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Burundi: 2006 Article IV Consultation, Third and Fourth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, Modification of a Performance Criterion, Extension of the Arrangement, and Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; 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 a combined discussion of the 2006 Article IV consultation with Burundi and reviews on the use of IMF resources under the Poverty Reduction and Growth Facility and the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the 2006 Article IV Consultation, Third and Fourth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, Modification of a Performance Criterion, Extension of the Arrangement, and Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on March 18, 2006, 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 June 30, 2006. 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 statement of July 14, 2006 updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its July 14, 2006, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for Burundi.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Burundi*
Memorandum of Economic and Financial Polices by the authorities of Burundi*
Technical Memorandum of Understanding*
Selected Issues Paper and Statistical Appendix
*Also included in the Staff Report

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

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

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BURUNDI

Staff Report for the 2006 Article IV Consultation, Third and Fourth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Request for Waiver of Performance Criteria, Modification of a Performance Criterion, Extension of Arrangement, and Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

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

Approved by Jean A. P. Clément and Matthew Fisher

June 30, 2006

- **Discussions** for the 2006 Article IV consultation and the third and fourth reviews under the PRGF arrangement were held in Bujumbura March 1–18, 2006. The mission consisted of Messrs. Mathieu (head), Manoel, Basdevant, Samake (all AFR), and Dicks-Mireaux (PDR), and Ms. Adjahouinou (Assistant-AFR). Mr. Engstrom, the Resident Representative for Burundi, based in Kigali, joined the mission. Ms. Leroy-Themeze (World Bank) and Mr. Nintunze (advisor to Executive Director Ngumbullu) also participated in the discussions. The mission met with President Nkurunziza, the Second Vice President; the presidents of the National Assembly and the Senate; the Ministers of Finance, National Defense, Interior, Plan, and Energy; and the new Central Bank Governor. It also met with representatives of civil society, the business sector, and the diplomatic and donor communities.
- **Performance under the PRGF-supported program in 2005 was satisfactory**. All end-June and end-December 2005 quantitative performance criteria were met, except for a temporary accumulation of external arrears in late 2005. The structural performance criterion at end-October and three benchmarks were missed, but three of the associated measures were implemented by early 2006.
- **In the attached letter of intent** and memorandum of economic and financial policies, the authorities review performance under the PRGF-supported program during 2005 and set out policies and program monitoring issues for 2006. They request completion of the third and fourth reviews; waiver of some performance criteria; modification of a performance criterion; extension of the PRGF arrangement to allow for completion of the sixth review; and additional interim assistance under the enhanced HIPC Initiative.
- **Key policy issues** The successful end to the political transition and the installation of a democratically elected government open a window of opportunity to relaunch structural reforms as the basis for a durable recovery. The program for 2006 provides sufficient fiscal space for Burundi to begin addressing deep social needs without compromising macroeconomic stability and relaunch structural reforms.
- **Other issues** The new authorities were not in a position to discuss the effectiveness of past Fund surveillance, but expressed appreciation for Fund policy advice, technical assistance, and discussions with staff. They stressed the importance of reinforced Fund technical assistance and requested the posting of a full-time resident representative. While data provision to the Fund is broadly adequate for surveillance purposes, shortcomings in the national accounts, government finance, and balance of payments statistics hinder the monitoring of economic developments. Burundi maintains exchange restrictions subject to Fund approval under IMF Article VIII and staff does not recommend approval of these restrictions. Burundi has consented to publication of the staff report and program documents. A selected issues paper accompanies this report.

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Executive Summary

- **The peace process initiated in August 2000 with the Arusha Accord, and the political transition that followed, concluded successfully with the installation of a democratically elected government in August 2005**. The new political environment opens a window of opportunity for Burundi to secure macroeconomic stability and relaunch structural reforms to set the basis for a durable recovery. The new government has intensified efforts to resolve the conflict with the remaining rebel group and is emphasizing good governance and improved social services. Improving security conditions and a sustained momentum of reform suggest an improved medium-term macroeconomic outlook.

- **The Article IV consultation discussions focused on lessons from the period of extended social conflict and on the challenges ahead, including the constraints and efforts needed to achieve the Millennium Development Goals (MDGs)**. The key challenges are to launch the economy on a higher growth path and raise spending on social sectors and infrastructure. Strengthening public financial management and creating an economic environment conducive to private sector activity will also be important.

- **Macroeconomic developments in 2005 were broadly in line with the program**, **though growth was lower at about 1 percent**. The program remained on track in 2005, although structural reform, especially on privatization and the coffee sector lagged, reflecting the political transition. Some progress has been made on governance but the capacity of the new institutions needs to be strengthened.

- **The program incorporates strong fiscal reforms**. The introduction of treasury securities would further improve liquidity management, and supervision of the financial sector is being strengthened. A privatization agenda, especially for coffee, is to begin in 2006. The managed floating exchange rate regime has served Burundi well so far and little remains to be done for Burundi to be in a position to accept its obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

- **Implementation of the program could help 2006 become a pivotal year for Burundi's economic turnaround**. Prospects for 2006 are for a rebound in real growth to 6 percent and a further reduction in inflation. There are risks to the program, including regional insecurity, a still fragile domestic peace, and immature democratic institutions. However, given the strength of the program and the demonstrated commitment of the authorities to reform, the staff recommends completion of the third and fourth reviews under the Poverty Reduction and Growth Facility (PRGF) and supports Burundi's requests for waivers of two performance criteria; modification of another; extension of the PRGF arrangement; and additional interim assistance from the Fund under the enhanced HIPC Initiative.

I. INTRODUCTION

1. **Burundi is emerging from more than a decade of civil conflict that started with the 1993 coup d'état against its first elected government**. The Arusha Accord of August 2000 initiated a peace process that was successfully concluded with the installation of a democratically elected government in August 2005. Since 1993 conditions in Burundi have deteriorated significantly: per capita income dropped by about half (to about US$110 in 2005); the percentage of people living below the poverty line nearly doubled, to about 58 percent by 2001; access to safe water and health services has deteriorated; and HIV/AIDS prevalence has risen. There are some 300,000 internally displaced persons and refugees in camps in Tanzania (down from a million at the peak of the fighting) and half a million orphans. Burundi is the ninth least developed country in the world.[1]

2. **Strong progress has been made on the political and security situation that can set the basis for a durable recovery**. From the start, the new government has made intense efforts to resolve the conflict with the remaining rebel group, the FNL, and has emphasized good governance and improved social services. In late 2005, the United Nations Security Council extended the mandate of the U.N. Operation in Burundi through July 2006, but plans a phased withdrawal of peacekeeping troops through the end of 2006. Military demobilization, supported by the World Bank's Multi-Country Demobilization and Reintegration Program (MDRP), progressed well in 2005. Almost 20,000 persons were demobilized after the rebel movements were integrated into the armed forces and the new national police force. Peace talks with the FNL, facilitated by Burundi's partners in the peace process, were initiated in Tanzania in early June 2006.

3. Recent economic developments and performance under the program are discussed in Section II. The Article IV consultation discussions focused on the lessons from the past decade and the challenges facing Burundi in the medium term, including the constraints and efforts needed to achieve the MDGs (see Section IIIA). Policy discussions on the 2006 program and the medium-term outlook are presented in Sections IIIB and IIIC, respectively. Section IV addresses program monitoring, safeguards, and risks, and the staff appraisal is in Section V.

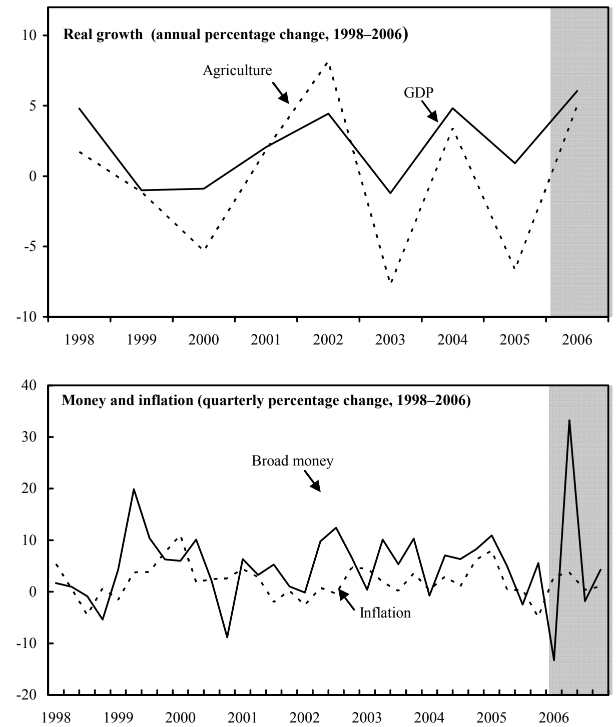
II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

4. **Macroeconomic developments in 2005 were broadly in line with the program, although growth was lower at about 1 percent, largely because of a poor coffee harvest and worsening drought in the north** (Table 1). End-period inflation fell markedly in the second half of 2005 to about 1 percent at year-end, well below the program target. This reflected tighter monetary policy and a turnaround in public confidence, as evidenced by an appreciation of the nominal exchange rate. Fiscal performance was significantly better than

[1] UNDP, 2005 Human Development Index.

programmed because revenue performance was stronger than expected. As a result, the primary deficit was reduced to about half the program target.

5. **However, the external current account deficit (including grants) deteriorated, owing to lower coffee exports and higher imports, including petroleum products**. As drought in parts of the north worsened in early 2006, it was necessary to mobilize emergency actions to feed those affected, supported by international relief agencies. However, by the spring the drought appeared to have broken and a more normal harvest is expected in mid-2006.



6. **The program remained on track in 2005, although structural reform, especially on privatization and the coffee sector, lagged during the political transition**. All the end-June and end-December 2005 quantitative performance criteria (PC) were met except for a temporary accumulation of external arrears in late 2005 (Appendix I, Table 1). The structural performance criterion on installing a computerized financial management information system (IFMIS) in the Ministry of Finance was missed, as were three structural benchmarks, but the measures subject to the PC and two benchmarks were implemented by early 2006 (Appendix I, Table 2).

7. **Fiscal performance in 2005 was satisfactory** (MEFP, paragraphs 6-9). Revenue remained buoyant at 20 percent of GDP, significantly above the program target, thanks primarily to administrative reforms. Current expenditures were higher than forecast but because domestically financed project spending was considerably lower, the primary deficit was limited to half the program target. On a commitments basis, the deficit after grants was 6.2 percent of GDP, compared with the target of 0.2 percent of GDP. This reflected delays in disbursement of budget support by the World Bank and others.

Burundi: Central Government Operations, 2004–05
(In percent of GDP)

	2004	2005	
	Act.	Rev. Prog.	Prel.
Revenue	20.1	18.2	20.0
Tax revenue	18.3	16.6	18.5
Nontax revenue	1.8	1.6	1.5
Expenditure and net lending	39.8	39.1	36.8
Of which: current expenditure	22.3	22.3	23.3
Overall balance (commitment basis)	-19.7	-20.9	-16.8
(after grants)	-4.9	-0.2	-6.3
Of which: primary balance	-3.5	-3.5	-1.7
Change in arrears (reduction -)	-8.0	-4.3	-1.3
Overall balance (cash basis)	-27.7	-25.2	-18.1
Financing (identified)	27.9	25.2	19.3
Of which:			
External	19.9	27.3	17.9
Domestic	9.1	-2.4	1.2

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

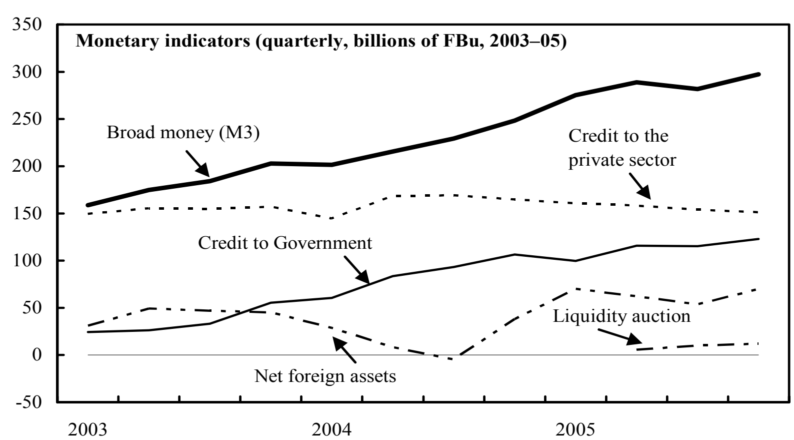
8. **The 2006 budget, adopted in late 2005, envisaged a drop in revenues to 18.9 percent of GDP and spending of 40.8 percent of GDP**. The budget incorporated important reforms to remove distortionary taxes, lower import duties, extend the tax base, eliminate discretionary exemptions, and to bolster expenditure management—all of which represent significant progress. However, in early 2006, levies on beer, soft drinks, and sugar, which had funded the war effort, were abolished. Given the resultant revenue loss of 1.0 percent of GDP and the need to program the clearance of domestic arrears, a revised budget became necessary. An external audit of domestic arrears of the budget, financed by the World Bank, was completed in December 2005. It confirmed a stock of about 3 percent of GDP, and a strategy to clear these arrears in 2006 was approved by the council of ministers in early June. A partial integrated financial management system (IFMIS) on expenditures introduced in January 2006, combined with the new system of accounts introduced in 2005, should significantly strengthen expenditure management.

9. **The central bank (BRB) tightened monetary policy in 2005 and increased foreign exchange sales to gain greater control over reserve money** (MEFP, paragraph 10). Although weekly liquidity auctions introduced in mid-April 2005 enabled the BRB to partially sterilize the impact of foreign exchange reserve accumulation, broad money expansion outpaced nominal GDP growth as the economy became remonetized following a turnaround in public confidence. International reserves rose substantially. Credit to the economy declined by 9 percent, reflecting the political transition, security conditions, and outstanding budget arrears. Credit to the government rose by 9 percent of beginning period broad money, compared to a targeted reduction of 10.5 percent, entirely owing to a delay in disbursement of programmed budget support. In late 2005 and early 2006, the BRB raised reserve requirements. The cost of financial intermediation was reduced as a result of the elimination of the 7 percent tax on banking transactions. The BRB also underwent its second annual external audit and put in place an independent audit committee of the Board of Directors.

Burundi: Selected Economic and Financial Indicators, 2004–05
(In percent of GDP, unless otherwise indicated)

	2004	2005	
	Act.	Rev. Prog.	Prel.
	(Percentage change)		
National income and prices			
Real GDP growth	4.8	5.0	0.9
GDP deflator	8.3	15.3	16.6
Consumer prices (end of period)	11.8	10.3	1.1
	(In millions of U.S. Dollars)		
External sector			
Current account, including grants	-54.0	-56.8	-84.4
Gross official reserves (in months of imports of the following year)	2.2	6.4	2.9
Debt-service ratio (scheduled; in percent of exports; after HIPC relief)	109.2	62.2	27.1
Stock of debt (before HIPC relief)	1,382.3	1,533.0	1,515.7
Central government			
Primary budget balance (excluding foreign-financed projects)	-3.5	-3.5	-1.7
Overall balance (commitment basis)			
Including grants	-4.9	-0.2	-6.3
Saving and Investment			
Gross investment	13.3	11.9	10.8
Gross national saving	5.2	4.8	0.2

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



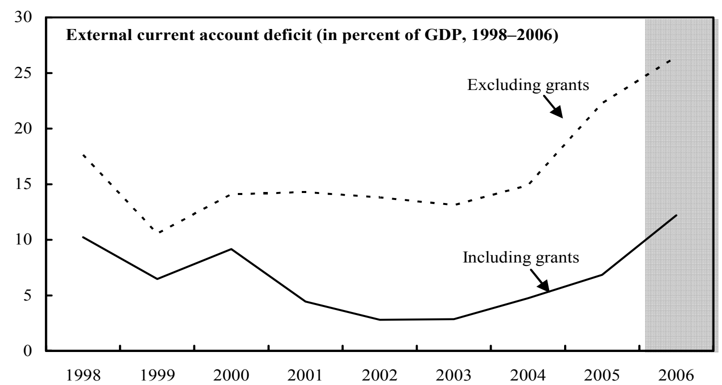
10. **The situation of the banking system, which remains segmented and underdeveloped, is of concern**. Nonperforming loans amounted to 19 percent of assets in 2005, in large measure reflecting government arrears to private operators. Four smaller banks are in difficulty.

11. **The external current account deficit, including grants, deteriorated in 2005 to 10.5 percent of GDP, on lower-than-expected exports, as a result of a very poor coffee harvest and higher imports**. However, gross official reserves rose to 2.9 months of projected 2006 imports because of higher project and humanitarian aid inflows. With the successful political transition and improvements in the BRB's foreign exchange auction, the Burundi francs appreciated against the U.S. dollar by 10 percent in 2005, from depreciated levels, and stabilized in early 2006. The differential between the official and parallel rates continued its decline to about 2 percent at end–2005. In real effective terms, the Burundi francs appreciated by 9.2 percent during 2005.

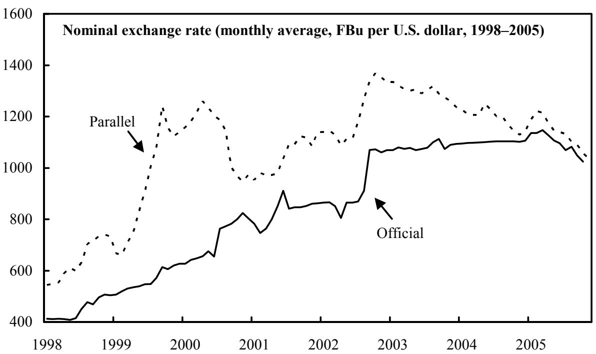
Burundi: Balance of Payments, 2004–05 1/
(In percent of GDP)

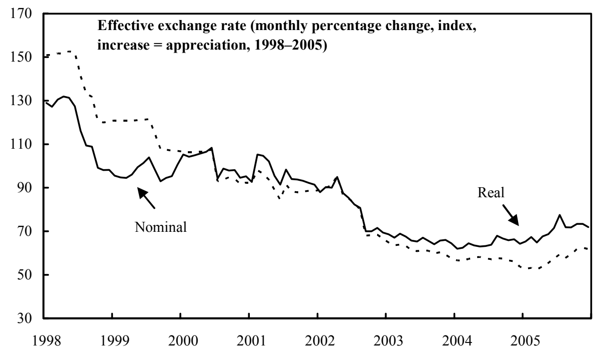
	2004	2005	
	Actual	Rev. Prog.	Actual
Current account	-8.1	-7.1	-10.5
(excluding official transfers)	-25.5	-28.9	-34.3
Trade balance	-15.2	-16.7	-22.7
Exports, f.o.b.	7.2	8.6	7.1
Of which: coffee	4.4	6.1	5.1
Imports, f.o.b.	-22.4	-25.4	-29.9
Of which: petroleum products	-4.0	-5.0	-4.8
Capital account	7.2	5.4	3.3
Financial account	1.0	1.7	8.3
Direct investment	1.5	0.2	1.9
Medium- and long-term official loans (net)	1.7	3.5	4.7

Sources: Burundi authorities; and Fund staff estimates.
1/ Revised according to the Fifth Edition of the *Balance of Payments Manual*



12. **Burundi has made progress in securing debt relief**. The enhanced HIPC Initiative decision point was reached in August 2005 and relief totaling US$7.4 million was received in 2005. Scheduled debt service, after traditional debt relief from Paris Club creditors in 2004 and HIPC debt relief, fell from about 110 percent of exports in 2004 to 33.5 percent in 2005. Burundi has yet to secure debt relief from non-Paris Club bilateral creditors. Arrears that Burundi inadvertently accumulated to the OPEC Fund in late 2005 were cleared early in 2006.





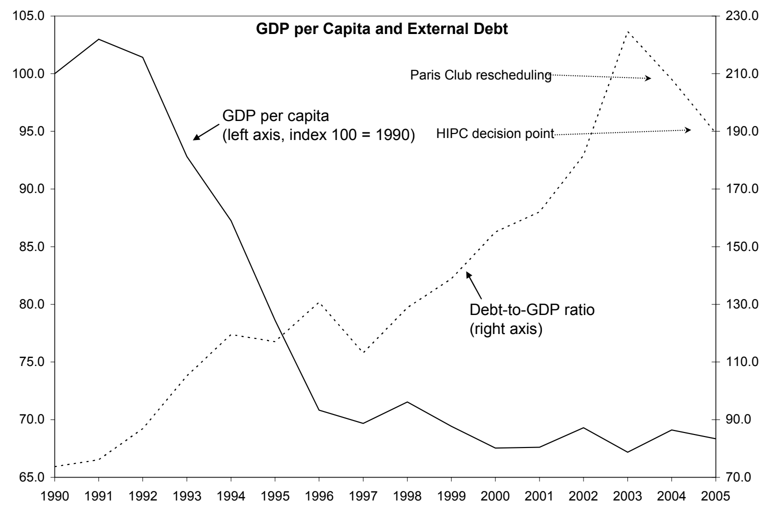
13. **Structural reform in 2005 was uneven.** Significant progress continued in the monetary, exchange regime, and fiscal administration areas, but reform of the coffee sector slowed in the second half and the privatization program was not launched because the new authorities needed more time to take ownership of the reform strategy (MEFP, paragraphs 11–12). Limited administrative capacity and delays in securing technical assistance also played a role in both cases. In late 2005, the Audit Court published its first audit of the 2004 government accounts.

III. Policy Discussions

14. **The Article IV consultation discussions focused on lessons from the past decade and challenges ahead, including achievement of the MDGs**. The new authorities were not in a position to engage in a discussion on the effectiveness of past Fund surveillance, but expressed appreciation for Fund policy advice and technical assistance, and for the candor of discussions with Fund staff. They stressed the importance of reinforced Fund technical assistance and requested that a full-time resident representative be posted. Policy discussions for 2006 focused on securing macroeconomic stability and creating an economic environment conducive to private sector activity. Achieving these goals will depend on pursuing prudent fiscal and monetary policies and deepening structural reforms. The authorities will need to strengthen governance and transparency while managing high public expectations for a peace dividend.

A. Lessons and Medium-Term Challenges

15. **The past decade of social conflict was very difficult for Burundi during which the economic effects of stalled structural reforms were also increasingly felt**. These



effects were compounded by a political and economic blockade from 1996–99 by countries in the region after a military coup, which provoked a marked intensification of restrictions, including in the trade and the exchange systems. As a result, economic distortions intensified, public administration weakened, and infrastructure deteriorated. By the turn of the millennium, living standards in Burundi had dropped sharply and the external debt burden had become unsustainable.[2]

16. **The state has long dominated Burundi's economy and the formal private sector is very small**. Poor performance of public enterprises in the productive sector, exacerbated by weak international commodity prices in the late 1990s, led to large financial losses, external and domestic payments arrears, and decapitalization of the key agricultural sector, which employs a large majority of the population. By 2001/02, the decapitalization of the coffee sector reached the point that sizeable bank credit, financed by directed credits from the central bank and guaranteed by the budget, was needed to finance crop marketing. The budget absorbed the large losses of the coffee sector throughout 2003–04. As a result, fiscal imbalances widened, nonperforming loans accumulated, and the financial system deteriorated.

17. **Initial progress was made in addressing these large imbalances and administrative restrictions through programs supported first by the Fund's emergency post-conflict assistance policy in 2002–03 and subsequently under the PRGF**. By end-2005, many of the restrictions on foreign trade, the financial sector, and the exchange system had been unwound. The top import tariff rate was reduced from 100 percent in 2003 to 30 percent in January 2005. In the 2006 budget, the simple average tariff, which had been 35.0 percent in 2001, was further cut from 19.2 percent to 12.6 percent with 99.8 percent of the tariffs falling in four bands (5, 10, 15, and 30) and a few at 0 or 20 percent. The 6 percent import surcharge was eliminated and a 0.5 percent customs fee introduced on the c.i.f. value of imports.

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[2] See "Economic Stability and Growth Prospects: Evidence from Burundi: 1965–2005" and "A Decade of Stalled Structural Reforms" in the accompanying Selected Issues paper for a fuller discussion.

18. **The challenges ahead, as reflected in the interim and forthcoming full PRSP, are to launch the economy on a higher growth path, raise spending on social sectors and infrastructure, and achieve the MDGs**. The new political environment opens a window of opportunity to secure macroeconomic stability and relaunch structural reforms to make the nascent recovery durable. Stronger public financial management (PFM) will also be necessary. Political stability and improved security in both Burundi and the Great Lakes region will clearly be a condition for sustained economic recovery. While it is unlikely that all the MDGs can be met by 2015, significant progress can be made if Burundi:

- Adopts a more market-oriented economic policy, supported by appropriate regulation and featuring a well-sequenced privatization strategy, starting with coffee, where privatization of individual washing stations is envisaged.

- Improves administrative capacity and the quality of public institutions, especially regarding PFM, including the central bank and supervision of the financial sector.

- Pursues prudent monetary and fiscal policies and contains public expectations of a large peace dividend.

- Restructures public spending, moving it from the security sector (army and police) to the social sectors to address deep social needs and progress toward the MDGs.

- Improves infrastructure and makes a concerted effort to improve governance, transparency, and create a business-friendly environment to attract much-needed private investment.

- Manages aid flows consistent with macroeconomic stability and maximizes their effectiveness in reducing poverty.

19. **The authorities were in broad agreement with the conclusions on lessons of the past decade and challenges for the future**. They also indicated their commitment to bringing the poorest segments of the population into the economic recovery and improving basic social services to reduce poverty.

B. The Macroeconomic Program for 2006

20. **In 2006, real GDP growth is projected to recover to 6 percent with continued vigor in the service sectors and a strong rebound in coffee output** (MEFP, paragraph 13). Average inflation is expected to decelerate further to about 3 percent (period average), despite the pass-through of petroleum price increases. To contain inflationary pressures, it will be necessary to further strengthen the BRB's monetary policy instruments and limit bank financing of the budget. With the clearance of domestic arrears, and the decline in nominal interest rates in early 2006, a further monetization of the economy is expected. Bank credit to the economy is projected to rebound in support of higher growth and investment. The external current account deficit, including official transfers, is expected to deteriorate, on

account of a strong increase in foreign-financed projects. Gross international reserves would rise modestly to about 3.3 months of 2007 imports.

Fiscal policy and reform

21. **The program provides fiscal space for Burundi to start addressing urgent social needs consistent with macroeconomic stability**. Fiscal policy envisages a shift in expenditures from security to social services and poverty reduction, enhanced PFM, and the clearing of government's domestic arrears (Box 1). Fiscal policy also seeks to support the inflation target by limiting budget recourse to financing from the banking system. Bank credit to the government, net of government paper issued to clear domestic arrears (1.9 percent of GDP), would be limited to about 1 percent of beginning broad money stock.[3] A revised 2006 budget will be promulgated before end-June to reflect changes that have emerged since the initial budget (MEFP, paragraphs 14–16 and 19-20). The primary deficit would rise to about 9 percent of GDP, while the deficit (commitment basis, after grants), would decline to less than ½ percent of GDP.

Box 1. Clearance of Domestic Arrears

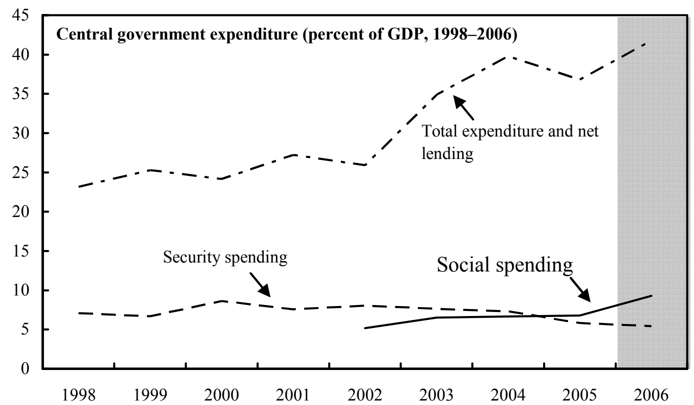
By the end of 2005, domestic budget arrears totaled 2.7 percent of 2005 GDP (FBu 25.7 billion). The domestic arrears of the public sector had amounted to 5 percent of GDP a year earlier, as verified by an external auditor. In 2005, the budget cleared FBu 3.8 billion of its own arrears; those of the public enterprises (FBu 6 billion) and cross-debts with the petroleum sector will be dealt with separately. The domestic arrears to the public are reflected in large measure in the nonperforming assets of the banking system.

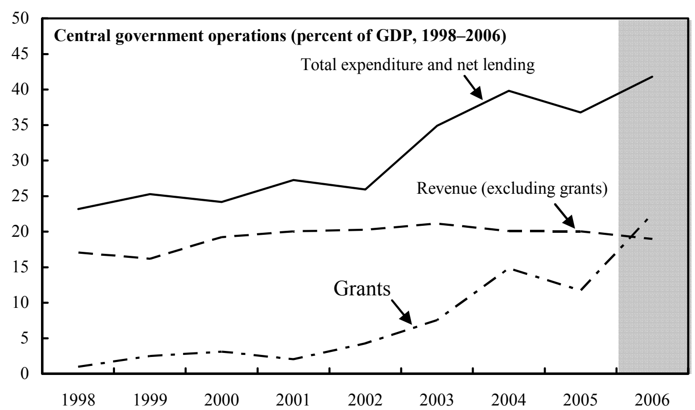
The Council of Ministers approved an arrears clearance strategy on May 26, 2006 to be implemented in mid-2006. All individuals and corporations with arrears claims of up to FBu 100 million will receive a cash payment upon signing a note liquidating their claim (total cash payment is estimated at FBu 7.4 billion). Creditors with arrears greater than FBu 100 million will also receive a certificate recognizing their debt (FBu 18.3 billion). These certificates will be exchangeable for treasury bonds of 3–5 years maturity and may be used in the privatization program, both of which are set to be launched in September/October 2006.

22. **A strong set of measures to strengthen revenue administration is being implemented in 2006** (MEFP, paragraph 18). Nevertheless, overall revenue will decline by 1 percentage point of GDP to 19 percent as the war levies are abolished. The government, with Fund and World Bank technical assistance, is undertaking to modernize and strengthen revenue administration, including customs.

[3] Government securities issued to clear the domestic arrears in mid-2006 are assumed to end up in the banking system.

23. **Expenditure is projected to rise significantly in 2006 to about 41.8 percent of GDP, mainly tracking an increase in pro-poor social spending** (Table 2). The increase is in part made possible by external debt relief under the enhanced HIPC Initiative. The wage bill will rise to just under 10 percent of GDP as new teachers are hired[4] and there is a much-needed salary increase.[5] Spending on security (army and national police) will decline to 30 percent of primary outlays from 37 percent in 2005, as soldiers are demobilized, financed by the MDRP. The program includes spending of 1.2 percent of GDP to allow for food and emergency aid for populations suffering from the drought and to compensate small depositors of a failed bank.





24. **PFM is being strengthened, from a very low base, with the help of Fund and World Bank technical assistance** (MEFP, paragraph 17).[6] Implementation of program action plans would strengthen public procurement and the management of government employees. The wage bill will be incorporated into the IFMIS in late 2006.

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[4] Primary school enrollment has doubled since primary school fees were abolished in September 2005, which overwhelmed facilities and teacher capacity. The World Bank is preparing an education sector project (US$40 million) in cooperation with bilateral donors to support rehabilitation of the education system. On May 1, 2006, health care for expectant mothers and children under 5 years of age was made free.

[5] The increase of 15 percent in base salaries starting July 1, 2006 is the first since a 10 percent hike in July 2001. In the five years since the last general wage increase, consumer prices have risen by about 35 percent.

[6] See "Public Expenditure Management Reform in Burundi" for more details on the status of public expenditure management in the accompanying selected issues paper.

Monetary policy

25. **Monetary policy is crucial to achieving the program's inflation target; reserve money is the nominal anchor** (MEFP, paragraphs 21–22). The central bank will use a judicious mix of monetary instruments, primarily foreign exchange sales and liquidity auctions, to contain liquidity and will introduce treasury bills by September 2006 to further strengthen liquidity management. The velocity of circulation of broad money is expected to decline further, as financial deepening strengthens in response to financial and foreign exchange market reforms (Table 3). Reserve money growth will be significantly reduced to 10 percent, in expectation of a rise in the money multiplier and the renewed commercial bank credit to the private sector (24 percent growth is projected). Continued strong foreign exchange sales by the BRB into the market may put upward pressure on the nominal exchange rate, given the size of external aid inflows, but, on balance, this would be preferable to crowding out private investment.

26. **The authorities agreed that fortifying financial sector supervision and eliminating weaknesses in BRB internal operations is urgent and the program includes a prior action in this area**. In early 2006, a Fund technical assistance team discussed measures to reinforce monetary policy, banking supervision, and BRB internal operations. A Fund resident advisor is helping the authorities on monetary policy reforms and central bank operations. An anti-money laundering (AML/CFT) law has been prepared[7] (MEFP, paragraph 28) with Fund technical assistance; and the central bank law will be revised to make the BRB independent (MEFP, paragraph 33).

