August 2008
IMF Country Report No. 08/282

Burundi: 2008 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; 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 2008 Article IV consultation and request for a three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2008 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on May 31, 2008, 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 24, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release and a Public Information Notice (PIN), summarizing the views of the Executive Board as expressed during its July 7, 2008, 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 or will be separately released.

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

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

Copies of this report are available to the public from

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

Price: $18.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BURUNDI

Staff Report for the 2008 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Robert Sharer and Mark Plant

June 24, 2008

Discussions: A mission comprising Messrs. Akitoby (head), Manoel, Gaertner, and Koehler (all AFR) held negotiations with the authorities in Addis Ababa (April 30–May 14, 2008). Mr. Akitoby finalized program discussions in Bujumbura (May 25–31, 2008). Mr. de la Piedra (Resident Representative) assisted both missions. Mr. Nintunze (OED) and World Bank and European Union staffs participated in the discussions. The staff met with President Nkurunziza, First Vice-President Sahinguvu, Minister of Economy, Finance, and Development Cooperation Nizigama, Central Bank Governor Sindayigaya, other senior officials, and representatives of labor unions, the private sector, NGOs, the donor community, and the media.

PRGF arrangement. The authorities are requesting a successor PRGF arrangement with access of SDR 46.20 million (60 percent of quota), which takes account of the financial impact of rising world food and oil prices in 2008. The new arrangement will support implementation of the PRSP, consolidate macroeconomic stability, and further reduce poverty.

Exchange regime: Burundi maintains, de jure and de facto, a managed float. It has one multiple currency practice inconsistent with Article VIII, Section 3. Burundi also maintains certain foreign exchange restrictions for security reasons and has notified the Fund of those restrictions.

Publication. The authorities consent to the publication of this report, the letter of intent, and the MEFP.

Contents Page

Tables

Figure

Boxes

Appendices

EXECUTIVE SUMMARY

Recent developments. Economic growth decelerated to 3.6 percent in 2007, mainly because the coffee harvest was poor, and inflation increased, mostly driven by rising food and energy prices. Higher grants disbursement helped improve the fiscal position and build international reserves. The economic outlook is generally positive but subject to risks arising from the security situation and the external environment.

Article IV consultation. The consultation dealt with four main challenges: (i) ensuring fiscal sustainability; (ii) bringing inflation down to single digits in the medium term; (iii) building institutional capacity and governance; and (iv) moving toward regional integration. The authorities generally agreed with staff recommendations:

- **Fiscal issues**. To avoid unsustainable debt dynamics, the authorities intend to maintain a prudent fiscal stance and rely mainly on grants and highly concessional loans. A major challenge is to improve the composition of spending while keeping the government wage bill sustainable.

- **Monetary policy and financial sector issues**. The authorities intend to conduct a prudent monetary policy to help anchor inflation expectations. They also intend to strengthen banking supervision; address weaknesses in the banking system; and enhance central bank internal controls and risk management systems.

- **Exchange rate policy and external stability**. The exchange rate seems in line with its equilibrium rate, but there are still significant risks to external stability, notably high debt and rising international food and oil prices.

- **Structural reforms**. The authorities' priorities are to strengthen governance through effective public financial management systems; ensure food security; reform the coffee sector; and improve the business environment.

A successor PRGF arrangement. The authorities are requesting a three-year PRGF arrangement to address these challenges and support implementation of the Poverty Reduction Strategy Paper.

Program risks. As a post-conflict country, risks to the program remain significant. Primarily, a worsening political, social, and security situation could result in a major setback. The cease-fire agreement recently signed by the government and the last rebel group could help manage this risk. Other risks include limited implementation capacity, governance slippage, and exogenous shocks.

I. Background

1. **Burundi is one of the least developed countries in the world.** GDP per capita is about US$139, and only 18 percent of the population has food security.[1] HIV/AIDS is prevalent. While Burundi is making progress toward the Millennium Development Goals (MDGs), it is unlikely that any will be achieved by 2015 (Table 1).

2. **Burundi is emerging from more than a decade of civil conflict**. The Arusha Accord of August 2000 initiated a peace process that was concluded with the installation of a democratically elected government in August 2005. However, the security situation deteriorated after the last rebel group (FNL) moved to abandon peace negotiations in July 2007. On April 17 and 22, 2008, the FNL attacked the capital, Bujumbura. A cease-fire agreement was signed on May 26, 2008, leading to a cessation of hostilities.

3. **In a difficult post-conflict environment, Burundi made steady though uneven progress in the first PRGF arrangement (2004–08).** At the conclusion of the sixth and final review, Executive Directors urged the authorities to strengthen public financial management (PFM) and move forward with structural reforms to improve the investment climate and spur growth.

4. The World Bank is currently drawing up a new country assistance strategy focusing on structural reforms to further growth and reduce poverty. The Joint World Bank-IMF Work Program is described in Supplement 1.

5. The HIPC decision point was reached in August 2005 and the completion point could be reached by January 2009. Burundi's PRSP was published in September 2006. The annual progress report is expected to be finalized in the coming months.

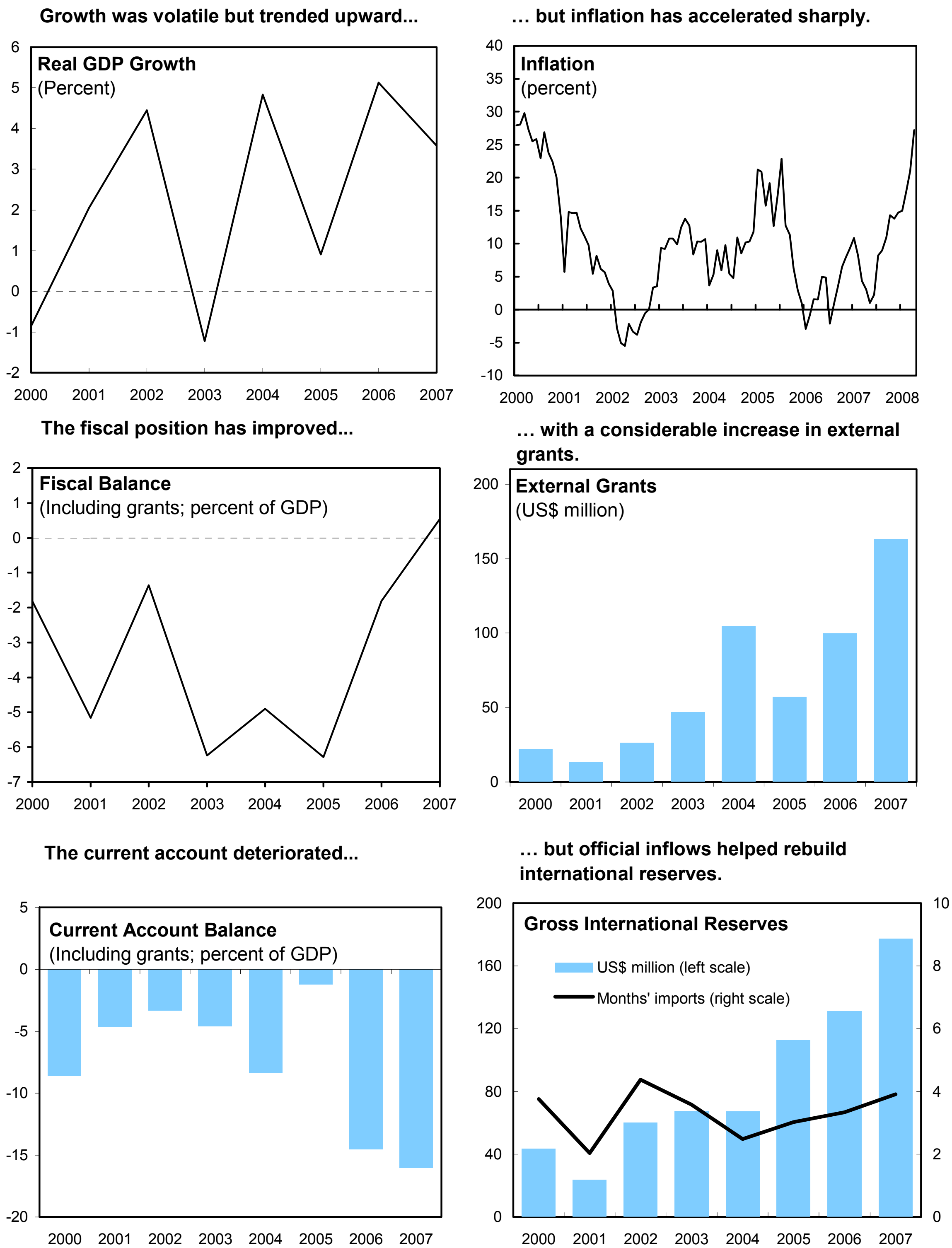
II. Recent Economic Developments

Real sector

6. **Economic growth decelerated and inflation increased in 2006–07** (Table 2 and Figure 1). After an upturn in 2006, real GDP growth decelerated from 5 percent to 3.6 percent in 2007, mainly because of a poor coffee harvest. By the end of 2007, inflation had increased to 14.7 percent (year-on-year), from 1 percent in 2005, owing to higher international commodity prices. In the first four months of 2008, domestic prices of fuel and basic staples rose on average by 23 percent, pushing the consumer price index up by

[1] According to the World Food Program, 82 percent of households survives on between 1400 and 1900 kilo-calories per day, against the World Health Organization's recommended 2100 kilo-calories required to live a normal and healthy life.

Figure 1. Recent Macroeconomic Performance, 2000–07



Sources: Burundi authorities and IMF staff estimates.

11.7 percentage points between January and April 2008. Excluding food and oil, the increase in the consumer price index was about 3.5 percent.

Fiscal policy

7. **The fiscal position improved in 2006–07** (Text Table 1 and Table 3). The overall fiscal balance (on a commitment basis and after grants) shifted to a surplus of 0.5 percent of GDP, from a deficit of 6.3 percent in 2005, mainly because grants disbursement increased. Total revenue in 2007 was held at about the 2006 level, even though the petroleum tax was reduced from 20 percent to 10 percent. Current spending rose by about 1.5 percent of GDP, owing to the wage bill, which increased from 8.4 percent in 2005 to 10.8 percent in 2007.[2] Supported by project grants, capital spending rose by 3 percent of GDP in 2006–07.

Text Table 1. Burundi: Government Operations, 2005–07

(Percent of GDP)

	2005	2006	2007
	Actual		Prel. Est.
Revenue	20.0	18.9	18.7
Expenditure and net lending	36.8	38.2	38.5
Current expenditure	23.3	23.4	24.7
Capital expenditure and net lending	9.6	12.3	12.7
Overall balance (commitment basis, after grants)	-6.3	-1.8	0.5
Change in arrears (reduction = –)	-1.2	-1.5	-2.1
Overall balance (cash basis, after grants)	-7.5	-3.3	-1.5
Financing	19.2	21.1	22.5
External grants	11.7	17.9	20.9
External borrowing	6.4	0.7	-0.9
Privatization proceeds	0.0	0.3	0.0
Domestic financing	1.0	2.3	2.4
Errors and omissions	-1.2	-0.4	-0.5

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

8. **PFM has been reinforced**. The authorities have implemented measures to ensure fiscal discipline and improve transparency (Box 1).

[2] The wage bill appears to be driven by high levels of government employment; the average public sector wage is very low (US$2.5 per day).

Box 1. Reforms in Public Financial Management

The legal framework for public finances has been tightened. New procurement and customs codes have been adopted. Both pieces of legislation will increase transparency and accountability while making budget execution more efficient. Moreover, the Council of Ministers has approved a new draft organic budget law and submitted it to the Parliament.

Debt management capacity has been enhanced. The Ministry of Finance now has the exclusive right to negotiate and sign external loans. A computerized foreign debt management system has been installed and can produce monthly debt reports.

Budget and fiscal reporting systems have been revamped, introducing economic, functional, and administrative classifications. The new system has improved fiscal monitoring and expenditure tracking. Moreover, a double-entry accounting system is being introduced gradually with the presentation of closing balances for 2006 and 2007 accounts.

Budget control is better. Specialized departments have been established to improve control of budget execution, among them (i) an internal inspection and control unit in the Ministry of Finance; (ii) an Inspectorate General of State department; and (iii) a general accounting office. The National Audit Office completed the audit of the 2006 accounts in 2007, and an independent audit of the use of HIPC funds in 2005–07 has just ended.

Treasury functions have been streamlined. The authorities are moving toward a single treasury account by tightening control over cash flows and minimizing idle cash balances in ministry bank accounts. They have (i) merged the recurrent budget and capital budget accounts; (ii) eliminated seven HIPC subaccounts in line ministries; and (iii) closed 80 ministry accounts. A cash flow plan was set up in late 2007 to improve cash management.

Customs and tax administration has been reinforced. A new customs code was promulgated in 2007 to make customs procedures more efficient. Computerization of customs operations through the roll-out of the ASYCUDA+ + system has helped reduce clearance times. To improve tax enforcement and combat tax evasion, a reliable computerized tax identification number system has been introduced.

Monetary policy and the financial sector

9. **Reserve money surged in 2007, after a deceleration in 2006** (Table 4). Reserve money growth accelerated to 17.4 percent, from about 6 percent in 2006, because part of increased aid was spent on domestic goods. Growth in net credit to government decelerated to 11.5 percent, against 16.6 percent in 2006, mainly reflecting an improved fiscal position. The first sales of treasury bills in 2007 shifted the composition of bank credit to the government toward commercial banks, somewhat crowding out loans to the private sector. Interest rates have not risen in line with inflation in 2006–07.

10. **The financial sector faces vulnerabilities.** Although nonperforming loans as a percent of total gross loans have been reduced substantially since 2005 as domestic government arrears are cleared, at the end of 2007 they were still at 18.8 percent. The minimum bank capital requirement was increased from FBu 1 billion to FBu 2.5 billion as of January 1, 2008, as recommended by the Fund's MCM technical assistance (TA) mission. All banks except one small one appear to be in compliance with capital adequacy requirements. Three smaller banks in difficulties are being restructured. To help strengthen central bank financial safeguards, the safeguards assessment was updated in January 2008.

External sector

11. **External developments in 2006–07 were dominated by a decline in exports and a surge in grants.** After growing slowly in 2006, total exports declined by 14.3 percent because of the poor coffee harvest. Total program and project grants are estimated to have risen by about 64 percent, to US$163 million, fuelling higher imports. Overall, the current account (including official transfers) widened to 16 percent. Because the surge in aid was not fully absorbed, gross international reserves rose to 3.9 months of imports, from 3.3 months in 2006. The real effective exchange rate (REER) depreciated by 8.6 percent in 2007.

12. **Burundi made progress on trade arrangements**. On January 1, 2007, Burundi became a member of the East African Community (EAC) and signed the protocol for a customs union. Also, as an EAC member Burundi is moving toward an economic partnership agreement with the European Union (EU-EPA), with the signing in November 2007 of a plan for negotiating a full-fledged EPA.

III. POLICY DISCUSSIONS

13. The discussions dealt with four challenges: (i) ensuring fiscal sustainability in the face of heavy debt; (ii) bringing inflation down to single digits in the medium term; (iii) building institutional capacity and governance; and (iv) moving toward regional integration.

Box 2. Main Article IV Consultation Recommendations

Advice	Status
Improve PFM.	While progress has been made (Box 1), more remains to be done.
Improve the composition of spending.	Social spending has increased. However, the wage bill remains high. Security spending is also still high, reflecting the uncertain security situation. All social initiatives have yet to be fully costed in the budget.
Reform monetary and exchange operations.	Monetary policy has become more market-based in the context of managed exchange rate regime, but the central bank needs to make more active use of available policy instruments. A system of foreign exchange auction has been created; and negotiable treasury securities have been introduced.
Maintain prudent debt management.	Debt management has been enhanced, with no recourse to non-concessional loans
Implement structural reforms to stimulate private sector.	Progress has been slow, especially in the coffee sector.

A. Economic Outlook

14. **Provided that the security situation improves further, Burundi's medium-term economic outlook is generally positive** (Text Table 2): (1) GDP growth is expected to average about 5 percent in the medium term, up from the 3.6 percent average for 2004–07; (2) inflation would decelerate to about 6 percent by 2011; and (3) gross official reserves would stabilize at about 3 months of imports (Table 2).

15. **The projected growth pattern, which resembles those observed in other post-conflict countries, is predicated on three factors**: (1) continued removal of major economic distortions, especially in the coffee sector, which will boost total factor productivity; (2) a substantial increase in investment, driven by international aid and largely

consisting of infrastructure renovation, which will help relieve major supply bottlenecks; and (3) further advances in trade liberalization with accession to the EAC, which will help diversify the economy, stimulate competition, and attract more investment.

Text Table 2. Burundi: Medium-Term Outlook, 2006–11

	2006	2007	2004-07	2008	2009	2010	2011	2008-11
	Actual	Prel.Est.	Average		Projections			Average
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP growth	5.1	3.6	3.6	4.5	5.0	5.0	5.0	4.9
Consumer prices (end of period))	9.3	14.7	11.3	14.0	9.0	7.5	6.0	9.1
	(Percent of GDP, unless otherwise indicated)							
General government								
Revenue (excluding grants)	18.9	18.7	19.4	19.1	19.1	19.1	19.2	19.1
Total expenditure and net lending	38.2	38.5	38.3	42.6	42.3	42.8	41.1	42.2
Overall balance (commitment basis)								
Excluding grants	-19.3	-19.9	-18.9	-23.5	-23.3	-23.7	-21.9	-23.1
Including grants [1 2]	-1.8	0.5	-3.1	-0.5	74.9	-2.1	-1.3	17.8
External sector								
Current account balance, including grants [1]	-14.5	-16.0	-10.0	-18.2	-17.5	-16.1	-16.0	-16.9
Gross official reserves (end of period, US$ millions))	131.0	177.3	122.0	155.3	166.1	162.8	165.7	162.4
Gross official reserves (months of imports of the following year)	3.3	3.9	3.2	3.2	3.2	3.0	3.0	3.1
Debt-service ratio (percent of exports) [2]								
Before HIPC and MDRI relief)	54.4	60.6	67.7	46.0	47.6	10.4	11.1	28.8
After HIPC and MDRI relief	11.1	7.5	49.8	4.3	4.9	10.4	11.1	7.7

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

[1] Assumes financing gap is covered by grants in 2009–11.

