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Burundi: Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Extension of the Arrangement and Augmentation of Access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi.

In the context of the sixth review under the three-year arrangement under the Extended Credit Facility and requests for extensions of the arrangement and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Extension of the Arrangement and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on June 2, 2011, with the officials of Burundi on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 30, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board.

- A statement by the Executive Director for Burundi.

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

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

*Also included in Staff Report

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

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BURUNDI

Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Extension of the Arrangement and Augmentation of Access

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

Approved by Saul Lizondo and Dominique Desruelle

June 30, 2011

Discussions:	A team comprising Messrs. Williams (head), Ioannou, Thomas (all AFR), and Mr. Gruss (FAD) visited Bujumbura May 23–June 2, 2011 to conduct the mission related to the sixth review of the ECF arrangement. The staff met with Second Vice-President Rufyikiri, Minister of Finance Nizigama, President of the Senate Ntsizerana, Central Bank Governor Sindayigaya, other senior government officials, and representatives of labor unions, the private sector, CSOs, the donor community, and the media.
ECF Arrangement:	On July 7, 2008, the Executive Board approved a three-year Extended Credit Facility (ECF) Arrangement with access of SDR 46.2 million (60 percent of quota). The fifth review of the ECF-supported program was completed in March 2011. The authorities are requesting: (i) augmentation of access by SDR 5.0 million (6.5 percent of quota) to mitigate the impact of the food and fuel crisis on balance of payments; and (ii) extension of the ECF arrangement to end-January 2012 to complete the last review and allow them time to reflect on the findings of the Ex-Post Assessment (EPA) of Fund engagement in Burundi.
Program Review:	All quantitative performance criteria for March 2011 were met, and structural reforms are on track. Staff recommends completion of the sixth review, extension of the arrangement, setting of end-September performance criteria, phasing of the seventh review and eighth disbursement, and augmentation of access.
Publication:	The authorities consent to the publication of this report, the letter of intent, the Memorandum of Economic and Financial Policies (MEFP), and the Technical Memorandum of Understanding (TMU).

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Acronyms

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

EXECUTIVE SUMMARY

The Burundian economy is recovering but at a slower pace than previously expected, while inflation is expected to rise considerably. The acceleration of real GDP growth following the global economic crisis is continuing but at a more modest pace relative to what was previously expected, reflecting the impact of the food and fuel price shock. Headline inflation (end of period) increased from about 4 percent at end-2010 to about 8.4 percent in April 2011 because of the surge in international food and fuel prices.

In a difficult post-conflict environment, performance under the ECF-supported program was broadly satisfactory. All but one indicative targets for end-December 2010 were met, as were all March 2011 quantitative performance criteria. The March 2011 indicative targets on reserve money and pro-poor spending were however missed by small margins. The end-March structural benchmarks on the General Regulation on Public Budget Management and on the adoption of a financial sector reform strategy were met, although with some delay.

The macroeconomic outlook has been adversely affected by the surge in global food and fuel prices. Real GDP growth in 2011 is projected at 4.2 percent, somewhat lower than previously projected (EBS/11/29). Headline inflation (end of period) in 2011 is projected to increase to 14 percent, because of higher international food and oil prices, and to decline gradually thereafter. Gross official reserves would decline only modestly to 4.7 months of imports by end-2011, supported by the augmentation of access under the ECF.

Policy discussions focused on the appropriate policy response to the food and fuel price shock, with a view to consolidating economic stability and further reducing poverty. Although the deficit will decline in 2011, spending on social safety net programs will be higher to cushion the impact of higher food and fuel prices on the poor. A tightening of monetary policy is key to dampening inflation expectations, while a more flexible exchange rate would help the economy adjust to the food and fuel price shock. Over the medium term, the fiscal deficit will continue to decline and the authorities will continue to rely on grants and highly concessional loans to avoid unsustainable debt.

As Burundi is a post-conflict country, risks to the program remain significant. The foremost risk would be a worsening external environment with higher food and fuel prices than currently projected. Second, governance slippages could disrupt donor support.