Exchange regime, trade policy, and external debt

27. **Staff and the authorities agreed that liberalizing the exchange regime has been beneficial to the economy and that the managed float exchange rate regime has served Burundi well so far**. Removal of administrative restrictions and distortions has all but eliminated the parallel market exchange rate differential, which represents good progress in reducing foreign exchange market segmentation. Efforts are planned to further integrate and deepen the foreign exchange market, supported by Fund technical assistance (MEFP, paragraph 22). The BRB intends to continue to limit its interventions in the foreign exchange market to those needed to achieve its international reserves targets, consistent with the reserve money nominal anchor, and limit short-term exchange rate volatility. In discussing external competitiveness, staff noted that despite its recent appreciation, the real effective exchange rate remained well below (some 30 percent) the level in 2000. It saw external competitiveness as broadly adequate, as recovering export performance illustrates. Furthermore, staff noted, and the authorities agreed, that the main impediments to external competitiveness are structural in nature, and would be best addressed by structural reforms

[7] The lack of an AML law is causing increasing difficulty for Burundi banks in their relations with correspondents abroad.

that would improve the business climate and promote privatization. The gains in productivity resulting from these reforms would also help reduce the possible adverse impact on external competitiveness of large-scale aid inflows; indeed some of these inflows would be for productivity-enhancing reforms.

28. **In early 2006, a Fund technical assistance mission found few remaining exchange restrictions on current international transactions and felt that little remained to be done for Burundi to be in a position to accept its obligations under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement**. The authorities agreed with the staff's assessment and indicated their intention to accept these obligations. Burundi eliminated an exchange restriction on limits on invisibles in May 2006 and expects to eliminate one remaining restriction on ex ante authorization of certain transactions and two remaining multiple currency practices (MCPs) shortly. The exchange restriction and MCPs are subject to approval under IMF Article VIII (Appendix II, Section VIII).

29. **The staff noted that a liberalized trade policy could enable Burundi to benefit from globalization**. Here the recent significant reduction in import duties and nontariff barriers is encouraging. The authorities agreed that there is a need for sustained efforts to integrate Burundi with Africa and the rest of the world. They intend, with the support of the World Bank, to improve the business climate to attract private investment, domestic and foreign, and institute a one-stop business licensing window. Staff welcomed the authorities' intention to join the East Africa Community (EAC) and adopt its common external tariff (rates of 0, 10, and 25 percent, with an average rate in line with Burundi's present tariff).

30. **The authorities have been seeking debt relief comparable to the Paris Club agreement from non-Paris Club creditors**. They have also sought intensified technical assistance from donors on debt management, an area where progress has been slow. Several multilaterals have confirmed their participation in the enhanced HIPC Initiative. At the HIPC completion point (possibly in mid-2007) external debt service would drop from 109 percent of exports in 2004 to 11.1 percent in 2007. With additional relief under the Multilateral Debt Relief Initiative (MDRI), the Fund will provide upfront debt stock relief on Burundi's outstanding debt to the Fund at end-2004 of SDR 26.4 million (US$39.5 million).[8] The authorities have requested disbursement of additional interim HIPC assistance from the Fund in the amount of SDR 86,500 for July 28, 2006–July 27, 2007.[9]

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[8] As a transitional measure, HIPC debt relief at, and after, the assumed completion point (mid-2007) is presented in flow terms, but will be shown as a stock operation, along with the MDRI, in the document for the fifth PRGF review scheduled for December 2006.

[9] Equivalent to 50.5 percent of PRGF Trust Interest obligations falling due July 28, 2006–December 31, 2006, and 57.4 percent falling due January 1, 2007–July 27, 2007.

Program financing

31. **The program for 2006 is fully financed** (Tables 4, 5, and 6; MEFP, paragraph 31). The 2006 program depends heavily on external budget grants (12 percent of GDP, not including interim HIPC debt relief). In the past few years, delays in disbursement of external program support have put pressure on the macroeconomic framework, notably bank financing. The authorities have created a committee to reinforce their dialogue with donors.

Structural reform

32. **The authorities agreed that the 2006 program needs to reactivate the privatization agenda, especially for coffee** (MEFP, paragraphs 23–26 and Box 2). Their strategy, with the support of the World Bank, is to take a graduated approach. The initial effort focuses on small-scale assets, such as coffee washing stations. Execution of the reform strategy for coffee will be vital to reducing poverty in Burundi, in particular for some 800,000 small rural producers, and to export performance (coffee accounted for some two-thirds of exports in 2004–06). The authorities have put in place structures to manage the reforms, and to minimize the financial risks to the producers and the government during the transition. A strategy for the sale of the washing stations will be established, on the basis of a World Bank-financed technical study, by September 2006. The reforms will be pursued so that producers may operate freely so as to ensure competition at all levels of the coffee sector and to attract much needed investment and private financing. The authorities will ensure that regulation by the state coffee marketing board (OCIBU) does not impede investment.

Box 2. Structural Conditionality

Coverage of structural conditionality under the`PRGF-supported program

Structural conditionality in 2005 was directed at deepening reform of the coffee sector, initiating a privatization program, introducing more efficient monetary policy instruments, and making further progress on PFM, including conducting an audit of domestic arrears.

Status of structural conditionality under the 2006 program (Appendix i, table 4)

For 2006, structural conditionality is directed at clearing domestic arrears, further reinforcing PFM and liberalizing coffee and other sectors, completing exchange liberalization, rehabilitating national statistics, making the central bank independent, and launching the privatization strategy.

Structural areas covered by world bank lending and conditionality

Under the proposed economic reform support grant (ERSG), the World Bank is helping Burundi prepare a strategic privatization plan, improve public finances and the operations of the treasury, and reform of the coffee, tea, and cotton sectors. The program includes launching the privatization strategy; furthering expenditure management reforms, especially in procurement; and improving the business environment.

33. **Some progress has been made on governance and transparency** (MEFP, paragraphs 27-28), but the new institutions (e.g., the Audit Court) are untested, and much remains to be done. With Fund and World Bank technical assistance, weaknesses in PFM are

being addressed. The authorities have moved strongly to address issues raised in the Fund's safeguards assessment of the central bank (MEFP, paragraph 33).

34. **The complete PRSP is in the final stages of preparation and is expected to be ready in mid-2006** (MEFP, paragraph 32).[10] The authorities have estimated the three-year cost of implementing the PRSP at US$535 million (67 percent of 2005 GDP) and intend to mobilize financing at a donors' conference planned for the fourth quarter of 2006.

35. **The authorities have made good but uneven progress toward achieving enhanced HIPC Initiative completion point triggers** (Table 7). However, they have made little progress on improving debt management and producing external debt reports, for which they have requested additional technical support.

National statistics and technical assistance

36. **The authorities are conscious of the serious deficiencies in the national statistical base and the operations and legal basis of the national statistical office** (MEFP, paragraphs 29–30). They have requested technical assistance from the Fund and other donors to address the weaknesses. A national statistical development plan drafted in collaboration with the World Bank and AFRISTAT will be implemented in 2006, with donor support. With Fund technical assistance, the balance of payments was converted to version five of the *Balance of Payments Manual in early 2006*.

37. **Burundi has significant technical assistance needs** (MEFP, paragraph 34). The authorities stressed the importance of reinforced Fund technical assistance in asking for a full-time resident representative. The authorities expect that the Fund's new regional technical assistance center (AFRITAC-Centre) opening in Gabon in early 2007 will be of significant help.

C. Medium-Term Outlook and Debt Sustainability Analysis

38. **The successful conclusion of the political transition, improving security conditions, and sustained reform momentum prefigures an improved medium-term macroeconomic outlook** (Tables 8 and 9). The growth profile is likely to be typical of recovering post-conflict countries, with an initial period of catch-up growth.[11] The higher investment and growth profile reflects the momentum of reforms and higher projected aid

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[10] A PRSP Preparation Status Report and Joint Staff Advisory Note were issued to the Executive Board on July 11, 2005 (Country Reports Nos. 05/325 and 05/324, respectively).

[11] This outlook assumes a stronger recovery of growth and investment than is assumed in the enhanced HIPC Initiative Decision Point Document (Country Report No. 05/329). Higher investment (financed by higher aid inflows), together with sustained structural reform, would drive stronger export and overall growth over the long term. Imports would also grow more strongly and over the long-term decline only moderately in relation to GDP.

inflows. Stimulated by economic reforms, the entrance into productive activity of returning refugees and demobilized combatants, and the economic use of land and other property in previously insecure locations, economic growth is projected to rise to 6½–7 percent early in the period (2007–09). Growth would then ease to a sustained rate of 6 percent, with privatization and an improved business environment. Nevertheless, not until 2023 is GDP per capita (in current U.S. dollars) projected to reach the equivalent of US$1 a day. The external current account deficit (excluding current official transfers) would peak at about 38 percent of GDP in 2007 and thereafter decline gradually to 13 percent of GDP by 2026, based on a recovery in production and exports. As privatization takes effect, gross investment, especially from the private sector, would rise over the medium term. Domestic savings would cease to be highly negative and begin providing resources for investment by 2017.

39. **From a low base in 2004, exports are projected to drive growth over the long term as traditional sectors recover and new sectors emerge**. The inflow of private investment would raise the quality of Burundi's coffee, which is projected to once again fetch a premium over international prices starting in 2008. Private investment in nontraditional sectors such as horticulture, fresh fruits and vegetables, essential oils, tourism, and minerals (gold, nickel, and tungsten), which is already emerging, would make a significant contribution in the second decade of the period, especially if direct air links to Europe are reestablished and electricity supply problems are addressed. Foreign reserves would be maintained at just over four months of following-year imports. Financing gaps of US$75–130 million through 2016 would begin tailing off to about US$80 million by 2025, amounts that could be covered from 2007 in part by additional debt relief under the MDRI.[12]

40. **Two alternative scenarios** examine the impact of lower growth, reflecting stalled reform, and of higher coffee export prices. In the low-growth scenario, starting in 2007, GDP growth would be only 4 percent a year for ten years before returning to the baseline rate. In this scenario, the financial position of the country would weaken considerably and the external current account deficits and financing gaps are much larger in the outer years. Investment would be somewhat lower, while domestic savings would emerge only late in the period. GDP per capita would be 25 percent lower (and less than US$1 a day) in 2026. The second scenario assumes a selling price for coffee that is 25 percent higher than in the baseline from 2007 to 2010. This scenario assumes that coffee sector investment would accelerate revenues. Financing gaps would be significantly reduced early on and investment and domestic savings would be somewhat higher.

41. **An updated low-income country debt sustainability analysis (LIC DSA), prepared jointly by Fund and World Bank staff, indicates that Burundi is vulnerable to shocks and remains in the high debt distress category for low-income countries**

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[12] As a transitional measure, HIPC debt relief at and after the assumed completion point (mid-2007) is presented in flow terms. It will be shown as a stock operation, along with the MDRI, in the documents for the fifth PRGF review scheduled for December.

(Appendix VI). The external debt-to-exports ratio after enhanced HIPC assistance is projected to remain above the threshold for 2005–13. The stress tests show that Burundi is vulnerable to adverse developments, including borrowing on nonconcessional terms. The DSA underscores the need for Burundi to implement a strong, sustained reform effort to encourage export diversification and support robust growth in exports and GDP. Prudent debt management will be important, as will external financing on highly concessional terms.

IV. Program Monitoring, Safeguards, and Risks

42. **The prior actions for completion of the third and fourth reviews primarily seek to address slippages in implementing structural reforms, including the phasing in of coffee sector reform** (MEFP, paragraph 35, and Appendix I, Table 4). To take into account domestic arrears clearance and the introduction of tradable security instruments, the quantitative performance criterion on bank credit to government has been replaced by one on overall domestic financing. The BRB has begun to address the issues identified in the safeguards assessment completed in January 2006. The authorities have requested a nine-month extension to the PRGF arrangement to complete the sixth review (Tables 10 and 11).

43. **The program is subject to several risks**:

- **Security within the country is fragile**. Institutional rehabilitation and economic and social recovery will be needed to promote further progress. The situation in the Great Lakes region is also fragile; there could be grave repercussions for Burundi should the situation deteriorate.

- **Delays in the pace of structural reforms and in improving social services could undermine public confidence in the reform and recovery effort**. Progress on achieving a sustained, poverty-reducing recovery of economic activity depends critically on a strong early effort to improve the business environment and to start privatization.

- **Timely and adequate external financial support is critical**. Burundi's program depends heavily on external budget support. Major delays in disbursement of program support would severely stress the budget and the macroeconomic framework.

V. Staff Appraisal

44. **Burundi made commendable progress in 2005 in implementing its PRGF-supported program in a difficult post-conflict environment**. While structural reforms slowed in the second half of 2005, owing to the political transition, all the end-June and end-December 2005 quantitative performance criteria were met, with one temporary exception. Growth in 2005 was much lower than expected primarily because of the vagaries of rain-fed agriculture. A strong rebound is expected in 2006. Inflation was significantly reduced in 2005 because the central bank was better able to conduct monetary policy and inject official foreign exchange inflows into the exchange market.

45. **The successful political transition to a democratically elected government and improved security is encouraging**. The recent peace talks with the last remaining rebel movement is a very welcome development. The integration of former rebel movements into the armed forces and army has gone well, as has the demobilization process.

46. **The past decade was very difficult for Burundi because of the extended social conflict and the accumulated effects of intensified restrictions and stalled structural reforms**. The authorities will need to resolutely implement structural reforms to stimulate private sector activity, notably by launching the privatization program and improving the business climate. To increase spending on the social sectors and infrastructure, as is necessary to achieve the MDGs, Burundi would need to continue to reduce the size of its security forces, and thus spending on security, through demobilization.

47. **The pace of structural reform in 2005 was uneven**. Progress was strong in the fiscal, monetary, and exchange areas, but there were delays in initiating the deeper reforms in the productive sectors that are fundamental for sustained recovery. While the delays are understandable given the political transition, staff urges the authorities to press ahead with privatization. Recent efforts to reinforce coordination with donors to ensure timely and cohesive technical assistance and financial support should continue.

48. **The authorities are to be commended for Burundi's strong fiscal performance in 2005**. The buoyancy of revenues, despite the significant reduction in import duties, confirms that the revenue reforms were appropriate. However, abolishing the levies for funding the war effort was ill-timed coming just after budget approval. Staff encourages the authorities to fully cost all social initiatives and ensure that they are consistent with the budget. The authorities have strengthened expenditure management from a very low base. These efforts must be pursued and extended over the medium term with donor assistance to further strengthen budget execution, financial control, and public procurement. Staff encourages the authorities to carefully manage public expectations of a peace dividend.

49. **The BRB has made good progress on firming up monetary policy**. Clearing domestic arrears and introducing standardized and negotiable treasury securities in 2006 will strengthen the efficiency and soundness of the financial system. It is important that the BRB follow through with its efforts to bolster banking supervision. The staff commends the BRB for improvements in its internal operations, including its responses to the safeguards assessment, as evidenced by its second annual external audit. Nevertheless, much remains to be done to modernize its operations, including computerization of accounting and better internal auditing. Passing an anti-money laundering law and revising the central bank law to give the BRB independence are further important measures planned for 2006.

50. **There has been commendable progress in liberalizing the exchange regime**. Burundi maintains exchange restrictions subject to Fund approval under IMF Article VIII, and staff does not recommend their approval. The authorities recently eliminated an exchange restriction and intend to eliminate the remaining restriction and multiple currency practices shortly. The authorities' intention to accept the obligations of IMF Article VIII, Sections 2, 3, and 4, in 2006 is a significant step forward. The staff supports continuation of

the managed-float exchange rate regime, which appears to be serving Burundi well. With Burundi's prospective joining of the EAC, staff encourages the authorities to work with EAC partners to further tariff reform focused on reducing the highest rates.

51. **It will be important for the authorities to pursue discussions to reach agreement with non-Paris Club bilateral and other creditors that have not yet provided debt relief under the enhanced HIPC Initiative**.

52. **The full PRSP is being finalized**. The staff welcomes this development, as well as the progress made on the enhanced HIPC Initiative completion point triggers. While improvement in Burundi's social conditions has been uneven and reforms are still at an early stage, there has been notable progress. Nonetheless, considerable challenges to meeting the MDGs lie ahead. The authorities, with donor support, will need to pay particular attention to reinforcing the government's capacity to deliver social services.

53. **Staff encourages the authorities to strengthen the statistical system, which has several deficiencies that hinder the monitoring of economic developments**.

54. **Good governance and transparency practices should be reinforced, including through PFM reforms and the progressive withdrawal of state intervention in the economy**.

55. **With the implementation of the program, 2006 could be a pivotal year for Burundi's economic turnaround**. It will be crucial for the authorities to maintain the pace of administrative reform and liberalization, while pressing ahead with privatization. Donor coordination and timely and predictable disbursement of program support is important for macroeconomic stability and program implementation.

56. **The main risks to the program are regional insecurity, a still fragile domestic peace, and immature democratic institutions**. While there are significant risks to the program, given the demonstrated commitment of the authorities to reform and the strength of the program's reform measures, staff recommends completion of the third and fourth reviews under the PRGF; approval of the authorities' request for waivers of two performance criteria and modification of another; extension of the PRGF arrangement; and extension of additional interim assistance under the enhanced HIPC Initiative. The staff supports the request for waivers because the nonobservance was temporary and corrective action was taken promptly. For the extension of interim assistance, satisfactory assurances from Burundi's other creditors are in place.

57. **The staff welcomes the authorities' intention to make public the staff report, the letter of intent, and the MEFP**. It 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.

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

	2004	2005		2006	2007	2008	2009	2010
	Act.	Rev. prog. IMF Country Report No. 05/322	Prel.	Projections				
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP growth	4.8	5.0	0.9	6.1	6.6	7.1	6.7	6.6
GDP deflator	8.3	15.3	16.6	4.8	3.6	4.3	4.3	4.3
Consumer prices (period average)	8.0	16.3	13.4	2.5	3.3	4.0	4.0	4.0
Consumer prices (end of period)	11.8	10.3	1.1	8.7	4.0	4.0	4.0	4.0
External sector								
Exports, f.o.b. (in U.S. dollars)	27.5	44.4	19.3	22.5	19.9	12.5	12.8	13.3
Imports, f.o.b. (in U.S. dollars)	16.1	42.2	60.2	31.8	15.6	7.1	7.7	6.1
Export volume	-10.9	17.1	-1.7	22.1	17.1	15.5	12.2	12.5
Import volume	3.9	32.1	46.5	26.9	13.5	6.3	6.8	6.0
Terms of trade (deterioration -)	28.1	14.5	10.9	-3.3	0.6	-3.3	-0.3	0.7
Real effective exchange rate (annual average; depreciation -)	-2.8	-1.1	9.6	...	...	...	...	...
Central government								
Revenue	8.0	9.9	17.1	5.5	15.7	14.4	14.1	11.3
Total expenditure and net lending (commitment basis)	29.6	18.9	8.8	26.2	10.4	9.8	11.8	10.4
Noninterest current expenditure (excluding demobilization and elections)	9.5	18.2	5.8	51.2	5.4	16.4	15.1	17.5
	(Change in percent of beginning-of-period M2, unless otherwise indicated)							
Money and credit								
Net foreign assets	-4.1	12.6	15.7	-1.3	...	...	...	...
Domestic credit	39.5	1.6	0.6	22.9	...	...	...	...
Government	35.5	-10.5	9.0	8.2	...	...	...	...
Private sector	4.7	13.9	-6.7	14.7	...	...	...	...
Money and quasi money (M2)	16.7	17.4	26.5	20.5	...	...	...	...
Income velocity (ratio of GDP to M2; end-of-period)	3.6	3.7	3.4	3.1	...	...	...	...
Reserve money (12-month growth rate)	37.2	-1.1	32.7	10.5	...	...	...	...
Central bank refinancing rate (in percent; end of period)	14.5	14.5	14.5	...	...	...	...	...
Commercial bank lending rate (in percent; medium term; period average)	19.5	...	19.4	...	...	...	...	...
	(In percent of GDP, unless otherwise indicated)							
Central government								
Revenue (excluding grants)	20.1	18.2	20.0	19.0	19.9	20.4	20.9	20.9
Total expenditure and net lending	39.8	39.1	36.8	41.8	41.7	41.0	41.2	40.9
Primary budget balance (excluding foreign-financed projects)	-3.5	-3.5	-1.7	-8.9	-6.2	-6.2	-6.2	-6.8
Overall balance (commitment basis)								
Excluding grants	-19.7	-20.9	-16.8	-22.8	-21.9	-20.7	-20.4	-20.0
Including grants 1/	-4.9	-0.2	-6.3	-0.4	-1.3	0.0	0.3	0.1
Saving and Investment 1/								
Current account balance 2/	-8.1	-7.1	-10.5	-17.5	-16.2	-14.1	-14.6	-15.4
Current account balance, excluding official transfers	-25.5	...	-34.3	-37.9	-37.8	-36.5	-35.5	-33.9
Gross investment	13.3	11.9	10.8	16.1	18.6	20.2	20.6	20.9
Government	10.3	8.6	6.6	9.6	10.6	10.7	10.9	11.0
Private	3.0	3.3	4.2	6.5	8.0	9.5	9.8	10.0
Domestic saving	-12.2	...	-23.5	-21.8	-19.2	-16.3	-14.9	-12.9
Government	-9.4	...	-10.2	-13.2	-11.2	-9.9	-9.2	-8.3
Private	-2.8	...	-13.3	-8.6	-8.0	-6.4	-5.7	-4.6
Gross national saving	5.2	4.8	0.3	-1.4	2.4	6.2	6.0	5.6
Government	-3.4	6.2	-3.4	3.3	0.5	1.3	1.3	1.4
Private	8.6	-1.5	3.6	-4.7	1.9	4.9	4.7	4.1
	(In millions of U.S. dollars, unless otherwise indicated)							
External sector								
Current account, including grants 1/	-54.0	-56.8	-84.0	-166.8	-169.8	-160.9	-182.2	-209.0
Overall balance of payments 1/	11.0	0.4	22.2	4.7	-8.0	10.7	12.1	6.2
Gross official reserves (end-of-period)	67.2	125.3	112.7	145.0	158.9	174.3	191.3	202.5
Gross official reserves (in months of imports of the following year)	2.2	6.4	2.9	3.3	3.4	3.4	3.5	3.6
Debt-service ratio (scheduled; in percent of exports; before HIPC relief) 2/	109.2	62.2	47.2	46.5	32.8	30.0	29.9	29.0
Debt-service ratio (actual; in percent of exports; after HIPC relief) 2/	99.8	53.3	33.5	13.4	3.9	3.8	3.6	4.3
Stock of debt (before HIPC relief)	1,384.1	1,533.0	1,426.0	1,457.9	1,471.3	1,468.5	1,456.6	1,441.2
External payments arrears	78.7	0.0	52.5	0.0	0.0	0.0	0.0	0.0
Memorandum item:								
GDP at current market prices (in billions of Burundi francs)	732	885	861	957	1,057	1,180	1,314	1,461

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

1/ Assumes financing gap covered by grants in 2007-15 and by 50 percent grants thereafter.

2/ The decision point was reached on August 5, 2005, and the HIPC completion point is assumed to be reached mid-2007. As a transitory measure, HIPC debt relief at and after the assumed completion point (mid-2007) are represented in flow terms, but will be shown as a stock operation, along with the MDRI, in the documents for the fifth PRGF review scheduled for December 2006.

Table 2. Burundi: Central Government Operations, 2004–10

	2004	2005		2006		2007	2008	2009	2010
		Rev.Prog. IMF Country Report No. 05/322	Prel.	Original Budget	Prog. Budg.Rev.		Projections		
	(In billions of Burundi francs)								
Revenue	146.9	161.4	172.1	184.9	181.5	210.1	240.4	274.3	305.3
Tax revenue	133.6	147.0	158.9	174.1	165.6	192.5	219.7	249.2	277.4
Income tax	35.7	38.0	41.8	40.2	41.2	50.5	57.6	64.9	72.3
Taxes on goods and services	67.6	75.5	78.3	94.5	84.9	96.8	111.6	127.3	141.7
Taxes on international trade	30.0	32.9	38.4	36.7	36.6	41.7	46.5	52.5	58.4
Other tax revenue	0.3	0.7	0.3	2.8	2.8	3.6	4.0	4.5	5.0
Nontax revenue	13.4	14.4	13.2	10.8	16.0	17.7	20.7	25.1	27.9
Expenditure and net lending	291.2	346.3	316.7	399.4	399.7	441.1	484.3	541.7	597.9
Current expenditure	163.2	197.7	200.6	229.1	252.1	264.9	292.5	330.4	372.2
Salaries	58.6	75.5	72.6	90.1	94.8	104.5	117.1	129.9	144.3
Civilian	34.8	40.1	41.9	50.6	56.9	65.3	76.4	87.7	100.4
Military	23.8	25.1	24.0	24.1	21.6	22.7	23.8	25.0	26.3
New police force (SSR program)	0.0	10.3	6.7	15.4	16.2	16.6	16.9	17.2	17.6
Goods and services	53.6	64.0	65.7	77.4	81.1	91.0	101.9	114.5	131.8
Civilian	28.1	27.9	26.7	36.8	38.2	45.4	54.8	66.1	81.8
Of which: contingent to BCD assets recovery					1.5				
Military	25.5	26.7	29.6	26.3	28.6	29.2	29.8	30.4	31.0
New police force (SSR program)	0.0	9.4	9.5	14.3	14.3	16.4	17.3	18.1	19.0
Transfers and subsidies	26.4	24.5	30.3	35.2	48.8	40.4	45.5	54.6	63.4
Of which: payment to BCD small depositors					2.5				
Interest payments (due)	24.5	33.7	32.0	26.4	27.5	28.9	28.0	31.4	32.7
Domestic	14.0	19.5	19.4	15.1	16.1	17.4	15.7	17.1	16.5
Foreign	10.5	14.2	12.6	11.3	11.4	11.5	12.3	14.3	16.2
DDR project	7.4	24.1	8.7	41.7	20.0	20.2	13.4	10.0	0.0
Elections	3.3	18.3	24.5	0.0	0.0	0.0	0.0	0.0	0.0
Project expenditure	119.9	108.2	84.3	130.6	129.6	158.1	178.4	201.3	225.7
Domestic resources	36.2	30.5	19.5	44.8	43.7	42.0	48.6	56.1	64.6
Of which: contingent to donors disbursement	...	...	...	...	10.0	...	...	...	...
External resources	83.7	77.7	64.8	85.8	85.9	116.0	129.8	145.2	161.1
Net lending	-2.6	-2.0	-1.4	-2.0	-2.0	-2.0	0.0	0.0	0.0
Overall balance (commitment basis)	-144.3	-184.8	-144.6	-214.5	-218.2	-231.0	-243.9	-267.4	-292.6
(after grants) 1/	-35.9	-1.8	-53.9	6.3	-3.4	-14.3	0.3	4.4	1.7
Of which: primary balance	-25.4	-31.0	-14.6	-60.6	-84.8	-65.8	-72.7	-80.8	-98.8
Change in arrears (reduction -)	-58.5	-38.0	-10.8	-20.5	-27.9	-1.5	-1.0	0.0	0.0
External (interest)	-49.0	-21.0	-10.7	-0.5	-2.2	0.0	0.0	0.0	0.0
Domestic	-9.5	-17.0	-0.1	-20.0	-25.7	-1.5	-1.0	0.0	0.0
Overall balance (cash basis)	-202.7	-222.8	-155.4	-235.0	-246.0	-232.5	-244.9	-267.4	-292.6
(after grants) 1/	-94.3	-39.8	-64.7	-14.2	-31.3	-15.8	-0.7	4.4	1.7
Financing (identified)	212.5	222.8	165.8	227.0	246.0	156.1	153.8	171.8	183.9
External grants	108.4	183.0	101.1	220.9	214.7	140.3	153.2	176.2	185.5
Program support	60.9	92.7	40.1	96.6	113.6	0.0	0.0	0.0	0.0
HIPC relief IMF, WB, ADB, PC	0.0	0.0	8.0	35.7	35.8	39.8	41.4	47.8	51.7
Project grants	36.9	47.9	19.8	46.8	45.4	80.3	98.4	118.5	133.8
Special programs	10.7	42.4	33.2	41.7	20.0	20.2	13.4	10.0	0.0
DDR	7.4	24.1	8.7	41.7	20.0	20.2	13.4	10.0	0.0
Elections	3.3	18.3	24.5	0.0	0.0	0.0	0.0	0.0	0.0
External borrowing	37.4	58.0	53.9	4.1	4.8	6.9	0.1	-5.5	-3.3
Program loans	0.0	41.4	29.1	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	46.8	29.8	45.0	38.9	40.5	35.8	31.4	26.8	27.3
Amortization (due)	-32.0	-42.2	-34.0	-40.3	-40.3	-32.9	-34.3	-35.3	-33.6
Change in amortization arrears	-65.4	-66.1	-14.9	-2.5	-3.4	0.0	0.0	0.0	0.0
Debt relief (rescheduling; cancellation)	88.0	95.1	28.7	8.0	8.0	4.0	3.0	3.0	3.0
Privatization proceeds	0.0	3.0	0.4	5.0	3.6	6.0	6.0	5.0	4.0
Domestic	66.7	-21.2	10.4	-3.0	22.9	2.9	-5.4	-3.9	-2.4
Banking sector	60.5	-21.2	16.4	-5.0	20.9	2.9	-5.4	-3.9	-2.4
Nonbank sector	6.2	0.0	-6.0	2.0	2.0	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-9.8	0.0	-10.4	8.0	0.0	76.5	91.1	95.6	108.7

Table 2. Burundi: Central Government Operations, 2004–10 (concluded)

	2004	2005		2006		2007	2008	2009	2010
		Rev.Prog. IMF Country Report No. 05/322	Prel.	Original Budget	Prog. Budg.Rev.	Projections			
	(In percent of GDP, unless otherwise indicated)								
Revenue	20.1	18.2	20.0	18.9	19.0	19.9	20.4	20.9	20.9
Tax revenue	18.3	16.6	18.5	17.8	17.3	18.2	18.6	19.0	19.0
Income tax	4.9	4.3	4.9	4.1	4.3	4.8	4.9	4.9	5.0
Taxes on goods and services	9.2	8.5	9.1	9.7	8.9	9.2	9.5	9.7	9.7
Taxes on international trade	4.1	3.7	4.5	3.8	3.8	3.9	3.9	4.0	4.0
Other tax revenue	0.0	0.1	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Nontax revenue	1.8	1.6	1.5	1.1	1.7	1.7	1.8	1.9	1.9
Expenditure and net lending	39.8	39.1	36.8	40.8	41.8	41.7	41.0	41.2	40.9
Current expenditure	22.3	22.3	23.3	23.4	26.4	25.1	24.8	25.1	25.5
Salaries	8.0	8.5	8.4	9.2	9.9	9.9	9.9	9.9	9.9
Civilian	4.8	4.5	4.9	5.2	6.0	6.2	6.5	6.7	6.9
Military	3.3	2.8	2.8	2.5	2.3	2.1	2.0	1.9	1.8
New police force (SSR program)	0.0	1.2	0.8	1.6	1.7	1.6	1.4	1.3	1.2
Goods and services	7.3	7.2	7.6	7.9	8.5	8.6	8.6	8.7	9.0
Civilian	3.8	3.2	3.1	3.8	4.0	4.3	4.6	5.0	5.6
Military	3.5	3.0	3.4	2.7	3.0	2.8	2.5	2.3	2.1
New police force (SSR program)	0.0	1.1	1.1	1.5	1.5	1.6	1.5	1.4	1.3
Transfers and subsidies	3.6	2.8	3.5	3.6	5.1	3.8	3.9	4.2	4.3
Interest payments (due)	3.4	3.8	3.7	2.7	2.9	2.7	2.4	2.4	2.2
Domestic	1.9	2.2	2.3	1.5	1.7	1.6	1.3	1.3	1.1
Foreign	1.4	1.6	1.5	1.2	1.2	1.1	1.0	1.1	1.1
DDR project	1.0	2.7	1.0	4.3	2.1	1.9	1.1	0.8	0.0
Elections	0.5	2.1	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Project expenditure	16.4	12.2	9.8	13.4	13.5	15.0	15.1	15.3	15.4
Domestic resources	5.0	3.4	2.3	4.6	4.6	4.0	4.1	4.3	4.4
External resources	11.4	8.8	7.5	8.8	9.0	11.0	11.0	11.1	11.0
Net lending	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	0.0	0.0
Overall balance (commitment basis)	-19.7	-20.9	-16.8	-21.9	-22.8	-21.9	-20.7	-20.4	-20.0
(after grants) 1/	-4.9	-0.2	-6.3	0.6	-0.4	-1.3	0.0	0.3	0.1
Of which: primary balance	-3.5	-3.5	-1.7	-6.2	-8.9	-6.2	-6.2	-6.2	-6.8
Change in arrears (reduction -)	-8.0	-4.3	-1.3	-2.1	-2.9	-0.1	-0.1	0.0	0.0
External (interest)	-6.7	-2.4	-1.2	-0.1	-0.2	0.0	0.0	0.0	0.0
Domestic	-1.3	-1.9	0.0	-2.0	-2.7	-0.1	-0.1	0.0	0.0
Overall balance (cash basis)	-27.7	-25.2	-18.1	-24.0	-25.7	-22.0	-20.8	-20.4	-20.0
(after grants) 1/	-12.9	-4.5	-7.5	-1.4	-3.3	-1.5	-0.1	0.3	0.1
Financing (identified)	29.1	25.2	19.3	23.2	25.7	14.8	13.0	13.1	12.6
External grants	14.8	20.7	11.7	22.6	22.4	13.3	13.0	13.4	12.7
Program support	8.3	10.5	4.7	9.9	11.9	0.0	0.0	0.0	0.0
HIPC relief IMF, WB, ADB, PC	0.0	0.0	0.9	3.7	3.7	3.8	3.5	3.6	3.5
Project grants	5.0	5.4	2.3	4.8	4.7	7.6	8.3	9.0	9.2
Special programs	1.5	4.8	3.9	4.3	2.1	1.9	1.1	0.8	0.0
DDR	1.0	2.7	1.0	4.3	2.1	1.9	1.1	0.8	0.0
Elections	0.5	2.1	2.8	0.0	0.0	0.0	0.0	0.0	0.0
External borrowing	5.1	6.6	6.3	0.4	0.5	0.6	0.0	-0.4	-0.2
Program loans	0.0	4.7	3.4	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	6.4	3.4	5.2	4.0	4.2	3.4	2.7	2.0	1.9
Amortization (due)	-4.4	-4.8	-4.0	-4.1	-4.2	-3.1	-2.9	-2.7	-2.3
Change in amortization arrears	-8.9	-7.5	-1.7	-0.3	-0.4	0.0	0.0	0.0	0.0
Debt relief (rescheduling; cancellation)	12.0	10.7	3.3	0.8	0.8	0.4	0.3	0.2	0.2
Privatization proceeds	0.0	0.3	0.0	0.5	0.4	0.6	0.5	0.4	0.3
Domestic	9.1	-2.4	1.2	-0.3	2.4	0.3	-0.5	-0.3	-0.2
Banking sector	8.3	-2.4	1.9	-0.5	2.2	0.3	-0.5	-0.3	-0.2
Nonbank sector	0.9	0.0	-0.7	0.2	0.2	0.0	0.0	0.0	0.0
Financing gap/errors and omissions	-1.3	0.0	-1.2	0.8	0.0	7.2	7.7	7.3	7.4
Memorandum items:									
Primary spending (in billions of Burundi francs)	172.3	192.5	186.7	245.5	266.3	276.0	313.1	355.1	404.1
Military and Security spending (in billions of Burundi francs)	49.4	71.5	69.7	80.1	80.8	84.9	87.8	90.7	93.9
Primary expenditure (program definition)	23.6	21.7	21.7	25.1	27.8	26.1	26.5	27.0	27.7
Military and security expenditure	6.7	8.1	8.1	8.2	8.4	8.0	7.4	6.9	6.4
In percent of current expenditures	30.3	36.1	34.8	35.0	32.0	32.0	30.0	27.5	25.2
In percent of primary expenditures	28.7	37.1	37.4	32.6	30.3	30.8	28.0	25.6	23.2
Social expenditure	6.7	9.3	6.8	...	9.3	9.0	9.3	9.8	10.2
Poverty reduction expenditures	...	...	7.3	...	9.9	10.0	10.1	10.6	11.1
(In percent of primary expenditure)	...	...	33.6	...	35.5	38.2	38.2	39.1	40.0
GDP at current market prices (in billions of Burundi francs)	731.5	885.0	860.8	978.0	956.6	1,056.6	1,180.1	1,313.7	1,461.1

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

1/ Assumes 100 percent grant financing of the gaps through 2015; and 50 percent thereafter.