[2] Assumes HIPC completion point and MDRI in 2009.

16. **There are significant downside risks to this scenario.** Besides the risk of further deterioration in the political and security situation, they include (1) delays in macrocritical structural reforms that underpin the growth objectives; (2) an uncertain external environment, with possible further increases in international oil and food prices; and (3) mishandling of integration into the EAC, which could undermine domestic tax collection. Poor institutional capacity and further changes in senior government could also endanger policy implementation.

B. Fiscal Policy and Institutions

17. **Staff and authorities agreed that achieving debt sustainability should anchor medium-term fiscal policy.** Burundi is likely to remain in debt distress even after enhanced HIPC and MDRI assistance.[3] It will be important, therefore, for Burundi to keep the fiscal

[3] Debt Sustainability Analysis, IMF Country Report No. 08/27.

stance prudent and rely mainly on grants and highly concessional loans to avoid unsustainable debt.

18. **Mobilizing adequate domestic revenue is critical, staff stressed, for fiscal sustainability and increased poverty-reducing expenditure.** The authorities stated that their objective is to raise government revenue to more than 19 percent of GDP by 2011. To this end, they plan to broaden the revenue base by reducing exemptions and improving revenue administration. Landmark tax reforms will be the introduction of a value-added tax (VAT) and adoption of the EAC common external tariff (CET) in July 2009.[4]

19. **Staff underscored the importance of improving the composition of spending**. At 10.8 percent of GDP in 2007, the government wage bill is below the average of 12.1 percent for small sub-Saharan African countries. However, to avoid additional fiscal risks, the authorities need to keep the wage bill sustainable. While recognizing staff concerns, the authorities pointed out that the need to integrate former belligerent groups often adds to pressure on the wage bill in postconflict countries. Nonetheless, they agreed to implement measures to control wages, including natural attrition, a selective hiring freeze, a census of government employment, and wage moderation[5] (MEFP, ¶ 20). They also pointed out that, if the peace process takes hold, demobilization and reduced military expenditure will also create fiscal space for increasing propoor spending without jeopardizing fiscal sustainability.

20. **More effective PFM reforms are necessary to enhance governance and accountability for the use of public resources**. The authorities concurred with staff that progress in this area is critical to secure continued donor disbursements and reiterated their commitment to prudent fiscal governance.

21. **Lumpy external budgetary support has undermined the efficiency of both budget execution and monetary policy**. The authorities will continue to impress on donors the need to provide support throughout the year.[6] The government, with the active support of the UN Peace Building Commission and the donor community, is enhancing the framework for coordinating donor aid.

---

[4] The CET will lower average tariffs from 15 percent to 11.7 percent. Very preliminary estimates suggest that the VAT and the CET would be broadly revenue-neutral.

[5] These measures were recommended by the Public Expenditure Management and Financial Accountability Review (PEMFAR) prepared jointly by the World Bank and the government.

[6] The EU has already decided to provide its 2008 budget support in two tranches.

C. Monetary Policy and Financial Sector Issues

22. **To help anchor inflation expectations, monetary policy must be prudent.** The objective of monetary policy should be to bring down overall inflation while accommodating the first-round effects of the food and fuel shock. Staff emphasized the need to use all available monetary and exchange rate instruments to mop up liquidity.

23. **More proactive management of foreign exchange reserves will also make the inflation objective more accessible**. In collaboration with MCM, the central bank will seek to heighten bank interest in foreign exchange sales for mopping up liquidity and encourage banks to propose a fair price, allowing the nominal exchange rate to appreciate as appropriate. The authorities have requested MCM TA to review the current system of foreign exchange auctions.

24. **Banking supervision must be tightened.** To this end staff urged the authorities to speed implementation of the action plan drafted by the MCM TA mission in October 2006. The authorities noted that the rules governing banking supervision are being revamped and reiterated their commitment to restructuring the banking system. Staff stressed the importance of dealing with the high rate of nonperforming loans. While acknowledging the problem, the authorities observed that part of the problem is that during the conflict collateral assets were destroyed or were difficult to foreclose on. Staff and authorities agreed that the upcoming joint Bank-Fund FSAP mission should provide valuable guidance for financial sector reform.

D. External Stability and Exchange Rate Policy

25. **Staff agreed with the authorities that the current exchange rate system is appropriate**. The managed float has served Burundi well, giving it the flexibility it needs to adjust to exogenous shocks. Nonetheless, the authorities believe that a smooth transition from the current foreign exchange auction system to an interbank-based market will strengthen the managed float. Advised to work closely with MCM to ensure a seamless transition, the authorities agreed to request TA for this purpose.

26. **The exchange rate seems to be in line with its equilibrium rate.**[7] The authorities agreed with the staff analysis and noted that structural factors continue to be an obstacle to competitiveness (Box 3).

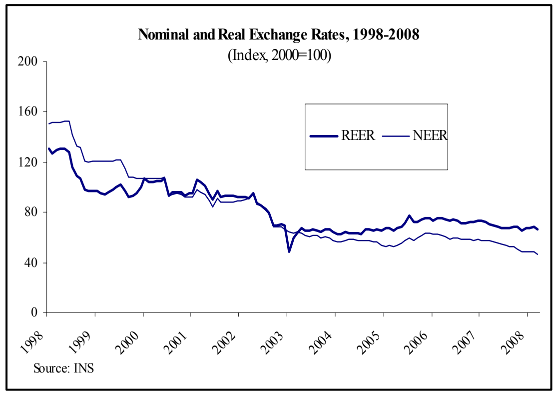
[7] The Article IV Selected Issues Papers will provide further analytical evidence about Burundi's real and equilibrium exchange rates.

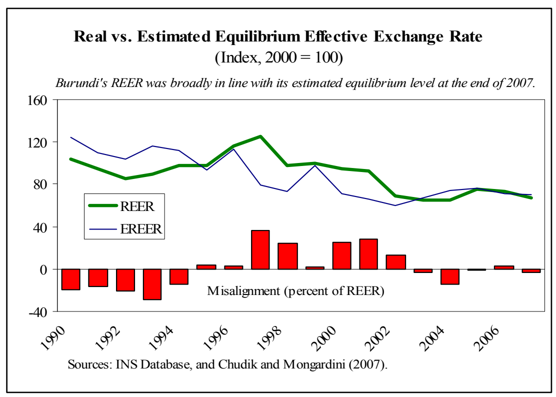
Box 3. Assessing the Real Exchange Rate and Competitiveness

As is typically the case with post-conflict countries, assessment of Burundi's real exchange rate (RER) is complicated by such factors as limitations of national accounts and balance of payments data; structural breaks due to the civil war (1993–2000); and trade and exchange restrictions in place before 2003. Nevertheless, the assessment suggests that the RER appears to be in line with economic fundamentals and points to nonprice factors as the main constraint to competitiveness.

The RER has been relatively stable since the end of 2002. The nominal exchange rate is in line with price developments, resulting in a generally stable RER.

The RER appears to be aligned with the estimated equilibrium level. The parallel exchange market premium, as a benchmark of overvaluation, is less than 2 percent. Given the short time series (only seven years without civil war), a single-country estimation of the equilibrium RER is not possible. Using estimated parameters from Chudik and Mongardini (2007)[1] to determine the equilibrium RER, we find that the RER has generally tracked the equilibrium rate since 2002 and was only 3 percent below its estimated equilibrium value at the end of 2007. These coefficient estimates are, however, subject to a wide margin of error because of country heterogeneity, omitted variables, sample dependence of the results, and structural breaks.





Burundi has one of the least friendly business climates in the world. The World Bank's 2008 *Doing Business* survey ranks it at 174th out of 178 countries, giving it particularly low ratings in dealing with licenses, protecting investors, trading across borders, and enforcing contracts. Similarly, the World Economic Forum's 2008 *Global Competitiveness Report* ranks Burundi 130th out of 131 economies on global competitiveness, rating it close to the bottom in each of the twelve pillars of competitiveness considered critical to a country's long-run growth.

A number of initiatives are expected to improve the business environment. In collaboration with the World Bank, the government undertook an Investment Climate Assessment and will follow up with an action plan for improving the business climate. A new investment code will soon be adopted that incorporates international best practices. Burundi's accession to the EAC is also expected to spur structural reforms.

---

[1] A. Chudik and J. Mongardini, 2007, "In Search of Equilibrium: Estimating Equilibrium Real Exchanges Rates in Sub-Saharan African Countries," IMF Working Paper No. 07/90.

E. Structural Reforms and Capacity Building

27. **Slow progress on structural reforms has hampered growth and development.** The authorities insisted that structural reforms have lagged in large measure due to delays in technical assistance and disbursement of foreign aid. Staff identified relevant domestic factors, including political instability and frequent changes in key technical positions in the government. The authorities observed that the country needs to take ownership of the design of structural reforms. To enhance ownership, they stressed the need for stakeholders to discuss key reforms and for better communication among government agencies.

28. **Staff and authorities agreed that food security deserves priority.** Burundi is among the countries in sub-Saharan Africa that are most vulnerable to the effects of the recent increase in international food and fuel price increases. Structurally it is in food deficit, and the recent bad rainy season heralded drought soon. Donor funding is therefore needed to provide targeted social safety nets, school meals, and seeds and fertilizers for smallholders. To boost agricultural supply, the authorities are working with donors (e.g., the World Bank and the Food and Agriculture Organization) to expand rural infrastructure, diversify agricultural production, and improve yields through research and use of small irrigation systems. The mission met with donors in Bujumbura and stressed that emergency relief is urgently needed.

29. **Staff underscored the need to boost growth by accelerating reforms in the coffee sector.** New private investment in the sector is emerging since investment in the state marketing structure was liberalized, but the legacy of public ownership is a drag on further progress. The authorities explained that, with World Bank cooperation, they plan to establish a comprehensive strategy for the coffee sector by year-end that they believe will boost investment and increase coffee farmer incomes.

30. **Burundi needs to step up preparations for regional integration**. Though its recent accession to the EAC opens up opportunities, it must do significant work to derive the expected benefits. Staff and authorities agreed that it will be critical to set up an interministerial committee to coordinate government efforts and draw up a plan for implementing the required reforms. The donors (in particular, the World Bank, DfID, and the European Union) have started to provide technical and financial assistance to foster regional integration.

31. **Staff encouraged the authorities to move to automatic price adjustment for petroleum products to promote economic efficiency.**[8] The authorities have started to adjust domestic fuel prices based on a formula agreed upon with the principal stakeholders.

---

[8] There are no direct subsidies for petroleum products. However, differentiated tax rates on petroleum products were introduced recently, with lower rates on petroleum products consumed by the poor.

They also intend to gradually reinstate the 20 percent petroleum tax rate, taking into account the social impact of high international oil and food prices. They began the process by increasing the tax rate from 10 percent to 16 percent on petroleum products consumed primarily by high-income households. The World Bank will soon launch a study to prepare the groundwork for reform of the petroleum sector.

32. **Despite substantial TA, institutional capacity is still inadequate**. The Fund and other development partners have provided extensive TA, but implementation of TA recommendations has been slow. The authorities drew a number of lessons to speed adoption of TA recommendations (MEFP, ¶9), among them better identification and consideration of the country's needs; full participation of the government in TA evaluation; and effective transfer of knowledge to Burundi's institutions.

33. **Data provision has serious shortcomings that significantly complicate surveillance.** While some improvements in the fiscal area have been achieved, there are acute shortcomings in national accounts and balance of payments statistics (Supplement 1) that introduce uncertainty into estimates and projections. A new statistics law was promulgated in September 2007 and the texts of regulations approved in December 2007. With TA from donors (in particular, the Fund and the World Bank), the authorities continue their efforts to strengthen economic and financial data.

IV. The Successor PRGF Arrangement: Addressing Medium-Term Challenges 2008–11

A. Objectives

34. The proposed PRGF arrangement will seek to consolidate economic stability and make further progress in reducing poverty. It will help the authorities implement the PRSP while supporting their efforts to secure enhanced HIPC and MDRI debt relief.

35. **The proposed PRGF-supported program will thus aim to achieve the following objectives over three years:** (i) bring inflation down to single digits; (ii) preserve fiscal sustainability while improving the composition of spending; (iii) firm up PFM to make spending more efficient and enhance governance and accountability; and (iv) strengthen central bank internal controls.

B. Macroeconomic Policies

36. The program provides a coherent strategy of fiscal, monetary, and exchange rate policies to address the main macroeconomic challenges of reducing inflation to single digits, supporting debt sustainability, increasing aid absorption, and crowding in the private sector.

Fiscal policy

37. **Fiscal policy will support the use of aid.** To allow scaled-up aid to be spent, the program will focus on the overall fiscal deficit (on a commitment basis and including grants), which is programmed to decline from 2.5 percent of GDP for 2005–07 to 1.3 percent of GDP for 2008–11.[9] As scaled-up aid would result in higher domestic spending on PRSP priority areas,[10] current spending would remain at about the 2007 level (25 percent of GDP) throughout the three-year program, despite the projected decline in interest payments and the wage bill. The wage bill projections take into account the need to accommodate hiring in priority sectors. To avoid spending volatility and reductions in critical spending areas, aid volatility is accommodated through target adjusters (see TMU).

38. Acknowledging the need for significant investment in public infrastructure and in agriculture, the program envisages an increase in capital spending, supported by project grants. Such spending is expected to crowd in private investment and can potentially enhance economic growth.

39. **Fiscal policy is also geared toward addressing debt sustainability concerns.** The projected decline in the overall fiscal deficit should reduce government borrowing requirements. As a result, yearly bank financing is programmed to remain zero or negative, which would also help crowd in the private sector. A zero ceiling is imposed on new nonconcessional borrowing and the minimum grant element for defining concessional loans is increased to 50 percent. These quantitative measures to reduce the risks of debt distress are complemented by better project prioritization (MEFP, ¶23). Prudent debt management would also be supported by the exclusive right given to the Ministry of Finance to negotiate and sign all external loans.

Monetary and exchange rate policies

40. **The overriding objective of the monetary framework is to achieve price stability, while allowing sufficient scope for improved economic growth.** This monetary framework will be implemented in the context of a managed float regime.

41. The program envisages to stabilize the gross internal reserves at about 3 months of imports. Once the target on net international reserves and the objective for gross international reserves are reached, the central bank should seek to avoid excessive additional reserves build-up that may undermine the inflation objective.

---

[9] It excludes the windfall related to reaching the HIPC completion point in 2009.

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

42. **The program calls for close coordination between monetary and fiscal authorities** to ensure that aid-based expenditures are met with adequate absorption through sales of foreign exchange. The authorities intend to improve coordination between the cash flow plans of the central bank and the government. Such improved coordination would facilitate effective implementation of the program policies.

C. Structural Reforms

43. In line with the strategic axes of the PRSP, the government's structural reform agenda is geared toward promoting sustainable and equitable economic growth and improving governance.

44. **Improving PFM is at the heart of the structural reform agenda.** The program will aim to stabilize the current PFM system through two initiatives: (i) adoption and gradual implementation of the new budget organic law; and (ii) establishment of a single treasury account to help refine cash management.

45. In close collaboration with its development partners, the government is determined to pursue a number of structural reforms: promotion of transparency and good governance, financial sector reform, regional integration, coffee sector reform, and petroleum sector reform (MEFP, Section D).

D. Key Elements of the 2008 Program

46. **Consistent with the medium-term macroeconomic framework, the program for 2008 aims to** (1) accelerate economic growth to 4.5 percent; (2) bring inflation down to 14 percent; and (3) stabilize gross international reserves at about 3 months of imports, given the higher import bill for food and oil. Real GDP growth should benefit from higher coffee production and more construction activities. Inflation would remain high because of world food and oil prices.

47. **While mitigating the impact of higher food and oil prices on the poor, the 2008 program will move decisively to rein in inflation:**

- **Money growth would be restricted**: Broad money growth in 2008 (about 14½ percent) is programmed to rise much slower than nominal GDP growth (about 24 percent). Staff envisages reserve money growth in 2008 to be about 9 percent.
- **The fiscal deficit will be lower**: The overall fiscal deficit (on a commitment basis and after grants) is programmed at about 0.5 percent of GDP—compared with a

deficit of 0.7 percent in the initial budget—despite the direct impact of higher food and fuel prices of about 1.5 percent of GDP.[11]

- Bank credit to the government would be zero, against 1.5 percent of GDP in 2007.
- **Wage policy would be restrictive**. The wage bill relative to GDP will be held to the 2007 level (10.8 percent of GDP). Despite continued demands for wage increases in light of soaring food and oil prices, the government recognized that it would not be prudent to increase public sector wages beyond the level envisaged in the initial budget law (including retroactive payment of allowances).

48. **The program accommodates additional spending of about 0.7 percent of GDP to boost agricultural production and alleviate the impact of higher food prices on the most vulnerable groups**. Another US$9 million (about 0.8 percent of GDP) could be spent on social safety nets if additional budget support becomes available. The authorities are seeking additional external grants for that purpose.

49. **The revenue target of the initial budget (about 19 percent) will be maintained**. It will be supported by tax increases on soft drinks and reinstatement of the petroleum tax from 10 to 16 percent on certain petroleum products. Other revenue measures include more vigorous tax arrears collection; elimination of exemptions from indirect taxes; and collection of taxes on the earnings of local personnel of international agencies.

E. Program Monitoring and Access

50. Semiannual quantitative performance criteria focus on net foreign assets and net domestic assets of the central bank and net domestic financing of the government, with adjusters to deal with aid volatility. There are three continuous performance criteria, with a zero ceiling on (i) new nonconcessional debt contracted or guaranteed; (ii) short-term external debt; and (iii) nonaccumulation of external arrears. Indicative targets have been established for the government wage bill and net accumulation of domestic arrears (MEFP, Table 3).

51. The indicative target on the wage bill would protect nonwage priority spending. To tackle the root causes of wage-related fiscal problems, the program also envisages structural conditionality on the census of the civil service and on payroll management. Staff will assess implementation of these measures during program reviews and remove the wage-bill ceiling if appropriate.

---

[11] This estimate is based on the cost of fuel and food provided by the government through the budget to secondary boarding schools, university, prisons, and security forces.