Staff recommends completion of the sixth review under the ECF arrangement and modification of the availability date from August 15, 2011 to July 13, 2011 for the seventh disbursement to be close to the review date, extension of the ECF arrangement to January 31, 2012, setting of end-September 2011 performance criteria and indicative targets and end-December indicative targets, phasing of the seventh review and eighth disbursement, and augmentation of access, based on Burundi's performance and the strength of the program.

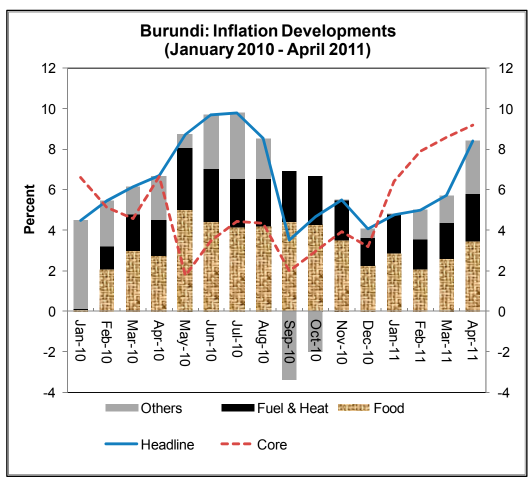
I. General Context

1. **Despite the cessation of a major armed conflict in 2003, Burundi is still to reap the benefits of a peace dividend.** GDP per capita, at about US$170, is still below its 1970 level, and more than two-thirds of the population lives below the poverty line. While the country is making some progress toward the Millennium Development Goals (MDGs), it is unlikely that any will be achieved by 2015 (Table 1).

2. **Reforms are being implemented to regularize the political process with the aim to improve political stability.** The security and political situation remains fragile following the 2010 elections, and occasional violence by armed groups against security forces continues. The Parliament has recently adopted a new law on political parties that grants immunity to political leaders in carrying out their political activities and provides for state funding of parties represented in parliament.

3. **In a difficult post-conflict environment Burundi has made steady, but at times uneven progress in implementing its ECF-supported economic reforms**. The ECF-supported program focused mainly on improving economic governance by strengthening public financial management (PFM). Key achievements include a new budget organic law, establishment of the Burundi Revenue Authority (BRA), introduction of the VAT, reform of the customs code, a new procurement law, establishment of a single treasury account, and strengthened controls and audits. Good progress has also been made in improving monetary management, notably by adopting a new central bank charter that reinforces the central bank's autonomy, and strengthening central bank internal controls.

II. Recent Developments and Performance under the ECF



4. **The Burundian economy is recovering but at a slower pace than previously expected, while the recent surge in global food and fuel prices has contributed to a significant rise in inflation**. The modest acceleration of real GDP growth following the global economic crisis is continuing but there are signs that economic growth may be slowing down relative to what was previously expected. Import volumes were down and local prices for raw materials are rising in the first four months of 2011, suggesting that economic activity may be slowing down as a result of the supply-side shock. Headline inflation

(year-on-year) increased from about 4 percent at end-2010 to about 8.4 percent in April 2011 reflecting the pass-through from the surge in international food and fuel prices.[1]

5. **Fiscal performance has been broadly satisfactory (Text Table 1).** Tax revenues were higher than programmed in 2010 reflecting efficiency gains at the BRA and one-off effects (e.g., collection of arrears).[2] Total spending was higher than programmed driven primarily by outlays financed by foreign grants. The overall fiscal deficit (cash basis, including non-HIPC grants) declined to 4.3 percent of GDP, in line with the program level. Fiscal performance in the first quarter of 2011 continued to be on track. Domestic financing of the budget was well within the programmed target (MEFP, Table I.1).

Text Table 1. Burundi: Government Operations, 2008–10

(Percent of GDP)

	2008	2009	2010	
			Prog.	Act.
Revenue	18.5	18.6	18.3	19.8
Total expenditure and net lending	56.7	50.7	49.5	54.7
Current Spending	25.8	25.8	27.0	26.7
Capital spending and net lending	19.5	17.0	17.0	16.3
Externally financed special programs	11.3	7.9	5.5	11.6
Overall balance (commitment basis, including non-HIPC grants)	-2.4	-5.2	-3.1	-3.2
Change in arrears (reduction = -)	-0.8	0.0	-1.1	-1.0
Overall balance (cash basis, including non-HIPC grants)	-3.2	-5.2	-4.3	-4.3
Financing	37.7	30.4	32.3	35.2
External grants	37.5	90.6	28.0	31.0
Of which: HIPC relief	3.0	65.3	0.0	0.0
External borrowing, net	-1.1	-64.4	2.7	2.3
Privatization proceeds	0.0	0.0	0.1	0.0
Domestic	1.4	4.2	1.5	2.0
Errors and omissions	1.2	1.7	0.0	0.7

Sources: Burundi authorities; and IMF staff estimates.

