

Burundi: 2010 Article IV Consultation and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2010 Article IV consultation and Fourth Review under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria with Burundi, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV consultation and Fourth Review under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on July 23, 2010, 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 July 12, 2010. 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 staff supplement of July 12, 2010.
- A Public Information Notice (PIN) and Press Release summarizing the views of the Executive Board as expressed during its July 23, 2010 discussion of the staff report that concluded the Article IV consultation and Fourth Review under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria.
- 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

Staff Report for the 2010 Article IV Consultation and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria

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

Approved by Michael Atingi-Ego and Dominique Desruelle

July 9, 2010

Discussions:	<p>A mission comprising Messrs. Akitoby (head), Ioannou, Rayner, Thomas (all AFR), and Mr. Yao (Resident Representative) visited Bujumbura May 11–22, 2010, to conduct the 2010 Article IV consultation and the fourth review of the ECF arrangement. Mr. Itam, Executive Director for Burundi, participated in the policy discussions.</p> <p>The staff met with President Nkurunziza, First Vice-President Sahinguvu, Second Vice-President Ntisezerana, Minister of Finance Nizigama, Central Bank Governor Sindayigaya, other senior government officials, and representatives of labor unions, the private sector, civil society organizations, the donor community, and the media.</p>
ECF Arrangement:	<p>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 third review of the ECF-supported program was completed in February 2010.</p>
Program Review:	<p>All quantitative performance criteria for March 2010 were met, and structural reforms are on track. Staff recommends completion of the fourth review.</p>
Publication:	<p>The authorities consent to the publication of this report, the letter of intent, and the Memorandum on Economic and Financial Policies (MEFP).</p>

Contents	Page
Acronyms	4
Executive Summary	5
I. General Context	6
II. Recent Economic Developments	6
III. Policy Discussions	9
A. Macroeconomic Framework and Supporting Policy Mix	10
B. Accelerating Growth and Reducing Poverty	12
C. Accelerating Financial Sector Reform	13
D. Safeguarding Fiscal Sustainability While Achieving Progress Toward MDGs	14
E. Other Article IV Issues	16
IV. Program Issues	18
V. Staff Appraisal	19
 Boxes	
1. Main Recommendations of the 2008 Article IV Consultation	9
2. Exchange Rate and Competitiveness Assessment	17
 Box Figures	
1. RER, ERER, and Misalignment	17
2. Cost of Doing Business Indicators	17
 Figure	
1. Macroeconomic Performance, 2000–09	8
 Text Tables	
1. Government Operations, 2007–09	7
2. Medium-Term Outlook, 2009–15	11
 Tables	
1. Millennium Development Goals	21
2. Selected Economic and Financial Indicators, 2007–15	22
3. General Government Operations, 2007–15	23
4. Monetary Survey, 2007–10	24
5. Central Bank Accounts, 2008–10	25
6. Balance of Payments, 2007–15	26

7.	Banking System Soundness Indicators, 2005–10	27
8.	Actual and Projected Schedule of ECF Disbursements and Reviews, 2008–11	28

Appendix I

I.	Letter of Intent	29
	Attachment I. Memorandum of Economic and Financial Policies	31
	Attachment II. Technical Memorandum of Understanding	39

Appendix I Tables

I.1.	Performance Criteria and Indicative Targets for 2009	35
I.2.	Performance Criteria and Indicative Targets for 2010	36
I.3.	Performance Criteria and Structural Benchmarks for 2009	37
I.4.	Structural Benchmarks for 2010	38

Acronyms

BRA	Burundi Revenue Authority
BRB	Banque de la République du Burundi
CET	Common External Tariff
CIRR	Commercial Interest Reference Rates
DFID	Department for International Development
EAC	East African Community
ECF	Extended Credit Facility
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 on 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

Recent developments and outlook

The global financial crisis has slowed the Burundian economy and contributed to a significant decline in inflation. Economic growth moderated to 3.5 percent in 2009, from 4.5 percent in 2008, mainly because of lower private transfers and foreign direct investment. Because of lower international oil and food prices, headline inflation (end of period) declined from about 26 percent in 2008 to about 4.5 percent in 2009. Supported by donor flows and the SDR allocation, gross official reserves remained steady at 6.5 months of imports in 2008–09. The economic outlook is generally positive but subject to risks from the security situation and external environment.

Article IV consultation

Against the background of the East African Community (EAC) integration, the Article IV consultation discussions focused on three fundamental themes: (i) accelerating growth and reducing poverty, (ii) accelerating financial sector reform, and (iii) safeguarding fiscal sustainability while progressing toward MDGs. The authorities generally agreed with staff recommendations.

Staff and authorities agreed on the need to pursue appropriate growth-enhancing reforms. Critical reforms intend to: (i) refocus capital spending on key infrastructure to help relieve major supply bottlenecks (for example, electricity and irrigation for agriculture); (ii) continue to remove economic distortions, especially in the agricultural sector, to boost total factor productivity; and (iii) accelerate EAC integration to improve competitiveness and the business environment. On financial sector reform, the authorities will adopt a comprehensive strategy in the first quarter of 2011.

Staff and authorities also agreed that achieving debt sustainability should anchor medium-term fiscal policy. Given Burundi's high risk of debt distress and low capacity, external financing of the budget should be limited to grants and highly concessional loans. However, the authorities noted that, in exceptional cases where such financing is not available for critical growth-enhancing investment included in the authorities' development strategy, recourse to nonconcessional financing will be discussed with the Fund and World Bank staffs, consistent with the new debt limits policy. The authorities and staff agreed on the need to continue reforms of wages and employment to bring the wage bill down to sustainable levels.

Program issues

Performance under the ECF-supported program has been satisfactory. All quantitative performance criteria and the structural benchmark for March 2010 were met. Structural reforms are on track. The revised program for 2010 takes into account: (i) a new law to address the security forces' dissatisfaction with pay; (ii) the cost of the 2010 general elections; (iii) drought-related emergency spending; and (iv) the authorities' decision to issue domestic bonds during 2010–11 to clear the liability (2.4 percent of 2010 GDP) from retroactive implementation of civil servant statutes.

Staff recommends completion of the fourth review based on Burundi's performance and the strength of the program.

I. GENERAL CONTEXT

1. **Burundi is one of the poorest countries in the world.** GDP per capita is about US\$140, and more than two-thirds of the population lives below the poverty line. While the country is making some progress toward the Millennium Development Goals (MDGs), it is unlikely that any will be achieved by 2015 (Table 1).

2. **The country is emerging from more than a decade of civil conflict.** The power-sharing agreement signed in December 2008 by the government and the last rebel group, *Forces Nationales pour la Libération* (FNL), paved the way for a series of national elections, which run from May 24 to September 8, 2010. However, after the communal elections on May 24, the general security situation has deteriorated following the withdrawal of the opposition parties due to their dissatisfaction with the electoral process. The representatives of the international community in Burundi issued a statement highlighting that independent observers, both national and international, conveyed a generally positive assessment of the elections and invited the opposition parties to reconsider their withdrawal. On June 28, the incumbent president won the presidential elections in which the main opposition parties did not participate. Legislative elections, scheduled for July 23, represent a significant test for the peace process.

3. **In a difficult postconflict environment, Burundi has made steady, though uneven, progress in implementing its ECF-supported economic reforms.** At the conclusion of the 2008 Article IV consultation, Executive Directors urged the authorities to further strengthen public financial management (PFM) and move forward with structural reforms to improve the investment climate and spur growth. The HIPC decision point was reached in August 2005 and the completion point in January 2009. Burundi's PRSP was published in September 2006. The latest annual progress report was completed in December 2009.

4. **The World Bank's country assistance strategy focuses on structural reforms to further increase growth and reduce poverty.** The main priorities are to (i) promote sustainable and broad-based economic growth, (ii) improve access to social services and consolidate social stability, and (iii) strengthen governance.

II. RECENT ECONOMIC DEVELOPMENTS

5. **The global financial crisis has slowed the Burundian economy and contributed to a significant decline in inflation.** Economic growth moderated to 3.5 percent in 2009, from 4.5 percent in 2008, mainly because of lower private transfers and foreign direct investment. Because of lower international oil and food prices, headline inflation (end of period) declined from about 26 percent in 2008 to about 4.5 percent in 2009, well within the single-digit level targeted under the program.

6. **Fiscal performance in 2009 was broadly satisfactory** (Table 3). Despite the global financial crisis, total revenue was 0.6 percent of GDP higher than programmed, reflecting improved collections of income and indirect taxes. Total spending was contained below the programmed level, as externally-financed spending was lower than programmed. The wage bill was also kept within the envisaged budgetary envelope. Overall, the fiscal deficit

(excluding grants) was lower than programmed. Adjusted for the shortfall in external nonproject financial assistance, domestic financing of the budget was well within the programmed target (MEFP, Table I.1).

Text Table 1. Burundi: Government Operations, 2007–09
(In percent of GDP)

	2007	2008	2009	
			Prog.	Act.
Revenue	18.6	18.5	18.0	18.6
Total expenditure and net lending	38.5	44.1	46.1	39.3
Current Spending	24.6	25.8	24.6	25.8
Capital Expenditure and net lending	12.7	15.1	16.3	13.3
Externally financed special programs	1.2	3.2	5.3	0.1
Overall balance (commitment basis, after non-HIPC grants)	-3.3	-3.7	-4.1	-5.2
Change in arrears (reduction = -)	-2.1	-0.8	-0.2	0.0
Overall balance (cash basis, after non-HIPC grants)	-5.4	-4.5	-4.3	-5.2
Financing	24.0	26.5	28.3	20.6
External grants	20.9	24.9	86.5	80.8
<i>Of which</i> : HIPC relief	3.8	3.0	62.5	65.3
External Borrowing	-0.9	0.2	-59.6	-64.4
Privatization proceeds	0.0	0.0	0.1	0.0
Domestic financing	4.0	1.4	1.3	4.2
Errors and Omissions	-2.1	-0.1	0.0	0.1

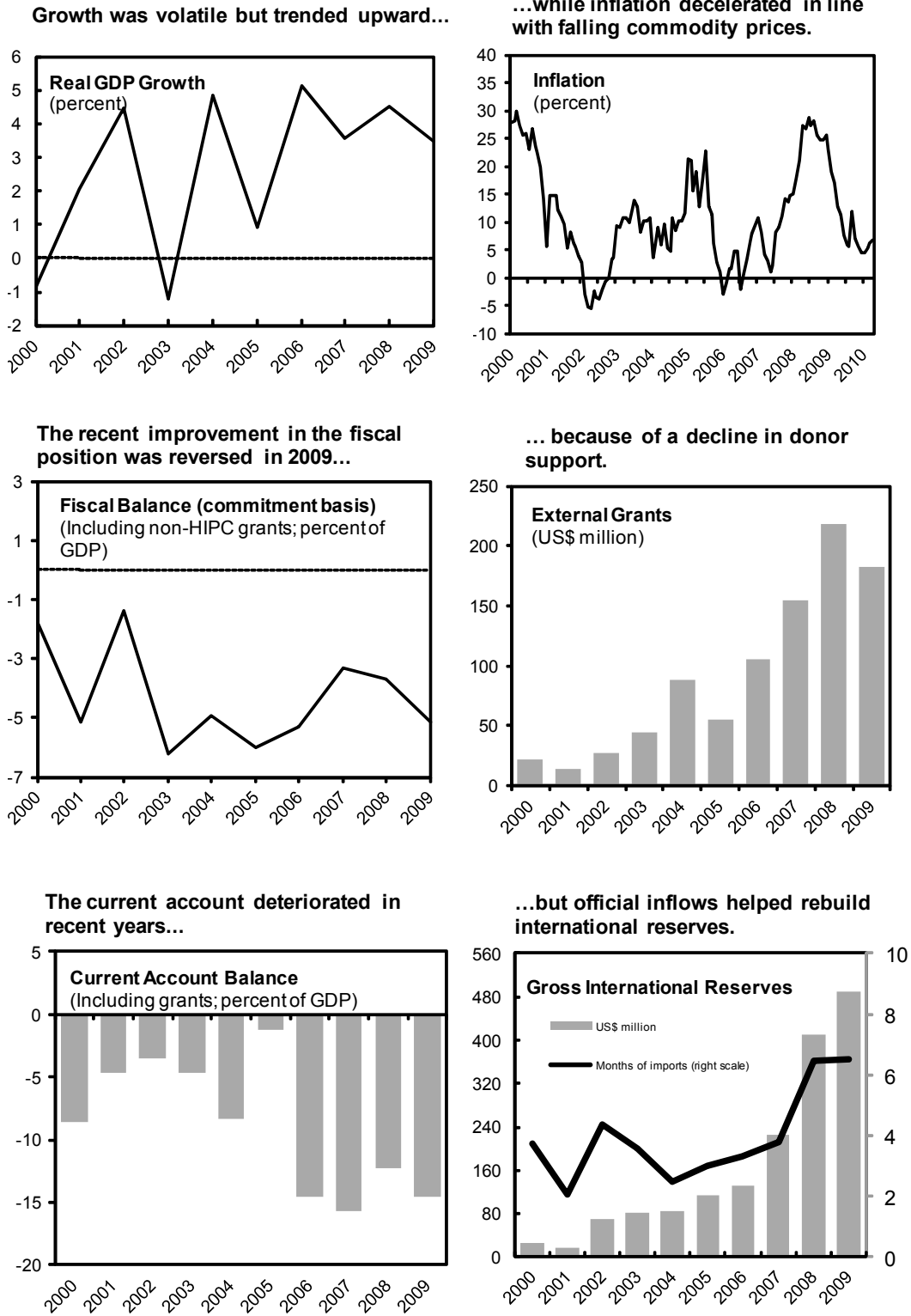
Sources: Burundi authorities and IMF staff estimates and projections.

7. **Monetary policy has been geared toward achieving price stability while supporting economic recovery from the impact of two exogenous shocks.** In 2008 reserve money grew by about 25 percent as the central bank sought to accommodate the first-round effects of higher oil and food prices. With the onset of the global financial crisis in 2009, monetary policy was eased, without endangering the single-digit inflation objective.

8. **The global financial crisis did not have a significant impact on Burundi's banking system.** However, the Financial Sector Assessment Program (FSAP) report identified concentration risk as a key vulnerability of the banking system.

9. **Despite the food and oil shock and the global financial crisis, the external position was supported by Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiative (MDRI) relief and the SDR allocation.** Notwithstanding the negative impact of the food and oil crisis on the trade balance, the external current account deficit improved in 2008 because of high transfers to mitigate the effects of the shock. In contrast, in 2009 the external current account deficit worsened, even as the terms of trade improved, because of lower donor support. Overall, the balance of payments position was supported by HIPC and MDRI relief and the SDR allocation. Gross reserves remained at a very comfortable level of 6.5 months of import cover.

Figure 1. Burundi: Macroeconomic Performance, 2000–09



Sources: Burundi authorities and IMF staff estimates.

III. POLICY DISCUSSIONS

10. **Against the background of the EAC integration, the Article IV consultation discussions focused on three key themes:** (i) accelerating growth and reducing poverty, (ii) accelerating financial sector reform, and (iii) safeguarding fiscal sustainability while achieving progress toward MDGs. In addition, the mission discussed important issues related to the Article IV consultation. To set the stage for the policy discussions, staff presented the updated macroframework.

Box 1. Burundi: Main Recommendations of the 2008 Article IV Consultation

Advice	Status
Improve PFM.	Substantial progress has been achieved (see Table I.1, IMF Country Report No. 10/75). The authorities intend to maintain the momentum on PFM reforms.
Improve the composition of spending.	Social spending has increased. However, the wage bill remains high. Security spending is also still high, reflecting the uncertain security situation. There is room to improve budgetary forecasts of social spending.
Reform monetary and exchange operations.	Monetary policy has become more market based, but the central bank needs to make more active use of available policy instruments. A symmetrical foreign exchange auction has been created and liquidity auctions have been revamped by eliminating floor prices.
Maintain prudent debt management.	Debt management has been enhanced as a result of the reorganization of the debt unit at the ministry of finance and the upgrading of debt management software. There was no recourse to non-concessional loans.
Implement structural reforms to stimulate private sector.	The privatization of the coffee sector has been launched, but only 13 out of 117 washing stations have been privatized, owing to limited investor interest. Progress in the reform of the investment climate has been slow.

A. Macroeconomic Framework and Supporting Policy Mix

11. **The economy is expected to modestly recover from the global financial crisis in 2010.** Real GDP growth is projected to rise to 3.9 percent in 2010, from 3.5 percent in 2009, mainly because of a substantial increase in coffee production and donor-financed investment. Headline inflation in 2010 is projected to remain in single digits at 9.5 percent, although drought has put upward pressure on food prices. Gross official reserves would decline to 6 months of imports, as a result of sterilization.

12. **Provided the security and political situation continues to improve, Burundi's medium-term economic outlook is generally positive:** (i) GDP growth is expected to average about 5 percent in the medium term, up from about 4 percent from 2007–09; (ii) average inflation would decelerate to 5 percent by 2014; and (iii) gross official reserves would stabilize at six months of imports (Text Table 2), consistent with the EAC convergence criterion. Economic growth is expected to be driven by three main factors: (i) continued removal of major economic distortions, especially in the coffee sector, which will boost total factor productivity; (ii) a substantial increase in aid-financed investment, largely for infrastructure renovation, which will help relieve major supply bottlenecks; and (iii) with EAC membership, access to a bigger market and the possibility of attracting more investment in areas where Burundi has a comparative advantage (for example, agriculture and tourism). The UN Policy for Post-Conflict Employment Creation, Income Generation and Reintegration (UN-PCEIR) could also drive growth by promoting stability. There is scope for a significant increase in growth in the medium term, should potential investments in the mining sector materialize.

13. **The medium-term fiscal outlook is expected to improve.** The overall fiscal deficit (on a commitment basis, including non-HIPC grants) is projected to decline from an average of 4.7 percent of GDP in 2005–09 to about 1.5 percent by 2013, supported by gradual improvement in revenue collections. Driven by spending on PRSP priority areas, current spending would average about 25 percent of GDP in 2010–15, broadly unchanged from recent years. The wage bill is projected to decline gradually to 11 percent of GDP by 2015, taking into account demobilization and the need to accommodate hiring in priority sectors. Acknowledging the need for significant investment in public infrastructure and in agriculture, the macroframework shows an increase in capital spending, supported by project grants.

14. **A coherent policy mix will support the above macroframework.** Appropriate growth-enhancing reforms will underpin the growth strategy. Achieving debt sustainability should anchor medium-term fiscal policy. Given Burundi's high risk of debt distress and low capacity (Joint DSA, Supplement I), improving export capacity and relying on grants and highly concessional loans to finance the budget is critical for achieving debt sustainability. Ongoing fiscal reforms will also help in this regard. These include the new budget law and reforms of tax policy, revenue administration, expenditure policy, treasury management, and debt management.