52. The proposed structural conditionality—including prior actions—is linked to the first strategic axis of the PRSP, namely strengthening economic governance (especially transparent management of government finance). Governance issues will be addressed through conditionality on PFM and central bank internal controls. Table 2 of the MEFP shows prior actions—which are all completed— and Table 4 describes structural conditionality. Structural conditionality for the medium term will draw on the measures specified in the MEFP.

53. **The authorities are requesting program access of 60 percent of quota.**[12] Staff supports this request, given the impact of soaring food and energy prices on the balance of payments, the strength of the program proposed, and Burundi's capacity to repay the Fund. Disbursements would be distributed evenly over the three-year arrangement. The impact of higher food and oil prices on the balance of payments is about - 4.3 percent of GDP (US$50 million, or approximately twice the annual access). So far, the AfDB has provided additional support of US$5.9 million to deal with this shock. In support of the authorities' efforts, external nonproject financial assistance will reach about US$105 million (see details in MEFP, Table 3).

F. Program Risks and Mitigation

54. The authorities up to the highest level have reiterated their staunch commitment to the program and to good governance, but Burundi faces significant political and economic risks. In particular, **a worsening political, social, and security situation would be a major setback.** The recent cease-fire agreement between the government and the last rebel group, FNL, laid the foundation for peace. The current difficult economic environment, with soaring food and oil prices, could intensify generalized wage demands and strikes. To mitigate these, staff discussed the program with a large number of stakeholders, including representatives of local civil society organizations, the private sector, and labor unions.

55. **Inadequate institutional capacity constrains the authorities' ability to implement reforms.** The authorities are working closely with bilateral and development partners to build administrative capacity.

56. **Any further governance incidents may lead to disruptions in donor budget support**. The program is therefore emphasizing careful management of public finances and firmer internal controls at the central bank.

57. **Exogenous shocks could also endanger achievement of program objectives**. Among them are: (i) higher than programmed international food and oil prices; (ii) the

---

[12] The norm for third-time users of PRGF resources is 55 percent of quota.

likelihood of drought; and (iii) faster than expected return of an estimated 120,000 Burundian refugees, mainly from Tanzania, over the next 30 months.

V. Moving Toward the HIPC Completion Point

58. Burundi is expected to reach the HIPC completion point by January 2009, given delays in drawing up a strategy for reforming the coffee sector and demobilizing. The current PRGF arrangement will allow the authorities to meet the completion point requirement of six months of good performance in a PRGF-supported program.

59. **The World Bank is reassessing the structural HIPC completion point trigger on the coffee sector** ("tendering for sale the holdings in a majority of coffee washing stations"). The government has asked that this trigger be redefined to allow them to put in place a comprehensive strategy through a participatory process. The government also noted that the insistence on privatizing coffee washing stations, without an institutional set up for privatization, would not serve the sector well. With World Bank advice, the government plans to establish a strategy for the coffee sector by year-end.

VI. Staff Appraisal

60. **In a difficult post-conflict environment, Burundi has made steady, though uneven, progress.** Most monetary and fiscal reforms have progressed well. However, structural reform has generally been slow, because of both limited institutional capacity and resistance from vested interests.

61. **Burundi's medium-term economic outlook is positive as long as the security situation continues to improve.** Near-term growth is projected to rise, supported by a good coffee harvest, though inflation would remain high, driven by soaring world food and energy prices. Economic growth in the medium term would be markedly higher, propelled by improved economic conditions, a revival of private investment, and increased donor assistance.

62. **Given the debt burden, the budget should be financed only by grants and highly concessional external financing**. Improvements in governance will be critical for donor support. To achieve this, the authorities should further strengthen PFM and manage public expectations of a peace dividend, especially for public employees.

63. **The recent acceleration of inflation is very worrisome.** The monetary authorities should act with determination to contain second-round effects and anchor inflation expectations. Allowing the exchange rate to appreciate with higher aid inflows would also help rein in inflation.

64. **Staff encourages the authorities to continue their efforts to build the financial sector** by improving banking supervision; addressing weaknesses in the banking system; and enhancing central bank internal controls and risk management systems.

65. **The managed float exchange rate has served Burundi well.** The exchange rate seems to be in line with its equilibrium rate, but external stability could be undermined by high debt and rising food and oil prices.

66. **The priority given to food security is welcome.** Burundi is unlikely to become self-sufficient in food production soon, so a concerted emergency response strategy is needed to ensure that the poor do not suffer from the expected drought as food and oil prices soar.

67. **Sustained growth depends on accelerating structural reforms**, especially in the coffee sector, and further improving governance. Staff urges the authorities to expedite adoption of the new investment code. EAC membership should also spur structural reforms that would improve the business environment.

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

69. **The data provided to the Fund are generally inadequate for effective surveillance, especially national accounts and balance of payments data.** Priority should be given to improving national accounts statistics, where the weaknesses are extensive.

70. **Staff recommends approval of Burundi's request for a three-year PRGF arrangement**. Risks to the program are manageable: The risks of limited institutional capacity, exogenous shocks, and governance slippages can be mitigated by sound policies and reforms, in coordination with Burundi's development partners.

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

Table 1. Burundi: Millennium Development Goals

	1990	1995	2001	2003	2004	2005	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 US$1 a day.							
1. Population below US$1 a day (percent)	...	...	58.4 [1]	...	...	...	...
2. Poverty gap ratio at US$1 a day (percent)	...	...	22.7 [1]	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	7.9 [2]	...	5.1 [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 [3]	...	...	...	...
5. Population below minimum level of dietary energy consumption (percent)	49.0	64.0	70.0	67.0	...	66.0	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)	41.0	29.5	52.3	30.6	...	35.7	100.0
7. Percentage of cohort reaching grade 5	61.7	...	64.0	63.0	...	67.0	100.0
8. Youth literacy rate (percent age 15-24)	51.6	57.9	65.1	...	73.3	...	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	...	...	79.1	82.0	82.8	...
10. Ratio of young literate females to males (percent ages 15-24)	76.7	86.0	95.6	...	91.7	...	...
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	18.0	18.0	30.5	...
Goal 4. Reduce child mortality							
Target 5: Reduce by two-thirds between 1990 and 2015 the under-5 mortality rate							
13. Under-5 mortality rate (per 1,000)	190.0	190.0	204.0	...	190.0	190.0	63.3
14. Infant mortality rate (per 1,000 live births)	114.0	114.0	121.0	...	114.0	114.0	...
15. Immunization against measles (percent of children 12-23 months)	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 [3]	...	...	...	...
17. Proportion of births attended by skilled health personnel (precent of total)	...	...	25.2 [3]	...	...	...	...
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	...	...	2.3	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	16.0 [3]	...	...		...
20. Number of children orphaned by HIV/AIDS	...	...	170,000	120,000	...	120,000	...
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)	124.6	...	298.3	334.2	...	333.7	...
24. Tuberculosis cases detected by DOTS (percent)	...	19.6	34.4	30.0	28.9	29.6	...
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)	11.3	...	...	...	...	5.9	...
26. Nationally protected areas (percent of total land area)	4.4	4.8	5.6	5.6	5.6	5.7	...
27. GDP per unit of energy use (PPP US$ per kg oil equivalent)	...	...	...	...	...	...	...
28. CO_2 emissions (metric tons per capita)	0.03	0.04	0.04	0.03	...	...	...
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	...	...	...	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 [4/]							
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)	1.4	2.9	7.4	12.5	12.5	17.6	...
48. Personal computers (per 1,000 people)	...	...	0.7	1.8	4.8	4.7	...

Sources: World Bank; World Development Indicators database, April 2006; and IMF staff estimates.

[1] Survey data for 1998.

[2] Survey data for 1992.

[3] Survey data for 2000.

[4] Targets 12–15 and indicators 33-44 are excluded because they cannot be measured on a country-specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Table 2. Burundi: Selected Economic and Financial Indicators, 2005–13

	2005	2006	2007	2008	2009	2010	2011	2012	2013
	Actual	Actual	Prel.Est.	Prog.			Projections		
	(Annual percentage change, unless otherwise indicated)								
National income and prices									
Real GDP growth	0.9	5.1	3.6	4.5	5.0	5.0	5.0	5.5	5.5
GDP deflator	16.6	4.4	8.2	18.5	10.0	8.7	6.6	6.1	5.5
Consumer prices (period average)	13.4	2.8	8.3	19.1	9.4	8.2	6.8	5.8	5.3
Consumer prices (end of period)	1.0	9.3	14.7	14.0	9.0	7.5	6.0	5.5	5.0
External sector									
Exports, f.o.b. (US$)	19.5	2.6	-14.3	40.3	3.6	2.9	3.7	3.4	3.8
Imports, f.o.b. (US$)	27.6	28.7	20.6	22.8	3.0	0.4	3.5	3.5	4.6
Export volume	-1.7	-7.6	-5.5	35.8	6.0	4.6	6.2	5.1	5.2
Import volume	16.4	10.3	6.0	4.0	7.7	8.1	7.9	5.2	6.2
Terms of trade (deterioration = –)	10.9	-4.9	-20.3	-12.5	2.2	5.9	1.8	0.1	0.2
Real effective exchange rate (end of period; depreciation = –)	17.1	-2.7	-8.6	...	...	...	...	...	...
General government									
Revenue	17.1	3.9	10.5	26.4	15.5	14.4	12.5	12.0	11.4
Total expenditure and net lending (commitment basis)	8.7	14.1	13.0	36.8	14.9	15.3	7.6	11.1	10.3
Noninterest current expenditure (excl. demobilization and elections)	5.8	28.4	26.1	26.1	23.3	8.6	17.8	12.4	10.9
	(Change in percent of beginning of period M2, unless otherwise indicated)								
Money and credit									
Net foreign assets	15.9	1.7	11.5	-1.3	...	...	...	...	...
Domestic credit	-0.4	29.6	6.6	13.2	...	...	...	...	...
Government	7.2	14.4	-0.2	0.0	...	...	...	...	...
Private sector	-6.7	13.7	7.6	12.6	...	...	...	...	...
Money and quasi money (M2)	27.1	16.4	10.1	14.4	...	...	...	...	...
Income velocity (= ratio of GDP to M2; end of period)	3.3	3.2	3.2	3.5	...	...	...	...	...
Reserve money (12–month growth rate)	32.7	5.9	17.4	8.9	...	...	...	...	...
Central bank refinancing rate (percent; end of period)	12.0	13.0	14.0	...	...	...	...	...	...
Commercial bank lending rate (percent; medium term; period average)	19.2	18.4	19.2	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
General government									
Revenue (excluding grants)	20.0	18.9	18.7	19.1	19.1	19.1	19.2	19.2	19.2
Total expenditure and net lending [1]	36.8	38.2	38.5	42.6	42.3	42.8	41.1	40.9	40.5
Overall balance (commitment basis)									
Excluding grants	-16.8	-19.3	-19.9	-23.5	-23.3	-23.7	-21.9	-21.6	-21.3
Including grants [2]	-6.3	-1.8	0.5	-0.5	74.9	-2.1	-1.3	-1.0	-1.0
Savings-Investment balance	-1.2	-14.5	-16.0	-18.2	-17.5	-16.1	-16.0	-14.8	-13.0
Private	5.1	-12.7	-16.6	-17.7	-18.2	-14.0	-14.6	-13.8	-12.0
Public	-6.3	-1.8	0.5	-0.5	0.8	-2.1	-1.3	-1.0	-1.0
	(US$ millions, unless otherwise indicated)								
External sector									
Current account, including grants	-9.7	-133.5	-156.1	-207.1	-236.7	-242.5	-258.2	-258.1	-244.3
Overall balance of payments [3]	25.2	13.4	45.2	-35.9	-17.6	-49.2	-49.9	-38.2	-13.4
Gross official reserves (end of period)	112.7	131.0	177.3	155.3	166.1	162.8	165.7	166.0	188.3
Gross official reserves (months of imports of the following year)	3.0	3.3	3.9	3.2	3.2	3.0	3.0	3.0	3.0
Debt-service ratio (scheduled; percent of exports; before HIPC/MDRI relief) [3]	46.7	54.4	60.6	46.0	47.6	10.4	11.1	7.7	7.7
Debt-service ratio (actual; percent of exports; after HIPC/MDRI relief) [3]	28.4	11.1	7.5	4.3	4.9	10.4	11.1	7.7	8.0
Stock of debt	1,465.2	1,516.1	1,498.5	1,464.9	430.0	458.1	482.5	512.2	543.0
External payments arrears	52.5	52.4	48.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum item:									
GDP at current market prices (Fbu billions)	861	945	1,059	1,311	1,514	1,727	1,933	2,163	2,407

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

[1] Including the cost of the 2010 general elections.

[2] Assumes HIPC completion point and MDRI in 2009.

[3] Assumes financing gap is covered by grants in 2009–13.

Table 3. Burundi: General Government Operations, 2005–11

	2005	2006	2007	2008		2009	2010	2011
	Actual		Prel.Est.	Country Report No. 08/27	Prog.	Projections		
	(Fbu billions)							
Revenue	172.1	178.8	197.6	229.2	249.8	288.6	330.3	371.5
Tax revenue	158.9	163.4	182.6	212.8	232.0	268.1	306.8	345.2
Income tax	41.8	45.9	53.5	60.0	60.3	70.5	83.1	94.6
Taxes on goods and services	78.3	83.9	92.3	112.1	124.3	147.5	169.3	189.5
Taxes on international trade	38.4	29.7	33.7	36.5	43.2	45.2	48.8	54.7
Other tax revenue	0.3	3.9	3.1	4.2	4.2	4.9	5.7	6.3
Nontax revenue	13.2	15.4	15.0	16.4	17.8	20.6	23.5	26.3
Expenditure and net lending	316.4	361.0	407.9	501.8	558.0	641.1	739.1	795.5
Current expenditure	200.6	221.5	261.2	287.8	330.2	382.1	429.6	477.2
Salaries	72.6	93.9	114.0	125.5	141.2	160.5	177.0	192.1
Goods and services	65.7	63.8	70.7	74.5	93.1	110.1	127.6	146.1
Transfers and subsidies	30.3	39.5	46.7	58.6	65.6	90.1	103.4	115.6
Interest payments (due)	32.0	24.3	29.9	29.3	30.3	21.5	21.6	23.4
Domestic	19.4	12.6	18.2	17.5	17.5	19.5	19.6	21.3
Foreign	12.6	11.8	11.7	11.8	12.8	1.9	2.0	2.1
DDR project	8.7	23.5	12.2	26.4	23.5	20.0	18.0	18.0
Elections	24.5	0.0	0.0	0.0	0.0	0.0	20.0	0.0
Capital expenditure	84.0	116.8	134.8	189.6	208.8	240.5	272.5	301.3
Domestic resources	19.5	35.3	28.9	36.3	42.3	59.6	66.7	75.7
External resources	64.5	81.5	105.9	153.3	166.5	180.9	205.8	225.6
Net lending	-1.4	-0.8	-0.3	-2.0	-4.5	-1.5	-1.0	-1.0
Overall balance (commitment basis)	-144.3	-182.2	-210.4	-272.6	-308.2	-352.5	-408.8	-424.0
(after grants) [1]	-54.1	-17.1	5.7	-7.8	-5.9	1,133.9	-35.8	-25.8
Change in arrears (reduction = –)	-10.2	-13.7	-21.9	-4.3	-17.5	-5.5	-6.0	-6.5
External (interest)	-10.1	-1.8	-0.4	0.0	0.0	0.0	0.0	0.0
Domestic [2]	-0.1	-11.9	-21.5	-4.3	-17.5	-5.5	-6.0	-6.5
Overall balance (cash basis)	-154.5	-195.9	-232.3	-276.9	-325.7	-358.0	-414.8	-430.5
(after grants) [1]	-64.3	-30.8	-16.3	-12.1	-23.4	1128.4	-41.8	-32.3
Financing	165.2	199.8	237.7	276.9	325.7	348.6	385.2	391.3
External grants	100.8	169.0	221.5	264.8	302.2	1,476.9	343.4	359.0
Program support	40.0	67.6	87.4	91.9	116.4	124.7	143.7	161.1
HIPC relief	8.0	36.7	40.7	37.8	41.2	1,122.3	0.0	0.0
MDRI grant	0.0	0.0	0.0	0.0	0.0	72.6	0.0	0.0
Project grants	19.7	41.2	81.1	111.6	121.2	137.3	161.6	179.9
Special programs	33.2	23.5	12.2	23.5	23.5	20.0	38.0	18.0
DDR	8.7	23.5	12.2	23.5	23.5	20.0	18.0	18.0
Elections	24.5	0.0	0.0	0.0	0.0	0.0	20.0	0.0
External borrowing	55.4	6.4	-9.3	8.0	8.7	-1,098.1	42.5	44.0
Program loans	29.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	44.9	40.3	24.8	41.7	45.4	43.6	44.2	45.7
Amortization (due)	-34.0	-40.8	-52.3	-38.0	-41.2	-1,141.6	-1.6	-1.7
Change in amortization arrears	-13.2	0.0	0.0	-50.9	-54.2	0.0	0.0	0.0
Debt relief (rescheduling; cancellation)	28.7	6.9	18.3	55.1	58.8	0.0	0.0	0.0
Privatization proceeds	0.4	3.1	0.1	4.1	1.5	1.5	1.3	1.3
Domestic	8.5	21.3	25.4	0.0	13.2	-31.8	-2.0	-13.0
Banking sector	14.5	37.0	-0.7	0.0	0.0	-31.8	-2.0	-4.0
Transitional treasury accounts at BRB [3]	0.0	-16.9	16.9	0.0	0.0	0.0	0.0	0.0
Nonbank sector	-6.0	1.2	9.2	0.0	13.2	0.0	0.0	-9.0
Financing gap/errors and omissions	-10.6	-3.9	-5.4	0.0	0.0	9.5	29.6	39.2

continued

Table 3. Burundi: General Government Operations, 2005–11 (concluded)