Table 3. Burundi: Monetary Survey and Central Bank Accounts, 2004–06

	2004	2005									2006				
	Act.	June			September			December			Mar.		Jun.	Sep.	Dec.
		Prog. IMF Country Report No. 04/41	At Prog. exchange rate	Act.	Rev. prog. IMF Country Report No. 05/322	At prog. exchange rate	Act.	Rev. prog. IMF Country Report No. 05/322	At prog. exchange rate	Act.	Proj.	Prel.	Projections		
	(In billions of Burundi francs)														
Monetary survey															
Net foreign assets	38.0	18.9	60.0	62.3	23.1	55.7	53.7	51.2	76.9	69.7	43.5	53.6	53.8	59.9	66.4
Central bank	20.7	15.9	30.0	31.2	19.9	30.3	29.2	47.7	53.8	48.8	26.5	26.7	37.8	44.9	52.4
Deposit money banks	17.3	3.0	30.0	31.1	3.3	25.4	24.5	3.5	23.1	21.0	17.0	26.9	16.0	15.0	14.0
Net domestic assets	210.2	189.0	229.0	226.7	200.9	225.9	227.9	184.9	220.3	227.4	256.7	204.1	289.5	277.1	284.8
Domestic credit	278.3	276.3	277.4	280.2	289.9	277.1	277.1	277.1	279.5	279.5	306.5	291.9	339.7	328.8	338.2
Net claims on the government	106.6	81.3	115.7	115.7	111.4	115.4	115.4	80.8	123.0	123.0	141.3	127.7	124.1	159.7	143.9
Central government	118.0	94.3	127.6	127.6	122.6	126.4	126.4	92.2	136.3	136.3	154.6	138.9	137.4	173.0	157.2
Other government (deposits)	-11.4	-11.0	-11.9	-11.9	-11.2	-10.9	-10.9	-11.4	-13.2	-13.2	-13.2	-11.1	-13.2	-13.2	-13.2
Credit to the economy	171.7	195.0	161.7	164.5	178.5	161.7	161.7	196.3	156.5	156.5	165.2	164.2	215.5	169.1	194.3
Claims on public enterprises	6.9	3.7	6.1	6.1	5.1	7.6	7.6	3.4	5.2	5.2	7.0	4.8	7.0	7.0	7.0
Claims on private sector	164.8	191.3	155.5	158.3	173.4	154.1	154.1	192.9	151.3	151.3	158.2	159.4	208.5	162.1	187.3
Other items, net (assets +)	-68.1	-87.3	-48.3	-53.5	-89.0	-51.1	-49.2	-92.3	-59.2	-52.1	-49.8	-87.9	-50.2	-51.8	-53.3
M3	248.2	...	289.1	289.1	...	281.6	281.6	...	297.1	297.1	300.2	257.7	343.3	337.0	351.3
Foreign currency deposit	45.5	...	47.7	47.7	...	42.9	42.9	...	40.7	40.7	41.1	4.4	41.5	41.9	42.4
M2	202.7	207.9	241.3	241.3	224.0	238.7	238.7	236.1	256.4	256.4	259.1	253.3	301.7	295.0	308.9
Currency in circulation	57.2	61.7	63.5	63.5	53.2	63.4	63.4	56.1	67.9	67.9	67.5	58.9	77.2	75.7	79.0
Local currency deposits	145.6	146.3	177.8	177.8	170.8	175.3	175.3	180.0	188.6	188.6	191.6	194.4	224.6	219.3	230.0
Demand deposits	99.9	94.0	106.1	106.1	113.1	103.2	103.2	119.1	105.8	105.8	107.5	112.4	126.0	123.0	129.0
Quasi money	45.6	52.3	71.7	71.7	57.7	72.1	72.1	60.8	82.7	82.7	84.1	82.0	98.6	96.2	100.9
Central bank															
Net foreign assets	20.7	15.9	30.0	31.2	19.9	30.3	29.2	47.7	53.8	48.8	26.5	26.7	37.8	44.9	52.4
Foreign assets	77.5	91.3	97.0	100.8	96.3	104.7	101.0	137.8	126.0	114.3	92.1	94.6	121.8	128.9	146.8
Of which : official reserves	74.6	...	94.0	97.7	...	101.9	98.3	...	123.9	112.4	90.2	89.6	119.9	127.0	145.0
Foreign liabilities	56.8	75.4	67.0	69.6	76.4	74.4	71.8	90.1	72.2	65.5	65.6	67.9	84.0	84.0	94.4
Of which : use of Fund resources	45.3	63.3	52.9	53.4	66.5	65.6	61.2	80.2	66.2	58.0	58.0	59.7	77.8	77.8	88.1
Net domestic assets	55.1	57.6	57.5	56.4	56.1	56.1	57.1	27.3	46.7	51.7	68.0	68.0	69.7	62.8	58.6
Domestic credit	115.5	107.2	110.5	110.5	107.4	103.9	103.9	81.3	105.0	105.0	119.3	119.0	121.7	116.8	114.6
Government (net)	108.3	85.3	107.5	107.5	107.5	111.0	111.0	77.1	113.7	113.7	124.0	124.9	116.0	114.0	112.0
Central government	111.7	89.0	111.3	111.3	111.0	113.8	113.8	80.6	118.8	118.8	129.1	128.0	121.1	119.1	117.1
Other government	-3.4	-3.8	-3.8	-3.8	-3.5	-2.8	-2.8	-3.5	-5.0	-5.0	-5.0	-3.1	-5.0	-5.0	-5.0
Nongovernment credit	7.1	21.9	3.0	3.0	-0.2	-7.1	-7.1	4.1	-8.8	-8.8	-4.8	-6.0	5.6	2.7	2.5
Private sector	1.8	1.8	0.6	0.6	4.0	0.6	0.6	7.0	0.5	0.5	0.5	0.0	0.5	0.5	0.5
Commercial banks	3.3	22.8	0.0	0.0	-10.0	0.0	0.0	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonbank financial institutions	2.1	-2.7	2.4	2.4	5.8	2.3	2.3	5.1	2.7	2.7	0.0	0.0	2.7	2.7	2.7
Liquidity auction	...	...	...	-5.8	...	-10.0	-10.0	...	-12.0	-12.0	-5.2	-6.0	2.4	-0.4	-0.6
Other items, net	-60.4	-49.6	-53.0	-54.1	-51.3	-47.8	-46.8	-54.0	-58.2	-53.2	-51.3	-50.9	-52.0	-54.0	-56.0
Reserve money	75.8	73.5	87.6	87.6	75.9	86.3	86.3	74.9	100.5	100.5	94.5	94.8	107.4	107.6	111.0
Currency in circulation	57.2	61.7	63.5	63.5	53.2	63.4	63.4	56.1	67.9	67.9	67.5	58.9	77.2	75.7	79.0
Commercial bank reserves (includes cash in vault)	17.4	10.0	22.1	22.1	21.1	21.1	21.1	17.2	30.9	30.9	25.2	34.4	28.5	30.1	30.3
Other nonbank deposits	1.2	1.9	1.9	1.9	1.6	1.7	1.7	1.6	1.7	1.7	1.7	1.5	1.7	1.7	1.7
Memorandum items:															
Gross international reserves															
In millions of U.S. dollars	67.2	87.0	92.4	89.6	89.5	94.8	94.8	125.3	112.7	112.7	90.2	88.1	119.9	127.0	145.0
In months of imports f.o.b.	2.2	4.4	4.3	2.3	4.6	2.5	2.5	6.4	2.9	2.9	2.0	2.0	2.7	2.9	3.3
M2 growth (12-month percent change)	16.7	15.8	34.4	34.4	21.2	29.1	29.1	17.4	26.5	26.5	13.3	10.8	25.0	23.6	20.5
M3 growth (12-month percent change)	22.3	...	...	34.0	...	22.8	22.8	...	19.7	19.7	9.1	-6.4	18.8	19.7	18.2
Credit to the economy (12-month percent change)	4.9	9.8	-4.6	-4.6	-2.1	-8.0	-8.0	14.2	-8.9	-8.9	-1.5	-2.0	31.0	4.6	24.1
Reserve money (12-month percent change)	37.2	3.3	13.9	13.9	9.5	24.5	24.5	-1.1	32.7	32.7	6.9	7.3	22.7	24.7	10.5
Money multiplier (M3/reserve money)	3.3	...	...	3.3	...	3.3	3.3	...	3.0	3.0	3.2	2.7	3.2	3.2	3.2
Velocity (GDP/M2; end period)	3.6	...	...	3.3	...	3.5	3.5	3.7	3.4	3.4	3.4	3.5	3.0	3.1	3.1
Velocity (GDP/M3; end period)	2.9	...	...	3.0	...	3.0	3.0	...	2.9	2.9	2.9	3.4	2.6	2.8	2.7
Exchange rate (Burundi francs per SDR)	1,586	1,575	1,575	1,589	1,613	1,613	1,503	1,650	1,650	1,446	1,449	1,475	1,449	1,449	1,449
Exchange rate (Burundi francs per U.S. dollar)	1,110	1,050	1,050	1,091	1,075	1,075	1,037	1,100	1,100	998	1,000	1,018	1,000	1,000	1,000

Sources: Bank of the Republic of Burundi (BRB); and Fund staff estimates and projections.

Table 4. Burundi: Balance of Payments, 2004–10 1/

	2004	2005		2006	2007	2008	2009	2010
	Actual	Rev. prog. IMF Country Report No. 05/322	Prel.	Projections				
				(In millions of U.S. dollars)				
Current account	-54.0	-56.8	-84.0	-166.8	-245.4	-249.1	-272.9	-310.0
(excluding official transfers)	-169.4	-231.4	-274.3	-361.5	-395.4	-417.7	-442.7	-460.0
Trade balance	-101.1	-134.0	-181.6	-244.7	-279.9	-295.2	-313.2	-324.6
Exports, f.o.b.	47.9	69.1	57.1	70.0	83.9	94.4	106.5	120.7
Of which: coffee	29.4	48.5	40.5	50.7	59.7	62.3	66.7	71.4
Imports, f.o.b.	-148.9	-203.1	-238.7	-314.7	-363.8	-389.6	-419.6	-445.2
Of which: petroleum products	-26.5	-40.0	-38.2	-52.6	-59.3	-62.4	-65.9	-69.5
Services (net)	-60.6	-77.4	-89.4	-110.4	-109.5	-117.3	-124.0	-129.2
Credits	15.8	12.5	34.0	44.0	52.3	58.6	65.7	74.2
Debits	-76.4	-89.9	-123.4	-154.4	-161.8	-175.9	-189.8	-203.4
Income (net)	-18.1	-32.5	-20.6	-25.6	-27.2	-28.9	-31.8	-34.4
Of which: interest on public debt (including IMF charges)	-9.9	-12.6	-11.4	-12.8	-12.2	-12.7	-14.3	-15.7
Current transfers (net)	125.9	187.1	207.6	213.9	171.2	192.2	196.1	178.1
Private (net)	10.5	12.5	17.3	19.2	21.2	23.7	26.4	28.1
Official (net)	115.4	174.6	190.3	194.7	150.0	168.6	169.8	150.0
Of which: program grants	55.2	84.1	37.9	103.4	0.0	0.0	0.0	0.0
Capital account	48.1	59.6	26.2	131.2	118.5	135.0	157.4	172.2
Of which: HIPC relief	0.0	16.0	7.4	35.7	39.4	40.1	45.3	48.1
Financial account	6.7	13.5	66.6	40.3	55.3	41.4	45.6	56.7
Direct investment	10.0	1.5	15.0	8.0	20.0	23.0	26.5	30.4
Medium- and long-term official loans (net)	11.5	27.7	37.7	0.2	2.8	-2.8	-8.1	-5.8
Disbursements	42.5	65.8	69.3	40.4	35.4	30.4	25.4	25.4
Project loans	42.5	28.8	43.1	40.4	35.4	30.4	25.4	25.4
Program loans	0.0	37.0	26.2	0.0	0.0	0.0	0.0	0.0
Amortization (excluding IMF)	-31.0	-38.2	-31.6	-40.2	-32.6	-33.2	-33.5	-31.2
Other investment	-14.7	-15.6	13.8	32.1	32.5	21.3	27.2	32.1
Errors and omissions	10.1	0.0	13.4	0.0	0.0	0.0	0.0	0.0
Overall balance	11.0	0.4	22.2	4.7	-71.6	-72.6	-69.9	-81.2
Financing (- increase in assets)	-11.0	-0.4	-22.2	-4.7	-4.0	-15.4	-20.7	-19.9
Net change in official foreign reserves (- increase)	14.9	-23.6	-31.0	-3.6	-4.0	-15.4	-20.7	-19.9
Gross official reserves	0.1	-44.0	-45.5	-32.3	-14.0	-15.4	-16.9	-11.3
Liabilities to IMF, net	12.4	22.0	17.2	30.7	10.2	0.0	-3.8	-8.6
Other, net	2.4	-1.6	-2.7	-1.9	-0.2	0.0	0.0	0.0
Change in arrears (+ increase)	-106.0	-78.7	-22.2	-5.6	0.0	0.0	0.0	0.0
Exceptional financing 2/	80.1	85.9	31.0	4.5	0.0	0.0	0.0	0.0
Financing gap 3/	...	...	... ..	0.0	75.6	88.1	90.7	101.0
				(In percent of GDP, unless otherwise indicated)				
Memorandum items:								
Trade balance	-15.2	-16.7	-22.7	-25.6	-26.8	-25.8	-25.1	-23.9
Current account 3/	-8.1	-7.1	-10.5	-17.5	-16.2	-14.1	-14.6	-15.4
Of which: excluding current official transfers	-25.5	-28.9	-34.3	-37.9	-37.8	-36.5	-35.5	-33.9
Gross official reserves								
In million of U.S. dollars	67.2	125.3	112.7	145.0	158.9	174.3	191.3	202.5
In months of following period's imports, c.i.f.	2.2	6.4	2.9	3.3	3.4	3.4	3.5	3.6
Imports								
growth rate	16.1	42.2	60.2	31.8	15.6	7.1	7.7	6.1
in percent of GDP	22.4	25.4	29.9	33.0	34.8	34.1	33.7	32.8
Exports								
growth rate	27.5	44.4	19.3	22.5	19.9	12.5	12.8	13.3
in percent of GDP	7.2	8.6	7.1	7.3	8.0	8.3	8.5	8.9
Debt-service ratio (in percent of exports of goods and services)								
Scheduled current maturities (including IMF)	109.2	62.2	47.2	46.5	32.8	30.0	29.9	29.0
Actual debt service (including IMF; after HIPC) 4/	99.8	53.3	33.5	13.4	3.9	3.8	3.6	4.3
Exchange rate (Burundi francs per U.S. dollar; period average)	1,100.9	1,105.6	1,076.8	...	...	...	...	...
Nominal GDP (in millions of U.S. dollars)	664.5	800.4	799.4	954.6	1045.4	1143.2	1246.5	1358.7

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

1/ Revised according to the fifth edition of the *Balance of Payments Manual* .

2/ Before MDRI and Paris Club debt reduction on Cologne terms. Includes the March 2004 Paris Club rescheduling on Naples terms, and assuming rescheduling of current debt service and arrears to non-Paris Club creditors at comparable terms.

3/ Assumes financing gap covered by grants in 2007-15 and by 50 percent grants thereafter.

4/ As a transitory measure, HIPC debt relief at and after the assumed completion point (mid-2007) are presented in flow terms, but will be shown as a stock operation, along with the MDRI, in the document for the fifth PRGF review scheduled for December 2006

Table 5. Burundi: External Financing Requirements and Sources, 2004–06
(In millions of U.S. dollars)

	2004	2005		2006
	Act.	Rev. prog. IMF Country Report No. 05/322	Act.	Proj.
External resources (identified)	221.5	260.3	362.0	433.7
Exports of goods and services	63.6	81.6	91.1	114.0
Income (credits)	1.3	1.4	3.1	3.3
Private transfers (net)	10.5	12.5	17.3	19.2
Current official transfers (excluding program grants, net)	60.2	90.5	152.4	91.4
Capital transfers (net)	48.1	59.6	26.2	131.2
Of which : Enhanced (interim) HIPC relief	0.0	16.0	7.4	35.7
Foreign direct investment	10.0	1.5	15.0	8.0
Medium-and long-term official (project) loans	42.5	28.8	43.1	40.4
Other investment	-14.7	-15.6	13.8	26.3
Use of resources	-407.9	-489.3	-489.7	-573.2
Imports of goods and services	-225.4	-293.0	-362.1	-464.0
Income (debits, excluding interest on public debt)	-9.5	-21.3	-12.1	-15.6
Debt-service payments (including IMF charges)	-175.5	-129.4	-65.2	-58.4
Of which: net accumulation of arrears (+)	-106.0	-78.7	-22.2	-5.6
Net change in reserves, excluding IMF (- increase)	2.5	-45.6	-50.4	-35.3
Errors and omissions	10.1	0.0	13.1	0.0
Financing need	176.2	229.0	114.6	139.5
Program loans and grants	96.2	143.1	83.5	135.0
Of which: IMF PRGF disbursements	40.9	22.0	19.3	31.7
Debt relief (under existing mechanisms)	80.1	85.9	31.1	4.5
Of which: on current maturities	6.0	7.2	5.1	2.0
Residual financing need	0.0	0.0	0.0	0.0

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

Table 6. Burundi: External Public Debt, Arrears, and Scheduled Debt Service, 2004–07
(In millions of U.S. dollars, unless otherwise indicated)

	2004	2005	2006	2007
	Actual	Prel.	Projections	
Existing medium-and long-term debt				
outstanding, excluding principal arrears 1/	1,384.1	1,426.0	1,457.9	1,471.3
Multilateral	1,169.9	1,206.5	1,230.0	1,235.3
Of which: IMF	41.0	83.1	88.8	99.0
Bilateral	207.6	215.7	229.6	242.2
Paris Club	145.1	151.8	156.6	161.3
Non-Paris Club	62.5	63.9	73.0	81.0
Other	6.6	3.8	-1.8	-6.3
External arrears outstanding	83.4	55.5	0.0	0.0
Multilateral	21.3	0.0	0.0	0.0
Of which: IMF	0.0	0.0	0.0	0.0
Bilateral	56.7	52.2	0.0	0.0
Paris Club	13.8	0.0	0.0	0.0
Non-Paris Club	42.9	52.2	0.0	0.0
Other	5.4	3.3	0.0	0.0
Scheduled debt service 1/				
Interest	9.9	11.4	12.8	13.0
Multilateral	8.2	9.3	10.4	10.7
Of which: IMF	0.3	0.6	0.8	1.0
Bilateral	1.7	2.2	2.4	2.3
Paris Club	1.4	0.9	0.9	0.9
Non-Paris Club	0.3	1.3	1.4	1.3
Other	0.1	0.0	0.0	0.0
Principal	60.9	31.6	40.2	32.6
Multilateral	52.3	22.3	28.4	23.0
Of which: IMF	29.9	0.0	0.0	0.0
Bilateral	6.0	4.9	6.3	5.1
Paris Club	5.6	4.1	5.2	4.2
Non-Paris Club	0.4	0.8	1.0	0.8
Other	2.6	4.4	5.6	4.5
Memorandum items:				
Scheduled debt service (in percent of exports of goods and services)	111.4	47.2	46.5	30.2
Actual debt service (in percent of exports of goods and services)	99.8	33.5	13.4	3.5
External debt outstanding (in percent of GDP)	220.8	185.3	152.7	140.7

Sources: Treasury Directorate, Ministry of Finance of Burundi; and Fund staff estimates and projections.

1/ As a transitory measure, HIPC debt relief at and after the assumed completion point (mid-2007) are presented in flow terms, but will be shown as a stock operation, along with the MDRI, in the document for the fifth PRGF review schedule for December.

Table 7. Burundi: Progress Toward HIPC Completion Point Triggers

TRIGGER	PROGRESS
1. **PRSP**: Preparation of a full PRSP through a participatory process and its satisfactory implementation for one year, as evidenced by an Annual Progress Report that has been the subject of analysis in a Joint Staff Advisory Note.	A full PRSP is in the final stages of preparation.
2. **Macroeconomic stability**: Maintenance of macroeconomic stability as evidenced by satisfactory performance under the PRGF-supported program.	Macroeconomic developments in the past two years have been broadly in line with the program, which has remained on track.
3. **Use of budget savings resulting from HIPC-related debt-service relief during the interim period**: Use of budgetary savings from debt relief in accordance with the priorities identified at the decision point and in the PRSP duly documented and discussed by a national Independent Oversight Committee on a semiannual basis.	Budgetary allocations for priority spending targeting pro-poor activities and projects have increased markedly.
4. **Public expenditure management**: Establishment of an integrated public expenditure computerized system that provides a budget monitoring and control system, in particular for poverty-related spending, and the production of at least two quarterly budget execution reports based on the new unified budget nomenclature.	An integrated computerized expenditure management system was put in place in January 2006 using the new budget nomenclature. Quarterly budget execution reports will be produced from mid-2006.
5. **Governance measures and the delivery of services in key sectors**: Completion for the education, health, and justice sectors of (i) a budget tracking exercise (budget monitoring) of public spending on the delivery of pro-poor services; (ii) an evaluation by users of the quality of services provided; (iii) an evaluation by providers of constraints to effective delivery of pro-poor services; and (iv) preparation of an action plan to address problems identified.	A technical team will be conducting an evaluation of services delivery by September 2006, with World Bank and Belgian technical assistance.
6. Demobilization: Execution of the National DDR Program in line with the pace and final objectives set forth in the Letter of Demobilization Policy to the World Bank, dated 19 February, 2004.	The demobilization program is advancing well. Some 20,000 persons were demobilized in 2005 and another 5,000 are expected in 2006.
7. **Structural measures**: Tendering for sale the state holdings in a majority of coffee washing stations.	A study on the strategy for privatization is in process and the launch of tenders is programmed by end-October 2006.
8. **Social sectors**	
Education: Increase in the gross national enrollment rate in primary schools from 74 percent in 2003/04 to 77 percent in 2006; and from 16 percent in 2003/04 to 18 percent in 2006 in secondary schools, subject to the provision that the average increase in provinces with lower than average enrollment rates in 2004 must be higher than the increase in the national rate over the same time period.	The elimination of primary school fees in September 2005 resulted in a large increase in first grade enrollment. Primary school enrollment rate rose from an estimated 80 percent in 2003/04 to 85 percent in 2004/05, to close to 100 percent in 2005/06. On the rate for lower secondary education is estimated at 17 percent in 2004/05.
Health: Increase in the national immunization rate for children of less than one year of age from 75 percent in 2004 to 85 percent in 2006, subject to the provision that the average increase in provinces with lower-than-average immunization rates in 2004 must be higher than the increase in the national rate over the same time period.	A report by UNICEF indicates that the vaccination rate reached 80 percent in 2005 and would likely rise to 90 percent in 2006.
9. **Debt management**: Production of monthly external debt reports, including projections for the upcoming three months, for at least six months before the completion point.	Little progress

Table 8. Burundi: Balance of Payments, Medium-Term Scenario, and Sensitivity Analysis, 2004–26

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Actual	Prel.					Projections					
							(In millions of U.S.dollars)					
Current account 1/	-54.0	-84.0	-166.8	-245.4	-249.1	-272.9	-310.0	-323.0	-346.7	-373.3	-387.7	-398.4
(excluding official transfers)	-169.4	-274.3	-361.5	-395.4	-417.7	-442.7	-460.0	-463.0	-471.7	-485.3	-490.7	-490.4
Trade balance	-101.1	-181.6	-244.7	-279.9	-295.2	-313.2	-324.6	-324.5	-330.2	-344.4	-353.8	-355.9
Exports, f.o.b.	47.9	57.1	70.0	83.9	94.4	106.5	120.7	135.7	147.9	162.7	180.2	201.5
Of which: coffee	29.4	40.5	50.7	59.7	62.3	66.7	71.4	76.4	80.8	84.9	88.8	92.9
Imports, f.o.b.	-148.9	-238.7	-314.7	-363.8	-389.6	-419.6	-445.2	-460.2	-478.1	-507.1	-533.9	-557.4
Of which: non-oil	-122.4	-200.4	-262.1	-304.5	-327.1	-353.7	-375.7	-388.6	-403.6	-428.0	-450.9	-470.1
Services (net)	-60.6	-89.4	-110.4	-109.5	-117.3	-124.0	-129.2	-132.4	-136.2	-135.8	-133.4	-132.2
Income (net)	-18.1	-20.6	-25.6	-27.2	-28.9	-31.8	-34.4	-35.9	-37.0	-38.9	-39.3	-40.1
Of which: interest on public debt (including IMF charges)	-9.9	-11.4	-12.8	-12.2	-12.7	-14.3	-15.7	-16.7	-17.2	-17.7	-16.9	-16.2
Current transfers (net) 1/	125.9	207.6	213.9	171.2	192.2	196.1	178.1	169.9	156.7	145.7	138.8	129.9
Private (net)	10.5	17.3	19.2	21.2	23.7	26.4	28.1	29.9	31.7	33.7	35.8	37.9
Official (net)	115.4	190.3	194.7	150.0	168.6	169.8	150.0	140.0	125.0	112.0	103.0	92.0
Capital account 1/	48.1	26.2	131.2	118.5	135.0	157.4	172.2	183.3	195.0	208.5	217.4	227.8
Of which : HIPC relief	...	8.0	35.7	39.4	40.1	45.3	48.1	49.3	50.3	52.1	48.5	45.4
Financial account	6.7	66.6	40.3	55.3	41.4	45.6	56.7	59.3	63.5	68.5	71.4	70.3
Direct investment	10.0	15.0	8.0	20.0	23.0	26.5	30.4	35.0	36.8	40.6	46.7	45.8
Other investment	-3.3	51.6	32.3	35.3	18.4	19.1	26.2	24.3	26.7	27.9	24.7	24.5
Of which: medium- and long-term official loans (net)	11.5	37.7	0.2	2.8	-2.8	-8.1	-5.8	-8.9	-6.6	-5.5	-8.8	-9.1
Disbursements	42.5	69.3	40.4	35.4	30.4	25.4	25.4	25.9	26.9	28.3	29.7	31.2
Amortization (excluding IMF)	-31.0	-31.6	-40.2	-32.6	-33.2	-33.5	-31.2	-34.8	-33.6	-33.8	-38.5	-40.3
Errors and omissions	10.1	13.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	11.0	22.2	4.7	-71.6	-72.6	-69.9	-81.2	-80.4	-88.1	-96.3	-98.9	-100.3
Financing (increase in assets -)	-11.0	-22.2	-4.7	-4.0	-15.4	-20.7	-19.9	-26.6	-31.4	-32.8	-29.8	-24.6
Change in central bank net foreign reserves (increase -)	14.9	-31.0	-3.6	-4.0	-15.4	-20.7	-19.9	-26.6	-31.4	-32.8	-29.8	-24.6
IMF, net	12.4	17.2	30.7	10.2	0.0	-3.8	-8.6	-14.7	-18.8	-19.8	-12.3	-8.3
Other reserves, net	2.5	-48.2	-34.2	-14.2	-15.4	-17.0	-11.3	-11.9	-12.6	-13.0	-17.5	-16.3
Change in arrears (increase +)	-106.0	-22.2	-5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 2/	80.1	31.0	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation	41.0	12.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling of debt service and arrears	39.1	18.9	4.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	75.6	88.1	90.7	101.0	107.0	119.6	129.1	128.6	124.8
							(In percent of GDP, unless otherwise indicated)					
Memorandum items:												
Trade balance	-15.2	-22.7	-25.6	-26.8	-25.8	-25.1	-23.9	-22.0	-20.6	-19.8	-18.7	-17.3
Current account 3/	-8.1	-10.5	-17.5	-16.2	-14.1	-14.6	-15.4	-14.6	-14.1	-14.0	-13.7	-13.3
(excluding official transfers)	-25.5	-34.3	-37.9	-37.8	-36.5	-35.5	-33.9	-31.3	-29.4	-27.8	-25.9	-23.9
Gross official reserves												
In millions of U.S. dollars	67.2	112.7	145.0	158.9	174.3	191.3	202.5	214.4	227.1	240.0	257.5	273.8
In months of imports of the following year, c.i.f.	2.2	2.9	3.3	3.4	3.4	3.5	3.6	3.7	3.7	3.7	3.8	3.8
Debt service ratio after HIPC in percent of exports 4/	...	33.5	13.4	3.9	3.8	3.6	4.3	7.7	8.1	7.3	6.6	6.0
Financing gap (in percent of GDP)	0.0	0.0	0.0	7.2	7.7	7.3	7.4	7.2	7.4	7.4	6.8	6.1
Nominal GDP (in U.S. dollars)	664.5	799.4	954.6	1,045.4	1,143.2	1,246.5	1,358.7	1,478.0	1,606.0	1,743.4	1,891.6	2,051.5
Real GDP growth rate	4.8	0.9	6.1	6.6	7.1	6.7	6.6	6.4	6.2	6.1	6.1	6.0
Inflation rate (period average; in percent)	8.0	13.4	2.5	3.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Exports-to-GDP ratio (in percent)	7.2	7.1	7.3	8.0	8.3	8.5	8.9	9.2	9.2	9.3	9.5	9.8
Imports-to-GDP ratio (in percent)	-22.4	-29.9	-33.0	-34.8	-34.1	-33.7	-32.8	-31.1	-29.8	-29.1	-28.2	-27.2
Sensitivity scenarios							(In units indicated)					
Higher coffee prices 5/												
Current account (excluding official transfers)												
In millions of U.S. dollars	-169.4	-274.3	-361.5	-380.5	-402.1	-405.2	-392.0	-366.6	-473.7	-487.5	-493.0	-492.8
In percent of GDP	-25.5	-34.3	-37.9	-36.4	-35.2	-32.5	-28.8	-24.8	-29.5	-28.0	-26.1	-24.0
Financing gap (in millions of U.S. dollars)	0.0	0.0	0.0	60.6	72.6	53.2	33.0	5.4	112.4	118.8	121.3	122.4
In percent of GDP	...	0.0	0.0	5.8	6.4	4.3	2.4	0.4	7.0	6.8	6.4	6.0
Low-growth scenario 6/												
Current account (excluding official transfers)												
In millions of U.S. dollars	-169.4	-274.3	-361.5	-396.0	-411.7	-430.3	-449.9	-456.2	-467.7	-483.5	-491.3	-493.9
In percent of GDP	-25.5	-34.3	-37.9	-38.8	-38.0	-37.4	-36.8	-35.0	-33.8	-32.8	-31.4	-29.6
Financing gap (in millions of U.S. dollars)	0.0	0.0	0.0	76.2	82.2	78.3	90.8	95.0	106.3	114.7	119.5	123.4
In percent of GDP	...	0.0	0.0	7.5	7.6	6.8	7.4	7.3	7.7	7.8	7.6	7.4

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

1/ Program grants have been reclassified from the capital account to current transfers.