15. **Monetary policy is geared toward stabilizing prices while allowing sufficient scope for improved economic growth.** To this end, the central bank will continue to use the reserve money as an operating target, and broad money as intermediate target. To affect its operating target, the central bank relies on liquidity auctions. Close collaboration between the central bank and the ministry of finance is critical for effective monetary policy. Coordination of monetary and fiscal policies has been strengthened by the creation of the cash flow management committee and regular monthly meetings between the BRB and the ministry of finance (IMF Country Report No. 10/75, MEFP ¶21). A smooth transition from the current auction system to an interbank-based market will introduce greater exchange rate flexibility, thus enhancing monetary policy. In the medium-term, efforts to achieve EAC monetary union convergence criteria will also help consolidate macroeconomic stability.

Text Table 2. Burundi: Medium-Term Outlook, 2009–15

	2009	2010	2011	2012	2013	2014	2015
		Proj.					
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth	3.5	3.9	4.5	4.8	5.0	5.0	5.0
Consumer prices (end of period)	4.6	9.5	7.0	6.5	5.0	5.0	5.0
	(Percent of GDP, unless otherwise indicated)						
General government							
Revenue (excluding grants)	18.6	18.3	18.8	19.4	19.7	19.9	20.2
Total expenditure and net lending	39.3	49.5	47.0	46.8	44.4	43.1	43.0
Overall balance							
Commitment basis (after non-HIPC grants)	-5.2	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
Cash basis (after non-HIPC grants)	-5.2	-4.3	-4.2	-1.8	-1.3	-1.3	-1.3
External sector							
Current account balance	-14.5	-9.0	-10.6	-10.5	-10.4	-10.2	-10.1
Overall balance of payments	4.1	-0.8	0.1	-0.1	1.3	1.1	0.4
Gross official reserves							
In US\$ million	323.0	310.7	327.9	342.5	362.3	378.2	392.7
In months of imports	6.5	6.0	6.0	6.0	6.0	6.0	6.0

Sources: Burundi authorities and IMF staff estimates and projections.

16. **There are, however, significant downside risks to the medium-term outlook.** Besides the possible deterioration in the political and security situation, risks include (i) delays in macrocritical structural reforms that underpin the growth objectives, (ii) an uncertain external environment, and (iii) slow progress toward EAC integration. Weak institutional capacity could also endanger policy implementation.

B. Accelerating Growth and Reducing Poverty

Background

17. **Extended conflict lasting for 17 years has been the biggest constraint on growth through its negative impact on investment.** Consequently, the government will need to undertake a major infrastructure rehabilitation program, with the help of development partners.

18. **The reform of the coffee sector is of great economic importance.** The sector is the principal source of income for nearly 800,000 households, and coffee accounts for about two-thirds of total exports. It is expected that the recent privatization of 13 coffee washing stations will have positive spillover effects on the entire sector. Because interest from foreign investors was initially limited, the government has decided to reissue the invitations to bid at the end of the current coffee campaign.

19. **Regional integration is critical for achieving medium-term growth objectives.** EAC membership could spur growth, because it would give Burundi access to a bigger market (a population of 120 million) and increase the possibility of attracting more investment in areas where Burundi has a comparative advantage (for example, agriculture and tourism). Aware of these potential advantages, the government has already established an interministerial committee to coordinate and facilitate decision making in the context of the EAC. In addition, a national strategy and action plan, prepared with the assistance of development partners, will be examined by a technical team by end-July and submitted to the new government for endorsement.

Staff advice

- Refocus capital spending on key infrastructure that will help relieve major supply bottlenecks (for example, electricity and irrigation). All investment projects should be subject to rigorous cost-benefit and cost-effectiveness analyses. The authorities should seek World Bank technical assistance (TA) to strengthen the system of appraisal, selection, and monitoring of investment projects. Staff underscored that external financing should be limited to grants and highly concessional loans to avoid unsustainable debt.
- Continue to reform the coffee sector. Staff considers coffee sector privatization critical for boosting total factor productivity. The authorities will also pursue reform of other key sectors including tea and telecommunications, in consultation with the World Bank.
- Accelerate implementation of the EAC national strategy and action plan to achieve nominal convergence and spur structural reforms that would improve competitiveness and the business environment. Staff also discussed the authorities' plan to liberalize the capital account by 2014, in line with EAC requirements. Together with structural reforms, this should further improve competitiveness and the business environment. MCM could provide TA if requested.

Authorities' views

20. **The authorities concurred that political instability has been a major impediment to economic growth, and they therefore expect a rapid economic turnaround following peaceful elections.** They emphasized that their growth strategy stands on four sectoral pillars (agriculture, tourism, energy and water, and transport and communication infrastructure) and capitalizes on EAC membership. They pointed out that the creation of an agency to promote investment will contribute to strengthening the confidence of national and foreign investors (MEFP ¶14).

21. **The authorities agreed with staff's recommendations** and made the following points:

- Efforts are underway to refocus capital spending on the identified four pillars of growth. The authorities asked for donors to help them pursue this goal. In addition, the project planning unit at the ministry of planning would be strengthened by centralizing technical expertise on project analysis that is currently scattered across ministries.
- The privatization of coffee washing stations will be relaunched by the end of the ongoing coffee season. Although the coffee sector is important for growth and poverty reduction, stabilizing the population growth and reforming land tenure are also critical.
- Every effort will be made to rely on grants and highly concessional financing. However, in exceptional cases, where such financing is not available for critical growth-enhancing investment included in the authorities' development strategy, recourse to nonconcessional financing will be discussed with the Fund and World Bank staffs to ensure consistency with Fund policy on debt limits.
- Institutional capacity is still inadequate, despite substantial TA. It is therefore critical to identify and focus on the most urgent technical assistance needs.

C. Accelerating Financial Sector Reform

Background

22. **Access to financial services is limited, reflecting the underdeveloped payments system.** Based on data from 2007–08, only 2 percent of the total population has a bank account, and less than 0.5 percent use bank credit services. Consequently, cash transactions predominate, and payment instruments are physically exchanged. Moreover, most small and medium-size enterprises find it difficult to obtain credit, mainly because of lack of adequate information on the creditworthiness of prospective borrowers, the unavailability of real guarantees, and weak capacity of project preparation.

23. **The FSAP report is expected to guide reform in the financial sector.** In January 2009, staffs from the Fund and the Bank conducted the Financial Sector Assessment Program (FSAP) for Burundi. The Financial Sector Stability Assessment report was issued to the Executive Board in October 2009. The authorities plan to use the FSAP report

findings to guide their financial sector reform strategy. Work in this area has been launched with the creation of the National Strategy Committee by order of the ministry of finance.

24. **Consequent to the global financial crisis, the central bank took steps to enhance banking supervision** (MEFP, ¶12). Although the FSAP mission detected no obvious sign of imminent systemic stress as a result of the crisis, the authorities have taken steps to implement MCM recommendations on banking supervision, particularly those related to risk-based supervision, and have raised minimum capital requirements. The central bank is also taking steps to address concentration risk, a key vulnerability of the banking system (Table 7). To mitigate this risk, the BRB will continue to scrutinize bank risk management practices and lending standards and conduct stress tests, with the help of Central AFRITAC TA.

Staff advice

25. **Staff emphasized the need to accelerate financial sector reform**, drawing on the FSAP report and consistent with EAC requirements. Priority reforms include:

- Defining a strategy and policy for modernizing the infrastructure for the payment system, in keeping with EAC action plans and international standards.
- Modernizing the payment system's legal framework.
- Developing a complete clearing and settlement infrastructure, with the automation of exchanges of small values (checks and automatic transfers) within an electronic clearing system.

Authorities views

26. **The authorities agreed with the staff's assessment and policy advice.** They emphasized that the main objective of the financial sector reform is to broaden access to financial services. With the newly established steering committee, work on financial sector reform will accelerate, to enable the council of ministers to adopt a comprehensive strategy in the first quarter of 2011.

27. **The authorities pointed out that urgent reforms are already underway**, in close coordination with World Bank technical and financial assistance. These urgent priorities include: (i) modernizing the payment systems (which entails computerization of check clearing); (ii) introducing electronic banking services; (iii) improving regulation and supervision of commercial banks and microfinance institutions; (iv) setting up a credit bureau to ensure effective assessment of borrowers' creditworthiness; and (v) developing domestic financial markets to provide long-term and stable sources of funds for banks.

D. Safeguarding Fiscal Sustainability While Achieving Progress Toward MDGs

Background

28. **To modernize the tax system, the government has introduced a series of major reforms**, including a VAT and the EAC common external tariff. However, given the authorities' limited administrative capacity and delays in setting up the Burundi Revenue

Authority (BRA), staff adopted a conservative revenue projection, until the gains from VAT materialize. Staff will discuss the first-year implementation of VAT during the fifth review and update the medium-term projections accordingly. At around 18.5 percent, the revenue to GDP ratio is above the average of 17.3 percent of GDP for fragile states in Sub-Saharan Africa.

29. **Expenditures are dominated by wages and security spending.** At around 12 percent of GDP, the wage bill is above the authorities' medium-term target of 11 percent of GDP. Since recruitment in education and health sectors affects progress toward the MDGs, the wage bill in these sectors will continue to grow owing to enormous needs for teachers and health personnel. Achieving the medium-term target for the wage bill, while continuing to recruit in priority sectors, will therefore hinge critically on reducing the size of security forces.

Staff advice

- Manage carefully the establishment of the BRA and broaden the tax base by implementing the recommendations of recent FAD technical assistance. The BRA, which was supposed to start operations in January 2010, is not yet fully functional because of staffing delays. The authorities are taking all the necessary steps to expedite the process, in order to safeguard government revenue.
- In consultation with key donors including the World Bank, continue reforms of wage and employment including wage policy and demobilization after the elections to bring down the wage bill to sustainable levels.
- Make spending more efficient by implementing recent PFM reforms and enhancing governance and accountability in the use of public resources. Public tracking expenditure surveys could help identify leakages and obstacles to effective service delivery.
- Implement the above policies in order to crowd in social spending and accelerate progress toward achieving the MDGs.

Authorities' views

30. **The authorities agreed with the staff's assessment and policy advice** and emphasized that:

- In coordination with the Department for International Development (DFID), steps will be taken to shorten the transition from the old tax administration to the BRA. The focus will be on quick staffing and a clear time-bound action plan.
- Integration of former rebel groups has put pressure on the wage bill. They saw demobilization as a critical component of their strategy to bring the wage bill down, but cautioned that this has to be tackled with great care and only after elections, given the political and social implications.
- The medium-term debt profile could improve with future growth in the mining sector.

E. Other Article IV Issues

31. **The mission discussed other Article IV issues:**

- *Trade policy.* Significant reforms have been implemented to promote external trade. These include external tariff reform in line with EAC requirements, a new investment code consistent with best international practices, a new bankruptcy law, and a commercial arbitration law. Looking forward, key priorities are easing administrative obstacles to trade, establishing a single trade platform, and completing the reform of the coffee and tea sectors.
- *Assessment of the exchange rate.* Analysis of the official exchange rate suggests there is no clear indication of significant misalignment. However, there is evidence that structural factors are a constraint on competitiveness (Box 2). The mission informed the authorities that MCM has reclassified their exchange rate system from “floating” to “stabilized.” Staff urged the authorities to introduce more flexibility in the exchange rate to help the economy adjust to external shocks and the EAC required capital account liberalization planned for 2014.
- *Multiple currency practice subject to Article VIII issues.* The authorities have requested MCM and LEG TA to assist them to resolve the remaining multiple currency practice.

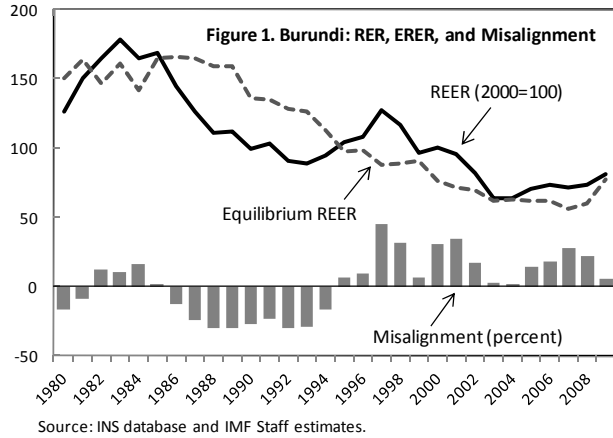
32. **Serious shortcomings in data provision significantly hamper surveillance.** While some improvements in the fiscal area have been achieved, there are acute shortcomings in national accounts and balance of payments statistics (Informational Annex, Supplement II) that introduce uncertainty into estimates and projections. The statistical office suffers from lack of qualified personnel and resources. With TA from the Fund and other donors, the authorities are continuing efforts to strengthen economic and financial data.

Box 2. Burundi: Exchange Rate and Competitiveness Assessment

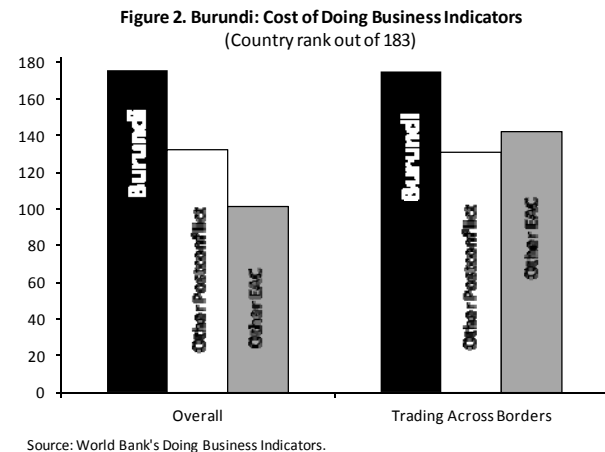
The general finding of the assessment is that there is no clear sign of significant misalignment of the real exchange rate. However, there is substantial evidence that nonprice structural factors are a major constraint on competitiveness.

Quantitative assessment of Burundi’s real exchange rate (RER) is complicated by data limitations in the national accounts and balance of payments. The price and volume volatility of the undiversified export sector and the lack of an interbank foreign exchange market further hinder the effort to separate underlying trends from temporary fluctuations.

Nevertheless, the RER shows no clear signs of significant misalignment. Using the equilibrium real exchange rate (ERER) methodology, staff estimates that the RER was overvalued by 5.8 percent at end-2009 (Figure 1). Estimates based on the external sustainability methodology generally confirm this finding. According to the latter approach, the medium-term current account balance is approximately 1.3 percentage points of GDP below its underlying norm, implying that the RER is modestly overvalued.



The authorities are taking steps to make the exchange rate more flexible. The recent launch of symmetrical foreign exchange auctions and the creation of an interbank foreign exchange market in the near future will increase the flexibility of the exchange rate.



Structural factors have been a major constraint on competitiveness. Burundi has one of the least friendly business environments in the world, ranking 176 out of 183 countries in the World Bank’s 2010 *Doing Business* report and well below other postconflict and EAC countries. Burundi ranks particularly low on the efficiency of procedures to trade externally (Figure 2).

Integration to the EAC will help broaden the market for exports and decrease the time and costs associated with trading across borders. Recent privatizations in the coffee sector should increase productivity and realign incentives.

IV. PROGRAM ISSUES

33. **Program implementation through March was generally satisfactory.** All quantitative performance criteria and structural benchmarks for end-March were met. External assistance in the first quarter of 2010 was higher than programmed because of the late disbursement of budget support initially planned for 2009. These disbursements were used to pay down central bank advances temporarily extended in 2009 as bridge-financing for delayed budget support.

34. **Fiscal policy in 2010 will continue to be geared toward addressing debt sustainability concerns.** Given Burundi's high risk of debt distress and low capacity, external financing of the budget will be limited to grants and highly concessional loans. The fiscal reforms of the past three years will also help ensure debt sustainability. These include the new budget law and the reforms of tax policy, revenue administration, expenditure policy, treasury management, and debt management (IMF Country Report No. 10/75, MEFP Table I.1).

35. **The authorities recognize that mobilizing domestic revenue is critical for fiscal sustainability and increased poverty-reducing expenditure** (MEFP, ¶16). The revised revenue target for 2010 is 18.3 percent of GDP, 0.2 percentage point of GDP lower than originally programmed because of delays in staffing the BRA. To safeguard the revenue target, staff urged the authorities to continue their efforts to broaden the revenue base by reducing exemptions and strengthening tax and customs administration. In particular, the authorities will take all the necessary steps to expedite the staffing of the BRA.

36. **The primary objective of expenditure policy in 2010 is to significantly improve the composition of public spending in favor of priority sectors** (MEFP, ¶17). Accordingly, propoor spending is expected to increase by about 1.8 percent of GDP. In line with Burundi's poverty reduction strategy, MDRI resources will be spent on agriculture, water, rural infrastructure, health, and education.

37. **The program for 2010 has been revised** (Table 3) to take into account: (i) a new law to address the security forces' dissatisfaction with pay; (ii) the government's contribution of 0.8 percent of GDP to the cost of the 2010 general elections (3.3 percent of GDP); (iii) drought-related emergency spending; and (iv) the authorities' decision to issue domestic bonds to clear during 2010–11 the liability (2.4 percent of 2010 GDP) from retroactive implementation of the civil servant statutes (IMF Country Report No. 10/75; MEFP, ¶17).

38. **Staff and authorities agreed on the following:**

- Finance the impact of the new law on the security forces' pay (about 0.7 percent of GDP) by using the budgeted reserve fund (0.5 percent of GDP) and by cutting nonpriority spending on goods and services (0.2 percent of GDP) while guarding against accumulation of arrears.

- Accommodate drought-related emergency spending of 0.5 percent of GDP through increased domestic borrowing.
- Accommodate domestically financed elections spending of 0.8 percent of GDP. It is likely that additional donor financing for the elections will be provided, thus reducing the government's contribution. Staff urged donors to honor their commitments to finance most elections-related spending to avoid crowding out domestic funding for high-priority spending.
- The macro framework incorporates the authorities' decision to issue domestic bonds to clear during 2010–11 the liability (2.4 percent of 2010 GDP) from retroactive implementation of the civil servant statutes. This one-time operation was motivated by the need to: (i) end more than two months of strike by teachers and to forestall social instability ahead of the elections, and (ii) cement peace after 17 years of conflict. This reinforces the need to pursue structural reforms to bring down the wage bill.