	2005	2006	2007	2008		2009	2010	2011
	Actual		Prel. Est.	Country Report No. 08/27	Prog.	Projections		
	(Percent of GDP, unless otherwise indicated)							
Revenue	20.0	18.9	18.7	19.1	19.1	19.1	19.1	19.2
Tax revenue	18.5	17.3	17.2	17.8	17.7	17.7	17.8	17.9
Income tax	4.9	4.9	5.1	5.0	4.6	4.7	4.8	4.9
Taxes on goods and services	9.1	8.9	8.7	9.4	9.5	9.7	9.8	9.8
Taxes on international trade	4.5	3.1	3.2	3.0	3.3	3.0	2.8	2.8
Other tax revenue	0.0	0.4	0.3	0.4	0.3	0.3	0.3	0.3
Nontax revenue	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Expenditure and net lending	36.8	38.2	38.5	41.9	42.6	42.3	42.8	41.1
Current expenditure	23.3	23.4	24.7	24.0	25.2	25.2	24.9	24.7
Salaries	8.4	9.9	10.8	10.5	10.8	10.6	10.2	9.9
Goods and services	7.6	6.8	6.7	6.2	7.1	7.3	7.4	7.6
Transfers and subsidies	3.5	4.2	4.4	4.9	5.0	6.0	6.0	6.0
Interest payments (due)	3.7	2.6	2.8	2.4	2.3	1.4	1.2	1.2
Domestic	2.3	1.3	1.7	1.5	1.3	1.3	1.1	1.1
Foreign	1.5	1.2	1.1	1.0	1.0	0.1	0.1	0.1
DDR project	1.0	2.5	1.2	2.2	1.8	1.3	1.0	0.9
Elections	2.8	0.0	0.0	0.0	0.0	0.0	1.2	0.0
Capital expenditure	9.8	12.4	12.7	15.8	15.9	15.9	15.8	15.6
Domestic resources	2.3	3.7	2.7	3.0	3.2	3.9	3.9	3.9
External resources	7.5	8.6	10.0	12.8	12.7	11.9	11.9	11.7
Net lending	-0.2	-0.1	0.0	-0.2	-0.3	-0.1	-0.1	-0.1
Overall balance (commitment basis)	-16.8	-19.3	-19.9	-22.8	-23.5	-23.3	-23.7	-21.9
(after grants) [1]	-6.3	-1.8	0.5	-0.7	-0.5	74.9	-2.1	-1.3
Change in arrears (reduction = –)	-1.2	-1.5	-2.1	-0.4	-1.3	-0.4	-0.3	-0.3
External (interest)	-1.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic [2]	0.0	-1.3	-2.0	-0.4	-1.3	-0.4	-0.3	-0.3
Overall balance (cash basis)	-18.0	-20.7	-21.9	-23.1	-24.8	-23.6	-24.0	-22.3
(after grants) [1]	-7.5	-3.3	-1.5	-1.0	-1.8	74.5	-2.4	-1.7
Financing	19.2	21.1	22.5	23.1	24.8	23.0	22.3	20.2
External grants	11.7	17.9	20.9	22.1	23.0	97.5	19.9	18.6
Program support	4.6	7.2	8.3	7.7	8.9	8.2	8.3	8.3
HIPC relief	0.9	3.9	3.8	3.2	3.1	74.1	0.0	0.0
MDRI grant	0.0	0.0	0.0	0.0	0.0	4.8	0.0	0.0
Project grants	2.3	4.4	7.7	9.3	9.2	9.1	9.4	9.3
Special programs	3.9	2.5	1.2	2.0	1.8	1.3	2.2	0.9
DDR	1.0	2.5	1.2	2.0	1.8	1.3	1.0	0.9
Elections	2.8	0.0	0.0	0.0	0.0	0.0	1.2	0.0
External borrowing	6.4	0.7	-0.9	0.7	0.7	-72.5	2.5	2.3
Program loans	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	5.2	4.3	2.3	3.5	3.5	2.9	2.6	2.4
Amortization (due)	-3.9	-4.3	-4.9	-3.2	-3.1	-75.4	-0.1	-0.1
Change in amortization arrears	-1.5	0.0	0.0	-4.2	-4.1	0.0	0.0	0.0
Debt relief (rescheduling; cancellation)	3.3	0.7	1.7	4.6	4.5	0.0	0.0	0.0
Privatization proceeds	0.0	0.3	0.0	0.3	0.1	0.1	0.1	0.1
Domestic	1.0	2.3	2.4	0.0	1.0	-2.1	-0.1	-0.7
Banking sector	1.7	3.9	-0.1	0.0	0.0	-2.1	-0.1	-0.2
Transitional treasury accounts at BRB [3]	0.0	-1.8	1.6	0.0	0.0	0.0	0.0	0.0
Nonbank sector	-0.7	0.1	0.9	0.0	1.0	0.0	0.0	-0.5
Financing gap and errors and omissions	-1.2	-0.4	-0.5	0.0	0.0	0.6	1.7	2.0
Memorandum items:								
Primary spending (Fbu billions)	186.7	231.7	260.0	292.8	337.6	418.8	473.7	528.5
Primary expenditure (program definition) [4]	21.7	24.5	24.6	24.5	25.7	27.7	27.4	27.3
Military and security expenditure	8.0	8.0	8.0	7.3	7.5	6.7	6.3	6.0
(percent of primary expenditures)	36.9	32.6	32.6	29.7	29.2	24.3	22.9	22.0
Social expenditure (percent of GDP)	6.8	8.7	9.2	10.1	9.2	10.3	10.5	10.6
Social expenditure (percent of primary expenditures)	31.3	35.6	37.5	41.4	35.9	37.2	38.3	38.8
GDP at current market prices (Fbu billions)	860.9	945	1059	1197	1311	1514	1727	1933

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

[1] Errors and omissions are included in the overall deficit. Assumes 100 percent grants financing of the gaps from 2009 onward.

[2] In 2008 treasury bonds of about 1.1 percent of GDP were issued to clear domestic arrears.

[3] Adjustment due to the fact that in December 2006 donor support was disbursed to the budget but deposited into government accounts with delays.

[4] Current expenditure, excluding interest, and domestically financed project expenditure.

Table 4. Burundi: Monetary Survey, 2005–08

	2005	2006	2007	2008
	Actual			Prog.
	(Fbu billions)			
Net foreign assets	70.3	74.6	109.1	104.9
Central bank	48.8	41.5	75.6	19.0
Deposit money banks	21.5	33.1	33.5	85.9
Net domestic assets	227.6	277.7	298.7	372.2
Domestic credit	277.9	354.3	374.1	417.7
Net claims on the government	121.1	158.1	157.4	157.4
Credit to the economy	156.8	196.2	216.6	260.3
Other items, net (assets = +)	-50.4	-76.6	-75.4	-45.6
M3	297.8	352.2	407.8	477.0
Foreign currency deposits	40.2	52.3	77.7	99.4
M2	257.7	299.9	330.1	377.6
Currency in circulation	67.9	68.4	84.2	98.4
Local currency deposits	189.8	231.5	245.9	279.1
Demand deposits	115.6	147.5	151.2	176.0
Quasi-money	74.2	84.0	94.7	103.2
	(Change as percent of beginning of period M2)			
Net foreign assets	15.9	1.7	11.5	-1.3
Central bank	13.8	-2.8	11.4	-17.2
Deposit money banks	2.1	4.5	0.1	15.9
Net domestic assets	8.6	19.4	7.0	22.3
Domestic credit	-0.4	29.6	6.6	13.2
Net claims on the government	7.2	14.4	-0.2	0.0
Credit to the economy	-7.6	15.3	6.8	13.2
Other items, net (assets = +)	9.0	-10.2	0.4	9.0
M3	24.5	21.1	18.5	21.0
Foreign currency deposits	-2.6	4.7	8.5	6.6
M2	27.1	16.4	10.1	14.4
Currency in circulation	5.3	0.2	5.2	4.3
Local currency deposits	21.8	16.2	4.8	10.1
Demand deposits	7.7	12.4	1.2	7.5
Quasi-money	14.1	3.8	3.6	2.6
Memorandum items:				
Gross international reserves				
US$ millions	112.7	131.0	177.3	155.3
Months of following year's imports f.o.b.	3.0	3.3	3.9	3.2
M2 growth (12–month percent change)	27.1	16.4	10.1	14.4
M3 growth (12–month percent change)	20.0	18.3	15.8	17.0
Credit to the economy (12–month percent change)	-8.9	25.1	10.4	20.2
Reserve money (12–month percent change)	32.7	5.9	17.4	8.9
Money multiplier (M3/reserve money)	3.0	3.3	3.3	3.4
Velocity (GDP/M2; end of period)	5.1	4.4	4.0	3.5
Velocity (GDP/M3; end of period)	2.9	2.7	2.6	2.7

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

Table 5. Burundi: Balance of Payments, 2005–11 [1]

	2005	2006	2007	2008	2009	2010	2011
	Actual		Prel. Est.	Prog.	Projections		
	(US$ millions)						
Current account	-9.7	-133.5	-156.1	-207.1	-236.7	-242.5	-258.2
(excluding official transfers)	-232.7	-333.4	-367.1	-408.9	-446.3	-471.4	-472.9
Trade balance	-132.8	-185.9	-244.7	-291.7	-299.9	-299.4	-309.8
Exports, f.o.b.	57.2	58.6	50.2	70.5	73.0	75.2	77.9
Of which: coffee	40.5	39.7	30.0	50.3	51.6	52.2	53.2
Imports, f.o.b.	-190.0	-244.6	-295.0	-362.2	-372.9	-374.5	-387.7
Of which: petroleum products	-38.3	-57.5	-58.4	-121.4	-126.3	-136.2	-145.8
Services (net)	-99.9	-167.6	-145.6	-148.1	-181.7	-208.4	-201.6
Income (net)	-17.9	-8.8	-5.9	-5.2	-6.2	-7.2	-7.2
Of which: interest on public debt (including IMF charges)	-11.4	-11.0	-14.6	-12.3	-1.7	-1.7	-1.7
Current transfers (net)	240.9	228.9	240.1	237.8	251.1	272.5	260.5
Private (net)	17.9	29.0	29.0	36.0	41.5	43.6	45.8
Official (net)	223.0	199.9	211.0	201.8	209.6	228.9	214.7
Of which: program grants	37.9	64.8	84.5	101.4	111.7	125.7	134.7
Capital account	26.2	69.5	127.4	145.0	1196.5	143.3	150.3
Of which: HIPC relief [2]	8.0	35.7	39.4	39.7	1005.2	0.0	0.0
MDRI grant [2]	...	0.0	0.0	0.0	65.1	0.0	0.0
Financial account	82.9	88.7	84.6	26.3	-977.4	50.0	58.0
Direct investment	0.6	0.0	0.5	0.5	0.5	0.8	1.3
Other investment	82.3	88.7	84.1	25.8	-977.9	49.2	56.7
Assets	-7.9	-30.2	-45.0	-84.4	-70.7	-74.8	-43.1
Of which: trade credit	-3.4	-15.2	-21.2	-17.0	-17.5	-21.1	-22.3
commercial banks	-4.5	-15.0	-21.9	-65.3	-51.1	-51.6	-18.7
Liabilities	90.2	118.9	129.1	110.2	-907.2	124.0	99.7
Of which: trade credit	10.0	44.4	-4.3	11.1	4.9	1.0	-4.4
Of which: IMF, net	21.3	21.3	10.7	11.3	-4.0	-9.1	-12.4
Public sector	67.8	44.7	86.8	83.0	-900.8	123.4	126.5
Arrears	6.4	1.4	0.0	0.0	0.0	0.0	0.0
Disbursements	82.1	80.1	115.9	118.8	121.7	124.8	127.9
Of which: project loans	43.1	40.4	24.0	39.4	39.0	38.6	38.2
program loans	26.2	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	-20.8	-36.7	-29.1	-35.8	-1022.5	-1.4	-1.4
Other	0.1	-0.4	0.2	-8.1	-7.0	-5.0	-7.6
Commercial banks	0.6	6.0	21.6	12.9	-0.4	13.7	-2.3
Errors and omissions	-74.3	-11.4	-10.6	0.0	0.0	0.0	0.0
Overall balance	25.2	13.4	45.2	-35.9	-17.6	-49.2	-49.9
Financing (increase in assets = –)	-25.2	-13.4	-45.2	26.0	-10.8	3.3	-2.9
Net change in official foreign reserves (increase = –)	-34.1	-18.0	-62.5	22.0	-10.8	3.3	-2.9
Change in arrears (increase = +)	-22.2	0.8	-0.4	-48.0	0.0	0.0	0.0
Exceptional financing [3]	31.0	3.9	17.7	52.0	0.0	0.0	0.0
Financing gap [4]	0.0	0.0	0.0	9.9	28.4	45.9	52.8
	(Percent of GDP, unless otherwise indicated)						
Memorandum items:							
Trade balance	-16.6	-20.3	-25.1	-25.6	-22.1	-19.8	-19.2
Current account [4]	-1.2	-14.5	-16.0	-18.2	-17.5	-16.1	-16.0
Of which: excluding current official transfers	-29.1	-36.3	-37.7	-35.9	-32.9	-31.2	-29.3
Gross official reserves							
US$ millions	112.7	131.0	177.3	155.3	166.1	162.8	165.7
Months of following period's imports, c.i.f.	3.0	3.3	3.9	3.2	3.2	3.0	3.0
Imports							
Growth rate	27.6	28.7	20.6	22.8	3.0	0.4	3.5
Percent of GDP	23.7	26.6	30.3	31.8	27.5	24.8	24.0
Exports							
Growth rate	19.5	2.6	-14.3	40.3	3.6	2.9	3.7
Percent of GDP	7.1	6.4	5.2	6.2	5.4	5.0	4.8
Debt-service ratio (percent of exports of goods and services)							
Scheduled current maturities (including IMF)	46.7	54.4	60.6	46.0	47.6	10.4	11.1
Actual debt service (including IMF; after HIPC and MDRI)	28.4	11.1	7.5	4.3	4.9	10.4	11.1
Exchange rate (Fbu per US$; period average)	1075	1029	1087	...	...	...	...
Nominal GDP (US$ millions)	801	918	974	1139	1356	1510	1616

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

1 Compiled in accordance with *Balance of Payments Manual, 5th edition.*

2 Assumes HIPC completion point and MDRI in 2009.

3 Includes the March 2004 Paris Club rescheduling on Naples terms, and assumes rescheduling of current debt service and arrears to non-Paris Club creditors at comparable terms.

4 Assumes financing gap is covered by grants in 2009–11.

Table 6. Burundi: Tentative Schedule of Disbursements and Reviews Under the PRGF Arrangement, 2008–2011

Date	Disbursement (SDR millions)	Conditions
July 7, 2008	6.6	Executive Board approval.
January 15, 2009	6.6	Completion of first review, based on observance of performance criteria at end-September 2008.
July 6, 2009	6.6	Completion of second review, based on observance of performance criteria at end-March 2009.
January 15, 2010	6.6	Completion of third review, based on observance of performance criteria at end-September 2009.
July 6, 2010	6.6	Completion of fourth review, based on observance of performance criteria at end-March 2010.
January 15, 2011	6.6	Completion of fifth review, based on observance of the performance criteria at end-September 2010
July 6, 2011	6.6	Completion of sixth review, based on observance of the quantitative performance criteria at end-March 2011.
Total for the PRGF Arrangement	46.2	

Table 7. Burundi: External Financing Requirements and Sources, 2006–11

(US$ millions)

	2006	2007	2008	2009	2010	2011
	Actual	Prel.Est.	Projections			
1. Gross financing requirements	-387.3	-459.1	-470.7	-1483.6	-478.6	-489.6
External current account deficit (exc. official transfers)	-333.4	-367.1	-408.9	-446.3	-471.4	-472.9
Debt amortization [1]	-36.7	-29.1	-35.8	-1,022.5	-1.4	-1.4
Repayment of arrears	0.8	-0.4	-48.0	0.0	0.0	0.0
Gross reserves accumulation (= –)	-18.0	-62.5	22.0	-10.8	3.3	-2.9
IMF repurchases and repayments						
Before HIPC/MDRI relief	0.0	0.0	0.0	-4.0	-9.1	-12.4
After HIPC/MDRI relief	0.0	0.0	0.0	-4.0	-9.1	-12.4
2. Available financing	372.8	441.7	445.5	1,455.2	432.7	436.8
Foreign direct investment (net)	0.0	0.5	0.5	0.5	0.8	1.3
Debt financing from private creditors (to private sector)	19.8	-27.5	-68.5	-73.2	-65.1	-57.4
Official creditors (to public sector) [2]	352.9	468.7	513.5	1,527.9	497.0	492.9
Multilateral [1]	283.5	350.8	405.2	378.5	412.3	404.7
Of which: balance of payments financing [3]	0.0	0.0	0.0	0.0	0.0	0.0
Bilateral	33.7	78.5	68.7	79.2	84.7	88.2
To public sector	33.7	78.5	68.7	79.2	84.7	88.2
Of which: balance of payments financing [3]	0.0	0.0	0.0	0.0	0.0	0.0
HIPC and MDRI relief (including IMF)	35.7	39.4	39.7	1,070.2	0.0	0.0
IMF [4]	21.3	10.7	11.3	0.0	0.0	0.0
Other flows [5]	-6.7	6.6	4.0	0.0	0.0	0.0
Financing gap	0.0	0.0	9.9	28.4	45.9	52.8

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

[1] Excluding the IMF.

[2] Includes both loans and grants.

[3] Includes transactions undertaken to finance a balance of payments deficit or an increase in reserves.

[4] Includes HIPC/MDRI relief.

[5] Includes all other net financial flows and errors and omissions.