2/ Including the March 2004 Paris Club rescheduling at Naples terms, and assuming rescheduling of current debt service and arrears to non-Paris Club creditors on comparable terms.

3/ Assumes financing gap covered by grants in 2007-15 and by 50 percent grants thereafter.

4/ As a transitory measure, HIPC debt relief at and after the assumed completion point (mid-2007) are presented in flow terms, but will be shown as a stock operation, along with the MDRI, in the document for the fifth PRGF review schedule for December.

5/ International prices are assumed to be 25 percent higher than the *World Economic Outlook* (WEO) baseline projection for 2007-10.

6/ Growth is assumed to be 4 percent for the 10-year period 2007–17.

Table 8. Burundi: Balance of Payments, Medium-Term Scenario, and Sensitivity Analysis, 2004–26 (concluded)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					Projections						
					(In millions of U.S.dollars)						
Current account 1/	-424.7	-439.0	-445.2	-462.9	-480.0	-506.6	-528.3	-549.3	-575.3	-597.6	-624.9
(excluding official transfers)	-507.7	-520.0	-527.2	-542.9	-563.0	-584.6	-604.3	-622.3	-637.3	-649.6	-659.9
Trade balance	-375.0	-389.2	-398.9	-416.5	-438.6	-462.7	-487.9	-512.1	-536.9	-561.1	-584.1
Exports, f.o.b.	226.7	253.7	280.7	310.4	343.2	380.2	422.1	470.0	522.9	582.7	650.5
Of which: coffee	97.2	101.7	106.4	111.3	116.4	121.8	127.4	133.3	139.5	145.9	152.7
Imports, f.o.b.	-601.7	-642.9	-679.6	-726.9	-781.8	-842.9	-910.0	-982.0	-1059.8	-1143.9	-1234.7
Of which: non-oil	-508.2	-542.8	-572.4	-612.1	-658.2	-709.3	-765.6	-825.8	-890.9	-961.3	-1037.3
Services (net)	-131.7	-129.8	-127.2	-125.4	-123.5	-120.6	-116.2	-109.5	-101.3	-90.5	-76.7
Income (net)	-41.2	-43.6	-46.3	-48.9	-51.8	-55.2	-57.3	-61.3	-63.3	-66.0	-71.4
Of which: interest on public debt (including IMF charges)	-15.9	-16.9	-18.0	-18.9	-20.1	-21.9	-22.2	-24.2	-24.3	-24.9	-28.0
Current transfers (net) 1/	123.2	123.6	127.2	127.9	133.8	131.9	133.1	133.6	126.3	120.1	107.2
Private (net)	40.2	42.6	45.2	47.9	50.8	53.9	57.1	60.6	64.3	68.1	72.2
Official (net)	83.0	81.0	82.0	80.0	83.0	78.0	76.0	73.0	62.0	52.0	35.0
Capital account 1/	243.3	259.8	277.6	296.7	317.6	342.3	365.6	392.8	420.7	450.9	479.5
Of which : HIPC relief	45.2	44.9	44.7	44.4	44.4	46.6	45.7	46.8	46.6	46.6	46.6
Financial account	85.6	86.0	77.8	80.6	83.6	87.0	91.5	95.6	101.1	106.8	112.5
Direct investment	57.2	53.5	52.5	54.8	57.0	60.0	63.0	66.1	69.4	72.9	76.6
Other investment	28.4	32.5	25.3	25.8	26.6	27.0	28.5	29.4	31.6	33.9	36.0
Of which: medium- and long-term official loans (net)	-5.3	-2.2	-9.5	-9.1	-9.1	-10.6	-10.6	-11.2	-10.5	-9.8	-9.2
Disbursements	32.8	34.4	36.1	37.9	39.8	41.8	43.9	46.1	48.4	50.8	53.3
Amortization (excluding IMF)	-38.0	-36.6	-45.6	-47.0	-48.9	-52.4	-54.5	-57.3	-58.9	-60.6	-62.6
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-95.8	-93.2	-89.7	-85.6	-78.8	-77.3	-71.2	-61.0	-53.6	-39.9	-32.9
Financing (increase in assets -)	-24.8	-27.8	-25.2	-24.9	-27.4	-30.6	-33.6	-36.0	-38.9	-42.1	-45.4
Change in central bank net foreign reserves (increase -)	-24.8	-27.8	-25.2	-24.9	-27.4	-30.6	-33.6	-36.0	-38.9	-42.1	-45.4
IMF, net	-5.7	-7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other reserves, net	-19.1	-20.6	-25.2	-24.9	-27.4	-30.6	-33.6	-36.0	-38.9	-42.1	-45.4
Change in arrears (increase +)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling of debt service and arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	120.6	121.0	114.9	110.5	106.2	107.8	104.8	97.0	92.5	81.9	78.3
					(In percent of GDP, unless otherwise indicated)						
Memorandum items:											
Trade balance	-16.9	-16.1	-15.2	-14.7	-14.2	-13.9	-13.5	-13.0	-12.6	-12.2	-11.7
Current account 3/	-16.4	-15.7	-14.8	-14.4	-13.9	-13.6	-13.1	-12.8	-12.4	-12.1	-11.7
(excluding official transfers)	-22.8	-21.5	-20.1	-19.1	-18.3	-17.5	-16.7	-15.8	-15.0	-14.1	-13.2
Gross official reserves											
In millions of U.S. dollars	292.9	313.5	338.7	363.6	391.0	421.6	455.2	491.2	530.1	572.2	617.6
In months of imports of the following year, c.i.f.	3.8	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0	4.0	4.1
Debt service ratio after HIPC in percent of exports 4/	4.0	3.9	4.2	4.3	4.5	4.5	4.6	4.6	4.4	4.2	4.2
Financing gap (in percent of GDP)	5.4	5.0	4.4	3.9	3.5	3.2	2.9	2.5	2.2	1.8	1.6
Nominal GDP (in U.S. dollars)	2,224.9	2,412.9	2,616.8	2,838.0	3,077.9	3,338.0	3,620.2	3,926.1	4,258.0	4,618.0	5,008.3
Real GDP growth rate	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Inflation rate (period average; in percent)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Exports-to-GDP ratio (in percent)	10.2	10.5	10.7	10.9	11.2	11.4	11.7	12.0	12.3	12.6	13.0
Imports-to-GDP ratio (in percent)	-27.0	-26.6	-26.0	-25.6	-25.4	-25.3	-25.1	-25.0	-24.9	-24.8	-24.7
Sensitivity scenarios					(In units indicated)						
Higher coffee prices 5/											
Current account (excluding official transfers)											
In millions of U.S. dollars	-510.2	-522.6	-529.9	-545.7	-566.0	-587.7	-607.6	-625.7	-640.9	-653.3	-663.8
In percent of GDP	-22.9	-21.7	-20.2	-19.2	-18.4	-17.6	-16.8	-15.9	-15.0	-14.1	-13.3
Financing gap (in millions of U.S. dollars)	122.0	120.0	116.0	114.1	109.8	100.7	95.6	89.3	82.5	73.5	70.2
In percent of GDP	5.5	5.0	4.4	4.0	3.6	3.0	2.6	2.3	1.9	1.6	1.4
Low-growth scenario 6/											
Current account (excluding official transfers)											
In millions of U.S. dollars	-514.2	-529.6	-540.1	-559.1	-582.5	-607.5	-630.9	-653.0	-672.2	-689.0	-704.3
In percent of GDP	-29.0	-28.1	-26.8	-25.6	-24.7	-23.9	-22.9	-21.9	-20.9	-19.8	-18.8
Financing gap (in millions of U.S. dollars)	125.8	126.8	126.0	127.3	126.0	120.1	118.6	116.2	113.4	108.7	110.2
In percent of GDP	7.1	6.7	6.2	5.8	5.3	4.7	4.3	3.9	3.5	3.1	2.9

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

1/ Program grants have been reclassified from the capital account to current transfers.

2/ Including the March 2004 Paris Club rescheduling at Naples terms, and assuming rescheduling of current debt service and arrears to non-Paris Club creditors on comparable terms.

3/ Assumes financing gap covered by grants in 2007–15 and by 50 percent grants thereafter.

4/ As a transitory measure, HIPC debt relief at and after the assumed completion point (mid-2007) are presented in flow terms, but will be shown as a stock operation, along with the MDRI, in the document for the fifth review scheduled for December 2006.

5/ International prices are assumed to be 25 percent higher than the *World Economic Outlook* (WEO) baseline projection for 2007–10.

6/ Growth is assumed to be 4 percent for the 10-year period 2007–17.

Table 9. Burundi: Long-Term Macroeconomic Assumptions, 2004–26

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Act.	Prel.	Projections									
						(In millions of U.S. dollars)						
Real GDP growth (percent change)	4.8	0.9	6.1	6.6	7.1	6.7	6.6	6.4	6.2	6.1	6.1	6.0
Nominal GDP (millions of U.S. dollars)	664.5	799.4	954.6	1,045.4	1,143.2	1,246.5	1,358.7	1,478.0	1,606.0	1,743.4	1,891.6	2,051.5
Percent change	11.7	20.3	19.4	9.5	9.4	9.0	9.0	8.8	8.7	8.6	8.5	8.5
Exports of goods and nonfactor services (millions of U.S. dollars)	63.6	91.1	114.0	136.2	153.0	172.2	194.8	218.9	238.4	261.9	289.8	323.8
Percent change	27.1	43.2	25.1	19.5	12.3	12.6	13.1	12.3	8.9	9.9	10.7	11.7
Imports of goods and nonfactor services (millions of U.S. dollars)	225.4	362.1	469.1	525.6	565.5	609.4	648.6	675.8	704.8	742.0	776.9	811.9
Percent change	36.8	60.7	29.6	12.1	7.6	7.8	6.4	4.2	4.3	5.3	4.7	4.5
Fiscal revenues, excluding grants (millions of U.S. dollars)	133.5	159.8	181.2	207.9	232.9	260.2	283.9	309.3	336.5	365.9	397.5	431.8
Percent change	6.2	19.7	13.4	14.8	12.0	11.8	9.1	8.9	8.8	8.7	8.7	8.6
GDP per capita (U.S. dollars)	90.5	106.7	124.9	134.1	143.8	153.7	164.3	175.2	186.6	198.6	211.3	224.7
Percent change	9.5	17.9	17.1	7.4	7.2	6.9	6.9	6.6	6.5	6.4	6.4	6.3
Population (millions)	7.3	7.5	7.6	7.8	7.9	8.1	8.3	8.4	8.6	8.8	9.0	9.1
Percent change	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator (percent change)	8.3	16.6	4.8	3.6	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
CPI index (percent change)	8.0	13.4	2.5	3.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
						(In percent of GDP)						
Composition of nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	111.0	123.1	121.1	118.6	115.9	114.4	112.5	109.9	107.9	106.3	104.3	102.3
Government	26.1	26.5	29.3	28.4	27.9	28.0	27.7	26.9	26.9	26.7	25.9	25.2
Nongovernment	84.9	96.6	91.8	90.2	87.9	86.5	84.7	83.0	81.0	79.6	78.4	77.1
Gross investment	13.3	10.8	16.1	18.6	20.2	20.6	20.9	21.0	21.1	21.3	21.4	21.5
Government	10.3	6.6	9.6	10.6	10.7	10.9	11.0	10.8	10.8	10.8	10.7	10.7
Nongovernment	3.0	4.2	6.5	8.0	9.5	9.8	10.0	10.2	10.4	10.5	10.7	10.8
Net exports of goods and services	-24.3	-33.9	-37.2	-37.2	-36.1	-35.1	-33.4	-30.9	-29.0	-27.5	-25.8	-23.8
Exports of goods and services	9.6	11.4	11.9	13.0	13.4	13.8	14.3	14.8	14.8	15.0	15.3	15.8
Imports of goods and services	-33.9	-45.3	-49.1	-50.3	-49.5	-48.9	-47.7	-45.7	-43.9	-42.6	-41.1	-39.6
Of which : aid-related imports of goods and services	-10.7	-11.4	-7.2	-11.8	-11.8	-12.1	-12.1	-11.1	-10.1	-9.2	-7.9	-7.4
External current account balance, including grants 1/	-8.1	-10.5	-17.5	-16.2	-14.1	-14.6	-15.4	-14.6	-14.1	-14.0	-13.7	-13.3
Gross investment	13.3	10.8	16.1	18.6	20.2	20.6	20.9	21.0	21.1	21.3	21.4	21.5
Gross domestic savings	-12.2	-23.5	-21.8	-19.2	-16.3	-14.9	-12.9	-10.3	-8.2	-6.6	-4.5	-2.4
Gross national savings	5.2	0.3	-1.4	2.4	6.1	6.0	5.6	6.4	7.0	7.3	7.7	8.2
Net official external financing	12.0	27.5	21.0	13.6	13.1	11.5	8.4	6.1	4.3	3.1	2.9	2.4
Gross official external financing	25.5	31.5	25.2	16.8	16.0	14.8	12.1	10.5	8.7	7.3	6.2	5.2
Grants	17.4	23.8	20.4	14.4	14.7	13.6	11.0	9.5	7.8	6.4	5.4	4.5
Disbursements	8.1	7.7	4.8	2.4	1.3	1.2	1.1	1.0	0.9	0.8	0.8	0.7
Amortization	-13.5	-4.0	-4.2	-3.1	-2.9	-3.3	-3.7	-4.3	-4.4	-4.2	-3.3	-2.8
Overall fiscal balance 1/	-4.9	-6.3	-0.4	-1.3	0.0	0.3	0.1	0.4	0.2	0.2	0.3	0.4
Total revenue and grants 1/	34.9	30.5	41.4	40.4	41.1	41.6	41.0	40.2	40.0	39.6	38.9	38.0
Revenues, excluding grants	20.1	20.0	19.0	19.9	20.4	20.9	20.9	20.9	21.0	21.0	21.0	21.0
Total expenditures	-39.8	-36.8	-41.8	-41.7	-41.0	-41.2	-40.9	-39.9	-39.8	-39.5	-38.5	-37.7
Sensitivity scenarios												
Higher coffee prices 2/												
GDP growth	4.8	0.9	6.1	6.6	7.1	6.7	6.6	6.4	6.2	6.1	6.1	6.0
GDP (in current U.S. dollars) per capita	90.5	106.7	124.9	134.2	143.8	153.8	164.3	175.3	186.7	198.7	211.3	224.7
Investment-to-GDP ratio	13.3	10.8	16.1	18.6	20.2	20.6	20.9	21.1	21.3	21.4	21.6	21.7
Gross domestic savings-to-GDP ratio	-12.2	-23.5	-21.8	-17.2	-14.5	-11.4	-7.4	-3.3	-7.9	-6.2	-4.3	-2.2
Low growth 3/												
GDP growth	4.8	0.9	6.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
GDP (in current U.S. dollars) per capita	90.5	106.7	124.9	130.8	136.3	142.0	148.0	154.3	161.0	167.8	175.0	182.5
Investment-to-GDP ratio	13.3	10.8	16.1	10.9	11.3	11.8	12.2	12.4	12.7	12.9	13.2	13.4
Gross domestic savings-to-GDP ratio	-12.2	-23.5	-21.8	-20.3	-18.3	-17.4	-15.9	-13.5	-11.7	-10.2	-8.3	-6.1

Sources: Burundi authorities; and staff estimates and projections.

1/ Assumes financing gap covered by grants in 2007–15 and by 50 percent grants thereafter.

2/ International prices are assumed to be 25 percent higher than the *World Economic Outlook* (WEO) baseline projection for 2007–10.

3/ Growth is assumed to be 4 percent for the 10-year period 2007–17.

Table 9. Burundi: Long-Term Macroeconomic Assumptions, 2004–26 (concluded)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Averages	
						Projections						2006–16	2016–26
						(In millions of U.S. dollars)							
Real GDP growth (percent change)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.4	6.0
Nominal GDP (millions of U.S. dollars)	2,224.9	2,412.9	2,616.8	2,838.0	3,077.9	3,338.0	3,620.2	3,926.1	4,258.0	4,618.0	5,008.3	1,522.2	3,449.0
Percent change	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5	9.8	8.5
Exports of goods and nonfactor services (millions of U.S. dollars)	364.0	407.1	450.2	497.6	549.9	608.9	675.8	752.1	836.5	932.0	1,040.2	224.3	646.8
Percent change	12.4	11.8	10.6	10.5	10.5	10.7	11.0	11.3	11.2	11.4	11.6	13.5	11.2
Imports of goods and nonfactor services (millions of U.S. dollars)	870.8	926.1	976.3	1,039.5	1,111.9	1,192.2	1,279.9	1,373.7	1,474.8	1,583.7	1,701.0	672.8	1,230.0
Percent change	7.2	6.4	5.4	6.5	7.0	7.2	7.4	7.3	7.4	7.4	7.4	8.5	7.0
Fiscal revenues, excluding grants (millions of U.S. dollars)	469.6	510.7	555.2	603.5	655.8	712.5	774.9	842.8	916.6	996.8	1,084.1	316.1	738.4
Percent change	8.8	8.8	8.7	8.7	8.7	8.7	8.8	8.8	8.8	8.8	8.8	10.3	8.7
GDP per capita (U.S. dollars)	238.9	254.0	270.0	287.1	305.3	324.6	345.1	367.0	390.2	414.9	441.1	177.8	330.7
Percent change	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3	7.6	6.3
Population (millions)	9.3	9.5	9.7	9.9	10.1	10.3	10.5	10.7	10.9	11.1	11.4	8.5	10.3
Percent change	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
GDP deflator (percent change)	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
CPI index (percent change)	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.8	4.0
						(In percent of GDP)							
Composition of nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Consumption	101.1	99.8	98.4	97.4	96.6	95.8	95.0	94.1	93.3	92.4	91.5	110.4	95.9
Government	24.8	24.3	23.4	22.9	22.4	21.8	21.4	21.0	20.6	20.2	19.9	27.1	22.1
Nongovernment	76.4	75.5	75.0	74.5	74.2	74.0	73.6	73.2	72.7	72.2	71.6	83.3	73.9
Gross investment	21.6	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	20.4	21.7
Government	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
Nongovernment	10.9	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	9.7	11.0
Net exports of goods and services	-22.8	-21.5	-20.1	-19.1	-18.3	-17.5	-16.7	-15.8	-15.0	-14.1	-13.2	-30.8	-17.6
Exports of goods and services	16.4	16.9	17.2	17.5	17.9	18.2	18.7	19.2	19.6	20.2	20.8	14.4	18.4
Imports of goods and services	-39.1	-38.4	-37.3	-36.6	-36.1	-35.7	-35.4	-35.0	-34.6	-34.3	-34.0	-45.2	-36.0
Of which : aid-related imports of goods and services	-6.9	-6.1	-6.0	-5.8	-5.7	-5.5	-5.4	-5.2	-5.0	-4.8	-4.6	-9.8	-5.5
External current account balance, including grants 1/	-16.4	-15.7	-14.8	-14.4	-13.9	-13.6	-13.1	-12.8	-12.4	-12.1	-11.7	-14.9	-13.7
Gross investment	21.6	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7	19.4	21.7
Gross domestic savings	-1.2	0.2	1.6	2.6	3.4	4.2	5.0	5.8	6.7	7.7	8.5	-10.7	4.0
Gross national savings	5.3	6.0	6.9	7.3	7.8	8.1	8.5	8.9	9.3	9.7	10.0	5.5	8.0
Net official external financing	2.2	1.9	1.9	1.7	1.6	1.2	1.0	0.8	0.4	0.1	-0.3	8.1	1.1
Gross official external financing	4.4	4.0	3.7	3.3	3.2	2.8	2.5	2.2	1.8	1.4	1.0	11.6	2.8
Grants	3.7	3.4	3.1	2.8	2.7	2.3	2.1	1.9	1.5	1.1	0.7	10.1	2.3
Disbursements	0.7	0.6	0.6	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	1.4	0.5
Amortization	-2.2	-2.1	-1.7	-1.7	-1.6	-1.6	-1.5	-1.5	-1.4	-1.3	-1.2	-3.5	-1.6
Overall fiscal balance 1/	0.2	0.0	0.3	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.0	0.2
Total revenue and grants 1/	37.4	36.7	36.0	35.4	34.8	34.2	33.7	33.3	32.8	32.4	32.1	40.0	34.4
Revenues, excluding grants	21.1	21.2	21.2	21.3	21.3	21.3	21.4	21.5	21.5	21.6	21.6	20.6	21.4
Total expenditures	-37.2	-36.7	-35.7	-35.1	-34.6	-34.0	-33.5	-33.0	-32.6	-32.2	-31.9	-39.9	-34.2
Sensitivity scenarios													
Higher coffee prices 2/													
GDP growth	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.4	6.0
GDP (in current U.S. dollars) per capita	238.9	254.0	270.1	287.2	305.3	324.7	345.2	367.0	390.3	414.9	441.2	177.9	330.8
Investment-to-GDP ratio	21.8	21.9	21.9	22.0	21.9	21.9	21.9	21.9	21.9	21.8	21.8	20.5	21.9
Gross domestic savings-to-GDP ratio	-1.1	0.3	1.7	2.8	3.6	4.3	5.1	6.0	6.8	7.6	8.5	-8.8	4.2
Low growth 3/													
GDP growth	4.0	4.0	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	4.2	5.5
GDP (in current U.S. dollars) per capita	190.3	198.2	208.2	220.6	233.8	247.7	262.5	278.1	294.7	312.2	330.8	155.7	252.5
Investment-to-GDP ratio	13.7	14.3	15.4	16.4	17.5	18.8	19.8	20.7	21.3	21.5	21.7	12.8	18.3
Gross domestic savings-to-GDP ratio	-5.0	-3.5	-1.8	-0.3	0.8	1.9	2.9	4.1	5.3	6.5	7.7	-13.5	1.7

Sources: Burundi authorities; and staff estimates and projections.

1/ Assumes financing gap covered by grants in 2007–15 and by 50 percent grants thereafter.
2/ International prices are assumed to be 25 percent higher than the World Economic Outlook (WEO) baseline projection for 2007–10.
3/ Growth is assumed to be 4 percent for the 10-year period 2007–17.

Table 10. Burundi: Schedule of PRGF Disbursements and Reviews, 2004–07

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

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

[2] An extension of the PRGF arrangement (which expires in January 2007) by nine months until September 2007 has been requested to allow for this disbursement.

Table 11. Burundi: Indicators of Fund Credit, 2004–10
(In millions of SDRs, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010
	Act.	Projections					
Fund credit outstanding (end of period) 1/							
In millions of SDRs	26.4	40.7	62.2	69.3	69.3	66.7	60.7
In millions of U.S. dollars	41.0	58.2	88.8	99.0	99.0	95.3	86.7
In percent of quota	34.3	52.9	80.7	90.0	90.0	86.6	78.8
Fund obligations	19.5	0.3	0.6	0.7	0.7	3.3	6.7
Fund total charges and interests	0.2	0.3	0.6	0.7	0.7	0.7	0.7
Existing drawings	0.2	0.3	0.6	0.5	0.5	0.5	0.5
Prospective drawings		0.0	0.0	0.2	0.2	0.2	0.2
Fund total repayments/repurchases	19.3	0.0	0.0	0.0	0.0	2.6	6.0
Existing drawings	19.3	0.0	0.0	0.0	0.0	2.6	6.0
Prospective drawings		0.0	0.0	0.0	0.0	0.0	0.0
Fund credit outstanding in percent of:							
Exports of goods and services	64.4	63.9	77.9	72.7	64.7	55.3	44.5
Gross official reserves	61.0	51.6	61.3	62.3	56.8	49.8	42.8
Fund obligations in percent of:							
Exports of goods and services	30.6	0.3	0.5	0.5	0.4	1.9	3.4
Gross international reserves	29.0	0.2	0.4	0.4	0.4	1.7	3.3
Memorandum items (in millions of U.S. dollars):							
Exports of goods and services	63.6	91.1	114.0	136.2	153.0	172.2	194.8
Gross international reserves	67.2	112.7	145.0	158.9	174.3	191.3	202.5

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

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

Bujumbura, June 26, 2006

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

Dear Mr. de Rato,

1. On behalf of the authorities of the Republic of Burundi, we hereby transmit the attached memorandum on economic and financial policies (MEFP) that sets out the objectives and policies under the program that the authorities intend to implement in 2006. The attached technical memorandum of understanding (TMU) defines the terms and conditions of the implementation of the program.

2. Burundi continues to make progress with reforms aimed at sustaining the economic recovery. In support of these efforts, Burundi benefits from the Fund's advice and financial support under the Poverty Reduction and Growth Facility (PRGF), approved by the IMF Executive Board in January 2004.

3. The program's quantitative performance criteria (PCs) for end-June 2005 for the third program review were observed, as were the indicative quantitative targets at end-September 2005 (Table 1). We request a waiver for the nonobservance of the structural PC (end-October 2005) regarding the installation of a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance (Table 2). The IFMIS became operational on January 1, 2006. Three structural benchmarks were not observed or were observed with a delay. The publication of the Audit Court's report on the 2004 government accounts (end-September 2005) was observed with a delay on December 6, 2005 and the audit of the inventory of the government's domestic arrears (end-June 2005) was completed behind schedule on February 20, 2006. The adoption of an action plan defining the new roles of the coffee sector institutions (end-November 2005) was not observed and was re-phased.

4. The quantitative PCs for end-December 2005 for the fourth review, to be completed by end-June 2006, were observed except for the nonaccumulation of external arrears, which were incurred in October and December 2005. The external arrears were cleared in March 2006. We therefore request a waiver for the nonobservance of this criterion.

5. In support of the macroeconomic and financial objectives set for 2006, we hereby request approval of the third and fourth reviews under the PRGF and disbursement of SDR 14.30 million (18.6 percent of quota). We request the disbursement of additional interim HIPC assistance in the amount of SDR 86,500, which will be sufficient to cover 50.5 percent of PRGF Trust Interest obligations falling due between July 28, 2006 and December 31, 2006, and 57.4 percent between January 1, 2007 and July 27, 2007.

6. The objectives and measures in the MEFP for 2006 remain consistent with Burundi's Interim Poverty Reduction Strategy Paper (I-PRSP—*Cadre stratégique intérimaire de croissance économique et de lutte contre la pauvreté*) and the forthcoming full PRSP.

7. The economic and financial policies set forth in the MEFP should ensure that the objectives of the 2006 program are met. If needed, the authorities will take any further measures that may be necessary. Burundi will consult with the Managing Director on the adoption of these measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations.

8. The quarterly quantitative PCs and indicative targets for 2006 are shown in Table 3. We request a modification of the PC on banking system credit to government, reflecting the programmed issuance of tradable treasury securities, which would be set on domestic financing of the budget. The prior actions for the third and fourth reviews, as well as the structural PC and benchmarks for 2006, are shown in Table 4. The fifth review of the three-year PRGF arrangement with the Fund will be based on meeting the targets for end-June 2006.

9. In order to conclude the sixth review of the program we request an extension of the three-year PRGF arrangement by nine months until end-September 2007.

10. The Burundi authorities are keen to make this letter, the attached MEFP, the TMU, as well as the staff report on the 2006 third and fourth reviews under the PRGF arrangement, available to the public. We hereby authorize their publication and posting on the Fund's website subsequent to Executive Board approval. We will do the same on the official websites of the Burundi government.

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

Sincerely yours,

/ s /	/ s /
Dieudonné Ngowembona Minister of Finance	Gabriel Ntisezerana Governor, Bank of the Republic of Burundi

/ s /

Alice Nzomukunda
Second Vice-President, Republic of Burundi

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

Republic of Burundi
Memorandum of Economic and Financial Policies for 2006

I. Introduction

1. This memorandum summarizes progress under the program during 2005 and sets out the authorities' economic and financial policies for 2006. On the basis of these policies, the authorities request Fund support in the form of fourth and fifth disbursements under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The policies and objectives of the new program are consistent with the Interim Poverty Reduction Strategy Paper (I-PRSP), as well as the full PRSP which is being finalized.

II. Background

A. Political Transition Completed

2. Burundi crossed a historical threshold in August 2005 with the election of a new parliament, the investiture of a new President of the Republic, and the formation of a government, all as a result of democratic elections. The security situation in the country has significantly improved. The disarmament, demobilization, and reintegration (DDR) of former combatants and the armed forces was well under way in 2005, with the support of the World Bank-led Multi-Country Demobilization and Reinsertion Program (MDRP). At end-2005, the number of demobilized persons was some 20,000. The United Nations Operation in Burundi (ONUB) and bilateral donors are also supporting the associated security sector reform (SSR) involving the training and equipping of the new national police force.

B. Recent Economic Developments

3. Macroeconomic performance in 2005 has been mixed. Real GDP growth was about 1 percent, reflecting a sharp decline in the coffee harvest compared with 2004 (7,000 as against 38,000 metric tons). The problems in the agricultural sector resulting from the drought in the northern part of the country (food production fell by 1 percent) were nonetheless partly offset by a strong rebound in the secondary and tertiary sectors. Consumer price index (CPI) inflation remained high during the first half of the year, reflecting the effect of the drought in the north and the pressure on prices from the large presence of the international community. Since mid-2005, the Burundi franc (FBu) has appreciated against the U.S. dollar (10 percent) and together with a tighter monetary policy contributed to a marked slowdown in inflation to 1 percent at end-December.

4. Preliminary data suggest that the external current account deficit, after grants, was larger than expected under the program, at about 10.5 percent of GDP, as a result of a drop in coffee exports and, in particular, a strong increase in project-financed imports. In real effective terms the Burundi franc appreciated 9.2 percent in 2005. The differential between the parallel and the official exchange rates stabilized at about 3 percent.

C. Performance Under the Program

5. **Performance in 2005 was broadly in line with program targets**. All end-June 2005 quantitative performance criteria, after adjustments, were observed, as were the indicative targets for end-September (Table 1). The criteria for end-December 2005 were also observed, except for an accumulation of external arrears to the OPEC Fund in late 2005, which have since been cleared. Program implementation was somewhat delayed in the third quarter due to the political transition. The installation of a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance (structural performance criterion for end-October 2005) was not observed (Table 2), and the IFMIS became operational on January 1, 2006. Three structural benchmarks in 2005 were not observed or were implemented with a delay.

6. **Fiscal performance** in 2005 was satisfactory and in line with program targets. Revenues (FBu 172.1 billion, or 20 percent of GDP) were much higher than the program target. Current expenditures were consistent with the program, while domestically financed project spending was considerably lower than programmed. Total spending was therefore weaker than expected at about 36.8 percent of GDP. Domestic arrears on 2004 expenditures were cleared and the primary deficit was limited to 1.7 percent of GDP, or about half the program target. On a commitments basis, the overall deficit, after grants, was 6.3 percent of GDP compared with the target of 0.2 percent of GDP, as program grants were delayed.

7. The **2006 Budget** was promulgated on December 31, 2005. The later included revenues equivalent to 18.9 percent of GDP and overall spending of 40.8 percent of GDP, with a primary deficit of 6.2 percent of GDP. The 2006 Budget incorporated an important package of reforms, including:

- the consolidation of extra budgetary funds, except for the road fund and the national solidarity fund;
- the budgetization of the revenues of the national solidarity fund and introduction of ceilings on its spending;
- provision for the regularization of civil servants' salaries;
- the elimination of the 7 percent transactions tax on banking transactions;
- the deductibility of the transactions tax paid on investment goods for corporate tax purposes;
- the revision of the customs tariff schedule to reduce tariffs on primary products, and raise those at 0 percent to 5 percent;
- the elimination of the service tax on imports (6 percent);
- the introduction of an administrative fee for customs of 0.5 percent of the c.i.f. value of imports; and

- the elimination of exemptions on indirect taxes, except for diplomats, government, and NGOs;
- the strengthening of efforts to apply the income tax to all local employees of international agencies.

8. **In addition, on January 24, 2006, a new regulation on import procedures was introduced.** On February 7, a revision to the contract with SGS (the pre-import inspection company) was signed giving it management of import declarations (DI) beginning April 3, 2006, as well as delinking the inspection of imports from the exchange control system. At the beginning of January 2006, the transactions tax on petroleum products, which had been suspended in September 2005, was re-introduced. In December 2005, the authorities created a national commission for aid coordination (CNCA) with the aim of improving dialogue and coordination with donors, and in February 2006, a permanent secretariat of the CNCA was created to assure effective aid management.

9. **In early 2006, the prices of beer, sugar, and soft drinks were significantly reduced, resulting in a large net revenue loss, primarily for the national solidarity fund (which financed the war effort) of FBu 9 billion for 2006.** Strong pressures on expenditures to address the drought and famine in the north of the country, for the reintegration of refugees, and for the large increase in primary school pupils (following the abolition of primary school fees in September 2005) led the authorities to hold a Partners' Conference for Burundi on February 28, 2006. At the conference, donors made pledges of new financing amounting to about US$70 millions. Therefore a supplementary budget for 2006 will be needed.