V. STAFF APPRAISAL

39. **In a difficult postconflict environment, Burundi has made steady, though uneven, progress.** Most monetary and fiscal reforms have progressed. However, structural reform has generally been slow, because of limited institutional capacity and political instability.
40. **Burundi's medium-term economic outlook is positive as long as the security situation continues to improve.** Near-term growth is projected to rise, supported by a good coffee harvest, though inflation would remain high, driven by rising food prices. Economic growth in the medium term would be markedly higher, propelled by improved political conditions, EAC membership, and increased donor assistance.
41. **Staff urges the authorities to anchor medium-term fiscal policy to debt sustainability.** Given the high risk of debt distress and low capacity, the budget should be financed only by grants and highly concessional external financing. Improvements in governance will be critical for donor support. In this regard, the authorities should further strengthen PFM and manage public expectations of a peace dividend, especially for public employees.
42. **Staff encourages the authorities to continue their efforts to reform the financial sector** by improving banking supervision, modernizing the payment system, and addressing weaknesses in the banking system, notably concentration risk.
43. **Sustained growth depends on accelerating structural reforms.** Staff urges the authorities to pursue appropriate growth-enhancing reforms by refocusing capital spending on key infrastructure, accelerating EAC integration, and advancing financial sector reform.
44. **The exchange rate seems to be broadly in line with its equilibrium rate.** Analysis of the real exchange rate suggests there is no clear indication of significant misalignment,

but there is significant evidence that structural factors are a major constraint on competitiveness.

45. **Burundi maintains one multiple currency practice inconsistent with Article VIII, Section 3.** The authorities have not sought, and staff does not recommend, approval.

46. **The data provided to the Fund are generally inadequate for effective surveillance,** especially national accounts and balance of payments data. Priority should be given to improving statistics in these areas.

47. **Staff recommends completion of the fourth review under the three-year ECF arrangement** based on Burundi's performance and the strength of the program. Staff also recommends approval of the modification of performance criteria, which stems from the factors outlined in paragraph 38. Risks to the program can be mitigated by sound policies and reforms, in coordination with Burundi's development partners.

48. **The authorities' intention to make public the staff report, the letter of intent, and the MEFP is welcome.** Staff recommends that the next Article IV consultation with Burundi be held on the 24-month consultation cycle in accordance with Decision No. 12794-(02/76) of July 2002, as amended by Decision No. 12854-(02/96) of September 12, 2002, and Decision No. 13562-(05/85), October 5, 2005.

Table 1. Burundi: Millennium Development Goals

	1990	1995	2000	2005	2008	Target
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	84	85	85	83	83	..
Employment to population ratio, ages 15-24, total (%)	74	76	77	74	73	..
GDP per person employed (annual % growth)	-1	-9	-3	-4	0	..
Income share held by lowest 20%	8	..	5	9	9	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	39	..	..	..
Poverty gap at \$1.25 a day (PPP) (%)	40	..	47	36	36	..
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	84	..	86	81	81	..
Prevalence of undernourishment (% of population)	44	57	..	63	..	..
Vulnerable employment, total (% of total employment)	..	..	..	..	..	..
Goal 2: Achieve universal primary education						
Literacy rate, youth female (% of females ages 15-24)	48	..	70	..	75	100
Literacy rate, youth male (% of males ages 15-24)	59	..	77	..	77	100
Persistence to last grade of primary, total (% of cohort)	..	..	53	58	54	..
Primary completion rate, total (% of relevant age group)	41	..	25	36	45	..
Total enrollment, primary (% net)	..	..	43	63	99	100
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	..	..	6	31	31	..
Ratio of female to male enrollments in tertiary education	36	..	35	38	46	..
Ratio of female to male primary enrollment	80	80	80	86	95	..
Ratio of female to male secondary enrollment	58	..	..	74	71	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	14	..	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	74	80	76	87	84	..
Mortality rate, infant (per 1,000 live births)	113	111	107	104	102	37.7
Mortality rate, under-5 (per 1,000)	189	184	178	171	168	63.1
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	40	34	24	19	..
Births attended by skilled health staff (% of total)	..	..	25	34	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	16	9	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	1,100	..	..
Pregnant women receiving prenatal care (%)	..	..	78	92	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	..	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	31	30	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	154	223	321	387	367	..
Prevalence of HIV, female (% ages 15-24)	..	..	..	1.3	1.3	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	0.4	0.4	..
Prevalence of HIV, total (% of population ages 15-49)	1.7	5.2	3.8	2.4	2.0	..
Tuberculosis cases detected under DOTS (%)	..	20	30	25	27	..
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP \$ of GDP)	0.1	0.1	0.1	0.1	..	..
CO2 emissions (metric tons per capita)	0.0	0.0	0.0	0.0	..	..
Forest area (% of land area)	11.3	9.5	7.7	5.9	5.2	..
Improved sanitation facilities (% of population with access)	44	43	42	41	41	..
Improved water source (% of population with access)	70	70	71	71	71	..
Marine protected areas, (% of surface area)	..	..	..	..	..	..
Nationally protected areas (% of total land area)	..	..	..	6	6	..
Goal 8: Develop a global partnership for development						
Aid per capita (current US\$)	46	47	14	49	59	..
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	42	27	38	34	7	..
Internet users (per 100 people)	0	0	0.1	0.5	0.8	..
Mobile cellular subscriptions (per 100 people)	0	0	0	2	6	..
Telephone lines (per 100 people)	0	0	0	0	0	..
Other						
Fertility rate, total (births per woman)	7.0	6.0	6.0	5.0	5.0	..
GNI per capita, Atlas method (current US\$)	200	150	120	100	140	..
GNI, Atlas method (current US\$) (billions)	1.1	0.9	0.8	0.7	1.1	..
Gross capital formation (% of GDP)	15	6	6	11	16	..
Life expectancy at birth, total (years)	46	45	47	49	50	..
Literacy rate, adult total (% of people ages 15 and above)	37	..	59	..	66	..
Population, total (millions)	5.7	6.2	6.5	7.4	8.1	..
Trade (% of GDP)	35.6	40.2	27.7	56.7	57.7	..

Source: World Development Indicators database.

Table 2. Burundi: Selected Economic and Financial Indicators, 2007–15

	2007	2008	2009		2010		2011	2012	2013	2014	2015
			Prog.	Act.	Prog.	Rev. Prog.			Proj.		
(Annual percentage change)											
National income and prices											
Real GDP growth	3.6	4.5	3.2	3.5	3.9	3.9	4.5	4.8	5.0	5.0	5.0
GDP deflator	8.2	25.1	20.3	14.1	8.5	8.3	9.4	8.0	6.5	5.0	5.0
Consumer prices (period average)	8.3	24.4	12.9	10.7	8.0	7.0	8.2	6.8	5.8	5.0	5.0
Consumer prices (end of period)	14.7	25.7	9.1	4.6	7.5	9.5	7.0	6.5	5.0	5.0	5.0
External sector											
Exports, f.o.b. (US\$)	-9.7	15.1	-0.4	21.5	16.8	20.2	-0.6	12.5	4.2	14.0	5.6
Imports, f.o.b. (US\$)	20.6	16.0	-32.3	-21.5	17.8	32.3	8.0	3.0	4.0	6.2	6.2
Export volume	-1.7	5.2	35.5	16.0	20.6	26.4	7.2	20.4	5.5	16.5	5.5
Import volume	6.0	4.1	6.0	4.7	8.5	8.0	6.6	5.0	5.0	5.0	5.0
Terms of trade (deterioration = -)	-23.4	3.4	15.0	39.8	-10.9	-22.4	-8.4	-4.7	-0.3	-3.3	-1.1
(Change in percent of beginning of period M2, unless otherwise indicated)											
Money and credit											
Net foreign assets	11.5	21.9	0.3	-2.9	0.5	3.0	...	...	...	...	...
Domestic credit	6.6	18.8	15.7	27.8	11.9	11.3	...	...	...	...	...
Government	-0.2	5.8	4.9	17.1	4.1	0.7	...	...	...	...	...
Private sector	7.6	8.5	6.2	13.7	7.9	10.6	...	...	...	...	...
Money and quasi-money (M2)	10.1	34.2	14.4	19.8	12.0	12.0	...	...	...	...	...
Reserve money (12-month growth rate)	17.4	25.1	13.5	26.6	11.5	10.6	...	...	...	...	...
(Percent of GDP)											
General government											
Revenue (excluding grants)	18.6	18.5	18.0	18.6	18.5	18.3	18.8	19.4	19.7	19.9	20.2
Total expenditure and net lending	38.5	44.1	46.1	39.3	48.3	49.5	47.0	46.8	44.4	43.1	43.0
Overall balance (commitment basis)											
Excluding grants	-19.8	-25.6	-28.1	-20.7	-29.8	-31.2	-28.2	-27.4	-24.7	-23.2	-22.8
Including grants (excl. HIPC)	-3.3	-3.7	-4.1	-5.2	-4.0	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
External sector											
Current account balance	-15.7	-12.3	-9.5	-14.5	-10.2	-9.0	-10.6	-10.5	-10.4	-10.2	-10.1
Overall balance of payments	3.1	7.4	-2.5	4.1	-1.5	-0.8	0.1	-0.1	1.3	1.1	0.4
Savings-investment balance	-15.7	-12.3	-9.5	-14.5	-10.2	-9.0	-10.6	-10.5	-10.4	-10.2	-10.1
Private	-12.4	-8.5	-5.4	-9.4	-6.2	-5.9	-7.6	-8.7	-9.1	-8.9	-8.8
Public	-3.3	-3.7	-4.1	-5.2	-4.0	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
(US\$ million, unless otherwise indicated)											
External sector											
Gross official reserves											
US\$ million	177.3	266.6	231.8	323.0	302.2	310.7	327.9	342.5	362.3	378.2	392.7
Months of imports	3.8	6.5	5.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Debt-service to exports ratio (percent)	6.8	3.5	2.3	1.9	3.2	2.5	5.4	9.1	10.2	10.1	9.3
<i>Memorandum item:</i>											
GDP at current market prices (BIF billion)	1060	1386	1711	1637	1836	1841	2104	2381	2662	2936	3238

Sources: Burundi authorities and IMF staff estimates and projections.

Table 3. Burundi: General Government Operations, 2007–15

	2007	2008	2009		2010		2011	FY 2012 ¹	FY 2013	FY 2014	FY 2015
			Prog.	Act.	Prog.	Rev. Prog.					
(Percent of GDP)											
Revenue	18.6	18.5	18.0	18.6	18.5	18.3	18.8	19.4	19.7	19.9	20.2
Tax revenue	17.2	16.6	16.3	17.0	17.0	16.8	17.2	17.8	18.1	18.3	18.5
Income tax	5.0	4.7	4.5	5.2	4.6	4.6	4.8	4.8	5.0	5.1	5.2
Taxes on goods and services	8.7	8.8	8.4	9.0	8.8	8.9	9.0	9.2	9.2	9.2	9.2
Taxes on international trade	3.2	2.9	3.1	2.7	3.3	3.0	3.1	3.3	3.4	3.5	3.6
Other tax revenue	0.3	0.2	0.3	0.1	0.3	0.3	0.4	0.5	0.5	0.5	0.5
Nontax revenue	1.4	1.9	1.7	1.6	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Expenditure and net lending	38.5	44.1	46.1	39.3	48.3	49.5	47.0	46.8	44.4	43.1	43.0
Current expenditure ²	24.6	25.8	24.6	25.8	25.6	27.0	25.8	25.5	24.8	24.4	24.2
Salaries	10.7	11.4	11.2	11.7	11.6	12.2	12.0	11.9	11.5	11.2	11.0
Of which: priority sectors	5.3	6.1	6.7	7.1	7.4	7.3	7.3	7.4	7.5	7.6	7.8
Of which: security related	4.4	3.6	3.3	3.4	3.1	3.8	3.8	3.6	3.3	2.9	2.5
Of which: others	1.0	1.8	1.2	1.3	1.1	1.1	1.0	0.9	0.8	0.7	0.7
Other current expenditures	13.9	14.4	13.4	14.1	14.1	14.8	13.8	13.6	13.3	13.2	13.2
Of which: Election					0.1	0.8					
Externally financed special programs ³	1.2	3.2	5.3	0.1	5.5	5.5	3.5	3.0	0.9	0.1	0.1
Of which: Election					2.5	2.5					
Capital expenditure & Net lending	12.7	15.1	16.3	13.3	17.1	17.0	17.8	18.3	18.6	18.6	18.7
Of which: MDRI-related			2.3	0.0	1.3	1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-19.8	-25.6	-28.1	-20.7	-29.8	-31.2	-28.2	-27.4	-24.7	-23.2	-22.8
Overall balance (after grants, excl. HIPC)	-3.3	-3.7	-4.1	-5.2	-4.0	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
Change in arrears (reduction = -)	-2.1	-0.8	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liability related to new statutes for civil servants					0.0	-1.1	-1.1	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-21.9	-26.4	-28.3	-20.7	-29.8	-32.3	-29.3	-27.4	-24.7	-23.2	-22.8
Overall balance (after grants, excl. HIPC)	-5.4	-4.5	-4.3	-5.2	-4.0	-4.3	-4.2	-1.8	-1.3	-1.3	-1.3
Financing	24.0	26.5	28.3	20.6	29.8	32.3	28.5	26.5	24.7	23.2	22.8
External grants	20.9	24.9	86.5	80.8	25.8	28.0	24.3	24.7	23.4	21.9	21.5
Of which: HIPC relief	3.8	3.0	62.5	65.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: MDRI grant from IMF	0.0	0.0	2.3	1.8	2.1	2.1	0.0	0.0	0.0	0.0	0.0
External borrowing, net	-0.9	0.2	-59.6	-64.4	2.7	2.7	2.2	2.2	2.0	1.9	1.9
Privatization proceeds	0.0	0.0	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Domestic	4.0	1.4	1.3	4.2	1.2	1.5	1.7	-0.6	-1.0	-0.9	-0.9
Banking sector	3.1	1.4	1.3	4.6	1.2	0.2	0.6	-0.6	-1.0	-0.9	-0.9
Nonbank sector	0.9	0.0	0.0	-0.4	0.0	1.3	1.1	0.0	0.0	0.0	0.0
Financing gap and errors and omissions ⁴	-2.1	-0.1	0.0	0.1	0.0	0.0	0.8	0.9	0.0	0.0	0.0
(BIF billion)											
Total revenue	197.6	256.7	308.1	304.6	339.3	336.9	396.0	461.8	523.9	584.2	653.5
Total expenditure and net lending	407.9	611.7	789.6	642.7	886.6	910.8	989.7	1114.5	1180.7	1265.2	1391.8
Of which: salaries	114.0	158.4	192.2	191.8	212.4	224.5	253.1	283.7	307.1	327.6	356.7
Financing gap and errors and omissions ⁴	-22.3	-0.8	0.0	1.0	0.0	0.0	17.3	21.8	0.0	0.0	0.0
Total financing	237.7	366.8	485.1	337.1	547.3	595.0	600.0	630.9	656.8	681.0	738.3
(US\$ million, unless otherwise indicated)											
<i>Memorandum items:</i>											
MDRI stock relief from IDA and AfDB	...	...	84.8	84.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI savings from IDA and AfDB:											
Amortization	...	...	2.3	2.3	3.0	3.0	3.2	3.3	3.3	3.3	3.4
Annual interest payments	...	...	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Propoor expenditure (percent of GDP)	12.0	15.1	9.9	16.8	18.6	18.6	18.9	19.2	19.2	19.6	20.1
Public debt (percent of GDP)	178	154	49	48	51	51	51	47	44	41	39
GDP at current market prices (BIF billion)	1060	1386	1711	1637	1836	1841	2104	2381	2662	2936	3238

Sources: Burundi authorities and IMF staff estimates and projections.

¹ The authorities plan to move from a calendar year to a fiscal year in line with the EAC requirement.² The medium-term current spending projections are mostly driven by health, education, food security, and agriculture expenditures.³ These are externally financed expenditures, which include spending on elections (in 2010), demobilization, and one-off temporary social safety net programs.⁴ Expected to be financed by additional donor support.