6. **Monetary policy was eased during the first quarter of 2011.** Reserve money rose by 25 percent in March 2011 (y-o-y) compared to a programmed increase of 14.1 percent. The easing of monetary policy during the first quarter was due to the inability of the central bank to absorb excess liquidity from higher-than-expected unsterilized inflows of donor flows and export receipts. The authorities noted that the excess liquidity was temporary, as it

[1] Core inflation rose in 2011 owing to the pass-through of fuel prices to higher domestic prices.

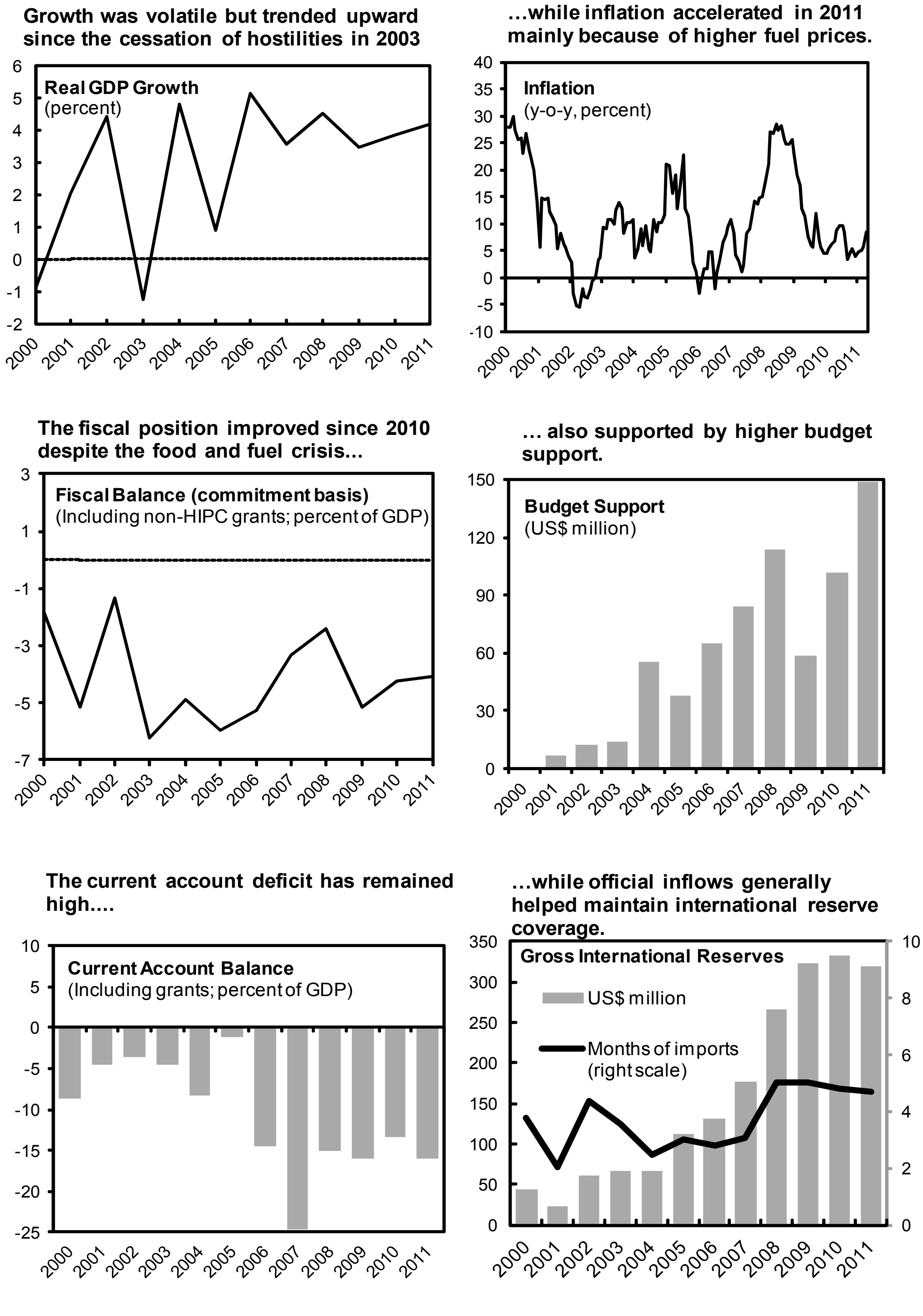
[2] The BRA formally began operations in July 2010.