Table 8. Burundi: Indicators of Capacity to Repay the Fund, 2006–15

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Fund obligations based on existing credit										
(SDR millions)										
Principal	--	--	--	2.6	6.0	8.1	11.7	13.2	11.2	7.9
Charges and Interest	0.2	0.3	0.6	0.7	0.7	0.7	0.6	0.5	0.5	0.4
Fund obligations based on existing and prospective credit [1]										
(SDR millions)										
Principal	--	--	--	2.6	6.0	8.1	11.7	13.2	13.2	12.5
Charges and Interest	0.2	0.3	0.6	0.8	0.8	0.9	0.8	0.8	0.7	0.6
Total obligations based on existing and prospective credit [1]										
(SDR millions)	0.2	0.3	0.6	3.4	6.8	9.0	12.6	13.9	13.9	13.1
(US$ millions)	0.3	0.5	0.9	5.2	10.4	13.7	19.2	21.5	21.4	20.3
Percent of exports of goods and services	0.4	0.6	0.9	4.8	8.8	9.8	12.1	13.1	14.9	13.6
Percent of debt service [2]	3.3	8.2	20.0	79.4	76.7	81.4	142.6	149.9	135.2	102.0
Percent of quota	0.3	0.4	0.8	4.5	8.9	11.7	16.3	18.1	18.0	16.8
Percent of gross international reserves	0.3	0.3	0.6	3.1	6.4	8.3	11.6	11.4	8.6	8.2
Outstanding Fund credit [1]										
(SDR millions)	55.0	62.2	75.9	86.5	93.7	98.7	87.0	73.9	60.7	48.2
(US$ millions)	80.9	95.1	114.2	130.5	142.0	150.5	133.4	113.9	93.6	74.3
Percent of exports of goods and services	86.9	117.6	109.1	120.5	120.9	107.8	83.9	69.2	65.0	50.1
Percent of debt service [2]	786.3	1,675.4	2,531.5	2,001.6	1,050.0	892.8	988.5	795.1	590.5	374.1
Percent of quota	71.4	80.7	98.6	112.3	121.6	128.2	113.0	95.9	78.8	61.7
Percent of gross international reserves	61.8	53.7	73.6	78.6	87.3	90.9	80.4	60.5	37.8	30.1
Memorandum items:										
Prospective disbursements (SDR millions)	--	--	6.6	13.2	13.2	13.2	--	--	--	--
Exports of goods and services (US$ millions)	93.1	80.9	104.7	108.3	117.4	139.7	159.1	164.6	144.1	148.4
Debt service (US$ millions) [2]	10.3	5.7	4.5	6.5	13.5	16.9	13.5	14.3	15.8	19.9
Quota (SDR millions)	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	78.0
Gross international reserves (US$ millions)	131.0	177.3	155.3	166.1	162.8	165.7	166.0	188.3	247.8	246.7
GDP (US$ millions)	918.0	973.7	1,139.0	1,356.1	1,510.1	1,615.6	1,744.2	1,881.5	2,035.9	2,202.6

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

[1] Including prospective disbursements.

[2] Including IMF repurchases and repayments in total debt service.

Table 9. Burundi: Banking System Soundness Indicators, 2005–07

(Percent, unless otherwise indicated)

	Dec-05	Dec-06	Dec-07
Capital requirement			
Capital requirement over weighted assets (solvency ratio)	17.0	13.2	13.5
Core capital (Tier 1 capital) over weighted assets [1]	16.5	7.6	10.9
Capital over assets	8.9	8.9	8.5
Quality of assets			
Nonperforming loans (percent of total gross loans granted)	20.6	18.6	18.8
Provisions (percent of nonperforming loans)	81.7	90.2	92.6
Nonperforming loans net of provisions (percent of capital)	20.4	25.5	7.4
Large exposures (percent of capital)	34.3	47.7	41.6
Profitability rate			
Return on assets	1.9	1.7	2.3
Return on equity capital	14.1	17.5	26.4
Net interest (percent of gross results)	180.5	177.4	167.6
Costs excluding interest (percent of gross outturn)	175.7	188.9	156.6
Payroll expenses (percent of charges excluding interest)	25.8	23.2	24.9
Liquidity			
Liquid assets (percent of total assets)	34.0	33.1	38.1
Liquid assets (percent of short-term commitments)	87.0	106.8	135.2
Customer deposits (percent of all loans granted)	132.6	134.8	148.5

Source: Burundi authorities.

[1] The decrease is due to the revision of Article 2 in Directive No. 2/06 of November 24, 2006. It is related to the calculation of basic equity capital, which no longer includes general provisions for risks.

Table 10. 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 drafted in a participatory process was published in September 2006 and discussed by the IMF and World Bank Boards in March 2007. The annual progress report is being prepared by the monitoring PRSP permanent secretariat and a first draft will be available in mid-2008.
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 except briefly in mid-2007. The sixth and last review of the PRGF was concluded on January 22, 2008.
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. Since 2006 more than 70 percent of HIPC resources are being allocated to social sectors (education, health). The HIPC Independent Oversight Committee was reactivated in mid-2007 and now meets regularly. A draft report of the recent audit of spending undertaken was shared for comments from donors in February-March 2008 and a revision circulated in May 2008. The final report will be finalized in July 2008.
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 (SIGEFI) was put in place in January 2006 using the new budget nomenclature. Quarterly budget execution reports have been produced since mid-2006. The government is working to improve the SIGEFI system and the coverage and reliability of the reports.
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.	The surveys were completed by December 2007 and the preliminary analyses by end-February 2008. An action plan is being prepared and will be available in July 2008.
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 made progress in 2004–05 but has experienced delays since then. By November 2007 24,105 persons had been demobilized. The objective, after integrating all forces, is to reduce the army to 25,000 men. However, about 17,300 persons were absorbed into a new national police force instead of being demobilized. Plans are being finalized for a new round of demobilization in 2008 (FNL excluded), covering about 3,500 from the army (FDN) and 4,500 from the national police. This would reduce the FDN to about 25,000 and the police to about 15,000. Following the May mission by the Bank DDR team, the Bank is evaluating the request of the authorities to modify the completion criteria of this trigger in light of the slow implementation of the DDR program, exacerbated by the April 2008 security situation.

Table 10. Burundi: Progress Toward HIPC Completion Point Triggers (concluded)

Trigger	Progress
7. **Structural measures**: Tendering for sale the state holdings in a majority of coffee washing stations.	In November 2006 the government approved a detailed action plan for reform of the coffee sector, elaborated with the support of the World Bank. The action plan included: (1) a study of the competitiveness of the sector (done in 2007); (2) identification and implementation of a strategy for the sale of main assets; and (3) drafting of a liberalized legal, regulatory, and institutional framework for the sector. Actions (2) and (3) were delayed but are being reprogrammed. The authorities have recently requested that this trigger be redefined. The Bank and the Fund agreed. The Bank is finalizing a proposal to redefine this trigger in coordination with the authorities and the Fund.
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 rose from an estimated 80 percent in 2003–04 to 85 percent in 2004–05, about 101 percent in 2005–06, and 118 percent in 2006–07. The enrollment in secondary school has reached 19 percent in 2006–07. Preliminary analysis of regional enrollment rates (administrative) data provided by the government indicates an improvement.
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.	In June 2006 the Burundian Ministry of Health organized a national campaign for vaccination against measles with the support of UNICEF and WHO. At end-October 2007 preliminary data suggest BCG coverage at 71 percent; polio 3 at 74 percent; DPT3 equivalent at 69 percent; and measles at 30 percent. Data for 2006 are poor and not yet available for regional rates. According to the government, preliminary analysis of regional immunization rates (administrative) data indicates an improvement.
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.	All the reports through February 2008 were provided. Reports still have reliability and coverage problems.

APPENDIX I—LETTER OF INTENT

Bujumbura, June 24, 2008

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

Dear Mr. Strauss-Kahn:

1. We are pleased to send you the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU), on which we agreed within the framework of the new program concluded between Burundi and the International Monetary Fund under the Poverty Reduction and Growth Facility (PRGF).

2. The government of Burundi successfully implemented a PRGF-supported program from 2004 to 2007. During that period, considerable progress was made toward achieving stabilization, economic reforms, and poverty reduction.

3. In the political area, the government of Burundi continues to consolidate the peace process by pursuing implementation of the agreements signed between Burundi and all the belligerent parties.

4. To take up the major challenges facing the country, the government of Burundi hereby requests assistance from the IMF under a three-year PRGF arrangement, in amount of SDR 46.20 million, equal to 60 percent of Burundi's quota, for implementation of the government's program of macroeconomic reforms covering the period April 1, 2008, to March 31, 2011. Such assistance from the IMF will also open the way for Burundi to move toward the HIPC Initiative completion point, which we expect to reach by January 2009.

5. The attached MEFP indicates the objectives and policies that the government of Burundi plans to adopt within the framework of a medium-term program (covering April 1, 2008, to March 31, 2011) so as to pursue the process of macroeconomic stabilization, reduce poverty, promote the structural reforms, and strengthen governance. The TMU, which is also attached, specifies the procedures to be followed for the monitoring of program implementation and the information required for such monitoring, as well as the quantitative and structural criteria and benchmarks for implementation of the program.

6. The government believes that the policies described in the MEFP are adequate to achieve the objectives of the program and undertakes to adopt any further measures that may prove necessary for that purpose. During the period of implementation of the three-year arrangement, the authorities of Burundi will consult with the Managing Director of the IMF, either at their own initiative or whenever the Managing Director of the IMF requests such consultation, on the adoption of any additional measures that may be appropriate.

7. The government of Burundi will provide the IMF with such information as it may request in connection with monitoring the progress made in economic and financial policy implementation. Moreover, Burundi will carry out reviews with the IMF every six months. We expect the first such review with IMF staff to be completed by January 2009, and the second review to be completed by July 2009.

8. The Burundi authorities wish to make this letter available to the public, along with the attached MEFP and TMU as well as the IMF staff report on the request for a further PRGF arrangement. We therefore authorize their publication and posting on the IMF website subsequent to Executive Board approval. These documents will also be posted on the official websites of the Burundi government.

Sincerely yours,

/ s /

Clotilde NIZIGAMA
Minister of Economy, Finance, and
Cooperation for Development

/ s /

Gaspard SINDAYIGAYA
Governor, Bank of the
Republic of Burundi

/ s /

Gabriel NTISEZERANA

Second Vice-President, Republic of Burundi

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

APPENDIX I—ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. INTRODUCTION

1. This memorandum draws on the lessons of the previous Poverty Reduction and Growth Facility (PRGF) arrangement, reviews the medium-term macroeconomic framework, and presents the economic and financial policy that will be conducted in the context of the government's program covering the period from April 1, 2008, to March 31, 2011. The measures and objectives of the program are consistent with the Poverty Reduction and Strategy Paper (PRSP) published in September 2006 and with the findings of the preliminary report that will be available in late May 2008.

2. Macroeconomic developments remained broadly in line with the program through end-2007, even though inflation was higher than expected. Growth slowed to 3.6 percent in 2007, as anticipated, because the coffee harvest was deficient, mainly as a result of natural cyclical changes that were exacerbated by a lack of investment in the sector. The adjustment of administered prices late in 2007, the recent hikes in food prices, and the disorganization in the supply of imports attributable to Kenya's post-election problems compounded the increase in consumer prices, which reached 14.7 percent, year-on-year, at end-2007, compared with a single-digit inflation target. The average inflation rate at end-December 2007 was 8.3 percent.

3. Despite lengthy delays in the disbursement of budgetary assistance by donors, fiscal management in 2007 was generally satisfactory. The bulk of the assistance from donors and lenders was disbursed at year-end as a result of the delay, caused by governance issues, in completing the sixth review of the PRGF arrangement. Bridging finance provided by the central bank (BRB) in the fourth quarter of 2007, combined with strict budgetary discipline and efficient government cash flow management, prevented fiscal deterioration.

4. Burundi's external position remained consistent with the program objectives in 2007. Although exports declined because of the poor coffee harvest and imports climbed—mainly attributable to the increased demand for intermediate and capital goods—, inflows of foreign assistance helped maintain the external balance in the expected range.

II. LESSONS LEARNED FROM THE PREVIOUS PRGF ARRANGEMENT AND CHALLENGES TO BE MET

A. Lessons Learned From the Previous PRGF Arrangement

5. In a difficult post-conflict environment, the implementation of the previous PRGF arrangement (2004–08) was generally satisfactory. Good progress was achieved in most of

the monetary and budgetary reforms launched under that arrangement, and the government was therefore able to implement policies that kept the economy relatively stable. Burundi also abolished certain trade and foreign exchange restrictions and joined the East African Community (EAC).

6. The government took action to consolidate macroeconomic stability by improving economic management, even though inflation has recently worsened. The package of prudent, flexible measures adopted by the authorities over the past three years enabled Burundi to make great progress toward macroeconomic stability.

7. Budgetary support from development partners played a key role in favor of the government's objectives, but the nonstaggering of disbursements created severe cash flow management problems. These problems were exacerbated in 2006 and 2007 by program implementation difficulties that led to a delay in the disbursement of budgetary support. The government will do everything possible to prevent economic policy and governance slippages likely to delay the disbursement of budgetary support by donors, while at the same time negotiating with the latter about the possibility of staggering their assistance more broadly over the entire year.

8. Structural reforms were implemented more slowly than expected over the past three years. Therefore, Burundi could not benefit fully from the reforms with respect to growth and development. Important lessons are to be learned in this regard. First, the inadequacy of the country's institutional capacity—which needs to be strengthened—and the resistance of special-interest groups (in particular in the coffee sector) to some of the proposed measures contributed to the delay in implementing reforms. Second, the delay in implementing structural reforms can be explained partly by the delay in the provision of technical assistance and in the disbursement of external support from donors and lenders. Third, the country needs to assume ownership of the design of the structural reforms, which should be tailored to the political, social, and institutional circumstances of the country. The authorities are aware that Burundi needs to show more resolve about having these reforms implemented successfully.

9. Burundi has received considerable technical assistance, but its institutional capacity needs to be built up. The donors, particularly the IMF, have provided it with intensive technical assistance in numerous areas over the past few years. That support has played a key role in a post-conflict situation where Burundi very much needs to strengthen its institutional capacity. The country also draws a number of lessons for improving technical assistance. First, it is important to match the supply of technical assistance to the real needs of the country. It is, therefore, necessary to identify technical assistance needs correctly and to establish an action plan for capacity building in each sector. That will also help Burundi to take ownership of the technical assistance it receives and to coordinate it better. Second, for greater effectiveness, the government should participate fully in the evaluation of the

assistance it receives. Third, technical assistance should lead to a transfer of know-how, so as to reduce in the medium term dependence on foreign technical assistance. Hence, emphasis needs to be placed on training and the integration of local capacity.

B. Challenges to be Met

10. Burundi is facing major political, social, and economic challenges. In the political area, it has to consolidate the peace process and stability. To eradicate definitively the consequences of a conflict that lasted for about 15 years and to lay a sound groundwork for sustainable, harmonious development, the government has created frameworks for dialogue and cooperation involving all sociopolitical partners. This approach enabled the country to return to a serene environment conducive to the restoration of confidence among political stakeholders, in particular through the establishment of a government of national unity in November 2007. This step forward in the political area was somewhat disrupted by the reappearance of a few cases of insecurity following the sudden withdrawal of the PALIPEHUTU-FNL from the Joint Verification and Monitoring Mechanism (MCVS).

11. Since April 2008, however, the Regional Initiative and the Political Directorate, whose main task was to strengthen mediation between the government and the one remaining rebel movement, PALIPEHUTU-FNL, have succeeded in persuading the latter to resume and continue honoring the cease-fire agreement. The government is convinced that as the process of definitive cessation of hostilities has begun, security can be restored throughout the country, and economic activity and measures to reduce poverty can now be effectively resumed.

12. With regard to economic and social matters, the objective is to achieve strong, sustainable growth with a view to reducing poverty and making progress toward achieving the Millennium Development Goals (MDGs). Burundi is one of the least developed countries in the world, and poverty remains widespread. The incidence of HIV/AIDS is high, and the social infrastructure is embryonic. The government will have to make every effort to

- Ensure budget sustainability so as to reduce the heavy debt burden;

- Return to single-digit inflation. Considerable progress has been made with regard to macroeconomic stabilization, but much remains to be done to control inflation, especially in an international context characterized by high food and oil prices;

- Build institutional capacity and improve governance. Structural reforms remain key to increasing growth and reducing poverty. Institutional capacity building and improved governance will be essential in this regard; and

- Make progress in moving toward regional integration. Membership in the EAC will open up to Burundi the benefits of a larger economic market. However, much remains to be done for the country to develop an overall strategy, implement essential institutional reforms, and negotiate with the EAC Secretariat on procedures for complying with the conditions set by the Community. For this purpose, technical and financial assistance from donors is indispensable and urgent.

- Improve infrastructure to promote productive investment. A top priority should be given to food production to first ensure food security and then export any food surplus. The government will seek financial resources from donors to build infrastructure for greater access to water, in particular extension of the irrigation system in the plain of Imbo.

III. Policy Framework and Objectives of the New PRGF-supported Program

A. Objectives of the New PRGF-supported Program

13. The purpose of the new PRGF arrangement will be to consolidate macroeconomic stability, further reduce the heavy debt burden, and help the government of Burundi pursue implementation of the PRSP. It will also support the government's efforts to obtain debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI).

14. The objectives of the new three-year PRGF-supported program will therefore be to

- Return to single-digit inflation. An independent central bank with price stability as its principal mission will be essential for this purpose. Better budget and monetary policy coordination will also be essential, especially during this period of increasing inflationary pressures;

- Improve the composition of public spending to the benefit of the priority sectors, while preserving budget sustainability. To that end, the wage bill must be controlled. The authorities will also have to avoid contracting loans on nonconcessional terms, the requirement under the new PRGF arrangement being conformity with the concessionality threshold of a grant component of at least 50 percent;

- Strengthen public financial management (PFM). No further major PFM initiatives are envisaged under the new arrangement, as the commitments undertaken within the framework of the previous PRGF arrangement still have to be fully implemented. The program will therefore seek to stabilize the existing PFM system, with particular attention to two ongoing initiatives: (1) the passing and gradual implementation of the new organic budget law; and (2) consolidation of a single Treasury account and an effective cash flow management plan; and

- Strengthen the internal control systems of the central bank. Emphasis will be placed on parliamentary passing of the draft central bank law, as recommended by the IMF, and on implementation of a number of financial safeguard measures identified by the recently completed safeguards report as necessary for strengthening internal controls and risk management systems.

15. Provided that the public security situation continues to improve, the macroeconomic objectives are as follows for the period of the PRGF-supported program: (1) GDP growth should average 5 percent over the medium term, up from the average of 3.6 percent in 2004–07; (2) inflation would slow to about 6 percent in 2011; and (3) gross official reserves would stabilize at about 3 months of imports.

16. The projected growth rates are similar to those observed in other post-conflict countries and are based on three major factors: (1) continued elimination of large economic distortions, especially in agriculture, which will stimulate total factor productivity; (2) a substantial increase in investment, supported largely by international assistance and geared primarily toward renewal of the country's infrastructure, which will help ease the supply bottlenecks; and (3) further progress in trade liberalization and integration, which will help diversify the economy, stimulate competition, and finally increase investment.