Table 3. Burundi: General Government Operations, 2007–15

	2007	2008	2009		2010		2011 FY 2012 ¹ FY 2013FY 2014FY 2015				
			Prog.	Act.	Prog.	Rev. Prog.	Proj.				
(Percent of GDP)											
Revenue	18.6	18.5	18.0	18.6	18.5	18.3	18.8	19.4	19.7	19.9	20.2
Tax revenue	17.2	16.6	16.3	17.0	17.0	16.8	17.2	17.8	18.1	18.3	18.5
Income tax	5.0	4.7	4.5	5.2	4.6	4.6	4.8	4.8	5.0	5.1	5.2
Taxes on goods and services	8.7	8.8	8.4	9.0	8.8	8.9	9.0	9.2	9.2	9.2	9.2
Taxes on international trade	3.2	2.9	3.1	2.7	3.3	3.0	3.1	3.3	3.4	3.5	3.6
Other tax revenue	0.3	0.2	0.3	0.1	0.3	0.3	0.4	0.5	0.5	0.5	0.5
Nontax revenue	1.4	1.9	1.7	1.6	1.5	1.5	1.6	1.6	1.6	1.6	1.6
Expenditure and net lending	38.5	44.1	46.1	39.3	48.3	49.5	47.0	46.8	44.4	43.1	43.0
Current expenditure ²	24.6	25.8	24.6	25.8	25.6	27.0	25.8	25.5	24.8	24.4	24.2
Salaries	10.7	11.4	11.2	11.7	11.6	12.2	12.0	11.9	11.5	11.2	11.0
Of which priority sectors	5.3	6.1	6.7	7.1	7.4	7.3	7.3	7.4	7.5	7.6	7.8
Of which security related	4.4	3.6	3.3	3.4	3.1	3.8	3.8	3.6	3.3	2.9	2.5
Of which others	1.0	1.8	1.2	1.3	1.1	1.1	1.0	0.9	0.8	0.7	0.7
Other current expenditures	13.9	14.4	13.4	14.1	14.1	14.8	13.8	13.6	13.3	13.2	13.2
Of which Election					0.1	0.8					
Externally financed special programs ³	1.2	3.2	5.3	0.1	5.5	5.5	3.5	3.0	0.9	0.1	0.1
Of which Election					2.5	2.5					
Capital expenditure & Net lending	12.7	15.1	16.3	13.3	17.1	17.0	17.8	18.3	18.6	18.6	18.7
Of which MDRI-related			2.3	0.0	1.3	1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-19.8	-25.6	-28.1	-20.7	-29.8	-31.2	-28.2	-27.4	-24.7	-23.2	-22.8
Overall balance (after grants, excl. HIPC)	-3.3	-3.7	-4.1	-5.2	-4.0	-3.1	-3.1	-1.8	-1.3	-1.3	-1.3
Change in arrears (reduction = -)	-2.1	-0.8	-0.2	0.	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liability related to new statutes for civil servants					0.0	-1.1	-1.1	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-21.9	-26.4	-28.3	-20.7	-29.8	-32.3	-29.3	-27.4	-24.7	-23.2	-22.8
Overall balance (after grants, excl. HIPC)	-5.4	-4.5	-4.3	-5.2	-4.0	-4.3	-4.2	-1.8	-1.3	-1.3	-1.3
Financing	24.0	26.5	28.3	20.6	29.8	32.3	28.5	26.5	24.7	23.2	22.8
External grants	20.9	24.9	86.5	80.8	25.8	28.0	24.3	24.7	23.4	21.9	21.5
Of which HIPC relief	3.8	3.0	62.5	65.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which MDRI grant from IMF	0.0	0.0	2.3	1.8	2.1	2.1	0.0	0.0	0.0	0.0	0.0
External borrowing, net	-0.9	0.2	-59.6	-64.4	2.7	2.7	2.2	2.2	2.0	1.9	1.9
Privatization proceeds	0.0	0.0	0.1	0.0	0.1	0.1	0.2	0.2	0.3	0.3	0.3
Domestic	4.0	1.4	1.3	4.2	1.2	1.5	1.7	-0.6	-1.0	-0.9	-0.9
Banking sector	3.1	1.4	1.3	4.6	1.2	0.2	0.6	-0.6	-1.0	-0.9	-0.9
Nonbank sector	0.9	0.0	0.0	-0.4	0.0	1.3	1.1	0.0	0.0	0.0	0.0
Financing gap and errors and omissions ⁴	-2.1	-0.1	0.0	0.1	0.0	0.0	0.8	0.9	0.0	0.0	0.0
(BIF billion)											
Total revenue	197.6	256.7	308.1	304.6	339.3	336.9	396.0	461.8	523.9	584.2	653.5
Total expenditure and net lending	407.9	611.7	789.6	642.7	886.6	910.8	989.7	1114.5	1180.7	1265.2	1391.8
Of which salaries	114.0	158.4	192.2	191.8	212.4	224.5	253.1	283.7	307.1	327.6	356.7
Financing gap and errors and omissions ⁴	-22.3	-0.8	0.0	1.0	0.0	0.0	17.3	21.8	0.0	0.0	0.0
Total financing	237.7	366.8	485.1	337.1	547.3	595.0	600.0	630.9	656.8	681.0	738.3
(US\$ million, unless otherwise indicated)											
<i>Memorandum items:</i>											
MDRI stock relief from IDA and AfDB	...	...	84.8	84.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MDRI savings from IDA and AfDB:											
Amortization	...	...	2.3	2.3	3.0	3.0	3.2	3.3	3.3	3.3	3.4
Annual interest payments	...	...	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Propoor expenditure (percent of GDP)	12.0	15.1	9.9	16.8	18.6	18.6	18.9	19.2	19.2	19.6	20.1
Public debt (percent of GDP)	178	154	49	48	51	51	51	47	44	41	39
GDP at current market prices (BIF billion)	1060	1386	1711	1637	1836	1841	2104	2381	2662	2936	3238

Sources: Burundi authorities and IMF staff estimates and projections.

¹ The authorities plan to move from a calendar year to a fiscal year in line with the EAC requirement.

² The medium-term current spending projections are mostly driven by health, education, food security, and agriculture expenditures.

³ These are externally financed expenditures, which include spending on elections (in 2010), demobilization, and one-off temporary social safety net programs.

⁴ Expected to be financed by additional donor support.

Table 4. Burundi: Monetary Survey, 2007–10

	2007	2008	2009		2010	
			Proj.	Act.	Prog.	Rev. Prog.
(BIF billion)						
Net foreign assets	109.1	181.5	182.9	168.8	192.0	184.6
Central bank	75.6	139.4	87.3	118.7	113.3	129.8
Deposit money banks	33.5	42.0	95.6	50.0	78.7	54.8
Net domestic assets	298.7	368.9	438.9	500.3	516.4	570.7
Domestic credit	374.1	436.1	505.5	559.2	574.4	619.1
Net claims on the government	157.4	176.5	198.1	252.4	219.4	255.9
<i>Of which: on the Treasury</i>				268.8	...	272.3
Credit to the economy	216.6	259.7	307.4	306.8	355.0	363.1
Other items, net (assets = +)	-75.4	-67.2	-66.6	-58.9	-58.0	-48.4
M3	407.8	550.4	621.9	669.1	708.3	755.3
Foreign currency deposits	77.7	107.3	115.0	138.3	124.0	160.8
M2	330.1	443.1	506.9	530.8	584.3	594.5
Currency in circulation	84.2	112.6	135.2	120.9	137.9	136.9
Local currency deposits	245.9	330.5	371.7	409.9	446.4	457.6
Demand deposits	151.2	223.3	244.7	283.5	304.9	314.9
Quasi-money	94.7	107.2	127.0	126.4	141.5	142.7
(Change as percent of beginning of period M2)						
Net foreign assets	11.5	21.9	0.3	-2.9	0.5	3.0
Central bank	11.4	19.3	-11.7	-4.7	-0.4	2.1
Deposit money banks	0.1	2.6	12.1	1.8	1.0	0.9
Net domestic assets	7.0	21.3	15.8	29.7	13.2	13.3
Domestic credit	6.6	18.8	15.7	27.8	11.9	11.3
Net claims on the government	-0.2	5.8	4.9	17.1	4.1	0.7
Credit to the economy	6.8	13.0	10.8	10.6	7.9	10.6
<i>Of which: private sector</i>	7.6	8.5	6.2	13.7	7.9	10.6
Other items, net (assets = +)	0.4	2.5	0.1	1.9	1.3	2.0
M3	18.5	43.2	16.1	26.8	13.7	16.2
Foreign currency deposits	8.5	9.0	1.7	7.0	1.7	4.2
M2	10.1	34.2	14.4	19.8	12.0	12.0
Currency in circulation	5.2	8.6	5.1	1.9	3.1	3.0
Local currency deposits	4.8	25.6	9.3	17.9	8.9	9.0
Demand deposits	1.2	21.8	4.8	13.6	6.1	5.9
Quasi-money	3.6	3.8	4.5	4.3	2.8	3.1
<i>Memorandum items:</i>						
Reserve money (12-month percent change)	17.4	25.1	13.5	26.6	11.5	10.6
Velocity (GDP/M2; end of period)	4.2	3.1	3.4	3.1	3.1	3.1

Sources: Burundi authorities and IMF staff estimates and projections.

Table 5. Burundi: Central Bank Accounts, 2008–10

	2008				2009				2010			
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar. Act.	June Rev.	Sep. Prog.	Dec.
	(BIF billion)											
Net foreign assets	68.1	63.4	75.1	139.4	105.1	148.8	113.0	118.7	105.3	95.0	100.1	129.8
Net domestic assets	50.2	71.6	71.4	17.0	33.6	13.9	44.8	79.3	49.8	83.3	91.5	89.2
Domestic credit	127.5	149.0	146.9	114.1	108.0	119.4	122.5	187.5	136.1	172.7	186.4	193.9
Net claims on the government	124.0	143.3	141.4	120.8	110.3	113.3	116.4	191.7	151.8	178.1	190.1	190.1
Other credit	3.4	5.6	5.4	-6.6	-2.3	6.2	6.1	-4.2	-15.7	-5.3	-3.6	3.8
Other items, net (assets = +)	-77.3	-77.3	-75.6	-97.2	-74.4	-105.5	-77.7	-108.2	-86.3	-89.4	-94.9	-104.7
Reserve money	118.3	135.1	146.5	156.4	138.7	162.7	157.9	198.0	155.1	178.3	191.6	219.0
Currency in circulation	80.6	99.3	110.4	112.6	99.9	108.0	104.5	120.9	109.5	104.5	115.5	136.9
Bank reserves	23.5	18.9	17.3	25.0	22.2	37.2	35.9	53.9	26.4	60.3	58.6	58.8
Cash in vault	9.1	9.9	12.6	11.6	12.7	12.6	13.4	15.3	15.9	13.4	13.4	15.3
Other nonbank deposits	5.1	7.1	6.2	7.2	3.8	4.9	4.1	7.9	3.3	0.1	4.1	7.9
<i>Memorandum items:</i>												
Net foreign assets of BRB (US\$ million)	57.8	53.1	63.1	112.9	85.1	120.9	91.8	96.5	85.6	76.2	79.3	101.5

Sources: Burundi authorities and IMF staff estimates and projections.

Table 6. Burundi: Balance of Payments, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Proj.								
	(US\$ million)								
Current account	-153.4	-142.7	-193.4	-132.2	-168.5	-176.4	-186.9	-196.5	-207.6
(excluding official transfers)	-364.4	-379.6	-335.4	-426.9	-457.5	-460.6	-474.7	-488.0	-506.7
Trade balance	-242.0	-281.3	-194.4	-266.2	-295.0	-295.3	-307.0	-318.0	-338.6
Exports, f.o.b.	52.9	60.9	74.0	89.0	88.5	99.6	103.7	118.2	124.9
Of which: coffee	32.6	40.1	47.3	61.7	63.3	73.4	76.4	89.2	93.7
Imports, f.o.b.	-295.0	-342.2	-268.5	-355.2	-383.5	-394.9	-410.8	-436.3	-463.5
Of which: petroleum products	-58.4	-105.2	-80.6	-108.0	-120.2	-131.9	-140.1	-148.4	-157.2
Services (net)	-145.6	-186.3	-214.2	-227.4	-232.5	-237.4	-243.5	-249.9	-252.3
Income (net)	-5.9	-4.3	6.3	-6.9	-6.9	-8.4	-8.7	-8.9	-9.1
Current transfers (net)	240.1	329.3	209.0	368.3	365.9	364.7	372.3	380.3	392.4
Of which: official (net)	211.0	237.0	141.9	294.8	289.0	284.2	287.8	291.4	299.1
Capital account ¹	127.4	143.9	1224.6	143.2	161.3	167.5	166.0	179.1	190.8
Of which: HIPC relief	39.4	39.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: debt forgiveness			1057.1						
Of which: other transfers (MDRI grant)	0.0	0.0	51.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	65.5	51.0	-974.5	-22.6	9.5	8.1	43.5	38.1	25.0
Direct investment	0.5	13.6	10.2	12.7	12.7	12.6	12.6	13.2	13.8
Other investment	65.1	37.4	-984.8	-35.3	-3.2	-4.6	31.0	25.0	11.2
Assets	-45.0	-30.8	-41.0	-31.7	-35.2	-32.1	-32.4	-29.9	-31.2
Liabilities	110.0	68.2	-943.8	-3.7	31.9	27.6	63.3	54.9	42.4
Of which: SDR allocation			95.1						
Errors and omissions	-9.5	33.5	-2.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	30.0	85.8	54.7	-11.6	2.3	-0.9	22.6	20.7	8.2
Financing (increase in assets = -)	-30.0	-85.8	-54.7	11.6	-15.3	-14.6	-22.6	-20.7	-8.2
Of which: change in official reserves	-47.2	-89.8	-54.7	12.4	-17.3	-14.6	-19.8	-15.9	-14.5
Of which: SDR allocation			-95.1						
Financing gap ²	0.0	0.0	0.0	0.0	13.1	15.4	0.0	0.0	0.0
	(Percent of GDP, unless otherwise indicated)								
<i>Memorandum items:</i>									
Current account	-15.7	-12.3	-14.5	-9.0	-10.6	-10.5	-10.4	-10.2	-10.1
Gross official reserves									
US\$ million	177.3	266.6	323.0	310.7	327.9	342.5	362.3	378.2	392.7
Months of imports	3.8	6.5	6.5	6.0	6.0	6.0	6.0	6.0	6.0
Total external debt	155	134	27	29	31	31	30	30	29
Coffee price (US cents per lb)	123	138	142	133	127	116	115	112	112
Nominal GDP (US\$ million)	975	1165	1330	1467	1583	1684	1804	1922	2048

Sources: Burundi authorities and IMF staff estimates and projections.

¹ Based on preliminary information provided by donors.² Expected to be financed by additional donor support.

Table 7. Burundi: Banking System Soundness Indicators, 2005–10

(percent, unless otherwise indicated)

	2005	2006	2007	2008	2009	2010	2010	2010
	Dec.	Dec.	Dec.	Dec.	Dec.	Jan.	Feb.	Mar.
Capital Requirement								
Capital requirement over weighted assets (solvency ratio)	18.3	13.5	13.5	15.2	19.1	19.5	18.9	18.8
Core capital (Tier 1 capital) over weighted assets ¹	16.6	7.5	10.9	12.7	15.5	15.8	15.4	15.4
Quality of assets								
Nonperforming loans (percent of total gross loans granted)	20.6	18.6	18.8	14.6	13.0	13.0	12.6	12.7
Provisions (percent of nonperforming loans)	83.0	92.4	91.4	90.2	88.7	87.1	86.3	82.2
Nonperforming loans net of provisions (percent of capital)	20.4	7.5	7.4	7.4	5.4	6.0	6.3	8.4
Large exposures (percent of capital)	34.3	48.6	41.6	39.3	28.2	27.7	33.0	21.3
Profitability rates								
Return on assets	1.9	1.7	2.3	2.3	2.6	1.2	0.4	0.5
Return on equity capital	14.1	17.5	26.4	29.7	22.8	0.1	3.3	4.7
Net interest (percent of gross results)	172.7	177.4	167.6	171.8	207.0	233.8	211.5	219.2
Costs excluding interest (percent of gross outturn)	193.6	188.9	156.6	155.8	172.3	192.8	186.8	174.4
Liquidity								
Liquid assets (percent of all loans granted)	75.6	68.1	83.5	86.9	91.4	80.0	99.4	84.2
Liquid assets (percent of short-term commitments)	118.1	106.8	135.2	137.9	168.8	158.1	191.1	150.9

Sources: Burundi authorities and IMF staff estimates.

¹ The decrease is due to the revision of Article 2 in Directive No. 2/06 of November 24, 2006.

It is related to the calculation of basic equity capital, which no longer includes general provisions for risks.

Table 8. Burundi: Actual and Projected Schedule of ECF Disbursements and Reviews, 2008–11

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 13, 2009	6.6	Completion of second review, based on observance of performance criteria at end-March 2009.
February 10, 2010	6.6	Completion of third review, based on observance of performance criteria at end-September 2009.
July 19, 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.
June 30, 2011	6.6	Completion of sixth review, based on observance of performance criteria at end-March 2011.
Total for the ECF arrangement	46.2	

Source: IMF staff.

APPENDIX I
TRANSLATED FROM FRENCH

BURUNDI
LETTER OF INTENT

Bujumbura, July 7, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. On July 7, 2008, the Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi. This agreement supports of the medium-term program (from April 1, 2008 to March 31, 2011) to consolidate the macroeconomic stabilization process, reduce poverty, promote structural reforms and strengthen governance. In accordance with the terms of this arrangement, the government discussed program implementation for the fourth review under the arrangement with a mission from the IMF. The discussions focused on the implementation of the program during the period from October 1, 2009 to March 31, 2010, as well as the outlook and economic and financial measures to be implemented in 2010.
2. On the political front, the government continues to make every effort to consolidate the peace process. Within this framework and assisted by development partners, the government of Burundi has taken all the necessary steps to ensure the success of the elections to be held between May 24 and September 8, 2010.
3. On the economic and social front, the government is pleased to report that implementation of the program has been satisfactory, despite the difficult international situation resulting from the global financial crisis, and the domestic situation marked by teachers' strikes and drought in the northern part of the country. In particular, all quantitative performance criteria and the structural benchmark for end-March 2010 were met.
4. The government is resolved to continue implementing the policies and measures described in the Poverty Reduction Strategy Paper (PRSP). The Memorandum on Economic and Financial Policies (MEFP) attached to this letter complements those preceding it since June 24, 2008.
5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program. It will take any further measures that may become appropriate for this purpose. The Burundian authorities will consult the IMF on the adoption of such measures in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations.

6. The government of Burundi will provide the IMF with such information as it may request to monitor the progress made in economic and financial policy implementation. It will also carry out reviews of the ECF-supported program with the IMF every six months. The fifth review should be completed no later than January 2011 and the sixth and final review no later than June 2011.

7. In view of the considerable progress made in implementing the ECF-supported program, the government is requesting completion of the fourth review and the fifth ECF disbursement in an amount equivalent to SDR 6.6 million. The government is also requesting modification of the end-September performance criteria to reflect the revised program.

8. As in the past, the Burundian authorities wish to make this letter available to the public, along with the attached MEFP and the Technical Memorandum of Understanding (TMU), as well as the IMF staff report on the fourth ECF review. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official sites of the government of Burundi.

Sincerely yours,

/s/
Clotilde NIZIGAMA
Minister of Finance

/s/
Gaspard SINDAYIGAYA
Governor, Bank of the Republic of Burundi

/s/
Gabriel NTISEZERANA
Second Vice President, Republic of Burundi

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

**APPENDIX I
ATTACHMENT I
TRANSLATED FROM FRENCH**

**BURUNDI
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES**

Bujumbura, July 7, 2010

I. INTRODUCTION

1. This Memorandum of Economic and Financial Policies (MEFP) complements the preceding MEFPs since June 24, 2008. It reviews program implementation and updates the medium-term outlook and economic and financial policies that will be implemented in 2010 within the framework of the program covering April 1, 2008 to March 31, 2011. The measures and objectives contained in this MEFP are compatible with the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and the findings of the annual PRSP implementation report sent to the IMF and the World Bank in December 2009.
2. Economic policy will continue to be guided by the following objectives: (1) maintain single-digit inflation; (2) improve the composition of public spending to the benefit of priority sectors, while preserving fiscal sustainability; (3) strengthen public financial management (PFM) and good governance; and (4) strengthen the internal control systems of the central bank.
3. With the continued improvement in the security situation, the macroeconomic objectives are as follows for the period of the ECF: (1) GDP growth should average approximately 5 percent over the medium term, compared to the 2007–09 average of approximately 4 percent; (2) average inflation should slow to about 5 percent in 2014; and (3) gross official reserves should stabilize at about six months of import coverage in the medium term, in accordance with the convergence criteria of the East African Community (EAC).

II. PROGRAM IMPLEMENTATION

4. The global financial crisis has slowed Burundi's economy and contributed to a strong decline in inflation. Economic growth slowed to 3.5 percent in 2009 from 4.5 percent in 2008, mainly due to a decline in remittances and foreign direct investments. In line with falling world food and fuel prices, end-of-period inflation fell from about 26 percent in 2008 to about 4.5 percent in 2009. The current account deficit widened, reaching 14.5 percent of GDP, with the delays in donor support outweighing the positive effect of lower food and fuel prices. Gross official reserves in 2009 remained broadly stable, at about 6.5 months of import coverage.
5. The overall fiscal deficit (cash basis, including non-HIPC grants) is estimated at about 5.2 percent of GDP, above the target of 4.3 percent. Domestic revenues accounted for 18.6 percent of GDP, compared to the program target of 18 percent of GDP. Total spending was lower than programmed by about 7 percentage points of GDP, due to lower externally-financed spending. The 2009 wage bill was kept within the envisaged budgetary envelope.