10. **Regarding monetary policy,** the introduction of weekly liquidity auctions since mid-April 2005, enabled the Bank of the Republic of Burundi (BRB) to partially sterilize the impact of the accumulation of foreign exchange reserves on the growth of the money supply (M3). Nevertheless, M3 expanded by 19.7 percent, outpacing nominal GDP growth (17.6 percent), representing a monetization of the economy. International reserves rose by US$46 million in 2005 to reach US$113 million (the equivalent of 3 months of 2006 imports). Credit to the economy declined by 9 percent, reflecting the political transition, security conditions, and outstanding budget arrears. In December 2005, the BRB raised the required reserve ratio on domestic currency deposits from 5 percent to 7 percent, and in January 2006, the BRB introduced a required reserve ratio (7 percent) for foreign currency deposits held by commercial banks. Since late 2005, and especially in early 2006, interest rates fell significantly, in part as a result of the elimination of the 7 percent tax on banking transactions. The BRB also reinforced its contract with its external auditor for the audit of the 2005 accounts, following the recommendations of the IMF's safeguards assessment report. The independent audit committee (of the Board of Directors) was made operational. The **liberalization of the exchange system** continued with the raising, and conversion to indicative limits, of the ceilings for invisibles in June 2005.

11. The implementation of **structural reforms** advanced more slowly than expected in 2005, reflecting a lull in the third quarter as a result of the political transition. The **Audit**

Court reviewed the government's accounts for 2004 and published its report on December 6, 2005. It also conducted specific audits of the defense and civil service ministries, as well as more in-depth investigations into specific cases. The new bankruptcy and liquidation laws were approved by parliament in November 2005, and were promulgated on March 15, 2006.

12. The reform of the **coffee sector** continued with a call for bids for two washing stations, but without success. Entry into the sector and commerce at all levels of the coffee sector were liberalized in January 2005. The sector generated an operating surplus of FBu 19 billion in the 2004/05 crop year, for the first time since 1998/99. The surplus was used to pay a premium to coffee producers (FBu 30/kg., equivalent to FBu 6.1 billion) to purchase phytosanitary products, distributed free to producers, fertilizers, and other inputs (FBu 3.5 billion) for sale to producers; and to finance the 2005/06 crop (FBu 8.8 billion). The government guarantee for bank credit to the coffee sector was abolished.

III. The 2006 Program

A. Macroeconomic Objectives

13. The authorities' strategy for 2006 is based on the reduction of macroeconomic and financial imbalances, notably inflation, and the pursuit of financial and structural reforms needed for durable economic recovery. The economic program targets a recovery of real economic growth of 6 percent, reflecting a rebound in coffee production, and an inflation rate of about 3 percent (period average). The external current account deficit, after grants, would rise to about 17.5 percent of GDP, resulting from a sharp increase in imports of humanitarian aid.

B. Fiscal Policy

14. **Fiscal policy for 2006** envisages an increase in social and poverty-reduction spending, improved revenue mobilization, a strengthening in public finance management, and the clearing of the government's domestic arrears. Fiscal policy also seeks to support the inflation target by limiting its recourse to financing from the banking system. A revised budget for 2006 will be promulgated before end-June to take into account important changes that have emerged since the approval of the initial budget on December 31, 2005. Total revenue would decline to 19 percent of GDP, owing to the abolition of the levies earmarked to the national solidarity fund to finance the war effort, and of excise duties on sugar. The increase in expenditure to FBu 400 billion (41.8 percent of GDP) is due mainly to the large increase in spending on education and that linked to the emergency program for 2006, and was in part made possible by the budgetary savings from external debt relief under the HIPC Initiative. The revised 2006 budget contains contingent spending of 1.2 percent of GDP.

15. **Current expenditures** will increase to about 26.4 percent of GDP while project spending will rise further to 13.5 percent of GDP, financed mostly by grants, and will give priority to the rehabilitation and reconstruction of social and economic infrastructure, particularly for the education sector. A wage rise for government employees will be limited

to a 15 percent increase in base pay with effect from July 1, 2006. The **share of security outlays** will be trimmed from 34.8 percent of current expenditure in 2005 to 32.0 percent in 2006. The overall deficit, on a commitment basis, after grants, is expected to decline to about 0.5 percent of GDP, partly as a result of the greater share of grants in external financial support. Poverty-related expenditure (as defined in the I-PRSP) is set to increase substantially from about 33.6 percent of primary expenditure in 2005 to about 35.5 percent in 2006. The supplementary budget will set **new ceilings for domestic debt** sufficient to allow for the issuance of new treasury securities related to the settlement of the government's domestic arrears.

16. **The revised 2006 budget includes two expenditure contingencies** totaling FBu 11.5 billion (1.2 percent of GDP) dependent on specific aid disbursements and the recovery of the assets of the failed BCD bank in liquidation. The first contingency involves the urgent need to distribute food aid to those affected by the drought. Expenditures for emergency food aid will be financed by reallocating resources from domestically financed project expenditure. Domestically financed project expenditure will be raised back (up to a maximum of FBU 10 billion) to its original level, subject to disbursement from donors of funds to compensate for the food aid distribution. The second contingency concerns additional spending on goods and services contingent on asset recovery from BCD. Additional spending will be committed from the proceeds of the BCD liquidation once, and only once, recovery for the budget reaches FBu 1 billion, up to a maximum new spending of FBu 1.5 billion.

17. The authorities are committed to further improving **transparency and public finance management.** Building on the new system of accounts, an interim computerized financial management system (IFMIS) for expenditures from the commitment to payment stage, with a direct link to the central bank, was put in place in the Ministry of Finance with effect from January 1, 2006. This system is designed to reinforce the monitoring of budget execution, including of social outlays, and to produce real-time financial operations reports. The authorities will reinforce the management of the civil service in 2006, with the support of the World Bank (ERSP project), through (i) the putting in place of a central data file and a single identification number for all government employees (teachers, civil service, army, and police); (ii) the physical census of employees; and (iii) the issuance of personal identity cards with photo and signature.

18. The authorities are conscious of **the importance of full pass through for domestic petroleum products**, which should reflect movements on international markets. The authorities are convinced of the advantages of an automatic retail price adjustment mechanism, which will be put in place by June 2006. This will also protect tax receipts. Action plans in the areas of customs, income tax, the treasury, public accounting, and procurement will be implemented in 2006 to improve revenue and expenditure management. Genuine treasury securities (standardized, tradable, and managed by the BRB) will be introduced in 2006 in support of the clearance strategy for government arrears.

Measure	Deadline
Fiscal policy	
• Abolish the mortgage registration fee of 3 percent.	May 2006; Done
• Agreement between the Ministry of Finance and the BRB on the creation of genuine treasury securities, standardized, tradable, and managed by the BRB on the account of the government.	May 2006; Done
• Production of quarterly summary fiscal tables based on the IFMIS beginning with the end-June 2006 outcome with World Bank technical assistance.	September 2006
Reform of the customs administration	
• Approval by the Minister of Finance of the action plan to strengthen and reform the customs administration.	March 2006; Done
• Creation of a pilot committee in the Ministry of Finance and a working group in the Customs Directorate to adopt, apply, and monitor the action plans.	March 2006; Done
• Approval of a memorandum of understanding to strengthen cooperation between the tax and customs directorates.	April 2006; Done
• Submission to parliament of the new customs code, reflecting the IMF's comments, with the aim of putting it into effect by end-June.	May 2006; Done
• Set up a unit for submission of detailed customs declarations and manifests by remote data entry.	March 2006; Done
• Activate a green channel for customs clearance without physical inspection.	June 2006; Done
• Clear at least 50 percent of import operations through the green channel in the second half of 2006.	Second half of 2006
• Set up and begin using a sophisticated system for selecting import consignments to be examined, using criteria determined by the import inspection system.	April 2006
• Operationalize an enhanced ex post monitoring system.	April 2006
• Establish a working group combining the exemptions unit and the ASYCUDA team.	April 2006
Reform of indirect taxes and tax exemptions	
• Eliminate all exemptions from indirect taxes and maintain time limits on income tax exemptions in the investment code.	June 2006
• Introduce automatic adjustment mechanism for retail petroleum product prices.	June 2006
Taxes	
• Approval by the Minister of Finance of an action plan to strengthen the tax administration and to prepare for the introduction of the VAT.	April 2006; Done
• Conduct joint Tax/Customs inspections.	April 2006
Expenditure	
• Limit recruitment, other than 3,300 teachers.	2006
• Pursue the demobilization program.	2006

Measure	Deadline
• Implement the recommendations of the commission on civil service staffing.	June 2006; Done
• Regularization of civil servants' salaries.	2006
• Return payroll management to the Ministry of Finance.	January 2007
Reforms of public finance management	
• Implement action plans for the accounting department of the Ministry of Finance with the aim to: • use the new government chart of accounts and budget (PBCE); • introduce and use in real time the interim IFMIS for expenditures; • rationalize government accounts; • prepare summary fiscal tables; • introduce a cash flow management plan.	2006
• Complete the accounting of expenditure payment authorizations for 2005 on the new PBCE.	February 2006 Done
• Begin closing dormant accounts and analyze the multiplicity of government accounts with a view to closing the majority of them and moving toward a single treasury account system.	April 2006
• Strengthen the financial control of public enterprises by the Ministry of Finance, in particular by implementing action plans aimed at strengthening the management of administrative and portfolio revenue department at the Ministry of Finance and the establishment of clear directives for government representatives on public enterprise boards.	2006
• Create an internal audit and inspection unit in the Ministry of Finance.	February 2006; Done
• Submission to parliament of a revised public procurement code.	July 2006
• Reinforce the management of the civil service in 2006, with the support of the World Bank (ERSP project) through: • the putting in place of a central data file and a single identification number for all government employees (teachers, civil service, army and police); • the physical census of employees; and • the issuance of personal identity cards with photo and signature.	Second half of 2006
• Integrate the civil service payroll into the IFMIS.	December 2006
Clearance of government's domestic arrears	
• Adoption by the council of ministers of a strategy for clearing audited arrears (FBu 25.8 billion), in consultation with IMF staff, consistent with the 2006 supplementary budget. The strategy will be implemented beginning in June 2006, and will include settlement in part by cash and in part by certificates eligible in the treasury bond (2–5 years maturity) auctions and the privatization program.	May 2006; Done

19. The **DDR and SSR programs** continue to be essential, not only for public security, but also for reducing security outlays so as to boost social and poverty reduction spending. In this respect, the government is committed to achieving the objectives defined in its Policy Letter to the World Bank of February 2004, on Demobilization, Reinsertion and Reintegration, and to reducing the size of the army and the national police through the DDR program. The authorities will seek volunteers in the national police force for demobilization. The authorities intend to conduct a census of the security forces by end-June 2006, with the support of international technical assistance. They also intend to seek technical assistance from the international community in 2006 to assess the appropriate size and composition of the new police force, taking into account budget constraints and security imperatives.

20. External debt-service relief under the **enhanced HIPC Initiative** will allow an increase in pro-poor budgetary spending. The additional expenditures were identified in the 2006 budget in consultation with World Bank and IMF staff and are in line with the priorities identified in the forthcoming full PRSP. The main sectors covered are health, education, infrastructure, agriculture, refugee and displaced person resettlement, economic reintegration of victims of conflict, and judicial reform. The implementation of the IFMIS expenditure management system will assure the monitoring of these expenditures.

C. Monetary and Exchange Policies

21. **Monetary policy** is based on a medium-term strategy to further liberalize the exchange regime and to effect a sustained reduction in inflation. For 2006, the BRB will focus on slowing monetary growth by containing banking system credit to the government and by strengthening liquidity management (introduction of reserve requirements for foreign exchange deposits and negotiable treasury securities). The BRB will introduce and manage on behalf of the government, a new series of standardized and negotiable treasury securities. In parallel, a set of structural reforms will enhance the efficiency of the financial system (reinforced banking supervision and restructuring weaker banks). These measures will make it possible to revive credit to the private sector, which should increase by about 24 percent in 2006. Broad money (M3) growth would be reduced to about 18 percent (on the assumption of a further monetization of the economy). Gross international reserves of the BRB would increase further to US$145 million by end-2006, or about 3.3 months of 2007 imports.

22. **The BRB will continue to enhance the effectiveness of liquidity management**. To that end, the Ministry of Finance and the BRB have strengthened their cooperation, particularly on budget cash flow forecasting which will be updated monthly. The BRB also intends to strengthen its foreign reserves management, internal audit and control procedures, and to computerize its accounting system. These efforts will be complemented with measures to enhance transparency and improve governance. The results of the external audit of the BRB's accounts and all monetary and exchange policy decisions will be posted on its website. The liberalization of the **exchange regime** and control systems will be continued, with the objective of achieving full convertibility of international current transactions in 2006. The BRB recognizes the need to publicize widely these changes. The BRB will limit its interventions in the exchange market to those necessary to achieve its foreign asset targets

and limit short-term volatility of the exchange rate. All these measures will, in time, enable the BRB to focus on an inflation objective and gain the necessary credibility for a flexible exchange regime.

Measure	Timetable
Monetary policy	
• Establish a technical committee including representatives of the Ministry of Finance and the BRB for treasury cash flow and liquidity management.	March 2006; Done
• Launch auctions of new negotiable treasury securities by the BRB on the account of the government with IMF technical assistance.	September 2006
Exchange regime	
• Introduce a license for money-changers.	September 2006
• Abolish the DIP (Import and Payment Declaration).	April 2006; Done
• Introduction of a 2 percent cap on the divergence of bids for foreign exchange in the Central Bank auction.	May 2006; Done
• Preparation and publication of a single regulation on the exchange regime, which establishes the full convertibility of the currency for current international transactions.	June 2006
• Move toward an interbank exchange market.	2006
Financial sector	
• Strengthen bank supervision with BRB approval of rehabilitation plans for noncomplying banks.	May 2006; Done
• World Bank and IMF staff to conduct a joint study of the banking system.	2006

D. Structural Reforms

23. The authorities are committed to **strengthening the implementation of the structural reforms** needed to ensure economic recovery. Key steps for 2006 include, in particular, the launching of the privatization of state assets in the financial and coffee sectors, and further progress in governance and transparency.

24. The implementation of **the reform strategy of the coffee sector,** supported by the World Bank and the European Union (EU), remains vital to poverty reduction in Burundi, in particular for some 800,000 small rural producers. The authorities have put in place governmental structures to manage the sector reforms, to minimize the financial risks to the producers and the government during the transition, and to ensure the consistency of the STABEX-financed washing station rehabilitation project with the privatization plan for 2006. Rehabilitated stations will be offered for sale without delay. A strategy for the sale of the washing stations will be established on the basis of the technical study by the World Bank, aimed at ensuring a fully competitive market structure at all levels of the coffee sector. The reforms will be pursued to ensure that producers may operate freely with a view to ensuring competition at all levels of the coffee sector and to attract long-awaited investment and private financing. In regard to the above-mentioned measures, the authorities will make sure that the regulatory powers of OCIBU do not impede investment and that during the transition

to a private sector every effort will be made by OCIBU to minimize the costs and delays in marketing. A public information campaign of the reforms will be undertaken.

Measure	Timetable
Coffee sector reform strategy	
• Establish a committee for the coordination and monitoring of the coffee sector reform, with terms of reference, objectives, and operational modalities.	Prior action. Done March 30
• Monitoring the management of the marketing of coffee by the governmental program monitoring committee, with the aim to minimize delays, costs, financing needs, and financial risks to producers and the government.	From March 2006 Being implemented.
• Monitor weekly cash flow management, including the stabilization fund of OCIBU for financing the 2006/07 harvest.	2006
• Measures to ensure the collection of advances still not repaid (FBu 3 billion) by the SOGESTALS on the financing of the 2005/06 harvest.	2006
• After covering the operating costs of the SOGESTALS, any surplus on coffee harvest earnings will be retained by OCIBU, to clear arrears.	2006
• Prohibition of SOGESTALS from declaring or paying dividends until their debts and arrears have been paid.	2006
• Financial audit of the coffee sector with the support of the World Bank.	2006
• Reform the marketing committee of OCIBU to include representatives of all operators in the coffee sector.	March 2006 Done
• Abolition of the technical commissions of OCIBU.	March 2006; Done
• Preparation, with the assistance of the World Bank, of a privatization strategy for the 133 washing stations and the shelling mills.	July 2006
• Launching of tenders for the sale of washing stations based on the conclusions of the study on the strategy for sale of the washing stations and the shelling mills.	October 2006
• Adoption by the government, with assistance from the World Bank, of the findings of the study on the regulatory, legal, and institutional framework of the sector. It will then implement the new framework, including restructuring the OCIBU, in time for the 2007/08 harvest.	December 2006

25. The **privatization** program, delayed by the political transition and conditions of insecurity, will be relaunched in 2006 with World Bank technical assistance in accordance with a transparent procedure for public tenders. The goal is for the government to gradually and completely phase out its involvement in the productive and financial sectors of the economy. The government intends hereby to reinforce the role of the private sector as the engine of economic growth.

26. **The authorities have clarified that SOSUMO sugar wholesalers can operate freely with the ministerial order of March 2006,** and expect to liberalize the sugar price in 2006. Also, in 2006, the authorities intend to seek technical assistance to study how to liberalize the petroleum sector.

Measure	Timetable
Privatization	
• Strengthen the capacity of the State Privatization Agency (SCEP), with World Bank technical assistance: • to undertake financial valuations of enterprise; • to assess offers to buy.	 June 2006 September 2006
• Launch tenders for the sale of the assets of OCIBU not directly related to its coffee marketing activities in: • residential properties (2); • former factories CEDUCA, ICB, and UNICAFE; • coffee roasting plant.	September 2006
• Launch tenders for the sale of APB, OPHAVET, and UCAR.	September 2006
• Launch tenders for the sale of the public sector (State, BRB, and OCIBU) assets in the companies Bujumbura port (EPB), BCC, and SIP.	September 2006
• The SCEP will implement the privatization of government assets in the banking sector, in close consultation with the BRB, to avoid further concentration in the sector and to encourage mergers of small banks. The authorities will seek IFC support in this area.	2006

E. Transparency, Good Governance, and Statistics

27. In an effort to enhance **transparency** and allow the public to better understand and follow the economic reforms, the government and the BRB will publish decrees, laws, decisions, as well as economic reform strategies and, in particular, the Memorandum on Economic and Financial Policies addressed to the IMF Managing Director, on the government, BRB, and REFES websites, which will be kept up to date. The budget and operations of the Official Bulletin of Burundi (BOB) will be strengthened. The **Audit Court** will continue to strengthen its activities in 2006. The government is convinced of the wisdom and importance of protecting the independence of the magistrates of the Audit Court.

28. A draft **Anti-Money Laundering** (AML) law has been prepared. It has benefited from comments from IMF technical assistance to ensure consistency of the legal framework and with international best practices. The council of ministers intends to review the text before end-June and submit it to parliament before end-September 2006. The authorities have requested continued TA from the IMF for the application of the AML law.

29. The authorities are aware that the quality of **national statistics** has been greatly eroded, especially as regards the national accounts, price indices, and social and poverty indicators. The authorities are committed to improving national statistics, in particular, by

implementing a rehabilitation plan for the statistical agency ISTEEBU so as to regain the capacity to compile national accounts interrupted since 1998, and to improve the quality of the CPI, which is the only macroeconomic indicator still being produced by ISTEEBU.

30. **The authorities equally intend to implement the recommendations of the IMF statistics missions and to include a multi-sector plan for developing statistics in the PRSP**. In February 2005, the authorities officially communicated their intention to participate in the IMF's General Data Dissemination Standards (GDDS) initiative. An IMF Statistics mission prepared an initial set of metadata, which needs to be revised and completed by the authorities with IMF's technical assistance.

Measure	Timetable
Transparency and good governance	
• Audit of government accounts for 2005 by the Audit Court.	2006
• Publication on official websites of decisions, ordinances, decrees, laws and reform strategies, including the Memorandum on Economic and Financial Policies, once it is approved by the IMF Executive Board.	Starting March 2006
Legal framework	
• Submit to parliament the Anti-Money Laundering law.	September 2006
• Launch Investment Climate Assessment (ICA) with support of the World Bank.	July 2006
Statistics	
• Finalize, adopt, and include in the PRSP, the development plan for national statistics, including cost estimates, prepared by the IMF Statistics Mission of March 2006.	April 2006
• Publication of the development plan for national statistics on the internet sites of relevant government agencies.	May 2006
• Establish an action plan to implement the measures in the statistics development plan that can be achieved with identified available resources.	April 2006
• Approval by the council of ministers of a new institutional framework for ISTEEBU and a new code for ISTEEBU employees that will allow them henceforth to produce without interruption the principal macroeconomic indicators.	May 2006
• Restart the regular production of national accounts and publish a series based on the 1993 national accounts system methodology (SNA93) for the period 1990-2005.	May 2007
• Update the metadata for participation in the IMF's GDDS initiative.	July 2006
• Expand the coverage of the CPI: • Revise the list of observation points for consumer prices in Bujumbura; • Expand the coverage of the new index to include the provinces for which regular data collection already exists; and • Update the weights of the items included in the consumption basket.	 September 2006 March 2007 June 2007

F. Program Financing and External Debt Management

31. For 2006, the external nonproject financing need is estimated at US$177 million. This external financing requirement is expected to be covered by disbursements from the IMF under the PRGF (US$32 million); the World Bank (US$60 million) under the ERSG; AfDB and ADF program grants and loans (US$11 million); the EU FED program (US$17 million); bilateral donors (US$16 million); and by traditional debt relief on current maturities (U$5 million) and under the HIPC Initiative (US$36 million).

32. The authorities have written to non-Paris Club creditors seeking debt relief on comparable terms to that obtained from Paris Club bilaterals. The authorities are also conscious of the need to reinforce external debt management capacity and have requested further technical assistance from donors.

G. PRSP Process

33. The participatory process for the preparation of the full PRSP is almost completed. Consultations at the local level with private and public stakeholders at the local level are completed and were followed by sectoral consultations at the national level, launched in November 2005. The full PRSP is expected to be finalized in mid-2006. The cost of the priority programs identified in the full PRSP was estimated at US$535 million, for which some financing remains to be identified.

H. Safeguards and Technical Assistance

34. The BRB is committed to improving its operations consistent with the principles of good governance included in the **IMF's safeguards guidelines**. A safeguards assessment was completed in January 2006. The BRB is committed to improving financial reporting procedures and strengthening its system of internal controls. The BRB underwent its first external audit in August 2005. The external auditors made recommendations on the adoption of International Financial Reporting Standards (IFRS) and improvements in BRB operations, which the BRB is actively addressing. More fundamentally, the government is committed to supporting the revision of the BRB law to grant it independence, needed for the sound conduct of monetary policy, while making the BRB fully accountable to Parliament.

Measure	Timetable
• Transmit to the IMF the report of the internal audit of the BRB on program data, as defined in the TMU for end-June and end-December 2005.	May 2006. Done April 5
• BRB to continue implementing the reforms recommended by the auditor and put in place procedures to monitor the reforms.	2006
• Implement the recommendations of the safeguards assessment.	2006
• Adopt an internal audit methodology geared toward risk management.	May 2006
• Implement a first annual internal audit plan following its approval by the independent audit committee.	September 2006
• Submit to parliament the revised BRB charter to strengthen its independence and legal base, consistent with IMF recommendations.	September 2006

35. Burundi has extensive **technical assistance** needs, and the authorities will continue to work closely with multilateral and bilateral partners to rebuild administrative capacity in priority areas. IMF technical assistance has been provided in 2005 in the areas of tax administration, public expenditure management, monetary and exchange rate policy, banking supervision, and national economic statistics. Further IMF technical assistance is planned in these areas in 2006.

I. Program Monitoring

36. Table 1 summarizes the quantitative performance criteria for the third and fourth reviews (end-June and end-December 2005, respectively) and the actual outcomes. The structural performance criteria and benchmarks under the program for 2005 are presented in Table 2. Table 3 shows the quantitative performance criteria for 2006, and the quantitative indicators for March, June, and September 2006 for program monitoring purposes. Program monitoring has been modified to account for the introduction of tradable security instruments and the arrears clearance exercise, notably by substitution of the PC on bank credit to government with one on overall domestic financing. The prior actions for the third and fourth reviews and structural performance criteria and benchmarks for 2006 are shown in Table 4. The definitions of the program's performance targets, external assistance adjustors, and underlying assumptions, as well as Burundi's reporting requirements, are described in the attached TMU. Burundi will avoid incurring overdue financial obligations to the Fund, as well as introducing new exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII of the Fund's Articles of Agreement, and import restrictions for balance of payments purposes. In addition, the authorities stand ready to adopt any new financial or structural measures, in consultation with Fund staff, which may become necessary to ensure program success.

37. The **fifth review** under the PRGF arrangement is scheduled to be completed by end-December 2006 and will be assessed through the observance of the indicative targets for end-June 2006 and the structural performance criterion. The fifth review will focus on the liquidation of the domestic arrears of the budget, progress in the privatization of state assets, the strengthening of public financial management, and the introduction of reforms at the BRB. The sixth review is scheduled to be completed by end-June 2007.

Table 1. Burundi: Performance Criteria and Indicative Targets for 2005

(In billions of Burundi francs, unless otherwise indicated)

	2004	2005											
	Dec.	Mar. 2/			Jun.			Sep. 2/			Dec.		
	Act.	Prog. 1/	Prog. Adj.	Act.	Prog. 1/	Prog. Adj.	Act.	Rev. prog.	Rev. prog. Adj.	Act.	Rev. prog.	Rev. prog. Adj.	Act.
Performance criteria for end-December 2004 and end-June 2005 (indicative targets otherwise)													
Net foreign assets of the BRB (floor; in millions of U.S. dollars) 3/	18.8	23.5	12.4	45.2	15.2	-22.2	29.5	18.1	-4.6	29.5	43.4	-13.6	48.8
Net domestic assets of the BRB (ceiling) 3/	53.8	43.7	55.3	40.8	57.6	96.8	55.8	56.1	80.5	56.8	27.3	90.0	51.7
Net credit from the banking system to the government (ceiling) 3/ 4/	102.2	82.2	87.0	93.5	81.3	115.2	83.7	111.4	139.4	115.0	80.8	155.7	123.0
External payments arrears of the government (ceiling; in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Short-term external debt of the government (ceiling; in millions of U.S. dollars) 5/	0.0	0.0	0.0	0.0	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; cumulative; in millions of U.S. dollars) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets													
Primary balance of the government (ceiling; cumulative from beginning of calendar year) 7/	0.0	-4.2	...	1.9	-4.9	...	-0.2	-24.9	...	-6.6	-31.0	...	-14.6
Government's wage bill (ceiling; cumulative from beginning of calendar year)	58.6	16.3	...	14.7	32.6	...	31.4	56.9	...	49.7	75.5	...	72.61
Adjustors													
External nonproject financial assistance (cumulative since January 2004 in millions of U.S. dollars) 7/ 8/	65.1	106.3	...	95.2	135.3	...	97.9	130.9	...	108.2	193.4	...	136.4
Of which:													
EU	33.3	43.4	...	44.1	53.6	...	44.1	54.3	...	44.1	68.3	...	63.0
World Bank	0.0	14.8	...	16.4	14.8	...	16.4	16.4	...	16.4	51.4	...	16.4
AfDB	0.0	13.3	...	0.0	13.3	...	0.0	14.7	...	9.8	25.2	...	9.8
France	3.8	3.8	...	3.8	7.6	...	3.8	7.6	...	3.8	7.6	...	7.4
Belgium	8.3	8.3	...	8.3	10.9	...	8.3	12.1	...	8.3	12.1	...	8.3
Other (UK)	0.0	0.0	...	0.0	9.7	...	0.0	0.0	...	0.0	0.0	...	1.0
Debt relief (current maturities)	6.0	7.1	...	7.1	9.8	...	9.8	10.2	...	10.2	14.9	...	14.9
Multidonor Trust Fund disbursements (WB)	13.7	15.6	...	15.6	15.6	...	15.6	15.6	...	15.6	15.6	...	15.6
Net accumulation of fiscal arrears (cumulative from end-2003)	-9.5	-12.9	...	-6.1	-13.9	...	-8.6	-12.5	...	-16.1	-26.5	...	-38.7
Net accumulation of fiscal arrears during period	...	-1.0	...	3.4 #	-1.0	...	-2.5	-1.0	...	-7.5	-14.0	...	-22.7
FBu/US$ exchange rate (end-period)	1,100	1,050	...	1,145.3	1,050	...	1,090.6	1,075	...	1,037.3	1,100	...	998
FBu/US$ exchange rate (average for quarter)	1,103	1,050	...	1,139.3	...	...	1,110.5	1,070	...	1,065.9	1,050	...	1,011
U.S. dollar/euro (end-period)	...	1.30	...	1.30	1.30	...	1.21	1.30	...	1.20	1.30	...	1.18
U.S. dollar/SDR (end-period)	...	1.50	...	1.51	1.50	...	1.46	1.50	...	1.45	1.50	...	1.43

1/ As per Country Report No. 05/55.
2/ Indicative targets.
3/ The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the memorandum item. In case of, respectively, a financing excess (shortfall), the floors on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be asjusted downward (upward).
4/ The ceiling on net credit to the government from the banking system will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).
5/ Excluding short-term, import-related trade credits.
6/ With a grant element of less than 50 percent.
7/ As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.
8/ Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 2. Burundi: Structural Performance Criterion and Benchmarks for 2005 for the Third Review Under the PRGF

Measure	Timetable (Month-end deadline)	Status
Structural performance criterion		
• Install a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance, with a link to the BRB, to monitor budget implementation (notably social spending), and produce summary fiscal tables.	October 2005	Not met. System launched January 1, 2006.
Structural benchmarks		
• Begin privatizing coffee sector assets by launching tenders for SOGESTALS, washing stations, and the state share in SODECO.	June 2005	Tenders for sale of two washing stations launched in July. No offers received.
• Complete audited inventory of domestic arrears.	June 2005	Inventory completed May 20, 2005. External audit completed February 20, 2006.
• Publication of the Audit Court's audit report of the 2004 government accounts.	September 2005	December 6, 2005.
• Adopt an action plan defining the new roles of the institutions in the coffee sector (including the OCIBU), which should be in place by the beginning of the 2006 crop year (April 2006), consistent with the coffee sector reform strategy.	November 2005	Not met.
• Begin privatization program (with launch of tenders) of state shares in enterprises in the financial, industrial, and other sectors.	December 2005	Tenders for sale launched but suspended before closing date. Two firms (ALCOVIT and ONAPHA) were privatized in 2005.

Table 3. Burundi: Performance Criteria and Indicative Targets for 2006
(In billions of Burundi francs, unless otherwise indicated)

	2005	2006			
	Dec. Act.	Mar. Proj.	Jun. 1/ Prog.	Sep. 1/ Prog.	Dec. 2/ Prog.
Performance targets					
Net foreign assets of the BRB (floor; in millions of U.S. dollars) 3/	48.9	26.3	40.9	48.0	55.6
Net domestic assets of the BRB (ceiling) 3/	51.7	68.0	69.7	62.8	58.6
Net domestic financing of the government (ceiling) 3/ 4/	10.4	18.3	14.2	36.7	22.9
External payments arrears of the government (ceiling; in millions of U.S. dollars)	0.5	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; in millions of U.S. dollars) 5/	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; in millions of U.S. dollars) 6/	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Primary balance of the government (ceiling; cumulative from beginning of calendar year) 7/	-14.6	-13.4	-32.8	-67.1	-84.8
Government's wage bill (ceiling; cumulative from beginning of calendar year)	72.6	19.6	40.2	71.1	94.8
Adjustors					
External nonproject financial assistance (in millions of U.S. dollars) 7/ 8/					
Cumulative from January 2006		0.2	63.3	74.9	107.8
Of which:					
EU		0.0	12.5	12.5	17.0
World Bank		0.0	35.0	35.0	60.0
AfDB		0.0	0.0	11.0	11.0
France		0.0	0.0	0.0	3.0
Belgium		0.0	2.4	2.4	2.4
UK		0.0	0.0	0.0	0.0
Netherlands		0.0	10.0	10.0	10.0
Other		0.0	0.0	0.0	0.0
Debt relief (current maturities, excluding HIPC)		0.2	3.4	4.1	4.5
Net accumulation of fiscal arrears during period					
Exchange rates					
FBu/US$ (end-period)	1,100.0	1,018	1,000	1,000	1,000
FBu/US$ (period average)	1,050.0	1,006	1,003	1,000	1,000
US$/Euro (end period)	1.18	1.21	1.21	1.21	1.21
US$/SDR (end-period)	1.43	1.44	1.44	1.44	1.44

1/ Indicative targets.
2/ Performance criteria.
3/ The ceiling or the floor will be adjusted to accommodate 100 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the table. In case of, respectively, a financing excess (shortfall), the floors on the stock of net foreign assets of the central bank will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financing will be converted to Burundi francs at the program end-period FBu/U.S. dollar exchange rate.
4/ The ceiling on net domestic financing of the government will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding (TMU).
5/ Excluding short-term, import-related trade credits.
6/ With a grant element of less than 50 percent.
7/ As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.
8/ Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 4. Burundi: Prior Actions for the Third and Fourth Reviews Under the PRGF and Structural Performance Criterion and Benchmarks for 2006

Measure	Timetable (Month-end deadline)	Status
Prior actions		
• Approve the 2006 supplementary budget in accordance with the macroeconomic objectives for 2006, as discussed with IMF staff.		Done; July 7, 2006
• Adoption by the council of ministers of a plan for clearing the domestic arrears of the budget, setting the amount to be cleared and the clearing modalities agreed with IMF staff.		Done; May 26, 2006
• Submit to parliament the new customs code, reflecting the comments of the IMF technical mission on customs administration.		Done; June 22, 2006
• Establish a committee for the coordination and monitoring of the coffee sector reform, with terms of reference, objectives, and operational modalities.		Done; March 30, 2006
• Abolition the technical commissions of OCIBU.		Done; 15 May 2006
• Reform the marketing committee of OCIBU to include representatives of all operators in the coffee sector.		Done; 30 March 2006
• Ministry of Commerce order abolishing the list of SOSUMO sugar wholesalers and establishing the freedom to operate for wholesalers on the basis of a set of technical criteria.		Done; March 21, 2006 by Order 750/270
• Put into effect the new regulation on import procedures of January 24, 2006.		Done; effective 3 April 2006
• Transmit to the IMF the report on the internal audit of the BRB on program data, as specified in the TMU, for end-June and end-December 2005.		Done; effective 5 April 2006
• Adopt action plans for the rehabilitation of noncomplying banks.		Done; effective 12 June 2006
Structural performance criterion		
• Commence tendering of negotiable treasury securities in standard denominations managed by the BRB for the account of the government.	September 2006	
Structural benchmarks		
• Adopt and publish the single exchange system regulation.	June 2006	
• Approval by the council of ministers of a new institutional framework for ISTEEBU and a new code for ISTEEBU employees that will allow them henceforth to produce without interruption the principal macroeconomic indicators.	June 2006	

• Adopt officially, and include in the PRSP, the development plan for statistics prepared by the IMF Statistics Mission in March 2006.	June 2006
• Submit to the National Assembly the revised BRB Charter establishing the independence of the central bank.	September 2006
• Submit to the National Assembly the draft Anti-Money Laundering bill incorporating the comments of the IMF.	September 2006
• Launch the coffee sector privatization program by issuing tenders for sale of the washing stations and shelling factories.	October 2006
• Integrate the payroll in IFMIS.	December 2006

Burundi: Technical Memorandum of Understanding

June 26, 2006

1. This technical memorandum of understanding sets out the definitions of program variables to monitor the implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines (i) the quantitative performance criteria, indicative targets, and applicable adjusters; and (ii) the key assumptions on which the economic program for 2006 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi is based, which is annexed to the letter of June 26, 2006 from the Minister of Finance and the Governor of the BRB to the Managing Director of the International Monetary Fund.