B. Budget Policy

17. Budget sustainability will be the essential anchor for medium-term fiscal consolidation. It will therefore be important to maintain prudent budget policy, especially using grants and highly concessional loans in order to avoid unsustainable external and domestic debt dynamics. At the same time, the government will continue to mobilize domestic resources with the objective of gradually increasing revenue to about 19.2 percent of GDP by 2011, based on reform of revenue administration and of tax policy.

18. Budget policy will be supported by the rigorous establishment of monthly cash flow plans. In this context, all budget spending will be dependent on the prior authorization of the Minister of Finance and executed strictly on the basis of revenue availability. Firm instructions will have to be given to commercial banks to deposit receipts taken on behalf of the government to the Treasury's account at the central bank within 48–72 hours, or face penalties. A monthly budget allocation for each ministry should be defined as of June 2008, with strict expenditure prioritization. To protect priority spending, the government will in advance identify nonpriority expenditures that will be cut in the event of a decline in revenue or financing.

19. A key budget policy objective is to improve the composition of expenditure to the benefit of the social sectors and economic growth. At 10.8 percent of GDP in 2007, the government wage bill is below the average of 12.1 percent for small sub-Saharan African countries. This high level of the overall wage bill is strongly influenced by the share of wage bills for the priority sectors—education, health, agriculture, and justice—which is about 50 percent. Given the importance of these sectors for poverty reduction, further cuts in the

wages of workers in these sectors would be inadvisable. Currently, the average monthly per capita wage in the civil service is less than US$75. Considering the decline in wages in real terms over the past few years, the government will seek agreement with social partners for a gradual return to appropriate wage levels that would be sustainable in the budgetary context. The government will make every effort to avoid unbudgeted wage increases such as those that recently disrupted the conduct of budget policy.

20. To control wages, the government will draw on the findings of the Public Expenditure Management and Financial Accountability Review (PEMFAR—prepared jointly by the World Bank and the government of Burundi) to take the following measures: (1) freeze recruitment of civil servants, except in the sectors of health, education, agriculture, and justice; (2) establish a coherent wage increase framework that takes account of the budgetary resources of the government; (3) only partially replace retirees with new wage earners; (4) centralize recruitment by strengthening the powers of the recruitment commission; (5) complete the census of all government civil employees (end-September 2008 structural performance criterion); and (6) start the census of the police and army (end-October 2008 structural benchmark) and complete it. The census will: (1) facilitate payroll computerization, (2) eliminate fictional employees; and (3) improve wage bill management. In addition, the Ministry of Finance should assume responsibility for payroll management for government employees by taking charge of the payroll database by end-March 2009 (end-March 2009 structural performance criterion). Strict enforcement of these measures, combined with sustained economic growth, is expected to help reduce the ratio of wages to GDP to well below 10 percent toward the end of the program.

21. Spiraling food and oil prices have derailed the 2008 budget forecasts. The immediate annual fiscal impact of these two shocks is estimated at about 1.5 percent of GDP. The current bad rainy season heralded a drought in the near feature that will negatively affect food security**.** The government is also expecting the return of a large number of Burundian refugees, following the cease-fire agreement and the cessation of hostilities.

22. To facilitate adjustment to these shocks and mitigate their impact on the poor, the government is seeking budgetary support over and above the funds initially budgeted. Identified emergency spending on targeted social safety nets of US$9 million (about 0.8 of GDP) could be executed quickly if additional budget support becomes available. The monies will be used to establish social safety nets and assistance targeting the most vulnerable segments of the population and farmers. Donor funding is also needed to provide school meals in the most vulnerable areas, and seeds and fertilizers to smallholders. To boost agricultural supply, the authorities will work with donors (e.g., World Bank and FAO) to expand rural infrastructure, diversify agricultural production, and improve yields through research programs and irrigation systems.

23. To improve expenditure forecasting, the government will implement one of the PEMFAR recommendations on assessing the budgetary impact of providing free health care for children under 5 years old and for women during childbirth and free schooling at the primary level. Technical assistance should be considered for this assessment. The government will also review capital expenditure to ensure that priority projects with a positive impact on poverty reduction and growth are indeed covered in the budget. In the program context, capital expenditure should be based on the list of identified priority projects.

24. Well-designed demobilization and reinsertion policies are essential to achieving the objective of increased pro-poor spending. Taking into account recent security developments and the experiences of other countries, the demobilization policy should be implemented flexibly to ensure that demobilization helps improve security for the people of Burundi (especially the poor and the most vulnerable). The government will continue to cooperate closely with the World Bank and other donors and lenders to ensure that this policy is implemented efficiently and in a manner conducive to the effective social reinsertion of former combatants and the improvement of security conditions. With a return to peace, the reduction in military and security spending will leave a little more room for budget flexibility, as needed to increase poverty reduction expenditure without endangering budget sustainability.

C. Monetary and Foreign Exchange Policy

25. The government plans to pursue prudent monetary policy, which is necessary to anchor inflationary expectations, in light of the international context marked by soaring food and oil prices worldwide. Until the objective of a single-digit inflation rate is attained, the central bank will set the broad money growth rate below the nominal GDP growth rate. Such prudent monetary policy will help prevent the second-round price effect of higher commodity prices and other supply shocks.

26. The central bank reforms aimed at strengthening its independence should help it to focus on its primary mission of ensuring price stability. Burundi is not yet ready to implement a formal inflation-targeting policy, but the central bank can benefit from the announcement of an inflation target and use existing monetary and foreign exchange instruments effectively to absorb domestic and foreign currency liquidity. A proper mix of foreign exchange sales and liquidity sterilization could help achieve the inflation target while preserving external competitiveness and preventing the crowding out of private sector investment. The central bank will carry out a study to define the most appropriate instruments to be used to achieve its inflation target in the current international context. It will propose this as a topic for discussion by the financial sector study mission planned for the second half of 2008.

27. Proactive management of foreign exchange reserves and the sterilization of foreign exchange operations will continue within a managed floating exchange rate regime, with a view to achieving the inflation target. The central bank should also seek to smooth the monetary impact of the bunching of external financing disbursements while allowing the exchange rate to appreciate if the net foreign assets target is attainable. Given the worldwide rise in food and oil prices, the central bank recognizes that an appreciation of the exchange rate could help it to contain inflation. In collaboration with IMF experts, the central bank will decide as soon as possible about the means to heighten the banks' interest in foreign exchange auctions and encourage them to propose fair prices within the framework of the new foreign exchange regulations and the current system of foreign exchange auctions.

D. Structural Reforms

28. Lessons learned from the previous PRGF arrangement should inform the design of the structural component of the new PRGF arrangement. First, it is necessary to be very selective and to streamline structural reforms, given the weakness of institutional capacity. Second, the strengthening of fiscal management and of internal controls at the central bank will contribute significantly to the improvement of governance.

29. In close collaboration with its development partners, the government is determined to pursue a number of structural reforms: promotion of transparency and good governance, financial sector reform, regional integration; coffee sector reform, and oil sector reform.

Promotion of transparency and of good governance

Fiscal management

30. During the previous PRGF arrangement, the government implemented important measures that considerably improved fiscal management (Table 1). The government is aware that much remains to be done and is determined to improve fiscal management further. On the basis of various technical assistance reports (including the PEMFAR), the government will implement a strategy and an action plan of fiscal management reforms. The principal measures envisaged hinge upon gradual implementation of the new budget organic law, consolidation of the single Treasury account, and proper functioning of the government cash flow plan. As a prior action, the government will submit the draft budget organic law to the National Assembly. Actions taken in the area of fiscal management will be guided by a vast repository of recommendations for technical assistance actions already received by Burundi and will be centered on consolidation of the current fiscal management system. The sending of a resident fiscal management expert to Burundi, financed by donors and lenders and supervised by the IMF, will help make further progress in this area.

Tax policy

31. The landmark tax reform under the new PRGF arrangement will be the introduction of the VAT and adoption of the EAC's common external tariff (CET) on July 1, 2009. In this regard, the government will accelerate implementation of the action plan agreed with the IMF, the World Bank, and other donors and lenders. The study on the impact of this tax reform has been completed, and the VAT law will be finalized soon, after account has been taken of the IMF's comments. Tax department computerization, which is a prerequisite to the introduction of VAT, will be completed in early 2009.

Revenue administration

32. To generate more domestic resources for allocation to poverty reduction expenditure, the government will continue to reform the customs and tax administrations. In the customs administration, the following measures have been adopted: (1) revision of the customs code to include all the standards of the revised Kyoto Protocol; (2) strengthening of the coordination between customs and taxes, through the sharing of taxpayer data; (3) establishment of a computer link with those filing returns; (4) introduction of a mechanism for ex ante control; and (5) customs department computerization.

33. At the tax administration level, two major initiatives have been taken to broaden the tax base: a census of all taxpayers, including those in the informal sector; and tax collection on the remuneration of the local personnel of international agencies.

34. The creation in January 2009 of the Revenue Office is a major reform that will help improve government revenue in the medium term. Drawing on the experience of other countries in the subregion, this office will reduce corruption and improve incentives for tax and customs officers. To this end, the government is requesting technical and financial assistance from its development partners.

The promotion of governance

35. The government is aware that the improvement of governance is essential to attract private investment and support from donors and lenders. The above-mentioned fiscal management and central bank reforms will be defining in that regard. In addition, it is crucial to resolve pending matters of embezzlement of public funds to restore public policy credibility with donors and lenders and with investors. The legal and regulatory economic environment will be improved by the adoption of the new investment code, which is in line with international practices. The government has requested the World Bank Institute to conduct a survey on corruption in Burundi that will help it formulate an anticorruption strategy.

36. The government has made progress toward resolving the governance issues related to Interpetrol. The government has directly initiated legal proceedings to recover the amounts alleged to have been improperly paid. FBu 6 billion has been taken as security. Similarly, the deeds for 25 properties belonging to Interpetrol have been placed under seal. The authorities are committed to pursuing legal proceedings in this affair. FBu 6 billion taken as security and the deeds for 25 properties belonging to Interpetrol placed under seal, as required under the Burundi law, will remain in place in compliance with such law until a court makes a ruling on the interpetrol legal proceedings (continuous performance criterion). The government has also speeded up the strengthening of fiscal management and initiated an independent external audit of the cross-debts of the oil sector and the government. This audit was conducted with World Bank support. The audit findings reveal that the oil sector owes the Burundi government US$38 million (3.8 percent of GDP), with Interpetrol accounting for US$30 million (3.0 percent of GDP) of that sum. The findings in the audit report will be published in June 2008 (prior action), and the government will arrange for the proposal of repayment agreements with all the companies involved. Following the audit report on the use of HIPC-related funds, the government will soon prepare an action plan to address the weaknesses identified.

The financial sector

37. The main objectives of the central bank reform will be to strengthen the bank's independence and improve its governance. The government is working with Parliament toward passage of a new law establishing the Central Bank Charter that will give force to these objectives. Also, the central bank has started implementing measures to strengthen its system of internal controls and risk management, following the recommendations of the recently completed safeguards report. Last, to strengthen the financial sector the central bank will continue, as needed, to take measures to restructure certain banks and develop further the money and foreign exchange markets. Steps will also be taken to implement the technical assistance recommendations on banking supervision.

Regional and commercial integration

38. Progress in the area of commercial integration is key for achieving medium-term growth objectives, and Burundi stands to benefit considerably from joining the EAC. The challenge is, however, to guide the policies being implemented by Burundi while taking account of its commitments to the EAC and especially of their impact on government revenue. In this context, an interministerial committee will be formed to coordinate the government's efforts and ease the decision-making process. It will also be responsible for updating the national strategy and facilitating the decision-making process to enable Burundi to achieve the expected gains while keeping transition costs to a minimum. The government is pleased to note that its development partners, in particular the World Bank and the

European Union, are willing to provide financial and technical assistance to Burundi to foster its regional integration.

Coffee sector reform

39. The reforms of the coffee sector are of great macroeconomic importance. This sector is the principal source of income for nearly 800,000 Burundi households, and coffee accounts for about half of all the country's exports. The government plans to establish a strategy for the coffee sector by end-2008, in collaboration with the World Bank.

Oil sector reform

40. It is essential for the Burundi market to have adequate supplies of oil products and for an automatic mechanism to be put in place for setting oil prices, given their significant budgetary, macroeconomic, and social impact. To avoid frequent breaks in supply and sudden upsurges in oil product prices on the domestic market, the government has now started to apply price adjustments based on a formula agreed upon with the principal stakeholders. As a prerequisite to this policy, however, a sound social safety net must be in place by the time the automatic price adjustment mechanism is introduced. The World Bank is willing to finance a study in this regard. The final report on that study will be discussed by the government, its development partners, and all other players in the oil sector.

E. External Financing

41. The government will ensure that all its external obligations are settled when due. The Minister of Finance has begun to draw up monthly public debt position reports that give a detailed survey of obligations falling due. These reports, which will continue to be published each month (a completion point trigger under the HIPC Initiative), will thus be a factor for strengthening Burundi's debt management.

42. Burundi will seek only concessional external financing. The government will not contract nonconcessional foreign debt and will ensure that all loans contracted comprise a grant element of at least 50 percent. The government will make further efforts to obtain debt relief as soon as possible under the HIPC Initiative and the MDRI, and will pursue negotiations with its non-Paris Club bilateral creditors to obtain debt relief from them on terms similar to those granted by Paris Club bilateral creditors.

43. A high-level ad hoc committee chaired by the second Vice-President meets regularly to review progress made toward the various triggers and to propose appropriate measures for reaching them. At this time, most HIPC completion point triggers have been met, and the government is taking steps to ensure that the remaining ones are activated as soon as possible. In close collaboration with the World Bank and the IMF, the government is already working on redefining the coffee sector and demobilization triggers.

F. Improving Economic Statistics

44. Burundi's statistical system needs to be strengthened considerably if it is to become a reliable development tool. The government is drafting a national statistics development strategy that is expected to become effective in 2009. Burundi has joined the GDDS, and an action plan will be adopted in concert with the IMF Statistics Department for production of the necessary metadata. Good coordination of these initiatives with the World Bank-financed PAGE project's efforts will be crucial. A new national accounts framework is under study, and the comprehensive series of data for the new reference year, 2005, is already available. Work continues on improving the consumer price index—especially extending its coverage to include the provinces—and will be completed by end-2008.

G. Technical Assistance and Coordination of Development Partners

45. Burundi has vast technical assistance needs. The authorities plan to remain in close collaboration with bilateral and multilateral partners to build up the administrative capacity of the country's institutions. The maintenance of IMF technical assistance, in particular through the AFRITAC, remains key in the areas of tax policy and administration, public expenditure management, monetary and foreign exchange policy, banking supervision, and economic statistics.

46. It is essential to coordinate relations with the development partners (DPs), considering that they finance a major portion of budget expenditure. The government has intensified its efforts to set up an institutional framework for the coordination of assistance, in the form of the National Assistance Coordination Committee (CNCA). This initiative is supported financially by the DPs. The CNCA can help:

- Organize the work between the government and the DPs at the sectoral level, relying on a market leader for each sector among the DPs. A major priority should be the creation of sectoral groups, as described in the CNCA organizational chart.

- Centralize the coordination of assistance within a single agency, which would facilitate coordination and decision making by the government.

- Monitor assistance disbursement and project implementation, in close collaboration with the Minister of Finance, to ensure that all assistance from DPs is included in the budget.

H. Program Monitoring

47. The government will implement the measures shown in Table 2 before the IMF Executive Board examines Burundi's request for a three-year PRGF arrangement.

48. Program implementation during the first year of the PRGF arrangement will be monitored on the basis of semiannual reviews; quantitative performance criteria (end-September 2008 and end-March 2009); indicative targets (end-June and end-December 2008), as shown in Table 3; and structural performance criteria and benchmarks, as shown in Table 4. The information to be reported to the IMF and the definitions of the pertinent variables can be found in the attached TMU. Program implementation, achievement of the related objectives, and compliance with the performance criteria will be the subject of two half-yearly reviews. The authorities also stand ready to adopt, in consultation with IMF staff, any further financial or structural measures that may prove necessary for the success of the program.

49. To strengthen program monitoring, the government is seeking to reactivate the interministerial committee, which will be assisted by the Economic and Social Reforms Permanent Secretariat (S/P-REFES).