6. The monetary situation was characterized by stronger than expected growth of broad money, due to strong growth in domestic credit. Reserve money was also larger than expected because net foreign assets of the central bank declined by less than expected.
7. Performance of the ECF-supported program was generally satisfactory. All indicative targets for end-December 2009 were met, with the exception of the indicative target on reserve money. All quantitative performance criteria for end-March 2010 were met.
8. In close collaboration with development partners, the government is strongly pursuing structural reform, notably the promotion of transparency and good fiscal management, financial sector reform, coffee sector reform, and the improvement of the business environment. In addition to the achievements described in the preceding memoranda, significant progress has been achieved in all of these areas since the third review.
9. In the area of PFM, the action plan of the PFM strategy for 2010 and 2011 has been revised. In accordance with the new Organic Law on Public Finance, a new convention between the government and the BRB has been signed and a draft General Regulation on Public Budget Management has been finalized and sent to the Cabinet. To strengthen cash flow management, a Cash Flow Management Committee has been created and the “Office of Cash Flow Management” has been reorganized. This has allowed the regular preparation of monthly and weekly cash flow plans, which are now harmonized with the commitment plan. Rationalization of government accounts is making steady progress, without interfering with the smooth operation of the units concerned. In this context, a new government account inventory operation was launched, allowing identification of 55 accounts to be closed before end-June 2010 and 34 others to be closed by end-December 2010 at the latest. To modernize revenue administration, efforts are under way to make the Burundi Revenue Authority (BRA) fully operational. Specifically, 22 key posts have been filled, including those of commissioner general and assistant commissioner general, as well as tax commissioners and customs commissioners. With respect to customs, the SYDONIA++ computer system has been expanded to other customs posts, and installation of the RADDEX system will allow better accounting of customs revenues at the EAC level.
10. Significant steps have been taken to continue to improve transparency in PFM. In the area of public procurement, an Executive Director and support personnel have been named to the Public Procurement Regulatory Authority. Moreover, annual plans for procurement have been prepared to facilitate transparent budget implementation. Regarding budget classification, a new nomenclature was introduced with the 2010 budget to make it consistent with the new chart of accounts. In the areas of control and audit, the final report of the auditor general on implementation of the 2008 budget has been finalized.
11. In the financial sector, the process of developing the Financial Sector Reform Strategy (FSRS) has been launched with the creation of the National Strategy Committee (NSC) by order of the Minister of Finance. Adoption of the FSRS by the Cabinet is expected in the first quarter of 2011. A plan to develop the financial market in Burundi is also being prepared. In the area of foreign exchange, improvements have been made to the symmetrical foreign exchange auction market (*Marché des Enchères Symétrique en Devises (MESD)*). Accordingly, the central bank now systematically publishes complete information after each MESD session in

order to increase the representativeness of the exchange rate, reduce its rigidity and increase its transparency. Likewise, the MESD room has been computerized to increase the efficiency of the daily sessions. In the area of monetary policy, the central bank is preparing to introduce REPO trading as an instrument of monetary policy. For this purpose, the associated regulatory texts (Global Master Repurchase Agreement, Code of Conduct and Operations Guide) have been drafted and discussed with the banks.

12. In the area of banking supervision, on-site inspections are now conducted according to risk-based supervisory procedures, but a detailed supervisory handbook remains to be prepared to better guide the supervisors. All banks and all financial institutions respect the minimum capital requirements of BIF 5 billion and BIF 4 billion respectively. Moreover, the process to mobilize funds in order to increase capital to 10 billion BIF by end-December 2010 has advanced. In the area of safeguard measures, an international auditor was recruited at end-June, 2010 to (1) track the complete implementation of all recommendations formulated by the special audits of 2008, based on the September 2009 action plan prepared by the BRB and the Ministry of Finance; and (2) perform special audits of the controls on important disbursements and transfers on behalf of the government or its creditors during the first half of 2010.

13. With respect to the reform of the coffee sector, invitations to bid for 117 coffee washing stations, grouped together into 29 lots, were published on June 5, 2009, and the bids were opened on August 6, 2009. Investors showed limited interest and only 13 washing stations were sold as the result of this process. The government has already decided to reissue the invitations to bid at the end of the current coffee campaign.

14. Significant measures have been taken to improve the business environment. In particular, the revision of the Commercial Code now underway is intended to facilitate business by simplifying procedures and increasing alignment with international standards with regard to business law. The competition law, which focuses on the required harmonization of taxes within COMESA and the EAC, defines and provides sanctions for unfair practices in the conduct of business. Finally, the creation of the Agency to Promote Investments (API) will contribute to strengthening the confidence of national and foreign investors by guaranteeing respect for the application of Investment Code directives.

III. ECONOMIC PROSPECTS AND POLICIES FOR 2010

15. The revised macroeconomic framework for 2010 is as follows: (1) GDP growth is expected to pick up slightly to 3.9 percent; (2) end-of-period inflation is expected to be around 9.5 percent; and (3) gross official reserves are expected to stabilize at six months of import coverage. The government will implement all tax, public spending, monetary and foreign exchange and structural policies as described below and in the January 21, 2010, MEFP.

16. It is essential to raise sufficient domestic revenue to ensure fiscal sustainability and to increase poverty-reducing expenditures. Accordingly, the government will take special measures to make the BRA fully operational as soon as possible. To ensure that the revenue target is achieved, major fiscal and administrative policy measures will also be taken. In particular, the government has already increased the VAT taxable base on petroleum products to comply with the law on the VAT. The general tax base will also be expanded by: (1) rigorous monitoring of exemptions; (2) establishment of the investigation and research unit;

(3) strengthening of cross-checking between customs and government procurement; and (4) recovery of arrears and rigorous monitoring of tax filing obligations of enterprises. The government will also expedite the implementation of IMF technical assistance recommendations on VAT implementation. In the area of customs, the ex ante controls of customs valuations and post-declaration audits will be strengthened with assistance from an import verification firm.

17. The primary objective of expenditure policy in 2010 is to significantly improve the composition of public spending in favor of priority sectors in order to accelerate progress toward the MDGs. Accordingly, pro-poor spending is expected to increase by about 1.8 percent of GDP. To protect priority spending, the government has identified non-priority spending that will be cut if there is a decline in revenues or financing.

18. In consultation with IMF staff, the program has been revised to take into account: (1) the new law on security force remuneration; (2) the cost of the 2010 general elections; and (3) emergency spending due to the drought. These three elements have resulted in an increase in public spending of about 1.2 percent of GDP compared to the initial program and in an increase in domestic financing. The program revision also reflects the government's decision to issue bonds to eliminate the liabilities resulting from the retroactive implementation of the civil service statutes (2.4 percent of 2010 GDP) during 2010–11.

19. The 2010 government wage bill is currently expected to be 12.2 percent of GDP. The government will continue its objective of bringing the wage bill below 11 percent over the medium term. Since recruitment in the education and health sectors affects progress towards the MDGs, the wage bill for these sectors will continue to grow, due to the enormous needs for teachers and health personnel. Thus, achievement of the medium-term wage bill target will depend on continued demobilization. In light of the political and social implications of this operation, it may not be possible to address these issues until after the 2010 elections.

20. In support of fiscal policy, the government will strengthen the implementation of the sliding quarterly cash flow plan. Harmonization of expenditure commitment and cash flow plans will take place at the beginning of each quarter and the results will be submitted to the Minister of Finance for approval. In this context, all budget spending will require the prior authorization of the Minister of Finance and be executed strictly on the basis of financing availability. A quarterly budget allocation will be defined for each ministry, with strict expenditure prioritization.

21. Given the high risk of debt distress and low capacity, Burundi will seek only concessional external financing or grants. The government will not contract any nonconcessional foreign debt and will ensure that all loans contracted have a grant element of at least 50 percent.

IV. PROGRAM MONITORING

22. Program implementation will continue to be subject to half-yearly reviews, performance criteria, indicative targets, and structural benchmarks as specified in Tables I.1 to I.4. The information to be reported to the IMF and the definitions of the pertinent variables can be found

in the attached TMU. The government is also ready to adopt, in consultation with IMF staff, any new financial or structural measures necessary for the program's success.

Table I.1. Burundi: Performance Criteria and Indicative Targets for 2009

(BIF billion, unless otherwise indicated)

	2008		2009										
	Dec.		Mar.		Jun. ¹		Sep.		Dec. ¹				
	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.
Performance Criteria													
Net foreign assets of the BRB (floor; US\$ million) ²	112.9	15.4	-17.9	85.1	35.0	4.1	120.9	40.0	-20.0	91.8	69.0	22.0	96.5
Net domestic assets of the BRB (ceiling) ²	17.0	126.7	166.3	33.6	122.6	159.8	13.9	127.4	200.0	44.8	90.2	149.7	79.3
Net domestic financing of the government (ceiling) ²	19.0	36.5	76.1	-7.9	46.9	84.1	-3.3	61.2	133.8	6.9	21.7	81.2	68.7
External payments arrears of the government (ceiling; US\$ million) ³	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Short-term external debt of the government (ceiling; US\$ million) ³	0.0	0.0		0.0	0.0		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; US\$ million) ³	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Indicative targets													
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	2.3	0.0		1.2	0.0		0.0	0.0		0.0	0.0		0.0
Reserve money (ceiling)	...	145.0		138.7	164.7		162.7	175.8		157.9	177.5		198.0
Memorandum item:													
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	113.3	33.3		0.0	33.7		2.8	64.2		2.8	105.8		58.8

Sources: Burundi authorities and IMF staff estimates.

¹ Indicative targets.

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

³ Continuous performance criterion.

Table I.2. Burundi: Performance Criteria and Indicative Targets for 2010
(BIF billion, unless otherwise indicated)

	2009		2010								
	Dec.		Mar.		Jun. ¹			Sep.		Dec. ¹	
	Act.	Prog.	Prog. Adj.	Act.	Prog.	Rev.	Prog.	Prog.	Rev.	Prog.	Rev.
Performance Criteria											
Net foreign assets of the BRB (floor; US\$ million) ²	96.5	59.6	59.6	85.6	52.8	76.2	67.4	79.3	86.1	101.5	
Net domestic assets of the BRB (ceiling) ²	79.3	74.8	74.8	49.8	87.6	83.3	90.5	91.5	88.1	89.2	
Net domestic financing of the government (ceiling) ²	68.7	58.0	58.0	-34.6	89.6	71.1	80.7	83.7	21.2	27.5	
External payments arrears of the government (ceiling; US\$ million) ³	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Short-term external debt of the government (ceiling; US\$ million) ³	0.0	0.0		0.0	0.0	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	0.0	0.0		0.0	0.0	0.0	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	0.0	0.0	0.0	0.0	
Reserve money (ceiling)	198.0	150.9		155.1	155.8	178.3	178.2	191.6	201.4	219.0	
Propoor spending (floor; cumulative from beginning of calendar year)	274.8	50.1		64.5	105.4	105.4	200.7	200.7	342.2	342.2	
Memorandum item:											
External nonproject financial assistance (US\$ million; cumulative from beginning of calendar year)	58.8	11.2		35.0	11.2	46.2	72.2	107.2	151.0	186.0	

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.

Table I.3. Burundi: Performance Criteria and Structural Benchmarks for 2009

Measures	Condition type and date	Status	Macroeconomic Rationale
Fiscal management			
Resumption of payroll management by the Ministry of Finance by taking charge of the payroll database.	Performance criterion (March 31, 2009)	Completed	Efficient wage bill management is essential for focusing spending in priority areas, while enhancing fiscal sustainability. Wage bill management is being reinforced through the creation of a single wage data management and elimination of ghost employees.
Close and transform into sub accounts for special allocation from the general treasury account the off-budget accounts mentioned in the finance minister's letter No. 540/4904/2008 of November 12, 2008.	Structural benchmark (September 30, 2009)	Completed	Implementation of a single treasury account is key to sound public financial management.
Close the accounts mentioned in the finance minister's letter No. 540/4768/2008 of October 31, 2008.	Structural benchmark (September 30, 2009)	Completed	Implementation of a single treasury account is key to sound public financial management.
Prepare and implement a sliding quarterly cash-flow plan.	Structural benchmark (June 30, 2009)	Completed with delay.	Enhance budget execution and ensure coordination of monetary and budget policies.
Revenue administration and tax policy			
Introduce VAT and the common external tariff.	Structural benchmark (July 31, 2009)	Completed	To raise the efficiency of tax collection, and offset potential losses on customs revenue due to the accession to EAC.
Fiscal governance			
In accordance with the laws of Burundi, the BIF 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Structural benchmark (continuous)	Completed	Enhance fiscal governance to ensure continuation of budget support.

Table I.4. Burundi: Structural Benchmarks for 2010

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Adopt a new “convention” between the Ministry of Finance and the BRB redefining the role of the central bank in public financial management, as stipulated under the new budget organic law.	March 31, 2010	Completed	Key to implementing the new budget organic law.
Prepare a final report on the closing of government accounts.	December 31, 2010 ¹		Implementation of a single treasury account is key to sound public financial management.
Central Bank and Treasury Safeguard measures			
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2008 special audit reports (consistent with the September 2009 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 2010.	June 30, 2010	Completed	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 2010.	December 31, 2010		To enhance the safeguard measures in force at the central bank and the Treasury.
Fiscal Governance			
In accordance with the laws of Burundi, the BIF 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Structural benchmark (continuous)	Completed	Enhance fiscal governance to ensure the continuation of budget support.

¹ The date of this structural benchmark has been changed from September to December to ensure that the final report does cover the closing of government accounts that will take place in the last quarter of 2010.

**APPENDIX I
ATTACHMENT II
TRANSLATED FROM FRENCH**

**BURUNDI
TECHNICAL MEMORANDUM OF UNDERSTANDING**

Bujumbura, July 7, 2010

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);
 - propoor 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 has not been paid.

9. The program includes a ceiling on **new nonconcessional external debt** contracted or guaranteed by the government and the BRB. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received. 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 No. 12274, Point 9 as revised on December 1, 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 the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents.

10. **The stock of short-term external debt** with a maturity of less than one year owed by the central government is to remain at zero under the program. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of 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 propoor 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) propoor 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\$60 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\$60 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\$60 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US\$ exchange rate. The average program exchange rate in 2010 is 1290.

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

18. The following weekly data:

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

19. 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 propoor 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).

20. 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).

21. 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
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

BURUNDI

Joint IMF/World Bank Debt Sustainability Analysis 2010

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

Approved by Michael Atingi-Ego and Dominique Desruelle (IMF) and
Sudarshan Gooptu and Sudhir Shetty (IDA)

July 9, 2010

Based on the external Low Income Country (LIC) Debt Sustainability Analysis (DSA), Burundi faces a high risk of debt distress. The present value (PV) of debt-to-exports ratio exceeds the country-specific threshold throughout the projection period by a wide margin, while alternative scenarios and stress tests suggest that all but one 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 worsening of the fiscal balance and lower growth would lead to a considerable deterioration of debt indicators. Burundi should continue to implement prudent borrowing policies, and accelerate structural reforms, particularly in infrastructure development and export diversification, to mitigate risks to debt sustainability.¹

I. BACKGROUND

1. **The last LIC DSA conducted in 2009 concluded that Burundi faced a high risk of debt distress.**² The PV of debt-to-exports ratio exceeded the country-specific policy-dependent threshold for most of the projection period, reflecting the country's narrow export base. In addition, all debt stock indicators and one liquidity indicator exceeded the country-specific debt burden thresholds when subjected to stress tests.

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

² See IMF Country Report No. 09/84; and IDA/R2009-0006.

2. Burundi's external public and publicly guaranteed (PPG) debt declined in 2009 reflecting HIPC Initiative and MDRI debt relief. Nominal external PPG debt³ amounted to US\$364 million or 27.4 percent of GDP in 2009 while the PV of debt-to-exports ratio stood at 178 percent. 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.⁴

	2007		2008		2009	
	Nominal Stock	Percent of Total	Nominal Stock	Percent of Total	Nominal Stock	Percent of Total
Total Debt	1,468	100.0	1,506	100.0	364	100.0
Multilateral	1,262	86.0	1,302	86.4	327	89.6
Bilateral	205	14.0	205	13.6	38	10.4
Paris club	152	10.4	151	10.1	1	0.4
Non-Paris club	53	3.6	53	3.5	36	10.0
Commercial	1	0.0	0	0.0	0	0.0

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

3. Burundi's domestic public debt accounts for an increasing share of total public debt. At about 21 percent of GDP, domestic debt accounted for about 43 percent of total public debt in 2009, compared with 13 percent in 2007. 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 operations.

4. External debt stock indicators at end-2009 varied modestly compared to projections made at the time of the previous LIC DSA. Debt stock indicators were higher than projected, while liquidity indicators were slightly lower (Text Table 2). The largest increase in debt indicators was for the PV of debt-to-exports ratio. The increase was primarily the result of lower exports driven largely by lower coffee prices and the cyclical nature of coffee production (Text Table 3). Lower borrowing helped moderate the increase in the PV of debt-to-exports ratio.

³ 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.

⁴ 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.

Text Table 2. Burundi: Debt Sustainability Indicators, 2009 (percent)		
	Proj.	Act.
PV of debt to GDP	9.9	11.7
PV of debt to exports	131.7	178.0
PV of debt to revenue	51.6	62.8
Debt service to exports	3.7	1.9
Debt service to revenues	1.4	0.7

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

Text Table 3. Burundi: Breakdown of the Increase in the PV of Debt-to-Exports Ratio, 2009 (percent, unless otherwise indicated)			
	Proj.	Actual	Contribution to change in PV/X
PV of debt to exports (EBS/09/4)	131.7	178.0	46.3
Discount rate	5	4	14.5
Exports of goods and services (US\$ million)	106.9	87.3	29.5
New borrowing, 2008-09 (US\$ million)	108.8	76.5	-12.5
Other ¹			14.8

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

¹ Including differences in estimated HIPC relief and data revisions.

II. UNDERLYING DSA ASSUMPTIONS

5. The current macroeconomic outlook takes into account changes in initial conditions (Text Table 4). Growth was lower in 2009 reflecting the impact of the global financial crisis. Inflation in 2009 declined by more than previously projected as a result of lower food and oil prices. Moreover, the external current account deficit was higher than projected as lower current transfers outweighed the positive impact of lower oil and food prices on total imports.

