cyclical nature of the crop production. Late disbursements by the country's development partners also contributed to the decline in the current account balances. As a result official reserves fell to 4.4 months of import cover.

Policy framework and reforms going forward

Fiscal policy and reforms

8. The authorities' fiscal framework will continue to strike an appropriate balance between the twin objectives of supporting economic growth and macroeconomic stability. Current expenditure as a percentage of GDP will be consolidated further, while maintaining the tempo for priority sectors in line with the country's poverty reduction policy as delineated in the new PRSP II. Spending would thus continue to target basic social services, particularly education, health, and public access to water, electricity and roads, explicitly creating the fiscal space for improving the composition of government expenditure in favor of infrastructure and social expenditure.

9. To moderate the heavy reliance on external aid resources, the authorities are determined to further strengthen the capacity to mobilize domestic resources. To achieve the objective of raising the ratio of tax revenues to GDP from the current 14.4 percent to 16.2 percent in 2012, they intend to expand the tax base, reinforce the operations of the tax and customs authorities, control and rationalize tax expenditures and forcefully implement anti-evasion measures.

10. Mindful of the country's high risk of debt distress, the authorities will aim at limiting debt-creating domestic financing and enhance mobilization of concessional external financing. However, they recognize the limits of concessional financing especially at the time of protracted global economic uncertainties, and would consult the Fund when the need and opportunity for non-concessional financing arise. The authorities are also committed to strengthen their debt management capacities within the Ministry of Finance with the help of the country's development partners. They will also create a high-level committee to coordinate public debt management processes and to ensure that it remains within the country's macroeconomic objectives.

Monetary policy

11. To achieve the objective of anchoring monetary policy on low and stable inflation, the central bank will bolster its open market operations, maintain a flexible exchange rate, rely substantially on foreign exchange sales for sterilization, and improve liquidity forecasting. Monetary policy will also aim at streamlining the current level of credit to the private sector.

Financial sector reforms

12. The central bank will continue strengthening its supervisory and regulatory services to the financial institutions with the view of broadening access to financial services. This effort will build on the central bank's modernization of the infrastructure and legal framework for the payment systems. The central bank will also continue strengthening its internal control and risk management systems, and align its open market operations to best practices. Moreover, financial market development strategy will be adopted and implemented.

Other structural reforms

13. My Burundian authorities have implemented important measures aimed at improving the investment climate with the view to trigger growth momentum sufficient to create new jobs and generate incomes. These include the modernizing of the investment code, the trade code and the law on managing company bankruptcy, establishing the Investment Promotion Agency and adopting and implementing the Public and Private Partnership framework. In order to improve the "Doing Business" ranking, four indicators have been sharply reformed namely the creation of enterprises, property transfer, protection of investments and payment of taxes. These reforms helped Burundi to improve its ranking from 177th to 169th place according to "Doing Business 2011" and "Doing Business 2012" respectively.

14. In the case of structural reforms, the authorities are pursuing deeper reforms in the coffee sector and the privatization of public enterprises. The authorities will persevere with reforms on the trade front, and deepen the EAC regional integration framework. To benefit from the EAC integration protocols, the authorities will persevere with the reforms in order to strengthen the credibility of their economic policy by targeting to achieve the EAC convergence criteria and improving the business climate through, *inter alia*, simplifying taxation and regulation.

The New ECF arrangement

15. My Burundian authorities reaffirm that the proposed new program for 2012-14 draws on the success of the previous engagement with the Fund as clearly delineated in the EPA, and it builds on the objectives agreed upon under the PRSP-II, in particular the emphasis on the transformation of the Burundian economy for sustained growth and job creation by alleviating key bottlenecks to growth. In that regard, the authorities further reaffirm their commitment to implement the recommendations of the EPA within the context of the new arrangement, especially the importance of greater exchange rate flexibility to better absorb terms-of-trade shocks, the rebuilding of fiscal buffers, and the safeguarding of debt sustainability.

16. The authorities further reaffirm that the new program under an ECF arrangement will help enhance the country's capacity to mobilize internal revenues, strengthen public financial and debt management policies, achieve greater exchange rate flexibility, and improve the business climate. It will also help consolidate the quick wins secured under the previous arrangements.

17. The strong implementation of the current ECF notwithstanding, Burundi's external balances continues to weaken. In this regard, my authorities request a new ECF arrangement that meets their financing needs, and welcome Directors' support.

Conclusion

18. The authorities' macroeconomic fundamentals and commitment to sound policies underlies the strength of the Burundian economy despite the challenging external environment. The implementation of the ECF-supported program has remained very strong with the end-June and end-September program performance very impressive. The authorities are aware of the remaining internal challenges and the growing challenges on the external environment. They have, therefore, maintained an appropriate mix of fiscal and monetary policies, as well as deepened structural reforms to support growth and macroeconomic stability. The authorities are confident that going forward, continued engagement with the Fund and the support of the development partners will enable them achieve their development goals.