2. The prior actions, the structural performance criteria, and the structural indicators for 2006 are listed in Table 3 of the MEFP.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

3. Quantitative performance criteria under the program are set on the end-December 2006 stocks as set out in Table 1 of the MEFP, as follows:

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

The quarterly targets on the above variables for end-June and September 2006 are indicative.

4. Quantitative indicative targets under the program as set out in Table 1 of the MEFP, are as follows:

- primary budget balance, excluding externally financed projects (floor); and
- the government’s wage bill (ceiling).

Definitions and measurement

5. The **net foreign assets of the BRB** are defined as the difference between (i) foreign exchange assets and gold holdings (valued at market prices); and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). These amounts are valued in terms of U.S. dollars based on the end-December 2005 exchange rate. The net foreign assets of the BRB totaled FBu 48.8 billion, equivalent to US$48.9 million, at end-December 2005, broken down as follows:

	In billions of Burundi francs	In millions of U.S. dollars
Net foreign assets of the BRB	48.8	48.9
Foreign assets	114.3	114.5
Official reserves	112.4	112.7
Foreign currency holdings	3.6	3.6
Deposits with correspondents (excluding IMF)	107.4	107.7
SDR holdings	0.3	0.3
Reserve position with the IMF	0.5	0.5
Gold holdings	0.5	0.5
Other claims	1.9	1.9
Foreign liabilities	65.5	65.6
Liabilities vis-à-vis correspondents (excluding IMF)	6.1	6.2
Counterpart of the use of IMF resources	58.0	58.2
Other liabilities	1.3	1.3

6. The **gross official reserves of the BRB** are defined as those foreign assets that are liquid and freely available to the central bank. At end-December 2005, gross official reserves stood at US$112.7 million.

7. The **net domestic assets of the BRB** are defined as the difference between (i) reserve money, comprising currency in circulation, reserves of commercial banks, and other deposits held at the BRB, and (ii) net foreign assets of the BRB. Net domestic assets of the BRB totaled FBu 51.7 billion at end-December 2005, broken down as follows:

	In billions of Burundi francs
Net domestic assets of the BRB	51.7
Reserve money	100.5
Currency in circulation	67.9
Reserves of commercial banks	30.9
Other nonbank deposits	1.7
Minus: net foreign assets of the BRB	48.8

8. **Net domestic financing of the government** is defined as the sum of the flows from (i) loans, advances, and other credit to the government from the BRB and all of Burundi's

commercial banks; (ii) the change in the outstanding stock of all government securities held by the nonbank public denominated in Burundi francs, including that held by nonresidents; (iii) less government deposits held in the BRB or Burundi's commercial banks at those institutions. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Net domestic financing of the government at end December 2005 totaled FBu 135.8 billion, broken down as follows:

	In millions of Burundi francs
Total	**135.8**
Net banking credit to the government	**123.0**
Central government	136.3
Loans, advances and other credits	173.6
BRB	154.4
Commercial banks	19.3
Deposits	37.4
BRB	35.6
Commercial banks	1.8
Other administrations (net)	-13.2
Nonbank financial institutions	**0.5**
Treasury bonds and certificates	0.5
Others	**12.3**
Postal accounts	2.2
Treasury certificates	10.1

9. The stock of **external payments arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. Arrears for which a clearance framework has been agreed with the creditor or which are subject to rescheduling or restructuring are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that have not been paid. The external payments arrears at end-December 2005 are broken down as follows, showing the actual stock under the heading "technical arrears":

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
Total	0	52.5
Multilateral	0	9.1
International Development Association	0	0.0
AfDB Group	0	0.0
African Development Bank	0	0.0
African Development Fund	0	0.0
Nigeria Trust Fund	0	0.0

External payments arrears	Program definition	Technical arrears
	(In billions of Burundi francs)	
International Monetary Fund	0	0.0
European Union	0	0.0
International Fund for Agricultural Development (IFAD)	0	0.0
Arab Bank for Economic Development in Africa (BADEA)	0	0.0
OPEC Fund	0	8.4
Development Bank of the Great Lakes States (BDEGL)	0	0.7
Bilateral and commercial	0	43.4
Paris Club	0	0.0
French Cooperation Agency (AFD)	0	0.0
Japan (FCEOM)	0	0.0
Russia	0	0.0
Other official bilateral	0	42.9
Abu Dhabi Fund	0	2.5
Kuwait Fund	0	18.4
Saudi Arabia Fund	0	16.6
Libyan Bank	0	5.4
Commercial	0	0.5
AD Consultants	0	0.0
Kreditanstalt für Wiederaufbau AMSAR	0	0.5

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

11. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB, which precludes the contracting of any such debt. This performance criterion applies to the contracting or guaranteeing by the central

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

12. The **stock of short-term external debt,** with a maturity of up to, or equal to, one year, owed by the government is to remain at zero under the program. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of more than one year are considered medium-term or long-term loans. This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leasing). Excluded from this performance criterion are rescheduling arrangements, borrowing from the Fund, and any Burundi franc-denominated treasury securities held by nonresidents. As of end-December 2005, the stock of short-term debt outstanding was nil, as was nonconcessional medium- and long-term debt contracted during the year.

13. **Receipts from privatization** during 2005 totaled FBu 0.4 billion. The 2006 program projects receipts on the order of FBu 3.6 billion, and 50 percent of receipts over and above the projected amount will be used to reduce the domestic borrowing requirement. Any privatization receipts over and above this amount will be used to reduce domestic debt.

14. The government's **primary fiscal balance** is defined as the difference between total government revenue, excluding grants, on the one hand, and noninterest current government expenditure and domestically financed capital expenditure (including through the use of counterpart funds), on the other hand. The primary fiscal balance for 2005 amounted to FBu -14.6 billion, and the target for 2006 is FBu -84.8 billion, broken down as follows:

	2005	2006
Primary budget balance	-14.6	-84.8
Total revenue	172.1	181.5
Minus:		
Noninterest current expenditure	168.6	224.6
Domestically financed capital expenditure	19.5	43.7
Net lending	-1.4	-2.0

15. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, and military personnel of the government, including all allowances and bonuses. The government's wage bill for 2005 totaled FBu 72.6 billion, and the target for 2006 is FBu 94.8 billion, broken down as follows:

	2005	2006
Government wage bill	72.6	94.8
Civilian personnel	41.9	56.9
Military personnel	24.0	21.6
National Police Force	6.7	16.2

External financial assistance adjustor

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

17. External financial assistance (measured in U.S. dollars) 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); (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Disbursements into blocked accounts by donors for the purpose of clearing arrears will not be included as foreign assistance for program monitoring purposes. The assumptions for 2006 are shown below.

Burundi: External Financing Adjustors of Performance Criteria and Indicative Targets
Under the 2006 Program
(In millions of U.S. dollars, cumulated)

	2006			
	Mar. Prog.	Jun. Prog.	Sep. Prog.	Dec. Prog.
External nonproject financial assistance (cumulative)	0.2	63.3	74.9	107.8
Of which:				
EU	0.0	12.5	12.5	17.0
World Bank	0.0	35.0	35.0	60.0
AfDB	0.0	0.0	11.0	11.0
France	0.0	0.0	0.0	3.0
Belgium	0.0	2.4	2.4	2.4
UK	0.0	0.0	0.0	0.0
Netherlands	0.0	10.0	10.0	10.0
Other	0.0	0.0	0.0	0.0
Debt relief (current maturities, excluding HIPC)	0.2	3.4	4.1	4.5
Multidonor Trust Fund disbursements (World Bank)	0.0	0.0	0.0	0.0

Sources: Burundi authorities; and Fund staff estimates.

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

Domestic payments arrears adjustor

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

B. Key Program Assumptions

20. The main program assumptions are drawn from the WEO projections of November 2004 as follows:

		2006			
	2005	Q1	Q2	Q3	Q4
Average export prices					
Coffee (cents per pound)	114.3	112.2	111.9	114.0	116.0
Tea (dollars per kg.)	204.8	197.3	203.2	215.2	203.8
Petroleum (US$ per barrel)	53.4	58.5	61.5	62.3	62.0
End of period					
Dollar per SDR exchange rate	1.43	1.43	1.43	1.43	1.43
Dollar per Euro exchange rate	1.18	1.18	1.18	1.18	1.18
Burundi francs per U. S. dollar exchange rate	997.8	1,000.0	1,000.0	1,000.0	1,000.0

C. Provision of Information to IMF Staff

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

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

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

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

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

- a detailed breakdown of the government wage bill on a commitment basis (Ministry of Finance);
- detailed information on government social spending, in particular on the health and education sectors (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, in interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);
- a detailed breakdown of the stock of domestic payments arrears and cumulative flows from January 1, 2004; the accumulation of new arrears is defined as the difference between commitments and actual payments (on a cash basis, as reported in the cash statement summary—Reddition des comptes) (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Plan/Ministry of Finance);
- an update on the implementation of structural measures planned under the program, as described in the MEFP (REFES).

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

Burundi: Relations with the Fund
(As of May 31, 2006)

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

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

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	13.70	100.00
Holdings	0.02	0.14

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	40.70	52.86

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jan. 23, 2004	Jan. 22, 2007	69.30	40.70
ESAF	Nov. 13, 1991	Nov. 12, 1994	42.70	17.21
SAF	Aug. 8, 1986	Aug. 7, 1989	29.89	29.89

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

	Forthcoming				
	2006	2007	2008	2009	2010
Principal	0.00	0.00	0.00	2.64	6.00
Charges/Interest	0.45	0.70	0.70	0.69	0.66
Total	0.45	0.70	0.70	3.33	6.66

VII. Safeguards Assessments:

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

VIII. Exchange Arrangements

Burundi maintains a managed float exchange regime. The U.S. dollar is the intervention currency. On May 31, 2006, the exchange rate was FBu 1,030.26 to the U.S. dollar. In mid-2000, the authorities began reversing the heavy restrictions put in place during the 1996-99 embargo period by introducing a system of weekly foreign exchange auctions. In 2002, the central bank eliminated the positive list of eligible imports, implemented a single, competitive settlement exchange rate for each weekly auction, and reduced the full surrender requirement for coffee, tea, and cotton exports to 70 percent. In 2003, the central bank eliminated most remaining exchange restrictions on current international transactions and delegated authority to the commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered to 50 percent and eliminated in early 2005. The central bank admitted foreign exchange bureaus to the weekly auctions. Most external payments arrears to bilateral and multilateral creditors were cleared by end-2005.

Burundi availed itself of the transitional arrangements of Article XIV when it joined the Fund in 1962, but no longer maintains exchange restrictions or multiple currency practices under Article XIV. Burundi maintains two multiple currency practices inconsistent with Article VIII, Section 3, arising from or in connection with the current Dutch auction system, and one exchange restriction inconsistent with Article VIII, Section 2(a), resulting from the authorization process that is applied to certain current international transactions. One multiple currency practice results from the fact that no mechanism limits the potential variation of winning bids from differentiating from each other by more than 2 percent. The other multiple currency practice results from the fact that the exchange rate used for government transactions takes place at a rate that may differ by more than 2 percent from market exchange rates. The exchange restriction results from the central bank having discretion to refuse to authorize the sale of foreign exchange for reasons other than in connection with verifying the *bona fide* nature of the transaction. Burundi also maintains certain restrictions for security reasons, and has notified those restrictions to the Fund pursuant to Decision 144-(52/51). An exchange restriction was eliminated on May 30, 2006 and it is understood that the authorities will eliminate a remaining one on ex ante approval of certain transactions and two multiple currency practices shortly. The authorities have not requested, and staff does not propose, approval of the multiple currency practices.

IX. Article IV Consultation

Burundi is on the 24-month cycle. The 2003 Article IV consultation discussions were conducted in Addis Ababa and Bujumbura during the period October 14-29, 2003. The staff report (Country Report No. 04/41) was discussed by the Executive Board on January 23, 2004, along with the consideration of the request for three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). On that occasion, Executive Directors welcomed the progress made in advancing the peace process since the Arusha Agreement in

2000 and commended the authorities for the strong implementation of their post-conflict economic program in 2003. They noted that Burundi still faced formidable challenges, particularly with regard to reducing the heavy external debt burden, absorbing a large number of refugees and internally displaced persons, and demobilizing combatants. They emphasized the critical importance of coffee sector reform.

X. Technical Assistance

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

XI. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	August 2005
Assistance committed	
By all creditors (US$ million)[1/]	826.00
Of which:	
IMF assistance (US$ million)	27.84
(SDR equivalent in millions)	19.26
Completion point date	Floating
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	0.09
Interim assistance	0.09
Completion point balance	--
Additional disbursement of interest income [2/]	--
Total disbursements	0.09

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

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

XII. Resident Representative

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

Burundi: Relations with the World Bank Group

(As of May 8, 2006)

A. Partnership in Burundi's Development Strategy

1. Burundi has emerged from a cycle of politico-ethnic conflicts in August 2000 with the signature by most of the parties involved in the conflict of the Arusha peace agreement. The political transition as disposed in the Arusha agreement has now been peacefully completed. A post-transition constitution has been overwhelmingly approved by a national referendum in February 2005. Communal and parliamentary elections were held in June and July. The President was elected by the Parliament on August 19. The post-transition Government took office on September 1, 2005.

2. As Burundi recovers from its long conflict, the post-transition government is implementing the Interim Poverty Reduction Strategy Paper (I-PRSP) that was completed in November 2003 based on broad consultations, except for some provinces where the consultations were limited due to security reasons. The interim PRSP was discussed by the Boards of the World Bank and the IMF in January 2004. The formulation of the full PRSP was launched in May 2004 under the leadership of the Head of State. With the support of the Bank and other donors, the full PRSP is expected to be completed by mid-2006. The preparation of the full PRSP is well advanced with broad and inclusive consultations being completed. Community participatory and inclusive consultations have been completed and provincial reports are available, as well as the synthesis of the overall consultations. Sectoral and thematic consultations were completed in November 2005. A first draft of the PRSP is being finalized and will be discussed with all stakeholders at national, provincial, and communal levels in order to take into account their comments and recommendations. The full PRSP would be approved by the government during the second quarter of 2006.

3. Based on sound macroeconomic policies and progress in reforming the economy, external financial aid has resumed and culminated with Burundi being granted access to debt relief under the enhanced Heavily Indebted Poor Country Initiative (HIPC Initiative) in August 2005, which will reduce debt by over 90 percent in NPV terms, and scheduled debt service by some US$30-40 million per year for the next thirty years. An Interim Strategy Note (ISN) prepared on the basis of the I-PRSP for FY 2006-07 Bank support to Burundi was approved by the Bank Board on May 3, 2005. The government is intensively using the full-PRSP preparation process to improve coordination of development efforts in the country, including donor-supported activities. Although public expenditures are unevenly aligned with poverty reduction priorities, but there are ongoing efforts to improve alignment. The 2006 budget is specifically linked to the priorities identified in the context of the PRSP under preparation and recent progress in developing sector development policies, in particular in health and education. Moreover, pro-poor expenditures have been identified and increased from 33.6 percent of total primary expenditure in 2005 to 35.5 percent in 2006 revised budget law soon to be approved by the Parliament. Also, the military wage bill-to-GDP ratio has been reduced from about 3.5 percent in 2002 (a peak) to about 2.8 percent in 2005 and 2.3 percent in 2006 revised budget law while the civilian wage bill was increased from 3.5 percent in 2000 to 6.0 percent in 2006 budget law.

4. The Fund is supporting this strategy through a PRGF, and IDA through a series of fast-disbursing and investment operations specifically on budget execution transparency and accountability, post-conflict rehabilitation and reintegration, education, health and social policy reforms, privatization, the environment for employment creation (particularly in rural areas), and sustainable infrastructure. In practice, there is a close collaboration in many areas, particularly those related to growth and poverty reduction.

B. IMF-World Bank Collaboration in Specific Areas

5. Common objectives and the development of post-conflict instruments have led to increased collaboration between the Fund and the World Bank in recent years. The Bank and Fund teams have been closely coordinating their assistance strategies and policy advice and assistance to the government's implementation of the I-PRSP. There is also close coordination and good cooperation in the determination of structural conditionalities, in particular with regard to crucial reforms for the coffee sector. The Bank is leading the policy dialogue on key structural aspects of the reform program. The Fund is leading the policy dialogue on macroeconomic and financial issues, in particular fiscal, monetary and exchange regime policies. Both institutions are providing significant technical assistance in their respective areas. The Fund and the Bank have both contributed to the Diagnostic Study for the Integrated Trade Framework—a review of the policy, regulatory and institutional framework—with the objective of promoting employment-generating trade. Collaboration in 2005 has been intensified in the context of the preparation of Burundi's full PRSP and the HIPC Decision Point Document jointly prepared by the Bank and Fund staff.

C. World Bank Group Strategy

6. The Bank's current FY 2006-07 Interim Strategy Note (ISN) underscores I-PRSP challenges and provides support through two core strategic elements which are: (a) improved security, social stability, and service delivery; and (b) debt relief, economic growth, and diversification. Governance and institutional strengthening are cross-cutting issues that need to be addressed throughout the whole program in order to sustain progress. Preliminary estimates put the funding needs of the ISN at US$170 million for the two years in grant form. Additional financing (in the amount of US$30.6 million equivalent) to the ongoing Public Works and Employment Creation project has been already approved on January 5, 2005. The other planned operations are also expected to be implemented throughout the country, with a focus on ensuring a distribution of benefits across all provinces. These include: in FY06 (i) a Post Conflict Transitional Economic Rehabilitation Grant; and in FY07 (ii) an Education Sector project; and (iii) Community Rehabilitation project. For the following years (FY08-09), a Multi-Sector Infrastructure Rehabilitation, a new Health, an Economic Rehabilitation Grant, and possibly a Private Sector Development projects could be foreseen. It is expected that progress will be made during this period toward the preparation of a full PRSP, which will provide the basis for preparation of a Country Assistance Strategy.

7. As a key element in support of the consolidation of the peace process, the government has established a national Demobilization, Reinsertion, and Reintegration Program (DRRP) within the framework of the Multi-Country Demobilization and Reintegration Program (MDRP) for the greater Great Lakes region to support the demobilization and reintegration of

ex-combatants in Burundi. The DRRP is supported with an IDA grant (US$33 million) and two grants from the Multi-Donor Trust Fund (MDTF) of the MDRP (US$45.5 million). The demobilization program is proceeding satisfactorily, with 19,739 ex-combatants demobilized to date. All child soldiers have been demobilized. In addition, 10,988 of an estimated 29,427 former militia fighters have been disarmed and received severance payments. The process of disarming and dismantling the militia is proceeding satisfactorily after initial difficulties. Further demobilization activities will help to reduce the size of the National Defense Force in 2006 as per the commitments specified in government's letter of demobilization policy to limit the size of the integrated armed forces to 25,000 by 2007. The provision of reintegration assistance to demobilized ex-combatants has been proceeding too slowly to date. Efforts are under way to scale up and accelerate the provision of this support.

8. An Economic Rehabilitation Credit (ERC), amounting to US$54 million, of which US$20 million was disbursed during 2002 and US$20 million in April 2003, and a final floating tranche released in January 2005, was intended to support economic recovery through balance of payment support; and the counterpart funds generated from ERC foreign exchange auctions by the Central Bank (BRB) used to finance the government's specific development programs. This project was closed in end-December 2005. The Bank also manages a trust fund for arrears clearance and debt service to multilateral development banks (particularly the African Development Bank (AfDB)). Besides the strong partnership with the Fund, the Bank is collaborating with a number of donors, including with the European Union. A new Economic Reform Support Grant (ERSG) is currently under preparation and expected to be discussed by the Board early in the third quarter of 2006. The proposed grant aims at supporting the Government in implementing its interim PRSP in four areas: (i) improving public expenditure management and their impact on the poor; (ii) reforming cash crop sectors (coffee, tea, and cotton); (iii) reviving the private sector; and (iv) reforming public enterprises through State divestiture and private/public partnerships.

9. Burundi has a relatively large but young active portfolio, ranging from infrastructure through public sector management to social sectors. The current IDA portfolio consists of ten projects (see table below) for a total commitment of US$329 million and an undisbursed amount of about US$161.22 million, reflecting the Bank's re-engagement in Burundi after almost a decade of civil strife.

Nonlending activities

8. Bank assistance also emphasizes *nonlending activities and advisory services*, including those under ongoing operations, plus through trust funds and grants, to improve understanding of the socioeconomic context, rebuild the knowledge base to support the policy dialogue, and design effective poverty reduction strategies. Ongoing advisory services and economic and sector work include: strengthening public expenditure management; providing support to the PRSP process, specifically the consultation and participatory diagnostic processes; and a study on sources of growth; a post-conflict social sector and poverty assessment, and a debt sustainability analysis.

Active Portfolio in Burundi—IDA Financing
(As of May 8, 2006)
(In millions of U.S. dollars, unless otherwise indicated)

Project Name	Approval Fiscal Year	Closing Date	Net Commit-ment	Of which: Grants	Un-disbursed	Disbursed in Fiscal Year 06
Health & Population II	1995	6/30/06	30.80	9.50	3.46	3.32
BURSAP II (including supplemental)	2000	6/30/06	26.20	14.00	0.0	6.85
Regional Trade Facilitation	2001	06/30/11	15.00	0.00	5.22	1.76
Public Works and Employment Creation (including additional)	2001	12/31/07	70.60	30.60	27.46	7.98
HIV/AIDS and Orphans	2002	12/31/06	36.00	0.00	7.57	8.46
Economic Management Support	2004	07/31/09	26.00	0.00	23.22	1.05
Road Sector Development	2004	12/31/09	51.40	0.00	43.40	5.49
Demobilization and Reintegration	2004	12/31/08	33.00	33.00	20.64	1.19
Agriculture Rehabilitation and Sustainable Land Management	2005	10/31/10	35.00	35.00	26.52	4.23
Agriculture Rehabilitation and Support	2005	10/31/10	5.00	5.00	3.73	0.90

IFC

9. Burundi is a member of IFC since 1975. In the recent past years, IFC holds a US$1 million equity portion in *Verreries du Burundi* (glass), which is not sellable owing to the poor performance of this public enterprise. IFC have also been requested to provide to the Burundi private sector a term loan of U.S. dollars 741,000 for two projects in agriculture and fisheries (AEF Florex and AEF V & F Export). With the peaceful end of the transition, prospects for IFC involvement in Burundi are improving. An IFC mission was conducted in January 2005 to discuss two areas of possible IFC intervention: (i) support to the country's privatization program; and (ii) potential investment in Burundi largest commercial Bank (*Banque de Crédit de Bujumbura, BCB*).

MIGA

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

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Burundi: Relations with the African Development Bank Group
(As of April 30, 2006)

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

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

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

African Development Bank Operations in Burundi

	Outstanding loans	Past-due obligations
	(In millions of SDRs)	
African Development Bank	0.0	0
African Development Fund	147.30	0
Nigerian Trust Fund	0.17	0
Total	147.47	0

Burundi: Statistical Issues

While data provision to the Fund is now broadly adequate for surveillance purposes, shortcomings in the national accounts, government finance, and balance of payments statistics hinder the monitoring of economic developments. A multisector STA mission in November-December 2004 found that staffing shortages, insufficient funding, and lack of equipment hamper the production and dissemination of macroeconomic statistics. The mission also noted poor coordination among institutions responsible for the compilation of statistics.

In February 2005, the authorities indicated their interest in participating in the General Data Dissemination System (GDDS). In March 2006, a STA mission assisted the authorities in preparing metadata and, in collaboration with the World Bank and donors, helped develop a comprehensive medium-term statistical development action plan. The authorities will refer to the action plan in their Poverty Reduction Strategy Paper and, once finalized, will post it on national websites. Burundi is expected to become a GDDS participant in July 2006.

Outstanding statistical issues

Real sector

Serious deficiencies in real sector data handicap analysis and macroeconomic management, with national accounts last compiled for 1998. Source data on agriculture, the most important activity, is extremely weak. Since 1998, Burundi has reported annual national accounts estimates to the Fund with about a three-month lag, but these are derived from a macroeconomic projection model maintained by the Ministry of Finance. The consumer prices index (CPI) is compiled on a monthly basis, with coverage limited to the capital city; weights are based on an outdated 1991 household expenditure survey. There are no producer price indices, and data on employment are out of date.

Government finance

Government finance statistics are compiled by the Banque de la République du Burundi (BRB) using source data from the Ministry of Finance. Computerized ledgers are seldom maintained by ministries, preventing establishment of balances and other accounting controls. Limited accounting information is available on extra-budgetary units. The absence of detailed information on revenue and expenditure reduces the transparency of government accounts. There are also problems in recording arrears on external debt and current expenditure financed by foreign grants, leading to significant discrepancies between the balance of revenue and expenditure and financing estimates. An interim public financial management system was implemented in 2005 and the Ministry of Finance intends to produce the government accounts based on the new system. Government finance statistics transactions data up to the fourth quarter of 2004 have been reported in the *International*

Finance Statistics, with government debt figures reported to the second quarter of 2005. No data have been reported for publication in the *Government Finance Statistics Yearbook* since 1999.

Monetary accounts

The institutional coverage of monetary statistics is deficient in several respects: data on credit and savings cooperatives are not collected; the sectoral classification of public entities and financial corporations in the BRB's accounts does not reflect the current methodology for monetary statistics; and other depository corporations report their monthly balance sheets using outdated formats. Partly as a result of insufficient computer equipment and staff constraints at BRB, only a few of the principal recommendations of previous technical assistance missions have been fully implemented. However, the BRB is well advanced in the process of submitting monetary statistics using the new Standardized Report Forms (SRFs). The recent second provisional submissions of SRFs covering 15 months of monetary statistics (January 2005 through March 2006) signal the BRB's commitment to adopt the *Monetary and Financial Statistics Manual* methodology.

Balance of payments

Annual balance of payments and international investment position statistics are compiled according to the fourth edition of the *Balance of Payments Manual (BPM4)* on the basis of limited information. Merchandise trade statistics are derived from customs data, but no adjustments are made for unrecorded international trade flows such as gifts in kind that do not go through the banking system. Another issue is the appropriate treatment for exports of nonmonetary gold recorded in customs statistics since the gold is neither produced locally, nor recorded in imports. Data for services are collected mostly through bank settlement reports, and appear to be insufficient. Income estimates are almost exclusively derived from monthly bank settlement reports. For both services and income, the accuracy of the source data is not routinely assessed against other available data sources.

A December 2005 mission assisted the BRB in (1) improving information collected through bank reports, and (2) preparing and launching surveys for capturing and/or improving data on services, income, current and capital transfers, enterprise investment and external debt. It also assisted the BRB in converting the published data of Burundi's 2004 balance of payments into a detailed and documented *BPM5* presentation. It is now expected that the BRB will soon begin compiling balance of payments statistics according to the fifth edition of the *Balance of Payments Manual*.

Burundi: Table of Common Indicators Required for Surveillance
(As of May 31, 2006)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2005	Feb. 2006	M	M	M
Reserve/Base Money	Mar. 2006	May. 2006	M	M	M
Broad Money	Mar. 2006	May. 2006	M	M	M
Central Bank Balance Sheet	Mar. 2006	May. 2006	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2006	May. 2006	M	M	M
Interest Rates[2]	Apr. 2006	May. 2006	M	M	M
Consumer Price Index	Feb. 2005	May. 2006	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	Sep. 2005	Nov. 2005	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	NA	NA	NA	NA	NA
External Current Account Balance	2004	Nov. 2005	A	A	A
Exports and Imports of Goods and Services	Nov. 05	Dec. 05	M	M	M
GDP/GNP	1998	Sep. 2003	A	A	A
Gross External Debt	Oct. 2005	Dec. 2005	M	M	A

[1]Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[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] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

Burundi: Debt Sustainability Analysis for Low-Income Countries Framework (LIC DSA)

1. **This LIC DSA assesses the external and public debt dynamics of Burundi using the forward-looking framework for debt sustainability for low-income countries**.[1] Burundi remains at high risk of debt distress, even after the full delivery of debt relief under the HIPC Initiative. Assuming additional debt relief under MDRI, the risk of debt distress would ease, but still remain elevated. The LIC DSA updates the analysis presented in the HIPC decision point document for Burundi of July 2005.[2] Three key differences underpin the results of this analysis from the previous: (i) the baseline scenario assumes a substantial scaling up of aid inflows, and larger current account deficits and primary fiscal deficits, to be financed mainly with additional grants and concessional loans in the medium term; (ii) real growth would average 6.5 percent in the medium term and 6 percent in the long term, about 1 percent higher than in the decision point baseline, reflecting the combination of higher external financial assistance and investment, and a strong sustained reform effort; (iii) the HIPC completion point is expected to be reached in mid-2007, one year later than the assumption at the decision point.

Baseline scenario

2. **The baseline scenario reflects continued growth of real GDP sustained by an increase in export volumes, and financing in the form of grants or highly concessional borrowing** (Box 1). The medium-term outlook envisages strong economic growth at 6.5 percent per annum. Growth would be sustained by the consolidation of the peace process, macroeconomic stability, a deepening of structural reforms in the banking sector, public investment in infrastructure, reforms in agricultural export sectors, and strong growth of nontraditional exports. Public investment would average 10.7 percent of GDP in 2006-16, financed through the fiscal space created by aid (grants and concessional loans) inflows, HIPC debt relief and continued strong tax revenue performance. Exports, underpinned by new investment and sustained reforms, are projected to drive growth over the long term assuming significant development of nontraditional sectors. The baseline assumes that prices

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[1] See *Review of Low-Income Country Debt Sustainability Framework and Implications for the Multilateral Debt Relief Initiative (MDRI)*. For additional information on the LIC DSA framework, see *The Acting Chairs Summing Up, Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations*. The Bank's Executive Board endorsed the framework on April 12, 2005. The following joint Fund-World Bank staff papers describe the characteristics of the framework: *Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications*, *Debt Sustainability in Low-Income Countries—Further Considerations on an Operational Framework and Policy Implications*, and *Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations*. This DSA was prepared jointly by the staffs of the Fund and the Bank.

[2] See *Burundi: Decision Point Document for the Enhanced Initiative for Heavily Indebted Poor Countries*, July 11, 2005.

of the main exports would remain in line with recent market developments and coffee prices would fetch a premium beginning in 2008. Privatization would further enhance productivity and increase production and quality in the coffee and tea sectors. Reforms in the banking sector and limited domestic public borrowing would increase the availability of credit to the private sector, sustaining private investment.

Box 1. Main Assumptions in the Debt Sustainability Analysis

Real GDP growth averages 6.0 percent over 2006–26, underpinned by a peacetime broad-based recovery in agricultural production and other private sector activities.

CPI inflation (end-period) is projected to rise from 1.1 percent in 2005 to 8.7 percent in 2006, and subsequently to stabilize at 4 percent from 2007 and remain at that level through 2026.

Fiscal policy aims at restructuring the government's spending priorities while maintaining macroeconomic stability. Revenues, excluding grants, are assumed to rise gradually from 20 percent of GDP in 2005 to 21.6 percent of GDP by 2026.

Gross official external financing (grants plus loan disbursements) is expected to decline from 25.2 percent of GDP in 2006 to 16.8 percent in 2007 and then gradually decline over the period 2008-26 to 1.0 percent of GDP in 2026.