6. Provided the security situation continues to improve, Burundi's medium and long-term outlook remains positive (Box 1). Real GDP growth is expected to average 5 percent over the long term, contingent upon continued consolidation of peace, macroeconomic stability, improvements in the business environment, and Burundi's integration to the East African Community (EAC). Total investment is expected to average about 22 percent of GDP, a level considered supportive of economic growth. Exports of goods and services will be driven by investments in key export sectors over the medium term (coffee, tea, sugar and horticulture). 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. Fiscal policy will be supportive of economic growth

Text Table 4. Burundi: Macroeconomic Assumptions and Outcomes, 2008-09				
	2008		2009	
	Prog.	Act.	Prog.	Act.
(Annual percentage change)				
National income and prices				
Real GDP growth	4.5	4.5	4.5	3.5
Consumer prices (end of period)	22.0	25.7	9.0	4.6
(Percent of GDP, unless otherwise indicated)				
General government				
Revenue (excluding grants)	19.1	18.5	19.3	18.6
Total expenditure and net lending	44.8	44.1	44.6	39.3
Overall balance				
Cash basis, after non-HIPC grants)	-4.4	-4.5	-3.0	-5.2
External sector				
Current account balance	-13.0	-12.3	-11.5	-14.5
Gross official reserves				
End of period (US\$ million)	138.4	266.6	139.9	323.0
In months of imports of the following year	3.2	6.5	3.1	6.5

Sources: Burundian authorities; and Fund staff estimates.

and poverty reduction, while safeguarding debt sustainability. The fiscal deficit is expected to gradually decline and reach fiscal balance during the later years. Revenue mobilization, reinforced by the newly created Burundi Revenue Authority, will lead to a gradual increase in government revenues, while expenditure will gradually decline to more sustainable levels.

7. 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 improving 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.⁵ There is scope for a significant increase in growth in the medium and long term, should potential investments in the mining sector materialize.⁶

8. Four essential differences underpin the current macroeconomic framework compared to the one used in the previous LIC DSA: (i) real GDP growth is lower over the medium term reflecting the impact of the global crisis, but catches up to the trend growth of 5 percent assumed in the previous LIC DSA by 2013; (ii) exports and imports of goods and services are assumed to grow at a somewhat slower pace over the projection period, partly from lower WEO prices; (iii) nominal GDP is lower owing to the decline in inflation in 2009; and (iv) the PV of debt, everything else the same, is higher because of a lower discount rate.

9. Risks to the macroeconomic outlook are significant. A worsening of the political, social and security situation would endanger donor support and lead to a rapid deterioration of debt indicators. Exogenous shocks, for instance higher oil and food prices, and lower donor support would further worsen debt indicators.

⁵ The 2010 World Bank Country Economic Memorandum (CEM) for Burundi provides detailed recommendations to overcome supply-side constraints, continue to improve the regulatory environment, increase competition, enhance the country's image as a business and investment destination, and strengthen the dialogue between the government and the private sector.

⁶ The development of mining will require a substantial infrastructure investment. The 2010 CEM estimated that the impact of increased infrastructure spending (as reflected in the Infrastructure Action Plan) combined with accelerated growth reforms could potentially lead to higher growth rate averaging about 8.5 percent for the period 2010–15.

Box 1: Burundi: Main Macroeconomic Assumptions, 2010–30

Real GDP growth is expected to accelerate to 5 percent over the medium term reflecting the consolidation of peace, the easing of infrastructure bottlenecks, the reform of the coffee sector, and EAC integration. Average growth over the projection period is expected to be about 4.9 percent, compared with an average of 4.2 percent during 2006–09. Investment is expected to average about 22 percent of GDP, 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 5 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 debt sustainability and macroeconomic stability.

- **Revenues**, excluding grants, are projected to increase gradually to about 21 percent of GDP over the end of the projection period. This increase reflects primarily a widening of the tax base as a result of continued tax administration reforms.
- **Primary expenditure** is expected to gradually decline over time to about 31 percent of GDP. 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 15 percent of GDP 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 12.4 percent over the medium term reflecting the impact of coffee sector reforms; they are projected to increase by 8 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 5.5 percent over the medium term, before gradually declining to about 4.5 percent in the later years.

Imports of goods and services will decelerate from an average of about 7 percent over the medium term to the more sustainable rate of about 3 percent over the longer term. 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 at about 10 percent of GDP over the medium term. It will subsequently deteriorate as official transfers begin to wane, before declining gradually to about 8 percent at the end of the projection period. Excluding transfers, the current account deficit is expected to decline from 29 percent of GDP in 2010 to about 11 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.

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 28 percent of GDP in 2010 to about 20 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. Borrowing is assumed to be on highly concessional terms.

III. EXTERNAL DSA

10. Under the baseline scenario, there is a protracted and sizable breach of the PV of debt-to-exports indicative threshold. The PV of debt-to-exports ratio will remain well above the 100 percent threshold throughout the projection period.⁷ During 2011–13, this ratio will exceed the indicative threshold by at least 100 percentage points. 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 country-specific thresholds throughout the projection period (Text Table 5 and Table 1).⁸

Text Table 5. Burundi: Summary of Baseline External Debt Sustainability Indicators					
(percent)					
	Indicative Threshold	2010	2020	2030	Average 2010-30
PV of debt to GDP	30	13.5	13.3	11.3	13.4
PV of debt to exports	100	191.2	148.7	107.8	156.5
PV of debt to revenue	200	73.9	63.9	54.0	65.8
Debt service to exports	15	2.5	5.8	4.6	6.0
Debt service to revenues	25	1.0	2.5	2.3	2.5

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

11. 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 combination of growth, export, inflation, and FDI/transfers shock (Table 2, test B5). Under these circumstances, the PV of debt-to-exports ratio at the end of the projection period is higher by about 120 percentage points compared to the baseline scenario. This result underscores the importance of improvements in the business environment to encourage investment flows, continued governance reforms to safeguard donor support, 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

⁷ The latest World Bank Country Policy and Institutional Assessment (CPIA) rates Burundi as a poor performer. The three-year moving average CPIA for 2007–09 is 3.05. A rating below 3.25 corresponds to a poor policy performance, according to the LIC Debt Sustainability Framework (DSF).

⁸ Debt service rises during 2012–16 because of principal payments falling due. In later years, debt service rises reflecting the end of the grace period for new borrowing.

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.⁹

12. Alternative scenarios and stress tests suggest that almost all other debt indicators will exceed their indicative debt burden thresholds. The threshold for the PV of debt-to-GDP ratio will be breached under the lower non-debt-creating flows, and combination stress tests (Table 2, tests B4 and B5) by a modest amount over a protracted period. The threshold for the PV of debt-to-revenues ratio will be breached marginally under a combination stress test (Table 2, scenario B5) for one year only. The indicative threshold for the debt service to exports ratio will be breached by a small margin during 2013–16 under the combination stress test (Table 2, scenario B5). A similar breach occurs under the historical exports stress test (Table 2, scenario B2).¹⁰ Finally, the indicative threshold for the debt service to revenues ratio is the only one that is not breached under any alternative scenario and stress test.

13. Improving Burundi's export capacity is critical for debt sustainability. To illustrate the steps needed to achieve debt sustainability, staffs prepared a customized scenario (Table 2, scenario A3) based on higher donor support to finance export generating projects. More specifically, the scenario assumes an increase in project grants by 1 percentage point of GDP relative to the baseline scenario during 2010–15. As a result of the additional capital investment, export volume increases by an average of 7 percent throughout the projection period, leading to an increase in real GDP growth by about 0.2 percentage point of GDP. Under this scenario, the PV of debt-to-exports ratio falls below the indicative threshold by 2019. By the end of the projection period, the PV of debt-to-exports ratio is lower by about 40 percentage points compared to the baseline scenario. All other stock and liquidity indicators remain well below their indicative thresholds.

14. In staffs' view Burundi faces a high risk of debt distress. The preceding analysis suggests there is a sizable and protracted breach of the PV of debt-to-exports threshold under the baseline scenario, while alternative scenarios and stress tests suggest that all but one debt burden thresholds are likely to be breached under less favorable scenarios and shocks.¹¹

15. 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.

⁹ 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 sharp reduction of exports. The reason is the large standard deviation of exports reflecting the country's conflict, and export cyclicity (primarily owing to the old age of coffee trees).

¹⁰ See footnote 9.

¹¹ Remittances cannot be used as a determinant of the risk of debt distress because the breach of the PV of debt-to-exports ratio under the baseline scenario is protracted.

IV. PUBLIC DSA

16. 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 are low reflecting Burundi's reliance on grants and highly concessional loans to finance reconstruction and poverty reduction.

17. 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 an unchanged primary balance from 2010 (Table 4, scenario A2), the PV of debt-to-revenues and the PV of debt-to-GDP ratios at the end of the projection period will be more than double the corresponding ratios under 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 for anchoring future policy. Similarly, under a permanently lower growth scenario (Table 4, scenario A3), the PV of debt-to-revenue and the PV of debt-to-GDP ratios at the end of the projection period will be nearly double the corresponding ratios under the baseline scenario. Similar results are evident when growth is lower than the average historical rate (Table 4, test B1), and when lower growth is combined with a higher primary deficit (Table 4, test B3).¹² The debt service to revenue ratio is not significantly affected by alternative scenarios and shocks because additional borrowing is on highly concessional terms.

V. CONCLUSION

18. 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 by a wide margin throughout the projection period. In addition, under alternative scenarios and stress tests all but one 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.

¹² The caveat concerning the suitability of the historical scenario in a country marred by conflict applies.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2007-30 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation	Projections					2010-2015			2016-2030 Average
	2007	2008	2009			2010	2011	2012	2013	2014	2015	Average	2020		2030
External debt (nominal) 1/	155.0	134.2	27.4			29.4	31.3	31.0	30.2	29.7	29.3		25.4	19.4
o/w public and publicly guaranteed (PPG)	155.0	134.2	27.4			29.4	31.3	31.0	30.2	29.7	29.3		25.4	19.4
Change in external debt	-0.9	-20.8	-106.8			2.0	1.9	-0.3	-0.8	-0.5	-0.4		-0.9	-0.5
Identified net debt-creating flows	-1.3	-23.1	-11.7			-2.4	-2.3	-2.4	-1.0	-1.2	-1.3		-2.0	-1.3
Non-interest current account deficit	15.3	12.2	14.4	7.7	5.9	8.9	9.8	9.5	10.2	10.1	10.0		10.8	8.1
Deficit in balance of goods and services	39.8	40.1	30.7			33.6	33.3	31.6	30.5	29.5	28.9		23.5	12.9
Exports	8.6	8.2	6.6			7.1	5.6	7.3	7.5	8.2	8.1		8.9	10.5
Imports	48.3	48.4	37.3			40.7	38.9	39.0	38.0	37.7	36.9		32.4	23.4
Net current transfers (negative = inflow)	-24.6	-28.3	-15.7	-18.8	8.2	-25.1	-23.8	-22.5	-20.6	-19.8	-19.2		-12.9	-7.4
o/w official	-21.6	-20.3	-10.7			-20.1	-19.0	-17.7	-16.0	-15.2	-14.6		-7.8	-2.9
Other current account flows (negative = net inflow)	0.2	0.3	-0.6			0.4	0.3	0.4	0.3	0.3	0.3		0.2	2.6
Net FDI (negative = inflow)	-8.1	-10.1	-9.5	-5.5	3.2	-10.5	-11.0	-10.7	-9.9	-10.0	-10.0		-11.7	-8.6
Endogenous debt dynamics 2/	-8.5	-25.2	-16.6			-0.9	-1.1	-1.3	-1.3	-1.3	-1.3		-1.1	-0.8
Contribution from nominal interest rate	0.4	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1
Contribution from real GDP growth	-5.3	-5.9	-4.1			-1.0	-1.2	-1.4	-1.4	-1.4	-1.4		-1.2	-0.9
Contribution from price and exchange rate changes	-3.6	-19.4	-12.6			...	...	...	...	...	...		...	...
Residual (3-4) 3/	0.4	2.3	-95.1			4.5	4.2	2.1	0.2	0.7	0.9		1.1	0.8
o/w exceptional financing	-5.9	-7.9	-88.8			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
PV of external debt 4/	...	...	11.7			13.5	15.1	15.2	14.9	14.7	14.6		13.3	11.3
In percent of exports	...	...	178.0			191.2	270.0	207.2	199.8	180.3	180.7		148.7	107.8
PV of PPG external debt	...	...	11.7			13.5	15.1	15.2	14.9	14.7	14.6		13.3	11.3
In percent of exports	...	...	178.0			191.2	270.0	207.2	199.8	180.3	180.7		148.7	107.8
In percent of government revenues	...	...	62.8			73.9	80.5	78.1	75.6	73.9	72.3		63.9	54.0
Debt service-to-exports ratio (in percent)	6.8	3.5	1.9			2.5	5.4	9.1	10.2	10.1	9.3		5.8	4.6
PPG debt service-to-exports ratio (in percent)	6.8	3.5	1.9			2.5	5.4	9.1	10.2	10.1	9.3		5.8	4.6
PPG debt service-to-revenue ratio (in percent)	3.1	1.5	0.7			1.0	1.6	3.4	3.9	4.2	3.7		2.5	2.3
Total gross financing need (Millions of U.S. dollars)	76.3	27.9	66.6			-20.6	-14.1	-8.6	19.5	17.4	15.4		-11.3	-2.7
Non-interest current account deficit that stabilizes debt ratio	16.2	33.1	121.2			6.9	7.9	9.8	11.0	10.6	10.4		11.7	8.6
Key macroeconomic assumptions														
Real GDP growth (in percent)	3.6	4.5	3.5	2.7	2.4	3.9	4.5	4.8	5.0	5.0	5.0	4.7	5.0	5.0
GDP deflator in US dollar terms (change in percent)	2.4	14.3	10.4	2.9	10.8	6.2	3.3	1.5	2.0	1.4	1.5	2.7	1.3	1.1
Effective interest rate (percent) 5/	0.3	0.0	0.1	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7
Growth of exports of G&S (US dollar terms, in percent)	-10.2	14.7	-8.9	5.6	21.9	18.7	-14.4	38.7	9.1	16.6	5.6	12.4	9.1	7.4
Growth of imports of G&S (US dollar terms, in percent)	5.5	19.6	-12.0	16.6	18.7	20.4	3.2	6.4	4.4	5.8	4.4	7.4	3.4	2.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	41.7	41.4	50.8	50.8	50.8	50.8	47.7	50.8	50.8
Government revenues (excluding grants, in percent of GDP)	18.6	18.5	18.6			18.3	18.8	19.4	19.7	19.9	20.2		20.8	21.0
Aid flows (in Millions of US dollars) 7/	226.5	322.3	1088.1			451.6	432.1	466.4	459.9	459.3	481.5		517.0	568.1
o/w Grants	203.7	290.1	1074.7			411.4	394.2	426.5	421.7	420.5	439.9		489.1	517.2
o/w Concessional loans	22.8	32.3	13.4			40.2	37.9	39.9	38.2	38.9	41.7		28.0	50.9
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			29.7	26.4	26.5	24.5	22.9	22.5		18.0	10.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			92.6	92.5	95.8	95.9	95.8	95.7		97.3	95.6
Memorandum items:														
Nominal GDP (Millions of US dollars)	975.1	1164.7	1330.4			1467.3	1583.5	1683.9	1804.0	1922.0	2048.1		2796.1	5086.9
Nominal dollar GDP growth	6.1	19.4	14.2			10.3	7.9	6.3	7.1	6.5	6.6	7.5	6.3	6.1
PV of PPG external debt (in Millions of US dollars)	...	...	155.5			194.5	231.2	248.9	263.9	277.7	293.9		365.0	566.6
(PVt-PVt-1)/GDPI-1 (in percent)	...	...	...			2.9	2.5	1.1	0.9	0.8	0.8	1.5	0.5	0.5
Gross remittances (Millions of US dollars)	29.2	94.3	69.4			76.0	79.4	83.2	87.4	91.8	96.4		146.3	237.5
PV of PPG external debt (in percent of GDP + remittances)	...	...	11.1			12.8	14.4	14.4	14.2	14.0	13.9		12.6	10.8
PV of PPG external debt (in percent of exports + remittances)	...	...	99.2			110.3	142.5	123.6	121.1	113.7	114.2		93.7	74.7
Debt service of PPG external debt (in percent of exports + remittances)	...	...	1.1			1.4	2.8	5.4	6.2	6.4	5.9		3.7	3.2

Sources: Burundian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g)](1+g)^t$ 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. The large residual in 2009 reflects the HIPC initiative and MDRI debt relief.

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 derived over the past 10 years.

7/ Defined as grants, concessional loans, and debt relief. Concessional loans are defined as having a grant element of at least 50 percent, as currently mandated under the ECF-supported program.