related to end-quarter fulfillment of tax obligations, and banks preferred to retain this liquidity rather than participate in deposit auctions. Excess reserves subsequently fell in April. While acknowledging the authorities' views, staff underscored the need for more effective liquidity management, including better forecasting. Staff also urged the authorities to allow interest rates on deposit auctions to rise as needed to ensure withdrawal of banks' excess liquidity. Although credit to the private sector increased rapidly, broad money growth was contained by lower than expected credit to the government.

7. **Structural reforms are moving ahead (MEFP, ¶8-18).** In accordance with the new Organic Law on Public Finance, a draft General Regulation on Public Budget Management has been adopted. In the coffee sector, the authorities are preparing the groundwork for the launch of a new round of privatization for washing stations. To improve the business climate, the authorities are streamlining the processes for opening a business, securing construction permits, safeguarding investor protection, and facilitating property transfer.

8. **Performance under the ECF-supported program has been satisfactory (MEFP, Tables I.1–I.4).** All indicative targets for end-December 2010 except that for pro-poor spending were met, as were all March 2011 quantitative performance criteria. The March 2011 indicative targets on pro-poor spending and reserve money, however, were missed. Pro-poor spending was somewhat lower than targeted mainly because of procurement delays at the beginning of the year. The end-March structural benchmarks on the General Regulation on Public Budget Management and on the adoption of a financial sector reform strategy were met, although with some delay (Table 10).

Figure 1. Burundi: Macroeconomic Performance, 2000–11



Sources: Burundi authorities; and IMF staff estimates.

III. Policy Discussions

9. **The discussions focused on the appropriate policy response to the food and fuel price shock, with a view to consolidating economic stability and further reducing poverty.** Fiscal consolidation will continue in 2011 relative to 2010. However, there will be a modest easing relative to the program to allow for higher spending on social safety net programs to cushion the impact of higher food and fuel prices on the poor. Monetary policy will focus on anchoring inflation expectations, while the exchange rate should be more flexible to help the economy adjust to the food and fuel price shock. The authorities recognize that because of Burundi's high risk of debt distress, fiscal consolidation should continue in the period ahead. Over the medium term, the authorities will continue to rely on grants and highly concessional loans to avoid unsustainable debt.

A. Macroeconomic Outlook

10. **The macroeconomic outlook for 2011 is expected to be adversely affected by the surge in global food and fuel prices (Text table 2).** Real GDP growth in 2011 is projected to rise to 4.2 percent, albeit lower than previously projected (EBS/11/29) because of weakening aggregate demand related to the surge in food and fuel prices. Economic activity will be supported by donor-financed investment. Headline inflation (end of period) in 2011 is projected to increase to 14 percent because of higher international food and oil prices. Gross official reserves would decline only modestly to 4.7 months of imports by end-2011, supported by the augmentation of access under the ECF.

11. **Burundi's medium-term economic outlook remains positive but subject to downside risks.** Integration into the East African Community (EAC) is expected to spur structural reforms that improve the business and policy environments over the medium term. The main risks to the medium-term outlook, besides the possible deterioration in the political and security situation, include (i) an uncertain external environment, and (ii) governance slippages that could disrupt donor support.