Official financing: program financing would be only grants in 2007-15 (excluding the IMF), 50 percent grants and 50 percent loans on IDA or comparable terms during 2016–26. Project loans are assumed to be entirely at concessional rates on IDA or comparable terms. The financing gap would be only partially covered by MDRI assistance.

Export receipts are expected to increase sharply in 2006-07 and then to rise more gradually at 10-12 percent per annum in 2008-26, with coffee quality gradually improving, reflecting the impact of the sector's reform, and the re-emergence of a premium over world prices after 2008. The composition of exports would gradually shift from coffee and tea to other agricultural products, processed foods, and light manufactures. In volume terms, export growth would average 11.5 percent a year over the projection period. Exports of goods and services would rise from 11.9 percent of GDP in 2006 to 20.8 percent in 2026.

Imports of goods and services are projected to average 50 percent of GDP in 2006–07 and with emergency assistance and reconstruction-related imports winding down to decline to 34 percent of GDP in 2026. In volume terms, imports would rise on average by 5.5 percent a year from 2008 onward, following the 2006-07 period of consolidation.

3. **External concessional inflows would finance increased public investment and sustain current account and primary fiscal deficits.** Gross external financing would average 12 percent of GDP per annum (about US$175 million) over 2006-16, compared with 13 percent (US$175 million) assumed in the 2005 LIC DSA, with grant financing making up about 90 percent of total external financing. In 2016-26, total external financing would decrease to 3 percent of GDP per annum on average, with the grant share at about 80 percent of the total. Gross investment and national savings would gradually rise to about 22 and 10 percent of GDP, respectively, by 2026. The current account deficit is projected to widen initially and average 15 percent of GDP in 2006–16, and then decline to 12 percent in 2026. The overall fiscal balance is projected to remain close to zero throughout the period.

4. Unless otherwise indicated, all debt ratios in this DSA assume that Burundi will reach the enhanced HIPC completion point in mid-2007, and would then be eligible for relief under the MDRI.

External debt sustainability assessment

5. **The results under the baseline scenario indicate that, even after full delivery of HIPC assistance, Burundi faces a considerable risk of debt distress.** The NPV of debt-to-exports ratio remains above the indicative threshold for countries with comparable policies and institutions for a considerable period of time, before falling below it in 2013 (Box 2) and decreasing further to 76 percent by 2026. Even though all other external debt burden indicators are below their respective thresholds during the projection period, the NPV of debt-to-exports ratio indicates that even after HIPC relief, and assuming future financing on highly concessional terms, debt distress would remain a concern in the long term.

Box 2: Summary of Baseline Debt Sustainability Indicators 1/

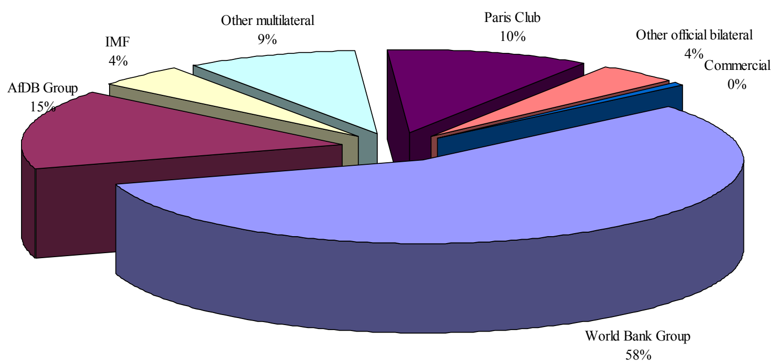
	Indicative Threshold 2/	2006	2016	2026	Average 2006-26
NPV of debt to GDP	30	16.6	15.3	19.5	17.7
NPV of debt to exports	100	139.3	93.7	93.7	109.3
NPV of debt to revenue	200	90.2	72.0	72.2	82.4
Debt service to exports	15	8.3	4.0	4.2	5.1
Debt service to revenue	25	8.2	6.9	6.0	7.4

1/ All debt indicators assume the full delivery of HIPC relief and refer to the NPV of public and publicly guaranteed external debt.
2/ Threshold over which countries with similar evaluations of policies and institutions would have at least a 25 percent chance of having a prolonged incident of debt distress in the coming year. Burundi lies within the bottom quintile of countries ranked by the World Bank's Country Policy and Institutional Assessment Index (CPIA).

6. **At end-2005, Burundi's stock of public and publicly guaranteed (PPG) external debt was US$1,427 million, US$43 million higher than at end-2004.** New borrowing includes disbursements under the PRGF arrangement and on already approved credits from IDA and the African Development Fund. Simulating the full delivery of HIPC assistance immediately, the debt would amount to US$101 million at end-2005 in NPV terms, corresponding to 12.6 percent of GDP and 110.9 percent of exports. Reflecting debt relief and strong export performance in 2005, debt burden indicators for 2005 have substantially improved with respect to projected ratios in the 2005 LIC DSA. The ratio of debt service to exports in 2005 was 47.1 percent (Table 1 and Figure 1), reflecting interim relief provided by creditors in 2005. Debt sustainability indicators are projected to worsen considerably in 2006

because of expected new borrowing of US$72 million (US$43 million in NPV terms),[3] but to trend down steadily after 2006 until 2010, after which they remain broadly stable. The profiles of the debt and debt-service ratios over the long term are as follows:

Figure. Burundi: Composition of Stock of External Debt at End-December 2005 1/
Nominal Value of debt: US$1,426.7 million



Sources: Burundi authorities; and staff estimates.
1/ Before HIPC relief

- ***The NPV of debt-to-exports indicator remains above the indicative threshold until 2013, and then hovers around the indicative threshold.*** The NPV of debt-to-exports declines from 139.3 percent at end-2006 to 93.7 percent in 2026.

- ***The external debt-service indicator suggests a more modest and manageable debt burden both in the short and medium term.*** Public external debt service is projected to average about 5.1 percent of exports during 2006-26; the projected trajectory shows an initial decline and then an increase during the years of the repayment of disbursements under the PRGF arrangement. Generally, the relatively low debt-service-to-exports indicator reflects: (i) a stable and relatively high grant element in the debt stock resulting in a relatively low debt service requirement, and (ii) the cumulative effect of high export growth during the period when debt service requirements increase as a result of the end of grace periods. The external debt-service-to-fiscal-revenues ratio (including grants) follows a broadly similar trajectory and is well below the indicative threshold.

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[3] The new borrowing includes disbursements under the PRGF arrangement and World Bank credits that were initially expected to be disbursed in 2005, but were delayed on account of the political transition.

- ***The ratio of the NPV of debt to GDP is projected to*** **decline to 13.4 percent in 2014, before rising to about 20 percent in 2026.** The indicators remain consistently below the country specific threshold.

7. **Alternative scenarios indicate that less concessional borrowing substantially increases the risk of debt distress**.[4] An alternative scenario shows the effect on debt indicators of borrowing at 2 percent higher interest rates during the projection period. Borrowing at less concessional terms would considerably increase the risk of debt distress for Burundi, with the NPV of debt-to-GDP ratios reaching 30 percent by 2026, compared to 19 percent in the baseline, and the NPV of debt-to-exports ratio remaining above the policy-dependent threshold (Table 2 and Figure 1). This scenario highlights the risk of borrowing at less concessional terms after the reduction of the external debt burden as a result of debt relief and the availability of grant financing by IDA and other donors. This would suggest that Burundi should avoid nonconcessional borrowing after HIPC relief. It also points to the need for creditors to align their lending with the borrower's debt sustainability situation.[5]

8. **Stress tests signal the vulnerability of Burundi to adverse developments.** Burundi's debt sustainability indicators experience a considerable deterioration under stress tests assuming lower GDP and export growth (Table 2). For the NPV of debt-to-GDP ratio, there is a sizeable increase relative to the baseline when all the main parameters determining the debt dynamics are assumed to be one-half standard deviation below their respective historical averages during the period 2006-07 (the most extreme test in Figure 1, Panel 1). Significant increases in the NPV of external debt-to-exports and debt service-to-exports ratios are observed when exports are assumed to grow at the historical average minus one standard deviation. In particular, under this stress test (the most extreme test in Figure 1, Panels 2 and 3), the debt-service-to-exports ratio rises above the threshold during 2011–15, before declining slightly below the threshold, signifying a considerable risk to external liquidity in the event of sustained overall macroeconomic underperformance.

Fiscal sustainability analysis

9. **The baseline macroeconomic scenario (Table 3 and Figure 2) assumes a strong revenue performance and financing of the reconstruction effort and poverty reduction**

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[4] The historical scenario, which assumes key variables at their historical average from 2000 (signing of the Arusha Peace Accord) to 2005, shows debt dynamics that would substantially improve Burundi's net external position. This is a somewhat mechanical result stemming from the scenario's standard assumption of a reduced current account deficit with respect to the baseline, while maintaining the same level of grant financing as in the baseline.

[5] See *IDA Countries and Non Concessional Debt: Dealing with the Free Rider Problem in the Context of IDA 14 Grants*, February 2006, and *Review of Low-Income Country Debt Sustainability Framework and Implications for the Multilateral Debt Relief Initiative (MDRI*) (IDA/R2006-0046).

in the medium to long term primarily with grants. This would allow the public sector borrowing requirement to fall over time, while keeping expenditures consistent both with the government's poverty reduction strategy and with macroeconomic stability. In particular, it is assumed that revenues as a percentage of GDP rise from 20 percent in 2005 to 22 percent in 2026 and that borrowing decreases from 7.5 percent of GDP in 2006 to 3.4 percent of GDP on average between 2007 and 2026.

10. **Given the relatively strong revenue effort, public debt (external and domestic) burden indicators are projected to remain below their respective indicative thresholds.**[6] The NPV of debt-to-revenue ratio is projected to drop from 90 percent in 2006 to 72 percent in 2026, and the debt service-to-revenue ratio is projected to decline from 8 percent in 2006 to 6 percent in 2026.

11. **As in the external debt sustainability analysis, alternative scenarios and bound tests signal a significant increase in Burundi's risk of debt distress over the medium term.** A lower growth scenario that assumes long-term growth at 5.5 percent, one-half percentage point less than the baseline, indicates that the NPV of debt-to-GDP ratio would exceed the policy-dependent threshold. The scenario highlights the risk of failing to achieve sustained long-term growth. In effect, unless the ambitious scaling-up of investment expenditure translates into the projected rate of GDP growth, the investment would not be affordable or possibly even sustainable given the high level of grant financing assumed in the baseline.

12. **Other stress tests highlight the negative impact of temporary shocks on debt burden indicators**. In particular, a 30 percent real depreciation represents the most extreme stress test. A one-off increase of debt-creating flows by 10 percent of GDP, and a recession with GDP growth equal to the historical average minus one standard deviation in 2007–08 also signal increased risk of debt distress over the medium term.

Impact of the full delivery of debt relief under the Multilateral Debt Relief Initiative (MDRI)

13. **Burundi would be eligible for debt relief under MDRI from the IMF, IDA, and the AfDF after reaching the completion point.**[7] With the HIPC completion point expected in June 2007, debt relief under HIPC and MDRI would amount to a stock of debt reduction of US$921 million, with debt relief under the HIPC Initiative amounting to US$848 million

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[6] In the LIC DSA methodology, the ratio of debt service to revenue is calculated with revenue including budgetary grants. Under the HIPC DSA framework, grants are excluded.

[7] The implementation of the MDRI is described in http://www.imf.org/external/np/pp/eng/2005/110105.htm. The implementation of the MDRI in IDA is described in *IDA's Implementation of the Multilateral Debt Relief Initiative*, March 14, 2006. The implementation of the MDRI in AfDF is described in *ADF-X Addition to the ADF Resources Financing the Multilateral Debt Relief Initiative,* March 10, 2006.

and debt relief under MDRI estimated at US$73 million.[8] Under the HIPC Initiative, Burundi was assessed to be eligible for debt relief equivalent to 91.5 percent of the NPV of debt outstanding at end-2004. The additional effect of MDRI is therefore estimated to be modest, and would represent an average debt service saving of US$2.5 million dollars in 2007-23 or about one percent of exports.[9] A one-year delay in reaching the completion point would imply losing US$2.7 million in additional multilateral debt service relief, beyond HIPC.

Text Table 1. Burundi: Multilateral Debt Relief under MDRI and HIPC at the Completion Point 1/
(In millions of US dollars)

	Additional Impact of MDRI	HIPC	Total
IMF	11	28	39
IDA 2/	42	636	678
AfDF 3/	11	186	197
Total	**64**	**850**	**914**

Source: Staff estimates.

1/ Completion point expected in June 2007.

2/ Expected MDRI implementation date in July 2007.

3/ Expected MDRI implementation date in Jan. 2008

14. **The additional debt relief under MDRI would moderately reduce the risk of debt distress for Burundi.** Under MDRI, IDA and the AfDF would reduce their gross annual allocation by the amount of debt-service relief provided.[10] If additional finance by other

[8] This alternative baseline assumes that MDRI debt relief from the IMF would be provided at the completion point date in June 2007; debt relief from IDA is implemented starting in July 2007 through the forgiveness of the debt service payments on the debt outstanding and disbursed (DOD) as of end-December 2003. As for the African Development Fund, it is assumed that debt service payments on the DOD as of end-December 2004 would be cancelled from January 1, 2008.

[9] This estimate and text table 1, underestimate the combined debt relief of MDRI and HIPC assistance from the IMF and hence the reduction of debt distress. The estimate of debt relief from the IMF is the amount related to the elimination of the stock of debt owed to the IMF at end-2004. Under the provisions of the IMF's Instrument to Establish the MDRI Trust (Decision No. 13588-(05/99) for a member that has both pre- and post-MDRI cutoff-date debt to the IMF that is to be covered by HIPC assistance, HIPC debt relief disbursed by the IMF at the completion point would be allocated in proportion to the ratio between pre- and post-cutoff-date debt. As a result, relief on end-2004 debt owed to the IMF would be disbursed by the IMF in about equal amounts from MDRI and HIPC assistance (US$40 million in total). The remaining amount of HIPC assistance to be disbursed by the IMF would be about US$11 million.

[10] See *IDA's Implementation of the Multilateral Debt Relief Initiative*, March 14, 2006; and *ADF-X Addition to the ADF Resources Financing the Multilateral Debt Relief Initiative,* March 10, 2006.

donors maintained total future borrowing as in the baseline, MDRI would lower the debt burden indicators modestly (Text Table 2). The ratio of the NPV of external debt to exports would be 30 percentage points lower than in the baseline, and would fall below the policy-dependent threshold in 2010, only three years earlier than in the baseline, as well as remain below thereafter. If lower financing from IDA and the AfDF were not compensated by additional resources from other donors, the debt burden indicators would decrease further.

Text Table 2. Burundi: Impact of the full provision of MDRI on the baseline scenario 1/
(In percent)

	2006	2007	2008	2009	2010	2011	2016	2021	2026	Average 2006–26
NPV of debt-to-GDP ratio										
Before MDRI	16.6	17.8	17.9	17.8	17.4	16.5	15.3	20.3	19.5	17.7
After MDRI	16.6	13.1	13.6	13.8	13.8	13.4	12.9	15.1	15.0	14.1
NPV of debt-to-exports ratio										
Before MDRI	139.3	136.9	133.9	128.5	121.3	111.4	93.7	111.3	93.7	109.3
After MDRI	139.3	100.9	101.9	100.1	96.3	90.2	78.6	82.5	74.5	87.3
Debt service-to-exports ratio										
Before MDRI	8.3	3.9	3.8	3.6	4.3	7.7	4.0	4.5	4.2	5.1
After MDRI	8.3	2.9	2.2	2.1	3.0	5.6	3.1	3.8	3.6	3.9

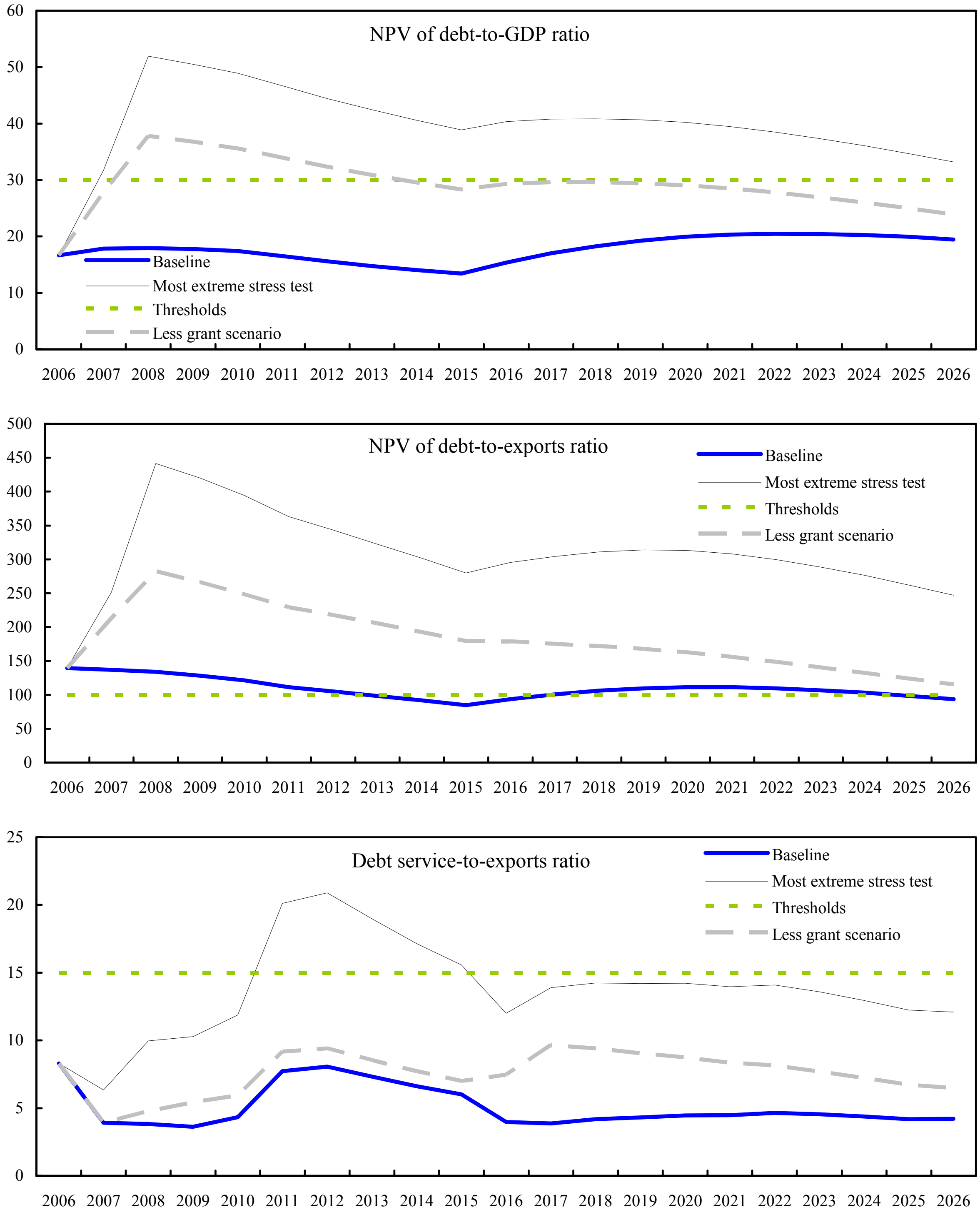
Source: Staff estimates and projections
1/ MDRI estimates assume completion point in June 2007.

Conclusion

15. **Burundi's NPV of external debt-to-exports ratio after enhanced HIPC assistance is projected to remain above its indicative threshold over the period 2005-13**. In addition, the DSA indicates that adverse shocks would significantly affect the debt sustainability indicators. For these reasons Burundi is viewed as being at high risk of debt distress. The fiscal sustainability indicators for total (domestic and external) debt suggest a more robust position, reflecting a strong domestic revenue effort. However, as reflected in the external debt indicators, the foreign exchange constraint could be binding. Indeed, the external debt sustainability indicators suggest that particular attention be given to exports as the driver of overall growth.

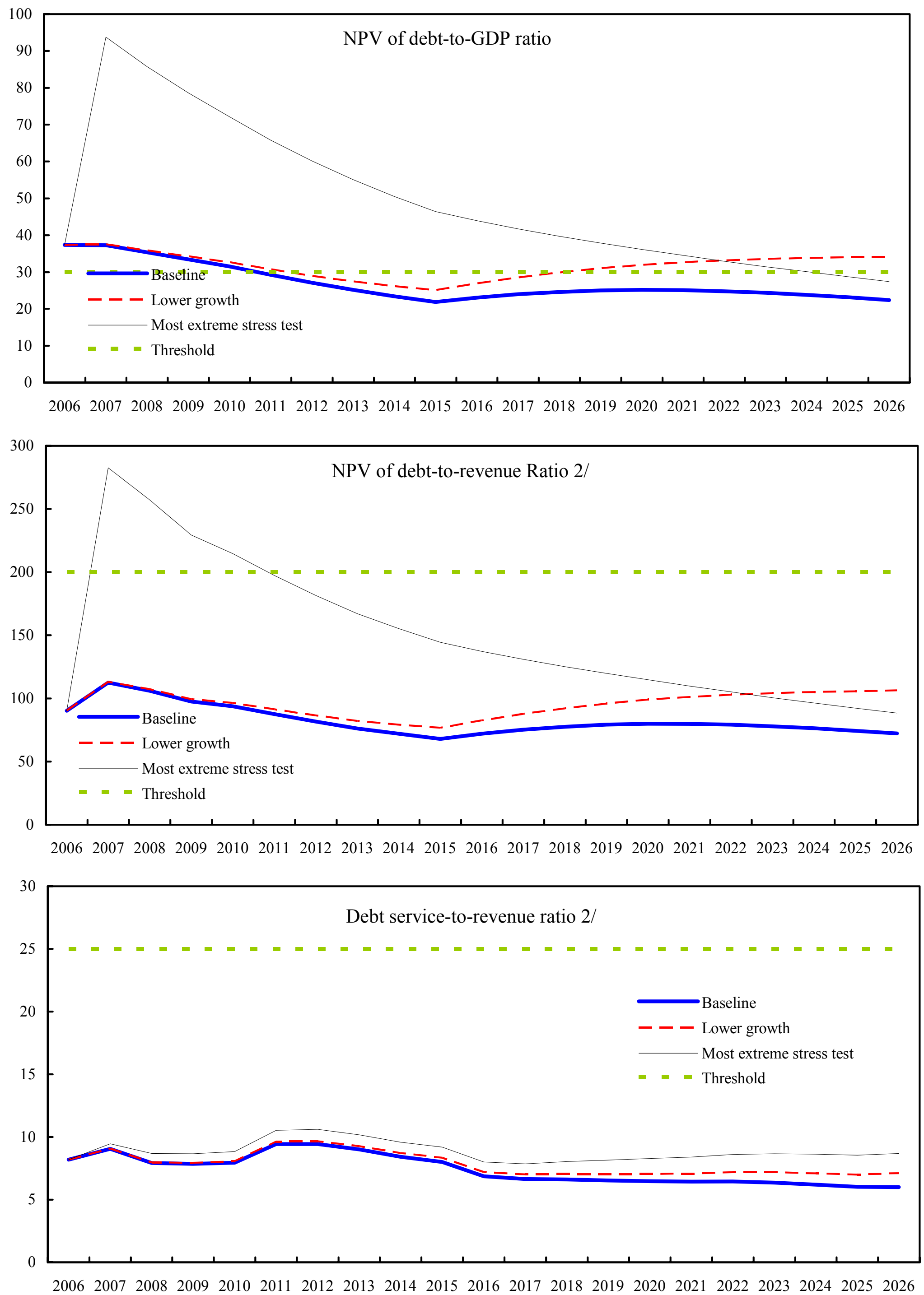
16. The DSA indicates that in order for Burundi to lower its high debt stock ratios with respect to exports and to maintain the other debt indicators below their respective thresholds, particular emphasis needs to be placed on four aspects of future economic performance. First, the authorities will need to implement a strong and sustained reform effort, especially to develop a diversified export base, to support robust growth in exports and GDP. Second, the authorities need to implement prudent fiscal and monetary policies to ensure fiscal discipline and macroeconomic stability. Third, together with prudent debt management, future financing needs to be in the form of grants and highly concessional loans, except in limited justifiable cases in outer years. Fourth, attention should be given to strengthening policies and institutions, which would raise the indicative debt thresholds for the risk of debt distress.

Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2006–26
(In percent)



Source: Staff projections and simulations.

Figure 2. Burundi: Fiscal Indicators of Public Debt Under Alternative Scenarios, 2006–26 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

Table 1. Burundi: External Debt Sustainability Framework, Baseline Scenario, 2006-26 1/
(In percent of GDP, unless otherwise indicated)

		Actual		Historical	Standard	Projections									
	#	2004	2005	Average 6/	Deviation 6/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
External debt (nominal) 1/	...	208.3	178.5			156.5	34.7	34.2	33.2	32.1	30.5		28.7	35.5	
Of which : public and publicly guaranteed (PPG)	...	208.3	178.5			156.5	34.7	34.2	33.2	32.1	30.5		28.7	35.5	
Change in external debt	...	-18.8	-29.8			-22.0	-121.8	-0.5	-1.0	-1.1	-1.6		4.4	-1.2	
Identified net debt-creating flows	...	-17.1	-26.5			7.6	4.9	9.8	10.4	11.1	10.7		15.2	8.8	
Noninterest current account deficit	...	6.6	9.1	4.2	3.1	17.0	16.0	13.8	14.4	15.2	14.8	15.2	19.0	12.1	14.8
Deficit in balance of goods and services	...	24.3	33.9			37.2	37.3	36.1	35.1	33.4	30.9		22.8	13.2	
Exports	...	9.6	11.4			11.9	13.0	13.4	13.8	14.3	14.8		16.4	20.8	
Imports	...	33.9	45.3			49.1	50.3	49.5	48.9	47.7	45.7		39.1	34.0	
Net current transfers (negative = inflow)	...	-17.4	-23.8	-10.2	7.3	-20.4	-21.6	-22.5	-20.9	-18.5	-16.4	-20.0	-3.7	-0.7	-5.0
Other current account flows (negative = net inflow)	...	-0.3	-1.0			0.2	0.3	0.2	0.2	0.3	0.2		-0.1	-0.4	
Net FDI (negative = inflow)	...	-1.5	-1.9	-0.5	0.8	-0.8	-1.9	-2.0	-2.1	-2.2	-2.4	-1.9	-2.6	-1.5	-2.0
Endogenous debt dynamics 2/	...	-22.3	-33.7			-8.6	-9.2	-2.0	-1.9	-1.8	-1.7		-1.2	-1.8	
Contribution from nominal interest rate	...	1.5	1.4			0.5	0.2	0.2	0.2	0.2	0.2		0.1	0.2	
Contribution from real GDP growth	...	-9.8	-1.6			-9.1	-9.5	-2.2	-2.1	-2.0	-1.9		-1.4	-2.0	
Contribution from price and exchange rate changes	...	-13.9	-33.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	...	-1.7	-3.3			-29.6	-126.6	-10.4	-11.4	-12.2	-12.3		-10.8	-10.0	
Of which : exceptional financing	...	-16.0	-19.8			-3.3	-115.7	-3.3	-3.1	-3.3	-3.4		-2.2	-0.9	
Of which : capital grants		-7.4	-3.3			-8.5	-10.7	-11.9	-12.8	-12.8	-12.1 #		-9.6	-5.2	
NPV of external debt 4/	...	...	10.7			16.6	17.8	17.9	17.8	17.4	16.5		15.3	19.5	
In percent of exports	...	...	93.6			139.3	136.9	133.9	128.5	121.3	111.4		93.7	93.7	
NPV of PPG external debt	...	...	10.7			16.6	17.8	17.9	17.8	17.4	16.5		15.3	19.5	
In percent of exports	...	...	93.6			139.3	136.9	133.9	128.5	121.3	111.4		93.7	93.7	
Debt service-to-exports ratio (in percent)	...	109.2	47.1			8.3	3.9	3.8	3.6	4.3	7.7		4.0	4.2	
PPG debt service-to-exports ratio (in percent)	...	109.2	47.1			8.3	3.9	3.8	3.6	4.3	7.7		4.0	4.2	
Total gross financing need (billions of U.S. dollars)	...	103.5	100.6			163.7	152.6	140.9	159.5	184.4	200.3		378.9	575.6	
Non-interest current account deficit that stabilizes debt ratio	...	25.4	38.9			39.0	137.8	14.4	15.4	16.3	16.4		14.6	13.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	...	4.8	0.9	1.6	2.5	6.1	6.6	7.1	6.7	6.6	6.4	6.6	6.0	6.0	6.1
GDP deflator in US dollar terms (change in percent)	...	6.5	19.2	-1.9	11.4	12.6	2.7	2.1	2.2	2.2	2.3	4.0	2.3	2.3	2.3
Effective interest rate (percent) 5/	...	0.7	0.8	1.0	0.2	0.3	0.2	0.8	0.6	0.6	0.6	0.5	0.6	0.7	0.7
Growth of exports of G&S (US dollar terms, in percent)	...	27.1	43.4	11.8	38.0	24.9	19.5	12.3	12.6	13.2	12.3	15.8	12.4	11.5	11.0
Growth of imports of G&S (US dollar terms, in percent)	...	36.8	60.7	14.7	25.1	29.6	12.1	7.6	7.8	6.4	4.2	11.3	7.2	7.4	6.4
Grant element of new public sector borrowing (in percent)		...	...	...	...	40.0	45.3	51.1	51.1	51.1	51.1	48.3	55.7	54.5	54.0
Memorandum item:															
Nominal GDP (billions of US dollars)	...	664.5	799.4			954.6	1045.4	1143.2	1246.5	1358.7	1478.0		2224.9	5008.3	

Source: Staff simulations.

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

Table 2. Burundi: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006–26
(In percent)

	Projections							
	2006	2007	2008	2009	2010	2011	2016	2026
	NPV of debt-to-GDP ratio							
Baseline	17	18	18	18	17	17	15	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007-26 1/	17	20	18	15	11	7	-16	-53
A2. New public sector loans on less favorable terms in 2007-26 2/	17	19	19	20	20	19	21	31
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	17	19	21	21	20	19	18	23
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	17	20	24	24	23	22	20	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	17	21	25	25	24	23	21	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007-08 4/	17	28	38	37	36	34	29	24
B5. Combination of B1-B4 using one-half standard deviation shocks	17	32	52	51	49	47	40	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	17	25	25	25	25	23	22	27
	NPV of debt-to-exports ratio							
Baseline	139	137	134	128	121	111	94	94
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 1/	139	151	131	107	79	48	-96	-256
A2. New public sector loans on less favorable terms in 2007–26 2/	139	144	145	142	136	129	127	149
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007–08	139	137	134	128	121	111	94	94
B2. Export value growth at historical average minus one standard deviation in 2007–08 3/	139	251	442	420	394	363	295	247
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2007–08	139	137	134	128	121	111	94	94
B4. Net non-debt creating flows at historical average minus one standard deviation in 2007–08 4/	139	213	283	266	248	229	179	115
B5. Combination of B1-B4 using one-half standard deviation shocks	139	265	434	409	381	352	275	179
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	139	137	134	128	121	111	94	94
	Debt service ratio							
Baseline	8	4	4	4	4	8	4	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 1/	8	4	5	4	5	11	7	-10
A2. New public sector loans on less favorable terms in 2007–26 2/	8	4	4	4	5	6	5	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2007–08	8	4	4	4	4	8	4	4
B2. Export value growth at historical average minus one standard deviation in 2007–08 3/	8	6	10	10	12	20	12	12
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2007–08	8	4	4	4	4	8	4	4
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007–08 4/	8	4	5	5	6	9	7	6
B5. Combination of B1-B4 using one-half standard deviation shocks	8	5	7	8	9	14	11	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	8	4	4	4	4	8	4	4
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	52	52	52	52	52	52	52	52

Source: Staff projections and simulations.