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, 2010-30
(In percent)

	Projections							2030
	2010	2011	2012	2013	2014	2015	2020	
PV of debt-to GDP ratio								
Baseline	14	15	15	15	15	15	13	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	14	17	19	20	21	22	27	34
A2. New public sector loans on less favorable terms in 2010-30 2/	14	16	16	17	17	18	18	18
A3. Improved export capacity	13	14	13	12	11	11	9	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	14	15	16	16	16	16	14	12
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	14	15	16	16	16	16	14	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	14	16	18	18	18	18	16	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	14	26	36	35	35	34	30	19
B5. Combination of B1-B4 using one-half standard deviation shocks	14	26	39	38	37	37	32	21
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	14	21	21	21	20	20	18	16
PV of debt-to-exports ratio								
Baseline	191	270	207	200	180	181	149	108
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	191	297	255	263	252	267	305	327
A2. New public sector loans on less favorable terms in 2010-30 2/	191	276	225	227	213	220	204	169
A3. Improved export capacity	175	226	169	155	132	123	90	71
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	191	260	202	196	177	178	146	106
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	191	268	381	369	333	333	272	190
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	191	260	202	196	177	178	146	106
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	191	464	498	476	425	420	336	181
B5. Combination of B1-B4 using one-half standard deviation shocks	191	380	606	581	519	514	412	226
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	191	260	202	196	177	178	146	106
PV of debt-to-revenue ratio								
Baseline	74	80	78	76	74	72	64	54
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	74	88	96	100	103	107	131	164
A2. New public sector loans on less favorable terms in 2010-30 2/	74	82	85	86	87	88	88	84
A3. Improved export capacity	73	73	68	62	57	52	41	37
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	74	81	83	81	79	77	68	58
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	74	78	85	82	80	78	69	56
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	74	87	94	92	90	88	78	65
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	74	138	188	180	174	168	145	90
B5. Combination of B1-B4 using one-half standard deviation shocks	74	136	202	194	188	181	156	100
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	74	109	107	105	102	100	89	75

Table 2b. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-30 (concluded)
(In percent)

Debt service-to-exports ratio								
Baseline	2	5	9	10	10	9	6	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	2	5	10	11	11	11	8	12
A2. New public sector loans on less favorable terms in 2010-30 2/	2	5	10	11	12	11	7	8
A3. Improved export capacity	2	5	8	9	9	8	5	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	2	5	9	10	10	9	6	5
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	2	5	15	18	18	16	10	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	2	5	9	10	10	9	6	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	2	5	11	14	13	12	8	10
B5. Combination of B1-B4 using one-half standard deviation shocks	2	5	14	18	17	16	10	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	2	5	9	10	10	9	6	5
Debt service-to-revenue ratio								
Baseline	1	2	3	4	4	4	3	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	1	2	4	4	5	4	3	6
A2. New public sector loans on less favorable terms in 2010-30 2/	1	2	4	4	5	5	3	4
A3. Improved export capacity	1	2	3	4	4	4	2	1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	1	2	4	4	5	4	3	2
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	1	2	3	4	4	4	3	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	1	2	4	5	5	5	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	1	2	4	5	5	5	3	5
B5. Combination of B1-B4 using one-half standard deviation shocks	1	2	5	6	6	6	4	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	2	5	5	6	5	4	3
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	48	48

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 standardized 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, 2007-30
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation	Estimate						Projections			
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	177.8	153.9	48.2			50.7	51.0	47.3	43.8	41.1	38.8		31.9	22.6	
o/w foreign-currency denominated	155.0	134.2	27.4			29.4	31.3	31.0	30.2	29.7	29.3		25.4	19.4	
Change in public sector debt	-2.5	-23.9	-105.7			2.5	0.4	-3.8	-3.5	-2.7	-2.4		-1.4	-0.7	
Identified debt-creating flows	-5.0	-28.9	-84.1			-1.2	-1.0	-2.4	-2.7	-1.8	-1.6		-2.0	-1.5	
Primary deficit	-3.2	-0.5	-61.2	-6.1	19.4	2.6	2.8	1.6	0.8	0.9	0.9	1.6	-0.1	-0.2	0.1
Revenue and grants	39.5	43.4	99.4			46.3	43.7	44.7	43.1	41.8	41.7		38.2	31.2	
of which: grants	20.9	24.9	80.8			28.0	24.9	25.3	23.4	21.9	21.5		17.5	10.2	
Primary (noninterest) expenditure	36.4	42.9	38.2			48.9	46.5	46.3	43.9	42.7	42.6		38.2	31.0	
Automatic debt dynamics	-1.0	-28.3	-23.0			-3.8	-3.8	-4.0	-3.6	-2.7	-2.5		-1.9	-1.3	
Contribution from interest rate/growth differential	-10.1	-13.9	-8.0			-3.0	-3.8	-3.8	-3.3	-2.8	-2.6		-2.1	-1.5	
of which: contribution from average real interest rate	-3.9	-6.2	-2.8			-1.2	-1.7	-1.5	-1.1	-0.7	-0.7		-0.5	-0.4	
of which: contribution from real GDP growth	-6.2	-7.7	-5.2			-1.8	-2.2	-2.3	-2.3	-2.1	-2.0		-1.6	-1.1	
Contribution from real exchange rate depreciation	9.1	-14.4	-15.0			-0.8	0.0	-0.2	-0.2	0.1	0.1		...	...
Other identified debt-creating flows	-0.8	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.8	0.0	0.0			0.0	0.0	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)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.5	5.0	-21.6			3.7	1.4	-1.3	-0.8	-0.8	-0.8		0.6	0.8	
Other Sustainability Indicators															
PV of public sector debt	22.7	19.7	32.5			34.8	34.9	31.5	28.5	26.1	24.0		19.7	14.5	
o/w foreign-currency denominated	0.0	0.0	11.7			13.5	15.1	15.2	14.9	14.7	14.6		13.3	11.3	
o/w external	...	...	11.7			13.5	15.1	15.2	14.9	14.7	14.6		13.3	11.3
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	-0.9	1.0	-60.1			3.4	3.7	2.8	2.1	2.1	2.0		0.6	0.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	57.6	45.3	32.7			75.1	79.8	70.3	66.1	62.5	57.7		51.6	46.7	
PV of public sector debt-to-revenue ratio (in percent)	122.1	106.1	174.5			190.1	185.4	162.2	144.7	131.3	119.1		95.0	69.3	
o/w external 3/	...	...	62.8			73.9	80.5	78.1	75.6	73.9	72.3		63.9	54.0
Debt service-to-revenue and grants ratio (in percent) 4/	5.8	3.5	1.0			1.7	2.0	2.6	2.8	2.9	2.7		1.9	1.7	
Debt service-to-revenue ratio (in percent) 4/	12.3	8.1	5.5			4.4	4.7	6.1	6.1	6.1	5.5		3.5	2.6	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.6	23.4	44.5			0.1	2.5	5.4	4.3	3.6	3.3		1.3	0.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.6	4.5	3.5	2.7	2.4	3.9	4.5	4.8	5.0	5.0	5.0	4.7	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	0.3	0.0	0.1	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.6
Average real interest rate on domestic debt (in percent)	-0.2	-14.5	-7.6	-5.3	6.4	-5.3	-6.6	-5.5	-4.1	-2.7	-2.6	-4.5	-2.6	-3.3	-2.8
Real exchange rate depreciation (in percent, + indicates depreciation)	6.2	-9.9	-11.7	-0.3	12.9	-3.2
Inflation rate (GDP deflator, in percent)	8.2	25.1	14.1	10.9	6.8	8.3	9.4	8.0	6.5	5.0	5.0	7.0	4.7	4.5	4.7
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.2	-0.1	0.1	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	41.7	41.4	50.8	50.8	50.8	50.8	47.7	50.8	50.8	50.8

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 2010-30

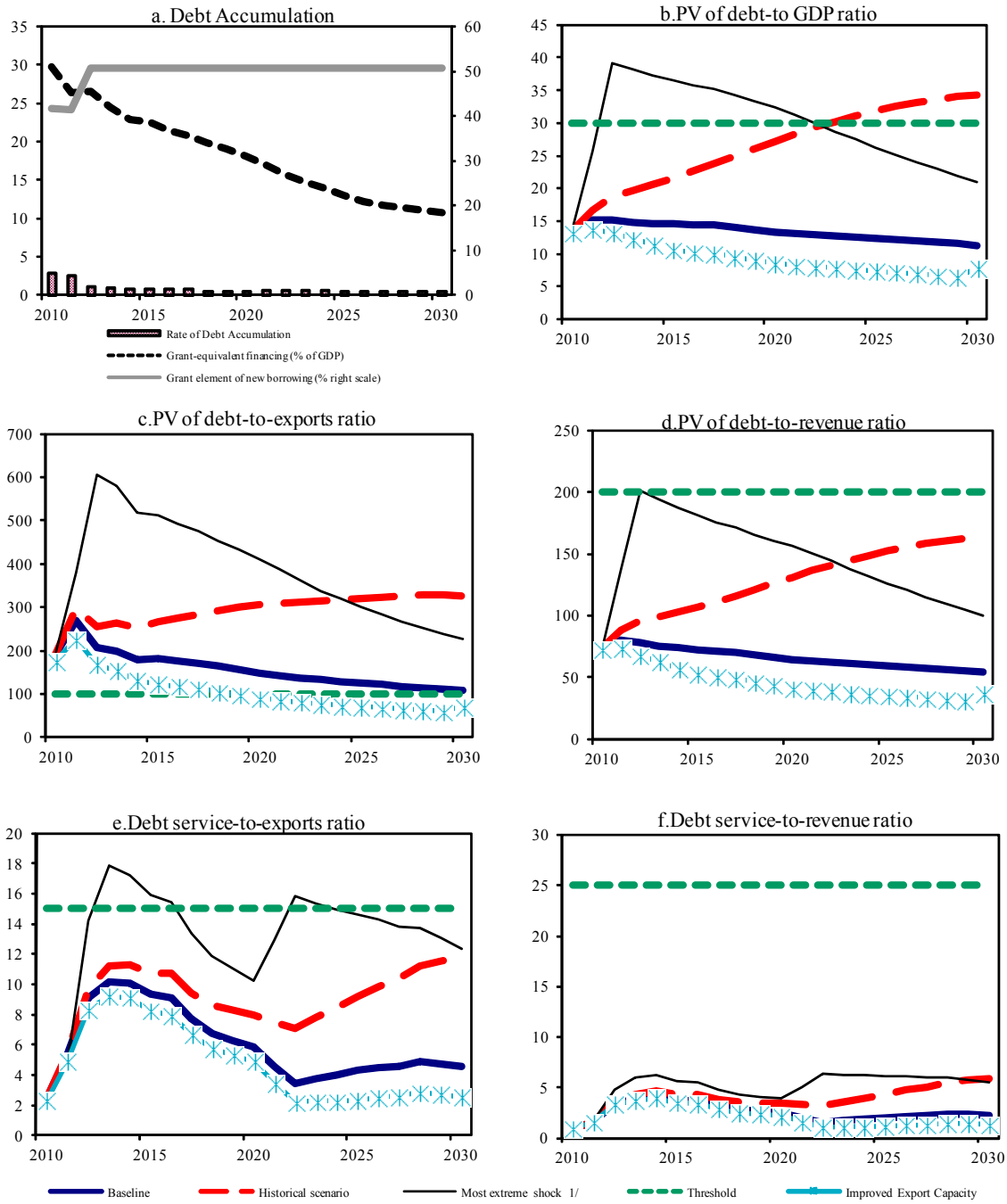
	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	35	35	31	28	26	24	20	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	35	34	30	27	25	22	19	19
A2. Primary balance is unchanged from 2010	35	35	32	30	29	27	29	35
A3. Permanently lower GDP growth 1/	35	35	32	29	27	25	24	28
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-12	35	37	36	33	32	31	30	32
B2. Primary balance is at historical average minus one standard deviations in 2011-12	35	34	31	28	26	24	19	14
B3. Combination of B1-B2 using one half standard deviation shocks	35	35	32	29	28	26	25	26
B4. One-time 30 percent real depreciation in 2011	35	40	36	33	30	27	22	17
B5. 10 percent of GDP increase in other debt-creating flows in 2011	35	41	37	34	32	29	24	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	75	80	70	66	63	58	52	47
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	75	77	66	61	57	51	44	52
A2. Primary balance is unchanged from 2010	75	79	71	69	68	66	75	113
A3. Permanently lower GDP growth 1/	75	80	71	67	64	60	61	86
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-12	75	82	76	74	73	70	77	99
B2. Primary balance is at historical average minus one standard deviations in 2011-12	75	78	69	65	62	57	51	46
B3. Combination of B1-B2 using one half standard deviation shocks	75	78	69	66	64	61	64	81
B4. One-time 30 percent real depreciation in 2011	75	93	81	76	71	65	58	54
B5. 10 percent of GDP increase in other debt-creating flows in 2011	75	93	83	79	75	70	64	55
Debt Service-to-Revenue Ratio 2/								
Baseline	2	2	3	3	3	3	2	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	2	2	3	3	3	3	2	1
A2. Primary balance is unchanged from 2010	2	2	3	3	3	3	2	4
A3. Permanently lower GDP growth 1/	2	2	3	3	3	3	2	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-12	2	2	3	3	3	3	2	4
B2. Primary balance is at historical average minus one standard deviations in 2011-12	2	2	3	3	3	3	2	2
B3. Combination of B1-B2 using one half standard deviation shocks	2	2	3	3	3	3	2	3
B4. One-time 30 percent real depreciation in 2011	2	2	3	4	4	4	3	3
B5. 10 percent of GDP increase in other debt-creating flows in 2011	2	2	3	3	3	3	2	3

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.

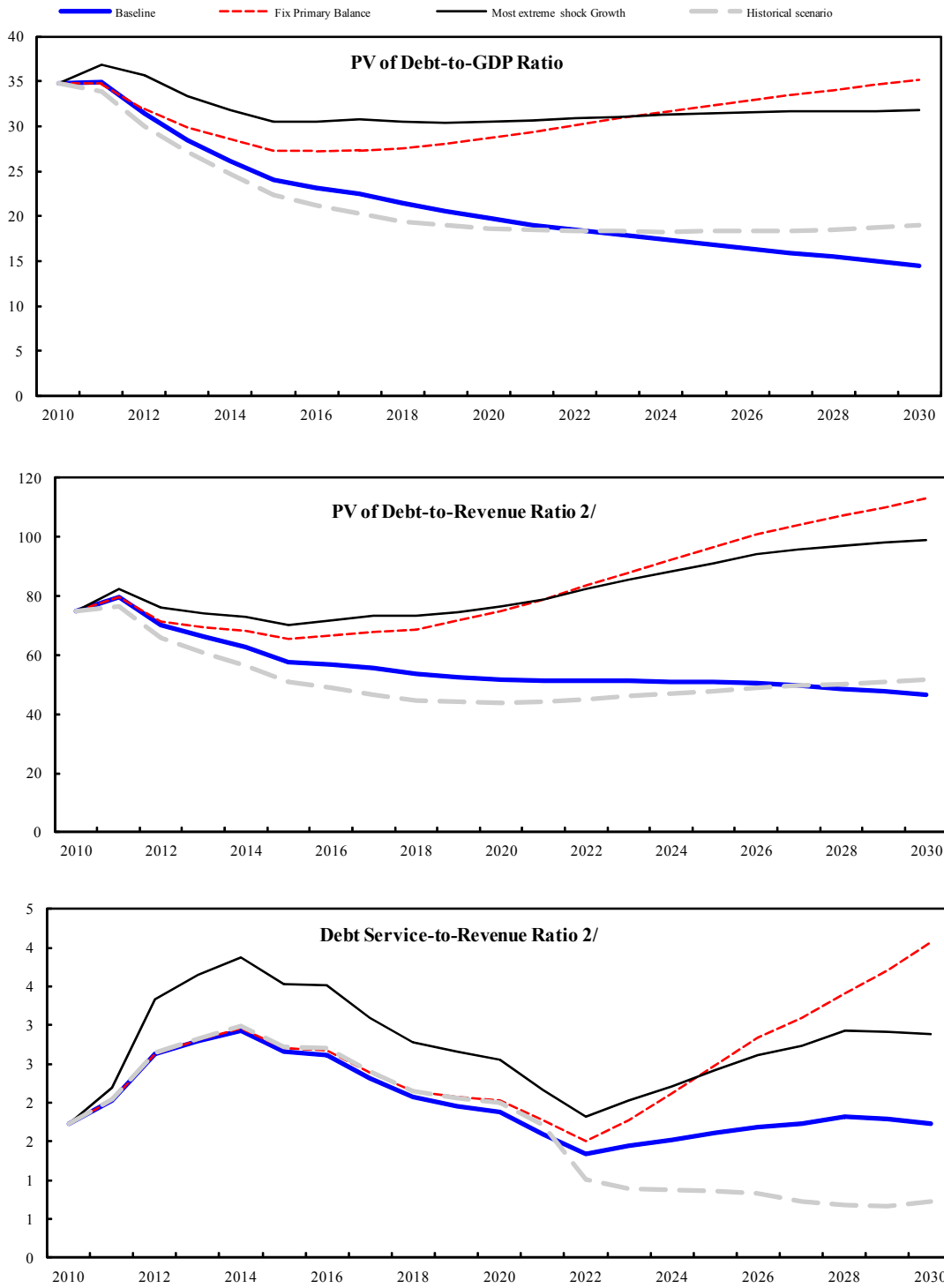
Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-30 1/



Sources: Burundian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b, it corresponds to a Combination shock; in c. to a Combination shock; in d. to a Combination shock; in e. to a Combination shock and in figure f. to a Combination shock

Figure 2. Burundi: Indicators of Public Debt Under Alternative Scenarios, 2010-30 1/



Sources: Burundian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND

BURUNDI

Staff Report for the 2010 Article IV Consultation and Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria**Informational Annex**

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

July 9, 2010

- **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 64.59 million (83.88 percent of quota) at end-May 2010.
- **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
I.	Relations with the Fund	61
II.	Joint World Bank-IMF Work Program, 2008–09.....	66
III.	Relations with the African Development Bank Group.....	67
IV.	Statistical Issues	69

APPENDIX I

BURUNDI
RELATIONS WITH THE FUND

(as of May 31, 2010)

I. Membership Status: Joined: September 28, 1963 [Article XIV](#)

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

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	73.85	100.00
Holdings	66.64	90.23

IV. <u>Outstanding Purchases and Loans:</u>	SDR Million	% Quota
PRGF arrangements	64.59	83.88

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
PRGF	Jul. 07, 2008	Jul. 06, 2011	46.20	26.40
PRGF	Jan. 23, 2004	Jan. 22, 2008	69.30	69.30
PRGF	Nov. 13, 1991	Nov. 12, 1994	42.70	17.21

VI. Projected Payments to Fund ¹
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal		1.43	5.01	6.73	10.56
Charges/Interest	0.02	0.02	0.17	0.15	0.13
Total	0.02	1.45	5.17	6.88	10.69

¹ When a member has financial obligations overdue 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

The exchange rate has been reclassified from floating to stabilized. The U.S. dollar is the intervention currency. On June 21, 2010, the official exchange rate was BIF 1230.4 to the 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 that liberalized foreign exchange for current transactions and removed one multiple currency practice.

Burundi availed itself of the transitional arrangements of Article XIV when it joined the Fund in 1962 but no longer maintains 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 may 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). The authorities have not requested, and staff does not propose, approval of the multiple currency practice.

IX. Article IV Consultation

In accordance with Decision 12794-(02/76), as amended by Decision 12854-(02/96), Burundi is on the 24-month Article IV cycle. The 2008 Article IV consultation was completed by the Executive Board on July 7, 2008, (IMF Country Report No. 08/282), along with the request of a new PRGF arrangement.

In concluding the 2008 consultation, Executive Directors acknowledged the commendable progress that Burundi made in implementing its first PRGF-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 through grants and highly concessional external resources. Recognizing the recent acceleration of inflation deriving from rising international food and oil prices, Directors encouraged the monetary authorities to act to anchor inflation expectations and contain second-round effects of food and oil price shocks. 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

May 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
May 2008	FAD mission for installation of a PFM resident advisor
January 2008	FIN safeguards assessment mission
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
I. Commitment of HIPC assistance	<u>Framework</u>
Decision point date	Aug 2005
Assistance committed	
by all creditors (US\$ million) ¹	832.6
<i>of which:</i> 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 May 2005 and an office with an administrative assistant opened in January 2006 in Bujumbura. Mr. Israel de la Piedra was the IMF's resident representative to Burundi from May 2007 to May 2009. Mr. Koffi Yao, the newly appointed resident representative, assumed his duties in January 2010.