Table 1. Burundi: Main Measures Taken in The Area of Public Financial Management, 2005–08

Area/measures	Date measure was taken	Impact
Legislative and regulatory framework Adoption by the council of ministers of the draft Organic Law on Public Finance	March 2008	Transparency, accountability,
Customs		
• Promulgation of the Customs Code	January 2007	Transparency of rules
• Signing of the Ministerial Decree for the application of the Code	January 2008	
• Introduction of the ASYCUDA ++ information technology system	2006	Clarity and transparency of taxpayer information
• Effective use of the tax identification number	2006	
Taxes		
Establishment of a reliable and computerized tax identification number system	2006	Transparency of taxpayer information
Procurement		
Promulgation of the procurement code	February 2008	Competition, better separation of functions (signing, control, etc.)
Classifications		
• Decree on accounting and budgeting plan (administrative classification, economic classification, functional classification, and mixing of financing code and industry code)	2005	Readability
• Progressive revision of the harmonized economic classification	2007, 2008	Veracity
Preparation and presentation of the budget		
• Decree on the content of the budget guideline letter – indicative ceiling and fiscal calendar	May 2008	Better formulation of public priorities
• Consolidated presentation of the regular budget (BO) and the special investment budget (BEI) by ministry	Budget 2008 (partially completed)	Readability
Budget execution and tracking of budget execution		
• Signing of the decree establishing the list of expenditure not requiring prior authorization	2007	Transparency, responsibility
• Establishment of an independent national monitoring committee for HIPC funds	June 2007	Programming

Table 1. Burundi: Main Measures Taken in The Area of Public Financial Management, 2005–08
(concluded)

• Introduction of an integrated public expenditure management system.	2006	Traceability
Debt management		
Installation of the SYGADE software (computerized foreign debt management system)	2007	Transparency
Cash management		
Streamlining bank accounts		
• Merging the BO account and the BEI account at the BRB	2007	Consolidation of liquid assets, limited use of advances from the BRB
• Eliminating 7 HIPC subaccounts in the ministries	October 2007	
• Transferring the management of the HIPC account to the Government Cashier	October 2007	
• Closing 80 ministry accounts and 7 others	2007	
Establishment of a “Cash Management Office”	October – December 2007	Monitoring
Presentation of a cash flow plan	2007	Regulating expenditure, controlling borrowing
Double-entry government accounting		
• Presentation of the closing balance for the accounts of the year 2006	April 2007	Assessment of financial results (outstanding payment balances)
• Presentation of the closing balance for the accounts of the year 2007, including some opening balances	May 2008	
Control and audit		
• Audit of accounts for fiscal year 2006 by the National Audit Office	2007	Transparency
• Independent audit of the use of HIPC funds for 2005–07	May 2008	Transparency
• Creation of an internal inspection and control unit in the Ministry of Finance (MoF)	2007	Effectiveness
• Creation of the Inspectorate General of State	2007	Effectiveness
• Creation of the General Accounting Office by a law of 2004	2006	Effectiveness

Table 2. Burundi: Prior Actions for the Executive Board Consideration of Request for the Three-Year PRGF Arrangement

Measures	status	Macro Rationale
Public Financial Management		
Submission to the National Assembly of the draft new budget Organic Law	Done (June 2008)	The draft new budget organic law which includes modern principles of fiscal rules, transparency and specify concepts, principles and responsibilities of treasury officials.
Central Bank – Safeguard Measures		
Submission to the National Assembly of the draft Law on the Charter of the BRB together with the January 2008 recommendations by Fund staff on improvement of the law.	Done (June 2008)	To make the BRB more independent and accountable according to the best international practices.
In accordance with the terms provided in the safeguards assessment report dated June 10, 2008 (paragraphs 38-39 of the report), receive approval by the BRB of new internal controls that:		
(a) introduce a more robust authorized signatories control over disbursements and transfers with additional signatories required as the risk and transaction value increase;	Done (June 2008)	To improve safeguard measures at the central bank.
and (b) contract an international auditor to conduct special audits of the controls over the significant domestic disbursements and transfers to government and its creditors."	Done (June 2008)	To improve safeguard measures at the central bank.
Governance		
Publication of the audit report on cross-debts between the government and the oil sector	Done (June 2008)	To improve governance and transparency in public finances

Table 3. Burundi: Performance Criteria and Indicative Targets for 2008–09
(Fbu billions, unless otherwise indicated)

	2007	2008				2009
	Prel. Act.	Mar.	Jun.[1]	Sep.	Dec.[1]	Mar.
		Prel. Est.	Prog.	Prog.	Prog.	Prog.
Performance targets						
Net foreign assets of the BRB (floor; US$ millions) [2]	67.5	57.8	67.4	15.9	16.9	15.4
Net domestic assets of the BRB (ceiling) [2]	49.4	50.2	51.6	124.9	117.1	126.7
Net domestic financing of the government (ceiling) [2]	8.5	19.3	37.3	21.6	13.2	36.5
External payments arrears of the government (ceiling; US$ millions) [3]	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ millions) [3]	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; US$ millions) [3]	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets						
Government's wage bill (ceiling; cumulative from beginning of calendar year)	114.0	34.2	70.3	106.3	141.2	38.9
Net accumulation of domestic arrears during period	0.0	0.0	0.0	0.0	0.0	0.0
Adjustors						
External nonproject financial assistance (US$ millions)						
Cumulative from the beginning of the year	88.5	2.4	13.7	84.3	105.3	8.0
Of which:						
EU	23.6	0.0	10.3	10.3	20.6	0.0
World Bank	25.0	1.4	1.4	31.4	31.4	0.0
AfDB	0.0	0.0	0.0	5.9	15.7	0.0
France	3.0	0.0	0.0	2.9	2.9	0.0
Belgium	0.0	0.0	0.0	5.9	5.9	0.0
Netherlands	23.0	0.0	0.0	13.1	13.1	0.0
Norway	10.0	0.0	0.0	11.8	11.8	8.0
Debt relief (current maturities, excluding HIPC)	4.0	1.0	2.0	3.0	4.0	0.0
Exchange rates						
Fbu/US$ (end-of-period)	1,120	1,179	1,160	1,140	1,120	1118
Fbu/US$ (period average)	1,087	1,160	1,169	1,150	1,130	1119
US$/Euro (end-of-period)	1.47	1.58	1.47	1.47	1.47	1.48
US$/SDR (end-of-period)	1.58	1.64	1.50	1.50	1.51	1.51

[1] Indicative targets.
[2] The ceiling or the floor will be adjusted as indicated in the TMU.
[3] These performance criteria will be monitored on a continuous basis.

Table 4. Burundi: Performance Criteria and Structural Benchmarks Under the PRGF Arrangement

Measures	Date	Type of condition	Macro Rationale
Public Financial Management			
Completion of the census of all government civil employees.	September 30, 2008	Performance criterion	To reinforce wage bill management through the creation of a single wage data management and elimination of ghost employees.
Start of the police and army census.	October 31, 2008	Structural benchmark	
Resumption of payroll management by the Ministry of Finance by taking charge of the payroll database.	March 31, 2009	Performance criterion	
Revenue Administration and Tax Policy			
Approval by the Council of Ministers of an action plan to replace the transaction tax with VAT.	July 30, 2008	Structural benchmark	To raise efficiency of tax collection, and offset potential losses on customs revenue due to the accession to EAC.
Elimination of all indirect tax exemptions and maintenance of the time limit on investment code exemptions.	September 30, 2008	Structural benchmark	To improve fiscal stance by reducing tax exemptions and increasing controls on exemptions granted by the investment code.
Governance			
FBu 6 billion taken as security and the deeds for 25 properties belonging to Interpetrol placed under seal, as required under the Burundi law, to remain in place in compliance with such law until a court makes a ruling on the interpetrol legal proceedings.	Continuous	Performance criterion	To improve governance in order to secure continued budget support from donors.

APPENDIX I—ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. It sets out the definitions of program variables to monitor implementation of the program and the reporting requirements for the Government of Burundi and the Bank of the Republic of Burundi (BRB). It defines quantitative performance criteria, indicative targets, and applicable adjusters.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

2. The quantitative performance criteria under the program as shown in Table 3 of the MEFP are as follows:

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

The quarterly targets on the above variables for June and December 2008 are indicative.

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

- the Government's wage bill (ceiling).
- net accumulation of domestic arrears (ceiling).

Definitions and measurement

4. **The net foreign assets of the BRB** are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the

counterpart of SDR allocations). The gross official reserves of the BRB are defined as those foreign assets that are liquid and freely available to the central bank.

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

Adjuster for changes in the compulsory reserves coefficients

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

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

8. The stock of **external 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.

9. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received. 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. Management fees would also be taken into account when determining a loan's grant element.

For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month average CIRRs, the following margins should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents.

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

11. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, police, and military personnel of the government, including all allowances and bonuses.

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

External financial assistance adjustor

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

14. Any financing excess up to US$60 million will be spent on expenditure priorities defined in the PRSP. The floor on the stock of net foreign assets of the central bank will be adjusted upward, and the ceilings on the net domestic assets of the central bank and on the net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US$60 million.

15. The floor on the stock of net foreign assets of the central bank will be adjusted downward, and the ceilings on the net domestic assets of the central bank and on the net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up a maximum of US$60 million. External financial assistance will be converted to Burundi francs using the program-specified FBu/US$ exchange rate.

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

B. Provision of Information to IMF Staff

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

18. The following weekly data:

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

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

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on the foreign exchange cash flow (BRB Foreign Banking Operations Department);
- the monetary survey, including the breakdown of the central bank and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including pro-poor spending (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, 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 for the current fiscal year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);

- actual disbursements of non-project financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program (REFES).

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

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

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

INTERNATIONAL MONETARY FUND

BURUNDI

Staff Report for the 2008 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex

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

June 24, 2008

Contents Page

I. Relations with the Fund

(As of May 31, 2008)

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	0.03	0.19

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
PRGF Arrangements	69.30	90.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Jan 23, 2004	Jan 22, 2008	69.30	69.30
PRGF	Nov 13, 1991	Nov 12, 1994	42.70	17.21
SAF	Aug 08, 1986	Aug 07, 1989	29.89	29.89

VI. Projected Payments to Fund (without HIPC Assistance)[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal		2.64	6.00	8.14	11.72
Charges/Interest	0.55	0.75	0.72	0.68	0.63
Total	0.55	3.39	6.72	8.82	12.35

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

Projected Payments to Fund: (with Board-approved HIPC Assistance)
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal		2.64	6.00	8.14	11.72
Charges/Interest	0.50	0.75	0.72	0.68	0.63
Total	0.50	3.39	6.72	8.82	12.35

VII. Safeguards Assessments

In conjunction with the upcoming Board discussion of a successor PRGF arrangement scheduled on July 7, 2008, an update assessment of the Banque de la République du Burundi (BRB) was completed. A few safeguards areas have been strengthened since the previous 2006 assessment, external audits have been completed on a more timely basis, and audited financial statements are fully published. However, the 2008 assessment identified several areas of the safeguards controls that required prompt strengthening, including the areas of governance and signatory authority over disbursements and transfers. Priority measures are being introduced as part of program conditionality to address these vulnerabilities.

VIII. Exchange Arrangements

Burundi maintains a managed float exchange regime. The U.S. dollar is the intervention currency. On June 18, 2008, the exchange rate was Fbu 1,186.75 to the US$. In 2003, the central bank eliminated most remaining exchange restrictions on current international transactions and delegated authority to the commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered to 50 percent and eliminated in early 2005. The central bank admitted foreign exchange bureaus to the weekly auctions. Most external payments arrears to bilateral and multilateral creditors were cleared by end-2005. In December 2006, the government published a new foreign exchange regulation, which liberalized foreign exchange for current transactions and removed one multiple currency practice.

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

IX. Article IV Consultation

In accordance with decision No 12794-(02/76), as amended by Decision No 12854-(02/96), Burundi is on the 24-month Article IV cycle. The 2006 Article IV consultation was completed by the Executive Board on July 14, 2006 (Country Report 06/311), along with the consideration of the third and fourth reviews under the PRGF arrangement.

In concluding the 2006 Article IV consultation, Executive Directors welcomed the commendable progress that Burundi made in 2005 in implementing its PRGF-supported program in a difficult post-conflict environment. They welcomed the progress made on the enhanced HIPC Initiative completion point triggers but emphasized the need for the authorities to pay particular attention to reinforcing government’s capacity to deliver social services. They noted the need to reinforce good governance and transparency practices, including public financial management and through the progressive withdrawal of state intervention in the economy.

X. Technical Assistance

2008 (May)	FAD mission for the installation of a PFM resident advisor
2008 (Jan.)	FIN safeguards assessment mission
2007 (Dec.)	AFRITAC statistics mission on national accounts and consumer price index
2007 (Nov./Dec)	STA monetary and financial statistics mission
2007 (Nov.)	AFRITAC capacity building in banking supervision mission
2007 (Nov.)	FAD tax policy mission
2007 (Nov.)	STA monetary statistics mission
2007 (Sep.)	MCM multi-topic mission
2007 (Sep.)	AFRITAC tax revenue administration
2007 (Sep.)	AFRITAC capacity building of central bank mission
2007 (Sep.)	FAD public financial management mission
2007 (Jul.)	AFRITAC PFM on payroll control
2007 (Jun.)	AFRITAC PFM mission on treasury operation and control
2007 (Jun.)	MCM technical assistance mission
2007 (Jun.)	AFRITAC capacity building on debt management mission
2007 (Mar.)	FAD resident expert on public accounting
2006 (Dec.)	FAD public expenditure management mission
2006 (Nov.)	MCM banking supervision mission
2006 (Sep.)	FAD customs and tax administration mission
2006 (Apr.)	MCM foreign exchange reserve management mission
2006 (Mar.)	STA mission to prepare the metadata and medium-term action plan
2006 (Mar.)	MFD/LEG joint Article VIII mission
2006 (Jan.)	LEG AML/CFT legislative drafting mission
2006 (Jan.)	Monetary operations/FOREX/banking supervision mission

XI. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Aug 2005
Assistance committed by all creditors (US$ Million) [1/]	826.00
Of which: IMF assistance (US$ million)	27.84
(SDR equivalent in millions)	19.26
Completion point date	Floating
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	0.26
Interim assistance	0.26
Completion point balance	--
Additional disbursement of interest income [2/]	--
Total disbursements	0.26

[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

A part-time Resident Representative took up the post in May 2005 and an office with an administrative assistant started operating in January 2006 in Bujumbura. Mr. Israel de la Piedra has been the IMF's Resident Representative to Burundi since May 2007.

II. Joint World Bank-IMF Work Program, 2008–09

Title	Products	Provisional timing of mission	Expected delivery date
	A. Mutual information on relevant work programs		
Bank work program in next 12 months	1. Public Expenditure Management and Financial Accountability Review (PEMFAR)	July 2008	August 2008
	2. ERSG2 (Budget support)	March 17-28 (Appraisal)	July 2008
	3.ERSG3 (Budget support)	Sept 08. (Identification) Nov. 08. (Pre-appraisal) March. 09 (Appraisal) Sept.-Nov 08	July 2009
	4. Country Economic Memorandum (CEM)	August 09 (Main mission)	March-May 2010
IMF work program in next 12 months	1. Article IV consultation, negotiations for new PRGF arrangement	April 30 – May 14 and May 25–31, 2008	July 2008
	2. First PRGF review	October 2008	December 2008/ January 2009
	3. Second PRGF review	April 2009	July 2009
	B. Requests for work program inputs		
Fund request to Bank	1. Policy note on domestic petroleum sector		September/October 2008
Bank request to Fund	1. Study of exchange rate misalignment and competitiveness		July 2008
	2. Study on the sources of inflation in Burundi		December 2009
	C. Agreement on joint products and missions		
Joint products in next 12 months	FSAP		December 2008
	DSA		December 2008
	HIPC CP Documents		

III. Relations with the African Development Bank Group

(As of January 31, 2008)

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

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

African Development Bank Operations in Burundi

	Outstanding loans	Past-due obligations
	(In millions of SDRs)	
African Development Fund	138.7	0
Nigerian Trust Fund	1.4	0
Total	**140.1**	**0**

IV. Statistical Issues

Data provision has serious shortcomings that significantly hamper surveillance. The most acute shortcomings affect the national accounts, government finance, and balance of payments statistics. STA missions have found that staffing shortages, insufficient funding, and lack of equipment hamper the production and dissemination of macroeconomic statistics. There has been poor coordination among institutions responsible for the compilation of statistics.

Following the authorities' interest in participating in the General Data Dissemination System (GDDS), in March 2006, a mission assisted the authorities in preparing metadata and, in collaboration with the World Bank and donors, helped develop a remedial plan. The authorities referred to this action plan in their Poverty Reduction Strategy Paper, which was approved in September 2007 and a national statistical development strategy is being prepared with donor's assistance. On September 25, 2007, the government promulgated a new statistics law, and in December 2007 the accompanying regulatory texts were approved. Burundi is expected to become a GDDS participant in 2008, once the authorities complete reviewing the metadata.

Outstanding statistical issues

Real sector

Serious deficiencies in real sector data handicap analysis and macroeconomic management, with national accounts compiled infrequently. 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 Economy, Finance, and Development Cooperation (MEFD). Recently, the Statistical Office has developed, with AFRISTAT's help, a set of provisional national accounts for 2005, the new base year. This is a major effort for the Institute, given that the last national account data were from 1998.

The CPI is compiled on a monthly basis. Its coverage has been extended to include provinces and not only the capital, Bujumbura. Weights are based on an outdated 1991 household expenditure survey, and are expected to be revised in 2008. There are no producer price indices, and data on employment are out of date.

Government finance

The central bank compiles government finance statistics using source data from the MEFD. Until recently, computerized ledgers were seldom maintained by ministries, preventing the establishment of balances and other accounting controls. Limited accounting information was available on extra-budgetary units. There were 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. With World Bank and FAD assistance, improved public financial management information systems that generate, among other things, standard quarterly budget execution reports were implemented in 2005 and are now largely operational. These improvements have been translated into better and faster compilation of government finance statistics. STA has provided training in government finance statistics to compilers both at the Joint Africa Institute and INS. However, its coverage and quality need to be improved. Summary government finance statistics transactions data through July 2007 have been reported in the *International Finance Statistics.* No annual GFS data have been reported to STA for dissemination since 1999.

Monetary statistics

A November 22–December 4, 2007 STA technical assistance mission helped the Banque de la République du Burundi (BRB) improve its monetary and financial statistics. As a result, monetary statistics compiled by the BRB largely follow the *Monetary and Financial Statistics Manual* methodology, which should facilitate the harmonization of its monetary statistics with other member countries of the East African Community. The BRB fully completed the migration to the Standardized Report Forms for the submission of its monetary statistics to the Fund. Burundi's monetary statistics have been published in the June 2008 issue of the *IFS Monetary and Financial Statistics Supplement.* With the support of the 2007 mission, the BRB compiled a new and enlarged broad money aggregate (M3), that is planned to replace M2, which does not include deposits in foreign currencies.

Balance of payments

Annual balance of payments and international investment position statistics are compiled according to the fifth edition of the *Balance of Payments Manual (BPM5)*. 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. Data for services are collected mostly through bank settlement reports. 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. Data on current and capital transfers, as well as on financial accounts are incomplete and further BRB action is needed to improve their quality and reliability. Balance of payments and international investment position data are published in *International Financial Statistics* and in the *Balance of Payments Yearbook* through 2006.

Burundi: Table of Common Indicators Required for Surveillance
(As of June, 12, 2008)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2007	Oct. 2007	M	M	M
Reserve/Base Money	Mar.. 2008	May 2008	M	M	M
Broad Money	Mar. 2008	May 2008	M	M	M
Central Bank Balance Sheet	Mar. 2008	May 2008	M	M	M
Consolidated Balance Sheet of the Banking System	Mar. 2008	May 2008	M	M	M
Interest Rates[2]	Apr. 2008	May 2008	M	M	M
Consumer Price Index	Mar. 2008	May 2008	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	Feb. 2008	May 2008	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	NA	NA	NA	NA	NA
External Current Account Balance	Dec. 2006	Mar. 2007	A	A	A
Exports and Imports of Goods and Services	Jul. 2007	Sep. 2007	M	M	M
GDP/GNP	2006	Apr. 2007	A	A	A
Gross External Debt	Sep. 2007	Oct. 2007	M	M	A
International Investment Position[6]	2006	Oct. 2007	A	A	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] Includes external gross financial asset and liability positions vis a vis nonresidents.
[7] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I); and not available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 08/90
FOR IMMEDIATE RELEASE
July 25, 2008

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

IMF Executive Board Concludes 2008 Article IV Consultation with Burundi

On July 7, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.[1]

Background

Burundi is emerging slowly from more than a decade of civil conflict. GDP per capita is about US$139 and only 18 percent of the population is food secure.[2] While some progress has been made toward the Millennium Development Goals (MDGs), it will remain a significant challenge to achieve any of the targets by 2015.