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

Table 3. Burundi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004–26

(In percent of GDP, unless otherwise indicated)

	Actual				Estimate	Projections								
	2004	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012–26
Public sector debt 1/	232.2	185.6			176.9	54.4	51.8	49.1	46.3	43.3		36.5	38.6	
Of which : foreign-currency denominated	209.9	165.4			156.2	35.1	34.6	33.5	32.4	30.8		29.0	35.9	
Change in public sector debt	-15.3	-46.6			-8.6	-122.6	-2.6	-2.8	-2.7	-3.0		3.6	-1.5	
Identified debt-creating flows	-37.7	-66.3			-21.2	-122.1	-0.7	-1.2	-1.1	-1.1		0.3	-3.3	
Primary deficit	1.6	1.3	2.2	2.7	-2.5	5.8	5.3	4.2	4.4	4.1	3.6	3.6	-0.4	2.2
Revenue and grants	34.9	31.7			41.4	33.2	33.3	34.3	33.6	33.4		32.0	31.0	
Of which : grants	14.8	11.7			22.4	13.3	13.0	13.4	12.7	12.4		10.9	9.4	
Primary (noninterest) expenditure	36.5	33.1			38.9	39.0	38.7	38.5	38.0	37.5		35.6	30.6	
Automatic debt dynamics	-23.1	-49.3			-15.4	-11.0	-2.6	-2.2	-2.1	-1.8		-1.0	-2.0	
Contribution from interest rate/growth differential	-14.9	-6.9			-12.3	-11.8	-2.6	-2.2	-2.0	-1.7		-1.0	-1.9	
Of which : contribution from average real interest rate	-3.5	-4.9			-1.7	-0.8	1.0	1.1	1.0	1.1		0.9	0.4	
Of which : contribution from real GDP growth	-11.4	-2.1			-10.6	-11.0	-3.6	-3.3	-3.0	-2.8		-1.9	-2.3	
Contribution from real exchange rate depreciation	-8.2	-42.3			-3.1	0.8	-0.1	-0.1	-0.1	-0.1		...	...	
Other identified debt-creating flows	-16.1	-18.4			-3.3	-117.0	-3.3	-3.2	-3.3	-3.5		-2.2	-0.9	
Privatization receipts (negative)	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	
Debt relief (HIPC and other)	-16.1	-18.4			-3.3	-117.0	-3.3	-3.2	-3.3	-3.5		-2.2	-0.9	
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	
Residual, including asset changes	22.4	19.7			12.6	-0.5	-1.9	-1.6	-1.6	-1.9		3.3	1.8	
NPV of public sector debt	36.1	30.1			37.4	37.3	35.4	33.4	31.5	29.2		23.1	22.4	
Of which : foreign-currency denominated	13.8	9.9			16.6	18.0	18.1	17.9	17.6	16.7		15.5	19.6	
Of which : external	13.8	9.9			16.6	18.0	18.1	17.9	17.6	16.7		15.5	19.6	
NPV of contingent liabilities (not included in public sector debt)	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	13.9	9.0			0.9	8.8	8.0	6.9	7.0	7.3		5.8	1.5	
NPV of public sector debt-to-revenue ratio (in percent) 3/	103.4	94.9			90.2	112.5	106.1	97.5	93.8	87.7		72.0	72.2	
Of which : external	39.5	31.2			40.1	54.4	54.3	52.3	52.3	50.0		48.4	63.4	
Debt service-to-revenue ratio (in percent) 3/ 4/	35.3	24.2			8.2	9.1	7.9	7.9	7.9	9.4		6.9	6.0	
Primary deficit that stabilizes the debt-to-GDP ratio	16.8	48.0			6.1	128.4	7.9	7.0	7.1	7.2		0.0	1.1	
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	4.8	0.9	1.7	2.6	6.1	6.6	7.1	6.7	6.6	6.4	6.6	6.0	6.0	6.1
Average nominal interest rate on forex debt (in percent)	0.7	0.8	0.9	0.2	0.3	0.2	0.8	0.6	0.6	0.6	0.5	0.6	0.7	0.7
Average real interest rate on domestic currency debt (in percent)	3.0	-3.9	2.3	5.7	8.0	9.3	7.7	9.4	9.9	11.1	9.2	15.5	30.2	19.6
Real exchange rate depreciation (in percent, + indicates depreciation)	-3.8	-20.7	2.0	15.7	-2.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.3	16.6	9.5	5.4	4.8	3.6	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Growth of real primary spending (deflated by GDP deflator, in percent)	23.2	-8.5	9.6	17.4	24.8	6.9	6.1	6.4	5.0	5.0	9.0	5.1	4.2	4.6
Grant element of new external borrowing (in percent)	...	42.9	42.9	…	40.0	45.3	51.1	51.1	51.1	51.1	48.3	55.7	54.5	...

Sources: Country authorities; and Fund staff estimates and projections.

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

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

3/ Revenues including grants.

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

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

Table 4. Burundi: Sensitivity Analysis for Key Fiscal Indicators of Public Debt, 2006–26

	Projections							
	2006	2007	2008	2009	2010	2011	2016	2026
	NPV of Debt-to-GDP Ratio							
Baseline	37	37	35	33	32	29	23	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	37	36	34	32	30	21	38
A2. Primary balance is unchanged from 2006	37	34	28	24	19	14	-2	-7
A3. Permanently lower GDP growth 1/	37	38	36	34	33	31	27	34
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard diviation in 2007–08	37	41	43	42	42	40	39	46
B2. Primary balance is at historical average minus one standard deviation in 2007–08	37	37	35	33	31	29	23	22
B3. Combination of B1-B2 using one half standard deviation shocks	37	38	38	35	32	28	18	15
B4. One-time 30 percent real depreciation in 2007	37	94	86	79	72	66	44	27
B5. 10 percent of GDP increase in other debt-creating flows in 2007	37	42	40	38	35	33	26	24
	NPV of Debt-to-Revenue Ratio 2/							
Baseline	90	113	106	98	94	88	72	72
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	90	111	103	94	89	81	56	87
A2. Primary balance is unchanged from 2006	90	101	85	69	57	43	-7	-22
A3. Permanently lower GDP growth 1/	90	113	107	99	97	91	83	106
B. Bound tests								
B1. Real GDP growth is at average minus one standard deviation in 2007–08	90	119	122	116	117	114	116	143
B2. Primary balance is at historical average minus one standard deviation in 2007–08	90	111	104	96	92	86	71	72
B3. Combination of B1-B2 using one half standard deviation shocks	90	113	108	96	90	81	53	46
B4. One-time 30 percent real depreciation in 2007	90	283	257	229	215	197	137	88
B5. 10 percent of GDP increase in other debt-creating flows in 2007	90	126	119	109	105	99	82	77
	Debt Service-to-Revenue Ratio 2/							
Baseline	8	9	8	8	8	9	7	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	9	8	8	9	11	9	8
A2. Primary balance is unchanged from 2006	8	9	8	8	8	9	6	2
A3. Permanently lower GDP growth 1/	8	9	8	8	8	10	7	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviation in 2007–08	8	9	9	9	9	11	8	9
B2. Primary balance is at historical average minus one standard deviation in 2007–08	8	9	8	8	8	9	7	6
B3. Combination of B1-B2 using one half standard deviation shocks	8	9	8	8	8	10	7	5
B4. One-time 30 percent real depreciation in 2007	8	9	8	8	8	10	7	6
B5. 10 percent of GDP increase in other debt-creating flows in 2007	8	9	8	8	8	10	7	6

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Burundi: Millennium Development Goals

	1990	1995	2001	2002	2003	2004	2015 Target
Goal 1. Eradicate extreme poverty and hunger							
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.							
1. Population below US$1 a day (percent)	...	...	1/ 58.4	...	...	...	...
2. Poverty gap ratio at US$1 a day (percent)	...	...	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	2/ 7.9	...	1/ 5.1	...	...	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger							
4. Prevalence of child malnutrition (percent of children under 5)	...	...	45.1	...	...	67.0	...
5. Population below minimum level of dietary energy consumption (percent)	49.0	64.0	70.0	68.0	...		24.5
Goal 2. Achieve universal primary education							
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling							
6. Net primary enrollment ratio (percent of relevant age group)	53.2	29.5	53.4	57.4	55.0	57.0	100.0
7. Percentage of cohort reaching grade 5	61.7	...	67.5	...	63.0	63.0	100.0
8. Youth literacy rate (percent age 15-24)	51.6	57.9	65.1	66.1	...	73.0	100.0
Goal 3. Promote gender equality and empower women							
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015							
9. Ratio of girls to boys in primary and secondary education (percent)	81.8	...	...	...	79.4	81.8	...
10. Ratio of young literate females to males (percent ages 15-24)	76.7	86.0	95.6	96.9	...	91.6	...
11. Share of women employed in the nonagricultural sector (percent)	13.3	...	...	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	...	11.3	14.0	20.0	18.0	18.0	...
Goal 4. Reduce child mortality							
Target 5: reduce by two-thirds between 1990 and 2015, the under-five mortality rate							
13. Under-five mortality rate (per 1,000)	190.0	190.0	204.0	208.0	...	190.0	63.3
14. Infant mortality rate (per 1,000 live births)	114.0	114.0	121.0	123.0	...	114.0	...
15. Immunization against measles (percent of children under 12-23months)	74.0	80.0	75.0	75.0	75.0	75.0	...
Goal 5. Improve maternal health							
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.							
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	1,000.0	...	...	...	...
17. Proportion of births attended by skilled health personnel (% of total)	...	...	25.2	...	...	...	...
Goal 6. Combat HIV/AIDS, malaria and other diseases							
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS							
18. HIV prevalence among females (percent ages 15-24)	...	...	11.0	...	6.0	6.0	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	16.0	...	...		...
20. Number of children orphaned by HIV/AIDS	...	...	170,000	...	200,000	200,000	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases							
21. Prevalence of death associated with malaria	...	...	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	119.9	216.3	315.0	330.3	345.6	342.9	...
24. Tuberculosis cases detected under DOTS (percent)	...	20.1	35.2	29.9	30.7	28.9	...

Burundi: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2003	2004	2015 Target
Goal 7. Ensure environmental sustainability							
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources							
25. Forest area (percent of total land area)	9.4	...	3.7	8.0	...	...	...
26. Nationally protected areas (percent of total land area)	...	5.5	5.7	5.7	5.7		...
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	...	...	...	...	...	...	...
28. CO2 emissions (metric tons per capita)	0.0	0.0	0.0	0.0	0.0	...	...
29. Proportion of population using solid fuels							
Target 10: Halve by 2015 proportion of people without access to safe drinking water							
30. Access to improved water source (percent of population)	69.0	...	78.0	79.0	79.0	...	84.5
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers worldwide							
31. Access to improved sanitation (percent of population)	44.0	...	...	36.0	36.0	...	...
32. Access to secure tenure (percent of population)	...	...	...	...	...	...	...
Goal 8. Develop a Global Partnership for Development 3/							
Target 16: Develop and implement strategies for productive work for youth.							
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...	...	...
Female	...	...	...	...	...	...	...
Male	...	...	...	...	...	...	...
Target 17: Provide access to affordable essential drugs							
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...	...	...
Target 18: Make available new technologies, especially information and communications							
47. Fixed line and mobile telephones (per 1,000 people)	1.5	2.9	7.4	10.6	12.5	12.5	...
48. Personal computers (per 1,000 people)	...	...	0.7	0.7	1.8	4.7	...

Sources: World Bank; and Fund staff estimates.

1/ Survey data for 1998.
2/ Survey data for 1992.
3/ Targets 12-15 and indicators 33-44 are excluded because they can not be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Statement by the IMF Staff Representative
July 14, 2006

The following information has become available since the issuance of the staff report for the 2006 Article IV consultation, the third and fourth reviews under the three-year arrangement under the Poverty Reduction and Growth Facility, request for waiver of performance criteria, modification of a performance criterion, extension of arrangement, and additional interim assistance under the Enhanced Initiative for Heavily Indebted Poor Countries. The thrust of the staff appraisal remains unchanged.

1. **Program performance.** The program remained on track through end-March 2006 and preliminary information suggests that the end-March outcome was consistent with the projected targets. No information is yet available on the end-June 2006 outcome.

2. **Inflation.** Annual inflation fluctuated around zero in the first four months of 2006. However, the rate rose to about 5 percent at end-May 2006, on account of a sharp rise in administered petroleum product prices in May.

3. **Coffee sector.** A good crop is currently being harvested. For the first time in many years coffee marketing is being financed by private entrepreneurs and commercial banks (without state guarantee).

4. **The budget.** The revised 2006 budget, consistent with the program, has been approved by Parliament and was signed into law on July 7, 2006.

5. **Foreign exchange regime**

One of two remaining multiple currency practices (MCPs) has been eliminated.

The adoption and publication of a single exchange system regulation (structural benchmark for end-June 2006) is delayed, although work is at an advanced stage, with Fund technical assistance support, and a final draft regulation is expected shortly.

6. **Poverty Reduction Strategy Paper (PRSP).** A final draft of the complete PRSP has been produced and includes a development plan to rehabilitate the national statistical base (structural benchmark for end-June 2006). The PRSP will be presented for approval to the Council of Ministers.

7. **Statistics.** A new institutional framework and employee code for the national statistical institute (ISTEEBU; structural benchmark for end-June 2006) was approved by the Council of Ministers on June 1, 2006 and will be submitted to Parliament shortly.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 06/79
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July 25, 2006

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

IMF Executive Board Concludes 2006 Article IV Consultation with Burundi

On July 14, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.[1]

Background

Burundi is emerging from an extended period of civil conflict following the 1993 coup d'état against its first elected government. The Arusha Accord of August 2000 initiated a peace process, which was successfully concluded with the installation of a democratically elected government in August 2005. Socio-economic conditions have deteriorated significantly since civil conflict erupted: income per capita dropped by one-half (to about US$100) and the percentage of people living below the poverty line has doubled. The present environment provides a window of opportunity to secure macroeconomic stability and to relaunch structural reforms to set the basis for a durable recovery. The new government has intensified efforts to resolve the conflict with the remaining rebel group and has placed a strong emphasis on good governance and improved social services.

[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.

Macroeconomic developments in 2005 were broadly in line with the PRGF-supported program, albeit with lower growth of about 1 percent, largely on account of a poor coffee harvest and worsening drought in the north. Inflation fell markedly in the second half of 2005 to about 1 percent (end-period) at year-end, reflecting the tightening of monetary policy and the appreciation of the nominal exchange rate. Fiscal performance was strong: the primary deficit was reduced to about half the program target. While the monetary aggregates continued to be well above program target, their growth eased somewhat in the second half of 2005. The external current account deficit (including grants) deteriorated, owing to lower coffee exports and higher imports.

The program remained on track in 2005, although structural reform, especially on privatization and the coffee sector, lagged in the second half of 2005, reflecting the political transition. All the quantitative performance criteria (PC) at end-June and end-December 2005 were observed except for a temporary accumulation of external arrears in late 2005. The structural performance criterion on the installation of an integrated computerized financial management information system in the Ministry of Finance was missed, as were three structural benchmarks, but the measures subject to the PC and two benchmarks were implemented at end-2005/early 2006.

The Article IV consultation discussions focused on the key lessons from the period of extended social conflict and the accumulated economic effects of stalled structural reforms, and the medium-term challenges, including the efforts needed to progress on the Millennium Development Goals. The key challenges ahead are to launch the economy on a higher growth path, raise spending on social sectors and infrastructure, and reinforce public financial management necessary for macroeconomic stabilization. The successful conclusion of the political transition, improving security conditions, and sustained momentum of reform, has laid the basis of an improved medium-term macroeconomic outlook.

Progress has been made on the governance front but the new institutions are new and much remains to be done to strengthen this capacity. Burundi made progress in securing debt relief in 2005. The enhanced HIPC decision point was reached in August. Scheduled debt service, after traditional and HIPC relief, was reduced to 34 percent of exports from 110 percent in 2004. Burundi has yet to secure debt relief from non-Paris Club creditors.

Policy discussions focused on the need to secure macroeconomic stability and create an economic environment to encourage private sector activity and improve productivity. The program for 2006 projects a recovery of real GDP to 6 percent, reflecting continued vigor in the service sectors and a strong rebound in coffee output. Inflation is expected to decelerate further. The 2006 program provides fiscal space to start addressing urgent social needs, consistent with macroeconomic stability, in part through a shift from security to social spending. The budget includes a strong set of administrative reforms and the clearance of domestic arrears. Monetary policy aims at further strengthening liquidity management with the introduction of treasury securities. Financial sector supervision is being strengthened. The program includes to activation of the privatization agenda, especially for coffee.

The managed floating exchange rate regime has served Burundi well so far and little remained to be done for Burundi to be in a position to accept its obligations under Article VIII, Sections, 2, 3, and 4 of the IMF's Articles of Agreement.

Executive Board Assessment

Executive Directors commended the authorities for the progress made in implementing Burundi's PRGF supported program in a difficult post-conflict environment. The fiscal deficit was reduced owing to buoyant revenues, and inflation fell significantly. Following lower-than-expected economic growth in 2005, a strong pick-up in growth, fueled by a rebound in coffee production and strengthening confidence, is expected in 2006. Directors were in particular encouraged by the successful political transition and improved security situation.
They encouraged the authorities to move ahead with the resolute implementation of structural reforms, and to refocus spending on the social sectors and infrastructure necessary to achieve the Millennium Development Goals (MDGs).

Directors observed that commendable progress has been made in structural reforms in the fiscal, monetary, and foreign exchange areas. At the same time, deeper reforms in the productive sectors that are fundamental for a sustained recovery have been delayed. Directors urged the authorities to press ahead with structural reforms to stimulate private sector activity and improve the business climate, and to reactivate the privatization agenda, especially for the coffee sector, building on strong efforts to mobilize political and social consensus in support of the reforms.

Directors welcomed the strong fiscal performance in 2005. The buoyancy of revenues, despite the significant reduction in import duties, augurs well for the effectiveness of continued revenue-enhancing efforts. There is also a need to sustain efforts to improve public expenditure management and to reinforce budget execution, financial control, and public procurement practices. Directors underscored the importance of managing carefully the public's expectations of a peace dividend, of fully costing all social initiatives in the budget, and of maintaining prudent fiscal and debt management policies given continued vulnerability to shocks and debt distress risks. It will also be important to further strengthen good governance and transparency, including through public financial management reforms and the progressive withdrawal of state intervention in the economy.

Directors observed that improvements in the Bank of the Republic of Burundi's (BRB) ability to conduct monetary policy and channel official foreign exchange inflows into the exchange market have helped to strengthen inflation control. They called on the authorities to clear domestic arrears and introduce standardized and negotiable treasury securities in 2006. Directors emphasized the need to bolster banking supervision, and looked forward to early passage of laws to combat money laundering and the financing of terrorism, and to reinforce the central bank's independence. They commended the BRB for improvements in its internal operations, including its pro-active response to the safeguards assessment, and encouraged further efforts to modernize its operations and internal auditing.

Directors considered that the managed-float exchange rate regime has served Burundi well, helping to cushion exogenous shocks. They welcomed the progress made in liberalizing the exchange regime, and looked forward to the authorities' acceptance of the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

Directors urged the authorities to seek debt relief from non-Paris Club creditors that have not yet provided such relief under the enhanced HIPC Initiative on terms comparable to those obtained from Paris Club creditors. They also emphasized that Burundi will need continued access to grant financing.

Directors noted that good but uneven progress has been made in raising Burundi's social conditions, but that the challenges in meeting the MDGs remain significant. Particular attention should be paid in the period ahead to reinforcing, with donor support, the government's capacity to deliver social services. Directors also saw scope for further reducing military expenditures in favor of social spending. Directors welcomed that a full PRSP is being finalized, which should provide the necessary framework for pursuing the authorities' poverty reduction and social development goals, and support progress towards the HIPC completion point.

Directors encouraged the authorities to strengthen the statistical system, to improve the ability to monitor economic developments.

Burundi: Selected Economic and Financial Indicators, 2002-06

	2002	2003	2004	2005	2006 Prog.
	(Annual percentage change, unless otherwise indicated)				
Domestic economy					
GDP at constant prices	4.4	-1.2	4.8	0.9	6.1
Consumer prices (period average)	-1.3	10.7	8.0	13.4	2.5
	(In millions of U.S. dollars, unless otherwise indicated)				
External sector					
Exports, f.o.b.	31.0	37.5	47.9	57.1	70.0
Imports, f.o.b.	-107.2	-128.3	-148.9	-238.7	-314.7
Current account balance, excluding official transfers	-109.8	-125.6	-169.4	-274.1	-361.5
(in percent of GDP)	-17.5	-21.1	-25.5	-34.3	-37.9
Overall balance	-17.7	-17.1	11.0	22.1	4.7
Gross official reserves	60.1	68.9	67.2	112.7	145.0
(in months of imports, c.i.f)	5.8	3.6	2.2	2.9	3.3
Change in real effective exchange rate (in percent) 1/	-15.1	-18.8	-2.8	9.6	...
	(In percent of GDP, unless otherwise indicated)				
Financial variables					
Fiscal revenue (excluding grants)	20.3	21.1	20.1	20.0	19.0
Total expenditure and net lending	25.9	34.9	39.8	36.8	41.8
Primary budget balance 2/	2.2	-0.8	-3.5	-1.7	-8.9
Overall budget balance 2/	-5.7	-13.8	-19.7	-16.8	-22.8
Including grants	-1.4	-5.9	-4.9	-6.2	-0.4
Change in broad money (M2) (in percent)	27.0	23.3	16.7	26.5	20.5
Interest rate (in percent) 3/	12.0	12.6	13.2	14.0	...

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

1/ Bilateral trade- weighted period average; a negative sign signifies a depreciation.
2/ On a commitment basis and excluding grants.
3/ Twelve-month deposit rate.

Press Release No. 06/156
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July 14, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third and Fourth Reviews Under Burundi's PRGF Arrangement and Approves US$21.1 Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the third and fourth reviews of Burundi's economic performance under an SDR 69.30 million (about US$102.4 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 04/13), and approved the disbursement of an amount equivalent to SDR 14.3 million (about US$21.1 million), which will bring the total disbursements under the PRGF arrangement to SDR 55 million (about US$81.3 million).

In completing the third and fourth reviews, the Executive Board granted Burundi's request for waivers of nonobservance of two performance criteria, one relating to the installation of a computerized financial management information system (IFMIS), and the other to external payments arrears. The Board also extended Burundi's PRGF arrangement through to September 30, 2007 and granted additional interim assistance to Burundi under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

Following the Executive Board's discussion on July 14, 2006 on Burundi's economic performance, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"Following a long-lasting social conflict, the recent successful political transition and improved security situation in Burundi have now set the stage for moving ahead resolutely with structural reforms that are essential to stimulate private sector activity, improve the business climate, and accelerate growth over the medium term. Given Burundi's pressing social needs—as one of the poorest countries in the world—the authorities' intention to refocus public spending on the social sectors and infrastructure needs that will help achieve the Millennium Development Goals (MDGs) is welcome.

"Performance under the PRGF-supported program in 2005 was satisfactory. Although the pace of structural reform was uneven, reflecting the political transition, commendable progress was made in the fiscal, monetary, and foreign exchange areas. In the period ahead, the authorities will need to focus on initiating deeper reforms in the productive sectors that are fundamental for a sustained economic recovery.

"Fiscal revenues have been stronger than expected, and public expenditure management has improved. Further steps will be needed over the medium term—and with donor assistance--to strengthen budget execution, financial control, and public procurement. Expectations of a peace dividend need to be managed carefully, and the costs of all social initiatives should be included in the budget. Further enhancements in good governance and transparency practices will help strengthen private investor and donor confidence.

"Monetary policy implementation has been strengthened, as evidenced by the decline in inflation and stronger exchange rate. At the same time, banking supervision should be improved, and efforts continued to modernize the central bank's internal operations. The managed-float exchange rate regime has served Burundi well, helping to cushion external shocks, and commendable progress has been made in liberalizing the exchange regime.

"The authorities are in the final stages of preparing a full PRSP, which is expected to be ready in mid-2006. An expenditure-tracking mechanism has been set up. A donor's conference to mobilize financing is planned for the fourth quarter of 2006. Donor coordination and predictable disbursement of program support will be important for macroeconomic stability and administrative capacity building, and helping the authorities reinforce the delivery of social services. Following the extension of additional interim assistance under the enhanced HIPC Initiative, the authorities are now encouraged to buttress their efforts toward reaching the HIPC completion point," Mr. Carstens said.

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

Statement by Peter J. Ngumbullu, Executive Director for Burundi and Dieudonne Nintunze, Advisor to Executive Director
July 14, 2006

Introduction

1. The Burundian authorities would like to express their appreciation to staff, Management and Executive Directors for the constructive engagement and continued support. They are appreciative of the exchange of views with staff during discussion of the 2006 Article IV consultation and the reviews under the PRGF arrangement, and welcome the policy advice formulated. The authorities reiterate their commitment to implement the measures agreed under the economic reform agenda. Following the successful completion of the political transition, which resulted in the establishment of new democratically elected Government and Parliament since August 2005, the authorities have now a favorable environment for deepening structural reforms and sustaining current efforts in economic recovery.

Recent economic developments and performance under the program.

2. Despite the complex post-conflict environment and exogenous shocks, including drought and the high oil prices, the authorities have made substantial progress in implementing their economic program, and have established a track record of implementation of the reforms. Prudent fiscal and monetary policies have resulted in improved macroeconomic performance in 2005, although GDP growth was lower than projected, reflecting negative effects of the drought on agriculture production. Inflation was contained substantially in the second half of 2005 falling to 1 percent end- December, a far lower level than the program target; the fiscal primary deficit was contained to half the program target, and international reserves reached higher levels.

3. Fiscal performance was better than programmed in 2005, with government revenue exceeding the program target by 1.8 percent of GDP, mainly reflecting the effectiveness of implementation of tax and customs administration reforms and improved revenue collection. Burundi is still experiencing enormous post-conflict needs and the authorities have increased the poverty related expenditure level as defined in the I-PRSP, at 7.3 percent of GDP, in 2005. Although primary expenditure remained in the range of the program targets, the overall budget deficit was wider than targeted, reflecting delays in disbursement of programmed external budgetary support.

4. Significant progress was achieved in monetary and exchange rate policies during 2005. The Bank of the Republic of Burundi (BRB) has tightened monetary policy and, capitalizing on IMF’s TA recommendations, has made progress in implementing measures aimed at introducing market-based monetary instruments. In this regard, the BRB has continued to conduct the weekly liquidity auctions launched in April 2005, and raised reserve requirements. The abolition of the tax on banking transactions in late 2005 resulted in reduction of the cost of financial intermediation.

5. During this period, the central bank continued to enhance governance of its operations, following completion of the first external audit in June 2005. In this regard, the BRB has taken advantage of the IMF’s safeguards assessment recommendations, to operationalize the independent audit committee of the Boards of Directors, and conduct the second annual external audit. Moreover, substantial progress was recorded in strengthening prudential norms and banking supervision. On exchange rate policy, Burundi has made further progress in liberalizing its exchange regime, including raising ceilings for the invisibles in June 2005, as well as its conversion into indicative limits. The central bank has also improved significantly its foreign exchange auctions, and the differential between the official and parallel market rates has been practically eliminated.

6. Performance was mixed on structural reforms. While the privatization program has advanced more slowly, significant progress was achieved in implementing governance reforms and improving institutional and legal framework, in addition to strong progress on monetary, exchange system and fiscal reforms. On governance and transparency reforms, the Audit Court (Cour des Comptes) published its first audit of the 2004 government accounts in December 2005. It has also carried out specific audits of the Defense and Civil Service Ministries, as well as advanced investigations into several specific cases. Further progress includes the approval of a new bankruptcy and liquidation law by Parliament in November last year.

7. The privatization program, including in the coffee sector, decelerated in the second half of 2005, and a number of factors explain this situation. The much needed technical assistance was delayed, and the new government needed more time for consultation process to build consensus. Nevertheless, in the transitional period to privatization in the coffee sector, the authorities have implemented commendable measures to improve efficiency, and in this connection, they have taken further steps to improve management and minimize financial risks to farmers and the Treasury. The Coffee Marketing Board (OCIBU) realized an operating surplus of FBu 19 billion or about 2.2 percent of GDP, of which more than 32 percent was directly redistributed to farmers, and 46 percent reserved for financing of the 2005/06 crop, as the government guarantee for bank credit to the coffee sector has been abolished.

8. Overall, performance under the authorities’ economic program are commendable, and the program is on track. All end-June and end-December 2005 quantitative performance criteria were met, except a temporary accumulation of external arrears in late 2005 which have been cleared. The structural performance criterion for October 2005 on installation of a computerized financial management information system (IFMIS) in the Ministry of Finance was made operational in January 2006. Most structural benchmarks were implemented, although some of them with minor delays, and credible corrective measures were initiated for others. In addition, all the ten prior actions have been implemented in a timely manner. Given this positive performance, the authorities request the completion of the third and fourth reviews and the approval of the associated waivers, extension of the PRGF arrangement, as well as additional interim assistance under the HIPC initiative.

Macroeconomic program for 2006, challenges and medium-term outlook

9. The authorities are committed to consolidate the progress so far achieved in stabilizing the economy, and are aware of the risks and enormous challenges that they still face going forward. Theses include the need to tackle the post-conflict reconstruction and rehabilitation needs, diversify the sources of growth and exports to set the economy on a higher growth path, reduce the widespread poverty, and make significant progress towards reaching the MDGs.

10 Prudent macroeconomic policies will continue to be implemented to contain inflationary pressures. At the same time, the authorities will pursue their efforts in addressing challenges on infrastructure bottlenecks and improving delivery of social services, which will contribute to enhancement of economic productivity. They will also step up implementation of their structural reform agenda, with a view to accelerating and sustaining growth. Burundi is currently in the process of finalizing formulation of the full PRSP based on extensive consultations with all stakeholders in the country, whose implementation will also help address these challenges head on. The authorities expect economic growth to recover at above 6 percent in 2006, and to continue growing at about the same rate over the medium term. Inflation is projected to continue declining to low single digit levels. The authorities' reform program is strong and its successful implementation requires the support of all development partners, including the Fund, in terms of timely and predictable concessional financing, as well as capacity building.

Fiscal Policy

11. The objective of fiscal policy is to achieve fiscal sustainability in the medium term in support of the low inflation target. With the support of the Fund and World Bank TA, they have formulated an action plan of fiscal reforms to enhance public finance management. These include reforms aimed at modernizing tax and customs administration, and strengthening public expenditure management, as well as further improvements in transparency of public finance operations. As reflected in the MEFP (matrix pages 49-50, attachment I of the staff report), the authorities have taken commendable steps in implementing a number of reform measures from the action plan, including the establishment of the IFMIS in Ministry of Finance, which will be extended progressively to line Ministries.

12. Continued improvements in revenue collection, coupled with further improvements in public expenditure restructuring and external debt relief under the HIPC initiative, will help create fiscal space to address the challenging and urgent social needs. The 2006 budget includes additional expenditures, reflecting priorities defined in the I-PRSP, allocated from interim debt relief and identified in consultation with the World Bank and IMF staff. Poverty reducing expenditures are projected to rise significantly in 2006, following abolition of school fees at primary education level since September 2005, as well as maternity charges and health care fees for children under 5 years old, since January 2006. The authorities are also determined to clear the audited domestic arrears in 2006, with a view to strengthening confidence of the private sector and the banking system, as these arrears reflect in large part the non performing assets in the banking sector.

Monetary and exchange rate policies

13. The BRB is committed to sustaining its monetary stance with a view to further reducing inflation. It has already taken steps to strengthen liquidity management, with the introduction of reserve requirements for foreign exchange deposits in early 2006, and will continue improving foreign exchange sales and liquidity auctions. The central bank will also introduce and manage on behalf of the government new standardized and negotiable treasury securities, and will reinforce banking supervision and restructuring. The BRB is confident that these measures will slowdown monetary growth, while reviving credit to the private sector.

14. The exchange regime has been deeply liberalized over the recent years, and the BRB is committed to implement the remaining measures so that it can achieve full convertibility in the international current transactions as soon as possible. The managed floating exchange rate regime has served Burundi well, and will continue to be applied. The BRB's interventions in the exchange market will be limited to achieving its foreign assets targets consistent with the reserve money nominal anchor, and containing short-term volatility of the exchange rate.

Structural reforms

15. The authorities are determined to build a friendly business environment, with a view to promoting private sector led growth. To this end, they will enhance and deepen implementation of structural reforms aimed at ensuring economic recovery. As detailed in the MEFP (matrix pages 53-55, attachment I of the staff report), these comprise further progress in good governance and transparency, improvements in regulatory and legal framework for doing business, as well as reforms in key productive sectors, including restructuring of State Owned Enterprises (SOEs). As regards privatization of coffee sector, the authorities will establish an appropriate reform action plan with the support of World Bank technical assistance, with the objective to ensure a competitive market structure at all levels of the coffee sector, and that farmers operate freely. These reforms would also assist in attracting long-awaited investment and private financing in this area.

Debt sustainability and the HIPC initiative

16. The updated external debt sustainability assessment using the new low-income country debt sustainability framework (DSF) shows that Burundi's external debt will remain unsustainable, even after the full use of HIPC assistance. The NPV of debt-to-exports ratio remains above the 100 percent indicative threshold for a long period (2005-13), and it is not expected to decrease to 76 percent before 2026, under the baseline scenario whose assumptions are described in Box 1 (page 87, staff report, appendix VI). The assessment indicates also that the additional debt relief under MDRI would reduce moderately the risk of debt distress. Considering Burundi's financing requirements for the formidable needs for post-conflict reconstruction and poverty reduction, and given the high risks to the baseline projection, the authorities would welcome exceptional efforts by the international community

to provide additional financial support, including by raising further interim relief. They are taking necessary steps to implement the triggers selected for reaching the completion point under the HIPC Initiative. They have developed a national debt management strategy, and are advancing in strengthening external debt management capacity.

Conclusion

17. Following the successful completion of the political transition, Burundi has achieved remarkable progress in implementing its economic program, despite a very difficult post-conflict environment. The authorities are, however, conscious of the daunting challenges ahead, as poverty is still widespread with more than half of the population living in extreme poverty conditions, and more still needs to be done to diversify the economic base and invest in productivity-enhancing infrastructure to attain higher growth

18. Despite the authorities' strong commitment to making further progress in implementing their economic reform agenda and consolidating macroeconomic stability to sustain growth, the long period of conflict has weakened the administrative capacity of the country. It is in this regard that they welcome the TA provided so far, and call on the continued support of development partners including the IMF, to complement their effort. The authorities strongly believe that a full time IMF Resident Representative, together with reinforced TA would be very helpful in enhancing the authorities' capacity to implement the reform agenda, deliver the much needed social services, and meet the MDGs.