APPENDIX II
BURUNDI

JOINT WORLD BANK–IMF WORK PROGRAM, 2010–12

Title	Products	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program	1. Public Expenditure Review	Sept. 09	July 2010
	2. ERSG-4 (Budget support)	Dec. 2009 – Jan. 2010 (Identification) March–April 2010 (pre- appraisal) July 2010 (appraisal)	September 2010
	3. ERSG-5 (Budget support)	November–Dec. 2010 (identification) February 2011 (pre- appraisal) May 2011 (appraisal) (identification)	August 2011
	4. Country Economic Memorandum (CEM)	July 09 (main mission) October 2010 (First CEM Policy Dialogue)	March 2010
IMF work program	1. Fourth ECF review	May 2010	July 2010
	2. Fifth ECF review	November 2010	February 2011
	3. Sixth ECF review	May 2011	July 2011
B. Requests for Work Program Inputs			
Fund request to Bank	1. Policy note on wage bill management and public service effectiveness		September 2010
Bank request to Fund	1. Study of exchange rate misalignment and competitiveness		July 2010
	2. Study on the sources of inflation in Burundi		March 2011
C. Agreement on Joint Products and Missions			
Joint products	DSA		July 2010

APPENDIX III
BURUNDI

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP
(As of June 20, 2010)

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 21st April 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 Bank Group current portfolio of a total commitment of USD 113.67 million (77.1 million Unit of Account), comprises 10 ongoing operations, out of which 3 are regional in scope (one study and two road projects). The Bank Group intervenes actively in infrastructure (transport, water and sanitation, and energy), agriculture, governance and social sectors. The Bank Board of Directors recently approved a grant of 10 million UA for the third phase of Burundi's Programme d'Appui aux Reformes Economic (PARE III).

A stepping stone towards reinforcing Burundi's commitment to further its infrastructure development and economic integration was underpinned through an integrated analysis of transport, power, telecommunication and mining carried out by the Bank in collaboration with the Government of Burundi and other development partners. The study entitled "An Infrastructure Action Plan for Burundi: Accelerating Regional Integration", which is aligned with both national objectives and regional infrastructure developments, is designed as a reference for policy dialogue between stakeholders.

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

Sector	Project Name	Amount (million UA)
Agriculture	Multinational - Projet Agricole du Bugesera	5.0
	Projet Aménagement Des Bassins Versants	9.00
	PPF Developement Rural Integre Bugesera	0.32
	Prog. D'Amenag. Lac Tanganyika	4.96
Multi-Sector	Projet d'Appui à la Création d'Emploi	10.0
	Projet d'Appui aux Reformes Economiques (PAREIII)	10.0
	Prog. D'Appui Aux Reformes Economiques (PARE II)	6.72
	Prog. D'Appui Aux Reformes Economiques (PARE II)	1.50
Power	NBI-NELSAP Interconnection Project	6.0
	Réhabil. Et Exten. Infrastructures Elec	7.32
Social	Projet Multisectoriel De Réinsertion	9.81
Transport	Projet Routier Mugina-Bujumbura-Ruhwa	16.5
	Gitega-Ngozi road project	33.8
	Projet de Route Kicukiro(Rwanda) - Kirundo(Burundi)	14.90
	Phase 2 Chemin Fer Dsm-Isaka-Kiga/Keza-M (International)	0.57
Water Sup/Sanit	Projet De Rehabilitation Et D'Extension	12.00
Total		148.4

APPENDIX IV

BURUNDI

STATISTICAL ISSUES
(As of June 20, 2010)**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. Burundi could benefit from participation in the General Data Dissemination System (GDDS), as a framework to improve its macroeconomic statistics and coordination between institutions.

Real sector statistics: Serious deficiencies in real sector data compilation hamper economic analysis and management. National accounts statistics are compiled infrequently by ISTEERU, 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. 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 FAD in the areas of public financial management information systems and public expenditure management, as well as STA training in the compilation of government finance statistics. Nevertheless, government finance statistics continue to suffer from weaknesses in coverage, accuracy, consistency, and timeliness.

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 ODC records. Normally, transactions between the central bank and ODC show up in ODC balance sheet with one-day lag that affects OIN in the Depository Corporation 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.

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.

II. Data Standards and Quality

Burundi does not participate in the GDDS.

No data ROSC is available.

III. Reporting to STA

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*.

Burundi: Table of Common Indicators Required for Surveillance
(as of June 20, 2010)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mar. 2010	May 2010	M	M	M
Reserve/Base Money	Mar. 2010	May 2010	M	M	M
Broad Money	Mar. 2010	May 2010	M	M	M
Central Bank Balance Sheet	Mar. 2010	May 2010	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2010	May 2010	M	M	M
Interest Rates ²	Mar. 2010	May 2010	M	M	M
Consumer Price Index	Mar. 2010	May 2010	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ —Central Government	Mar. 2010	May 2010	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	NA	NA	NA	NA	NA
External Current Account Balance	2009	May 2010	A	A	A
Exports and Imports of Goods and Services	Dec. 2009	May 2010	M	M	M
GDP/GNP	2009	May 2010	A	A	A
Gross External Debt	Dec. 2009	May 2010	M	M	A
International Investment Position ⁶	2009	May 2010	A	A	A

¹ Any reserve assets that are pledged or 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 Includes external gross financial asset and liability positions vis a vis nonresidents.

⁷ Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

**INTERNATIONAL MONETARY FUND*****Public Information Notice***EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 10/125
FOR IMMEDIATE RELEASE
September 7, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation for the Republic of Burundi

On July 23, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.¹

Background

Burundi is emerging from more than a decade of civil conflict. The power-sharing agreement signed in December 2008 by the government and the last rebel group (FNL), paved the way for national elections, which run from May 24 to September 8, 2010. Gross Domestic Product (GDP) per capita is about US\$140, and more than two-thirds of the population lives below the poverty line. Although the country is making some progress toward the Millennium Development Goals (MDGs), it is unlikely that any of the targets will be achieved by 2015.

Economic growth moderated to 3.5 percent in 2009, from 4.5 percent in 2008, mainly because of lower private transfers and foreign direct investment. Because of lower international oil and food prices, headline inflation (end of period) declined from about 26 percent in 2008 to about 4.5 percent in 2009, well within the single-digit level targeted under the program.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Fiscal performance in 2009 was broadly satisfactory. Despite the global financial crisis, total revenue was 0.6 percent of GDP higher than programmed, reflecting improved collections of income and indirect taxes. Total spending was contained below the programmed level, as externally-financed spending was lower than planned. The wage bill was also kept within the envisaged budgetary envelope. Overall, the fiscal deficit (excluding grants) was lower than expected. Adjusted for the shortfall in external nonproject financial assistance, domestic financing of the budget was well within the program target.

Despite the food and oil shock and the global financial crisis, the external position was supported by the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives (MDRI) and the Special Drawing Rights (SDR) allocation. Notwithstanding the negative impact of the food and oil crisis on the trade balance, the external current account deficit improved in 2008 because of high donor support to mitigate the effects of the shock. In contrast, in 2009 the external current account deficit worsened, even as the terms of trade improved, because of lower donor support. Overall, the balance of payments position was supported by HIPC and MDRI debt relief and the SDR allocation. Gross reserves remained at a comfortable level of 6.5 months of import cover.

Executive Board Assessment

Executive Directors commended the authorities for the satisfactory implementation of their ECF-supported program against the backdrop of the global financial crisis and a difficult post-conflict environment. While Burundi's economic outlook is positive, risks remain, and it will be important to make decisive progress on structural reforms to accelerate growth and reduce poverty, while continuing efforts to improve security conditions.

Directors agreed that debt sustainability should anchor medium-term fiscal policy. Given the high risk of debt distress and low capacity, they concurred that the budget should be financed through grants and highly concessional financing. Improvements in governance, including strengthened public financial management, will be important for sustaining donor support. Directors called for caution to ensure that expectations of a peace dividend do not give rise to public sector wage increases. They noted that achieving the medium-term target for the wage bill while continuing to recruit in priority sectors hinges on reducing the size of the security forces. Directors supported the authorities' intentions to further align spending with the priority sectors outlined in the Poverty Reduction Strategy Paper (PRSP), and to enhance their capacity to deliver social services. On the revenue side, Directors encouraged the authorities to pursue their efforts to broaden the revenue base and improve tax and customs administration, including by making the revenue authority operational.

Directors considered the authorities' monetary policy to be appropriately aimed at price stability while allowing scope for economic growth. They emphasized the need for close coordination of monetary and fiscal policies, as well as efforts to enhance the effectiveness of monetary policy instruments.

Directors noted the staff's assessment that the exchange rate appears to be broadly in line with fundamentals. They recommended greater exchange rate flexibility to help the economy adjust

to external shocks, and stressed the importance of structural reforms to improve Burundi's competitiveness. Directors welcomed the authorities' plans to refocus capital spending on key infrastructure to relieve major bottlenecks. They encouraged the authorities to improve the business and investment climate, continue to reform the coffee sector, and accelerate integration into the East African Community.

Directors welcomed the authorities' plan to use the Financial Sector Assessment Program recommendations to guide reforms in the financial sector. Efforts should be stepped up to improve banking supervision, modernize the payment system, and address weaknesses in the banking system, notably concentration risk.

Directors encouraged the authorities to improve statistics in collaboration with Technical Assistance partners, particularly in the areas of the national accounts and the balance of payments.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Burundi: Selected Economic and Financial Indicators, 2007–09

	2007	2008	2009
	(Annual percentage change)		
Real Economy			
Real GDP	3.6	4.5	3.5
Consumer prices (period average)	8.3	24.4	10.7
Consumer prices (end of period)	14.7	25.7	4.6
	(Change in percent of beginning of period M2)		
Money and credit			
Net foreign assets	11.5	21.9	-2.9
Domestic credit	6.6	18.8	27.8
Money and quasi money (M2)	10.1	34.2	19.8
	(Percent of GDP)		
General government			
Revenue (excluding grants)	18.6	18.5	18.6
Total expenditure and net lending	38.5	44.1	39.3
Overall balance (commitment basis)			
Excluding grants	-19.8	-25.6	-20.7
Including grants (excl. HIPC)	-3.3	-3.7	-5.2
External Sector			
Current account balance (incl. grants)	-15.7	-12.3	-14.5
Gross official reserves			
US\$ million	177.3	266.6	323.0
Months of imports	3.8	6.5	6.5

Sources: Burundi authorities and IMF staff estimates and projections.



Press Release No. 10/304
FOR IMMEDIATE RELEASE
July 23, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under ECF Arrangement for Burundi and Approves US\$10 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Burundi's economic performance under a program supported by the Extended Credit Facility (ECF)¹. The Board's decision enables the government to request a disbursement for an amount equivalent to SDR 6.6 million (about US\$10 million), bringing total disbursements to Burundi under the program to an amount equivalent to SDR 33 million (about US\$49.9 million). The Executive Board also approved the modification of performance criteria.

The Executive Board also concluded the 2010 Article IV consultation. Details of the findings of the Article IV will be published in a Public Information Notice in due course.

The ECF arrangement for Burundi was approved in July 2008, (see [Press Release No. 08/167](#)) for an amount equivalent to SDR 46.2 million (about US\$69.9 million).

At the conclusion of the Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

“The Burundian authorities are to be commended for the strong performance under their ECF-supported program against the backdrop of the global financial crisis and a difficult post-conflict environment. Burundi's economic outlook is positive, supported by strengthened reforms and governance, as well as efforts to continue to improve security conditions. Solid policy implementation will be key to meeting Burundi's economic

¹ The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years. The Fund reviews the level of interest rates for all concessional facilities every two years.

challenges over the medium term, and continued donor assistance will be necessary to support the authorities' efforts.

“Given the high risk of debt distress, it is important to anchor medium-term fiscal policy to debt sustainability and rely on grant and concessional financing. Improvements in governance, including strengthened public financial management, will be critical. The authorities plan to further align spending with the PRSP priority sectors and enhance capacity in social services delivery, with support from the international community.

“Decisive progress on structural reform will be critical to raise Burundi's competitiveness and achieve sustained growth and poverty reduction. The authorities' plan to refocus capital spending on key infrastructure is appropriate. It will also be important to enhance the business environment, strengthen the financial sector, continue reforms in the coffee sector, and proceed with integration into the East African Community”, Mr. Portugal added.

**STATEMENT BY MR. ITAM
EXECUTIVE DIRECTOR FOR BURUNDI
JULY 23, 2010**

1. My authorities' prudent macroeconomic policies, deepened structural reforms, and perseverance with the post-conflict reconstruction, enabled Burundi to weather the storm of the global economic crisis. They remain confident that with this macroeconomic framework, a successful transition to the second government of the post-conflict period and further improvement in the external environment, Burundi stands a chance of lifting its economic growth trajectory.

2. My authorities are appreciative of the Fund's constructive engagement and support under the ECF. Going forward, they are determined to further strengthen their macroeconomic framework, and achieve key national and regional objectives as set out in their PRSP and the East African Community (EAC) protocol. In this regard, the authorities appreciate the constructive engagement and support of the Fund, the World Bank, the African Development Bank, and the donor community, and thank staff for their candid policy dialogue and advice under the program. The support and dialogue have been invaluable in addressing many challenges.

3. The authorities' efforts in consolidating peace and implementing the ECF-supported economic program have enhanced macroeconomic stability. To that end, all end-March 2010 quantitative performance criteria and the structural benchmark were met. In view of the strong performance under the program, the authorities request Directors' support for the completion of the fourth review of the ECF arrangement, and the modification of performance criteria to take into account more fully recent developments.

I. RECENT ECONOMIC DEVELOPMENTS

4. Burundi's strong macroeconomic performance, which had been uninterrupted since 2006, reflects deepened economic reforms, good coffee harvest and increased donor funded investment projects. This performance came under threat from the adverse effects of the global economic downturn. Real GDP growth declined from 4.5 percent in 2008 to 3.5 percent in 2009 mainly as a result of severe decline in receipts from coffee exports, lower private transfers and foreign direct investment. Deterioration in the external environment has since subsided, aided by the decline in the global prices of food and fuel, increased donor flows, the HIPC and MDRI relief, and the SDR allocation. Gross official reserves have since rebounded to 6.5 months of imports cover.

5. The fiscal outturn in 2009/10 reflects the challenges the country is facing. Revenue collection improved marginally relative to GDP, despite the authorities' efforts to broaden the tax base, implement structural reforms, and strengthen customs and tax administration. The authorities' support for the economic recovery through increased spending under the development and recurrent expenditure was only partially successful due to lower-than-programmed externally-funded spending.

6. My authorities' monetary framework continued to be guided by the objective of price stabilization, while allowing sufficient scope to support economic recovery. The central bank's monetary policy included a mix of instruments for liquidity management. As a result, reserve money growth remained on track, and the banking system continued to meet the demand for private sector credit. Inflation, which had edged up in 2008 due to the surge in global food and fuel prices, declined considerably in line with global price developments.

7. The country's financial system remained resilient to the global financial crisis, mainly due to its limited exposure and well supervised and capitalized banks. This resilience was confirmed by the 2009 Bank-Fund FSAP mission that detected no obvious signs of imminent systemic stress. Nonetheless, the authorities remained vigilant and ready to take necessary measures to protect the stability of the financial system.

8. The authorities' dedication to the peace process is unwavering. The process came under heightened security alert at the start of the 2010 elections in May but has stabilized after the June 28 Presidential elections. The authorities are determined that the final phase of these elections—the legislative elections on July 23—will be successful; paving the way for consolidated peace in the country. To that end, the authorities are grateful for the continued support of their development and EAC partners.

II. POLICY FRAMEWORK GOING FORWARD

A. Fiscal policy

9. The fiscal framework will continue to support economic growth. Current expenditure as a percentage of GDP will be consolidated, while maintaining the tempo for priority sectors in line with the country's PRSP. Spending would target basic social services, particularly education, health, and public access to water, electricity and roads. Further, the authorities intend to scale-up investment in infrastructure to enhance productivity in the primary sectors.

10. Mindful of the country's high risk of debt distress, the authorities will aim at limiting debt-creating domestic financing and mobilizing concessional external financing. However, they recognize the limits of concessional financing for infrastructure investment and would consult staff when the need and opportunity for non-concessional financing arise. To ensure budget credibility and make public spending more effective, the authorities have reaffirmed their commitment to strengthen their public financial management framework.

11. The authorities are confident, that domestic revenue mobilization would improve if current efforts are sustained and the external environment improves. This would also entail broadening the tax base, strengthening fiscal controls, and reducing discretionary tax exemptions. The authorities will continue to implement the modernisation program for tax revenue administration, including the value-added tax and the EAC common external tariff (CET). With the support of development partners, the authorities are vigorously pursuing the operationalization of the Burundi Revenue Authority (BRA).

B. Monetary policy

12. 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. The authorities reaffirm their commitment to target base money growth for containing inflation as an appropriate policy framework. Monetary policy stance will also help sustain the current level of credit to the private sector.

C. Financial sector reforms

13. The central bank will strengthen its supervisory and regulatory services to the financial institutions to stem concentration of loan portfolio. The regulatory framework for financial institutions will be in line with the FSAP/MCM recommendations. In fostering financial sector reforms, the authorities are broadening access to financial services. This effort will capture staff advice on modernizing the infrastructure and legal framework for the payments system. The central bank will strengthen its internal control and risk management system, and align its open market operations to best practices.

D. Other structural reforms

14. My Burundian authorities have made impressive progress in implementing their structural reform agenda, including the reform of the financial sector, privatizing the coffee sector, and promoting public accountability. Improving the stock and quality of physical infrastructure remain a priority. The authorities intend to build on the recent reforms of the public financial management and the rationalization of government bank accounts.

15. The authorities will persevere with reforms on the trade front, and deepen the EAC regional integration framework. To that end, they are, together with their partners in the EAC, advancing the implementation of the Customs Union and Common Market protocols.

III. CONCLUSION

16. The authorities' macroeconomic fundamentals and continued commitment to strong policies helped the country weather the global economic crisis better than earlier envisaged. The implementation of the ECF-supported program has remained solid with the end-March 2010 program performance being very impressive. The authorities are aware of the remaining risks and have, therefore, maintained an appropriate mix of fiscal and monetary policies, as well as deepened structural reforms to consolidate the economic recovery. In the near term, the authorities are determined to ensure that the program focuses on sustaining macroeconomic stability, enhancing domestic resource mobilization, promoting broad-based and pro-poor growth, and increasing investment in agriculture, infrastructure and core MDG clusters. The authorities are confident that going forward, continued engagement with the Fund and the support of the development partners will enable them to achieve their development goals and consolidate the peace process.