Economic growth slowed down, while inflation increased in 2007. Real GDP growth decelerated to 3.6 percent, from about 5 percent in 2006, mainly because of a poor coffee harvest. About 80 percent of the population rely on agriculture for income and employment. By the end of 2007, inflation had increased to 14.7 percent (year-on-year), from 9.3 percent in 2006, owing to higher international commodity prices. In the first four months of 2008, domestic prices of fuel and basic staples rose on average by 23 percent, pushing the consumer price index up by 11.7 percentage points over the period from January to April 2008. Excluding food and oil, the increase in the consumer price index was about 3.5 percent.

---

[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.

[2] According to the World Food Program, 82 percent of households survives on between 1,400 and 1,900 kilo-calories per day, against the World Health Organization's recommended 2,100 kilo-calories required to live a normal and healthy life.

The overall fiscal balance (on a commitment basis and after grants) turned to a surplus of 1 percent of GDP from a deficit of 1.8 percent in 2006. While total revenue and expenditure changed marginally, grants disbursements increased markedly. Broad money growth decelerated to 10.1 percent in 2007, against 16.4 percent in 2006, partly reflecting an improved fiscal position.

External developments were dominated by a decline in exports and a sharp rise in grants. Total exports (in US dollar terms) declined because of a poor coffee harvest. Total grants are estimated to have risen by about 64 percent to US$163 million, fuelling higher imports. Overall, the current account deficit (including current official transfers) widened to 16 percent from 14.5 percent in 2006. As the funds stemming from the surge in aid were not fully absorbed, gross international reserves rose to 3.9 months of imports from 3.3 months in 2006. The real effective exchange rate depreciated by 8.6 percent during 2007.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the progress they have made in implementing Burundi's first PRGF-supported program in a difficult post-conflict environment. While structural reforms have been slow, most monetary and fiscal reforms have progressed well. Directors were encouraged by the cease-fire agreement recently signed, and noted that, with continued improvements in the security situation, Burundi's medium-term economic outlook is positive. They stressed that effective donor coordination and predictable disbursement of financial support, as well as timely technical assistance, will be important to support these efforts.

Directors agreed that solid policy implementation will be key to meeting Burundi's principal economic challenges over the medium term. Ensuring fiscal sustainability in the face of a heavy debt burden will depend on broadening the revenue base and improving the composition of spending, while financing the budget through grants and highly concessional external resources. Improvements in governance, including through strengthened public financial management, will be critical for sustaining donor support. It will be important to carefully manage public expectations of a peace dividend and to fully cost all social initiatives in the budget. With support from the international community, the government should give high priority to enhancing its capacity to deliver social services.

Against the background of the recent acceleration of inflation deriving from rising international food and oil prices, Directors encouraged the monetary authorities to act to anchor inflation expectations and contain second-round effects of food and oil price shocks. They also stressed the need to use available monetary and exchange rate instruments to mop up liquidity. Directors encouraged the authorities to continue their efforts to strengthen the financial sector by improving banking supervision, addressing weaknesses in the banking system, and enhancing central bank internal controls and risk management systems.

Directors agreed that the managed-float exchange rate regime has served Burundi well, and helped to cushion exogenous shocks. They noted staff's assessment that the exchange rate is broadly in line with its equilibrium rate.

Directors stressed that structural factors continue to be an obstacle to Burundi's competitiveness and growth. They saw the need to accelerate structural reforms, especially in the coffee sector, and expedite adoption of the new investment code. Directors also welcomed Burundi's membership in the East African Community, which should spur structural reforms to improve the business environment.

Directors welcomed the priority the authorities are giving to food security. A concerted emergency response strategy is needed to ensure that the poor do not suffer from the expected drought as food and oil prices soar.

Directors encouraged the authorities to improve the statistical system. High priority should be given to national accounts statistics, where the weaknesses are extensive. Directors noted that the recent promulgation of a new statistics law would help build up statistical institutions and processes.

Burundi: Selected Economic and Financial Indicators, 2003–07

	2003	2004	2005	2006	2007
Real economy	(Annual percentage change)				
Real GDP	-1.2	4.8	0.9	5.1	3.6
Consumer price index (period average)	10.7	8.0	13.4	2.8	8.3
Consumer price index (end of period)	10.7	11.8	1.0	9.3	14.7
Central government	(Percent of GDP)				
Revenue	21.1	20.1	20.0	18.9	18.7
Total expenditure and net lending	34.9	39.8	36.8	38.2	38.5
Overall balance (on a commitment basis)					
Excluding grants	-13.8	-19.7	-16.8	-19.3	-19.9
Including grants	-6.2	-5.9	-6.3	-1.8	0.5
Money and Credit	(Percent of M2 at beginning of period)				
Net domestic assets	4.4	47.0	8.6	19.4	7.0
Money and quasi-money (M2)	23.3	16.7	27.1	16.4	10.1
External sector	(Percent of GDP, unless stated otherwise)				
Current account balance (including official transfers)	-4.6	-8.4	-1.2	-14.5	-16.0
Current account balance (excluding official transfers)	-21.1	-25.8	-29.1	-36.3	-37.7
External debt	224.6	220.1	183.0	165.1	153.9
Gross official reserves (US$ millions)	68.9	67.2	112.7	131.0	177.3
Gross official reserves (months of imports)	3.6	2.5	3.0	3.3	3.9

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

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/167
FOR IMMEDIATE RELEASE
July 7, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US$75.6 Million PRGF Arrangement for Burundi

The Executive Board of the International Monetary Fund (IMF) today approved a three-year SDR 46.2 million (about US$75.6 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for Burundi, to support the implementation of the country's poverty reduction program and its efforts to consolidate macroeconomic stability. It takes into account the financial impact of rising world food and oil prices in 2008.

The Executive Board's approval enables Burundi to draw an amount equivalent to SDR 6.6 million (about US$10.8 million) under the PRGF arrangement.

Following the Executive Board's discussion, Mr. Murilo Portugal, Managing Director and Acting Chair, said:

"The Burundian authorities are to be commended for the progress they have made in implementing Burundi's first PRGF-supported program in a difficult post-conflict environment. Though structural reforms have been slow, most monetary and fiscal reforms have progressed well. However, despite the progress made, poverty remains widespread, and the challenges for Burundi in meeting the MDGs continue to be significant.

"The new three-year PRGF-supported program, anchored in Burundi's Poverty Reduction Strategy Paper, is designed to reduce inflation to single digits; ensure fiscal sustainability in the face of heavy debt; improve the composition of spending; strengthen public financial management and enhance governance; and accelerate structural reforms to stimulate growth and reduce poverty.

"The authorities' fiscal program for 2008 targets a substantial increase in capital spending, while accommodating additional spending to boost agricultural output and help alleviate the impact of increasing food and fuel prices on the poor.

"The success of the authorities' PRGF-supported program will depend, in part, on strong and coordinated assistance from the international community. Accelerating structural reforms, most notably on governance issues, will also be critical," Mr. Portugal said.

The approved PRGF arrangement for Burundi succeeds an arrangement that expired earlier this year. The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Recent Economic Developments

Economic growth decelerated in 2007, while inflation increased, mostly driven by rising food and energy prices. Higher grants disbursement from international donors contributed to an improved fiscal position and helped build international reserves.

After an upturn in 2006, real GDP growth decelerated from 5 percent to 3.6 percent in 2007, mainly because of a poor coffee harvest. End-period inflation increased to 14.7 percent, from 9.3 percent in 2006, owing to higher international commodity prices and exchange rate depreciation. In the first four months of 2008, domestic prices of fuel and basic staples rose on average by 23 percent, pushing the overall inflation rate to 11.7 percent during the same period. Excluding food and oil, the inflation rate would be about 3.5 percent.

The overall fiscal position improved in 2007. The overall fiscal balance (on a commitment basis and after grants) shifted to a surplus of 0.5 percent of GDP from a deficit of 1.8 percent in 2006. Social spending was estimated to have increased from 8.7 percent of GDP in 2006 to 9.2 percent in 2007. The authorities have implemented a number of measures with a view to ensuring fiscal discipline and improving transparency in public finances.

Program Summary

The purpose of the new PRGF arrangement will be to consolidate macroeconomic stability, further reduce the heavy debt burden, and help the government of Burundi pursue implementation of its Poverty Reduction Strategy Paper. It will also support the government's efforts to obtain debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI).

The main objectives of the new three-year PRGF program will therefore be to:

- Return to single-digit inflation. An independent central bank with price stability as its principal mission will be essential for this purpose. Better budget and monetary policy coordination will also be essential, especially during this period of increasing inflationary pressures.

- Improve the composition of public spending to the benefit of the priority sectors, while preserving fiscal sustainability. To that end, the wage bill will have to be controlled. It will also be important to rely mainly on grants and highly concessional loans to avoid unsustainable debt.

- Strengthen public financial management (PFM). The program will seek to stabilize the existing PFM system, with particular attention to two ongoing initiatives: (1) the passing and gradual implementation of the new budget organic law; and (2) consolidation of a single Treasury account and an effective cash flow management plan; and

- Strengthen the internal control systems of the central bank. Emphasis will be placed on parliamentary passing of the draft central bank law and on the implementation of a number of financial safeguard measures to strengthen internal controls and risk management systems.

Provided that the public security situation continues to improve, the macroeconomic objectives are as follows for the period of the PRGF program: (1) GDP growth should average 5 percent over the medium term, up from the average of 3.6 percent in 2004–07; and (2) inflation would slow to about 6 percent by 2011.

The projected growth pattern, which resembles those observed in other post-conflict countries, is predicated on three factors: (1) continued removal of major economic distortions, especially in the coffee sector, which will boost total factor productivity; (2) a substantial increase in investment, driven by international aid and largely consisting of infrastructure renovation, which will help relieve major supply bottlenecks; and (3) further advances in trade liberalization with accession to the East African Community, which will help diversify the economy, stimulate competition, and attract more investment.

Statement by Peter J. Gakunu, Executive Director for Burundi and Dieudonne Nintunze, Senior Advisor to Executive Director July 7, 2008

Introduction

1. Against the backdrop of a difficult post-conflict environment, the Burundian authorities have remained committed to prudent macroeconomic policies and their ambitious structural reform agenda, which have resulted in commendable performance over the last five years. The authorities sustained their efforts towards economic recovery and achieved macroeconomic stability and robust growth. Some progress was made in employment creation and poverty reduction, but the proportion of people living in absolute poverty is still high, while the economy remains vulnerable to exogenous shocks.

2. The authorities are determined to strengthen the implementation of priority programs articulated in the PRSP, with a view to consolidating their positive economic achievements, accelerating growth and making substantial progress in reaching the MDGs. They are in broad agreement with the thrust of the staff appraisal in the well balanced reports, and they request Executive Directors' support for a new three-year PRGF arrangement.

Recent economic developments

3. Burundi implemented a wide range of reforms under the first PRGF-supported program, which contributed to stabilize the economy and relaunch growth. The reform package included strengthening of public finance management, enhancing the monetary policy instruments, liberalizing the trade and exchange regimes, and improving efficiency in the productive sectors. This resulted in good economic performance, despite a very complex environment dominated by a fragile political and security situation and exogenous shocks including drought. Consequently, economic growth was commendable, although it was volatile due mainly to the impact of bad weather and the associated shortfalls in hydropower energy generation and coffee production.

4. The authorities succeeded in maintaining single digit inflation in 2006 and 2007, but inflationary pressures resurged in the second half of 2007 because of increases in oil and food prices. Headline inflation during January - April 2008 reached 11.7 percent, while the core inflation was 3.5 percent. Although the external position worsened with a terms of trade deterioration of 20.3 percent in 2007, the authorities met their official foreign reserves objectives which increased from the equivalent of 3.6 months of import cover in 2006 to 3.9 months in 2007. Burundi currency remained stable, and the real effective exchange rate (REER) is estimated to have depreciated by 8.6 percent in 2007.

5. The authorities remained strongly committed to fiscal discipline and macroeconomic stability, resulting in a significant improvement in the fiscal position in 2006-07. The primary fiscal deficit was lower than programmed, as revenue performance remained robust, while

the non-priority primary expenditure level was reduced by about 3.5 percent and 2.6 percent of GDP in 2006 and 2007, respectively. The authorities have commendably increased poverty-reducing spending from only 6.8 percent of GDP in 2005 to about 8.7 percent in 2006 and 9.2 percent in 2007. However, it should be noted that the budget execution suffered from development expenditure cuts due to lower than programmed donors disbursements; and this impacted negatively on the implementation of the authorities' investment programs.

6. The Bank of the Republic of Burundi (BRB) pursued prudent monetary policy in support of its low inflation objectives. In this regard, the BRB implemented a medium term action plan aimed at strengthening the central bank's internal operations, and modernizing monetary policy instruments to make them more market based. This included strong progress in strengthening liquidity management, including the introduction of foreign exchange auctions, as well as negotiable treasury securities. Accordingly, the BRB met most of the monetary performance criteria and indicative targets. The medium-term lending rates applied by commercial banks increased slightly by about 1 percentage point to an average of 19.2 percent in 2007, reflecting an increase in the central bank's average refinancing rate from 13 to 14 percent. The BRB has continued to strengthen banking sector supervision, including progressive increases in minimum capital requirements, and to monitor the implementation of restructuring plans of non-complying and weak banks.

Outlook and policies for 2008 and in the medium term

7. The 2008 and medium term economic prospects are positive, with real GDP growth projected at 4.5 percent in 2008 and to average 5 percent annually over the medium term. The strong growth prospects are expected to benefit from the deepening of structural reforms as security conditions are improving; the elimination of distortions in productive sectors; an increase in investment to upgrade growth-enhancing infrastructure, which would reduce the cost of doing business and improve productivity; as well as progress in regional integration and liberalization of investment and trade, which would stimulate diversification of the economy and enhance competition. Inflation is projected to be reduced gradually to single digit levels in the medium term, largely due to prudent fiscal and monetary policies. The fiscal and external positions are expected to continue improving following the overall economic recovery prospects.

8. The authorities are aware that this positive outlook is subject to downside risks and challenges. The per capita income is still very low, the poverty incidence is high and widespread, HIV/AIDS prevalence is also high, and the quality of infrastructure and social services is still low. The authorities reaffirmed their commitment to consolidate the peace process; sustain macroeconomic stability and high economic growth; and substantially reduce poverty. This would be realized through a resolute implementation of their PRSP, which offers an appropriate framework for the diversification of the sources of growth and exports, integration in the regional and global economy, capacity building, and improvements in public finance management.

Fiscal policy

9. On the fiscal front, the authorities are aware that the main challenge is to ensure fiscal and debt sustainability in the medium term. To this end, domestic revenue would be maintained at a relatively high level of about 19 percent of GDP, benefiting from the ongoing reforms of the tax system with the support of technical assistance from the IMF and donors. These reforms aim at further strengthening tax administration, broadening the tax base, and making the tax system more equitable and efficient. Also, preparations for the introduction of the VAT are advancing.

10. The budget execution would be based on sound cash management, and the audit of expenditure, monitoring and reporting practices will be reinforced. In this regard, the authorities have made progress towards the adoption of a Single Treasury Account system, and are strengthening implementation of the public finance management and accountability reforms (PFM) with the support of the World Bank and the IMF. The authorities will also continue to extend the Integrated Financial Management and Information System (IFMIS) to line ministries. A physical census of all public employees is being carried out and the results would assist in strengthening wage bill management and informing further reforms of the public service.

11. The authorities are determined to continue improving the composition of expenditure in favor of priority social sectors and growth-enhancing investments. While the average individual salary is very low in Burundi, the wage bill ratio to GDP is high at about 10.8 percent in 2007. In this connection, the authorities will take advantage of the Public Expenditure Management and Financial Accountability Review (PEMFAR) supported by the World Bank to help design strategies to rationalize the expenditure structure over the medium term.

12. The combined impact of high oil and food prices on fiscal accounts in 2008 is estimated at about 1.5 percent of GDP. This does not take into account the effect of drought and the ongoing process of returning of refugees. The authorities will improve budget projections of the impact of the already declared free primary education, and child and maternity health care policy. Reflecting all these efforts, the authorities would like to count on the understanding of development partners for additional budgetary support.

Monetary and exchange rate policies, and financial sector issues.

13. The authorities have reaffirmed their commitment to prudent monetary policy. Efforts to enhance the operational independence of the BRB will be intensified. To this end, a new law on the BRB Charter has been submitted by the Government to Parliament. The BRB is enhancing its monetary policy management capacity with the support of TA from the IMF, and pursuing the development of indirect monetary policy instruments, including open market operations with government securities. In addition the authorities are strengthening financial intermediation and developing financial markets. Financial sector supervision will be further strengthened, and the authorities are keen to draw lessons from the forthcoming

FSAP to refine their financial sector reform program. The managed floating exchange rate regime will continue, as it has served Burundi well so far.

Structural reforms and issues

14. The authorities are committed to deepening their structural reform agenda aimed at providing an investor friendly environment, promoting private sector development, and making further progress on transparency and good governance. This includes reforms that are required to substantially increase productivity and efficiency in the productive sectors, and attract more private sector investments, especially in the coffee and sugar sectors. The authorities will also pursue the implementation of the governance action plan agreed with cooperating partners on “Interpetrol-related case”.

15. Burundi will make effort to reap the benefit of regional economic and trade integration. Nevertheless, in the short-run, the authorities will need to address the challenge of aligning its domestic policies to its regional obligations, especially the EAC, while mitigating the transitory costs and the budgetary implications.

16. The authorities wish to reach the completion point under the HIPC initiative as soon as possible. To this end, they are expediting the implementation of the related floating triggers.

17 Burundi has a huge need of capacity building support, and the authorities called on the Fund and other cooperating partners to remain engaged to support them. In this connection, the authorities are aware of weaknesses in their statistical system, and have adopted an action plan to fast-track the required improvements.