Text Table 2. Burundi: Medium-Term Outlook, 2009–13

	2009	2010		2011		2012	2013
		Prog.	Act.	Prog.	Rev. Prog.	Proj.	
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth	3.5	3.9	3.9	4.5	4.2	4.8	5.0
Consumer prices (end of period)	4.6	9.5	4.1	9.0	14.0	10.9	9.5
	(Percent of GDP, unless otherwise indicated)						
General government							
Revenue (excluding grants)	18.6	18.3	19.8	19.3	19.4	19.8	20.0
Total expenditure and net lending	50.7	49.5	54.7	44.0	47.4	42.2	39.9
Overall balance							
Commitment basis (including non-HIPC grar	-5.2	-3.1	-3.2	-2.6	-3.1	-2.4	-0.9
Cash basis (including non-HIPC grants)	-5.2	-4.3	-4.3	-3.6	-4.1	-2.4	-0.9
External sector							
Current account balance	-16.1	-9.0	-13.4	-15.6	-16.5	-16.9	-15.1
Overall balance of payments	4.1	-0.8	0.9	-0.5	-1.2	0.5	-0.8
Gross official reserves							
In US$ million	323	311	332	321	319	343	360
In months of imports	5.0	6.0	4.8	5.1	4.7	5.0	5.5

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

B. Fiscal Policy and Related Reforms

12. **The revised 2011 program accommodates a temporary easing of fiscal policy relative to the program to help cushion the impact of higher food and fuel prices on the poor.** The overall fiscal deficit (cash basis, including non-HIPC grants) will decline in 2011 relative to the 2010 outturn to 4.1 percent of GDP, higher than the 3.6 percent envisaged under the program (EBS/11/29). The main changes to the fiscal program are (Table 3):

- Higher spending on social safety net programs of 0.7 percent of GDP in light of the food and fuel crisis. The additional spending will be on programs targeting vulnerable groups, notably school feeding programs and health care for infants and pregnant women.[3]

- Temporary fuel subsidy with an estimated erosion of revenues of 0.3 percent of GDP. The authorities introduced a fuel subsidy (primarily on diesel products which have a direct incidence on transport costs). The program envisages a full pass-through of fuel prices in the event of further increases in international prices. If international fuel

[3] Total spending in 2011 will still be lower relative to 2010 by about 7 percentage points of GDP because of lower externally financed programs, including elections.

prices begin to decline, the subsidy will be reduced accordingly and in any case unwound by end-2011.

- Higher domestic financing of 0.5 percent of GDP. The remaining cost of the fiscal measures will be financed by higher revenues (0.4 percent of GDP) and the use of the reserve fund (0.1 percent of GDP).[4]

13. **The introduction of a generalized subsidy could have been better targeted**. Although excises on kerosene were reduced the most (96 percent, as opposed to 55 percent on diesel and 17 percent on gasoline), given the low volume of kerosene consumption, diesel represented the bulk of the subsidy.[5] The mission urged the authorities to reverse the policy as it is an inefficient mechanism for targeting assistance to vulnerable groups. The authorities agreed that the measure would be temporary, allow the automatic pricing mechanism to function, and to reconstitute the stabilization fund after unwinding the subsidy (MEFP, ¶22).

14. **The authorities are pursuing efforts to raise the grant element of a recently signed line of credit (MEFP, ¶29).** The authorities recently signed an US$80 million loan (31.6 percent grant element) to facilitate construction of a hydroelectric station. The authorities and donors agree that the project is critical for meeting current energy shortages and encouraging investment in nontraditional exports (including in the mining sector). An assessment by the World Bank indicated that the project was profitable, would increase Burundi's generation capacity by 36 percent, and that cash flow generated from sales should be sufficient to service the debt.[6] In addition, the World Bank is undertaking a number of reforms to strengthen the financial management of the electricity company including cost recovery measures. The authorities have agreed not to ratify the loan unless the terms can be modified to meet the minimum grant element of 50 percent.

15. **Assuming the loan is concessional, it's likely impact on growth and exports would attenuate some of the debt vulnerabilities**. On the basis of conservative growth and export assumptions,[7] the present value (PV) of external debt-to-exports ratio and debt-service-to exports ratio would increase initially, then gradually decline over the medium term. All other external indicators would remain below indicative thresholds.

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[4] The revenue forecast for 2011, before the effect of the temporary fuel subsidy is 0.4 percent of GDP higher than envisaged under the program (EBS/11/29).

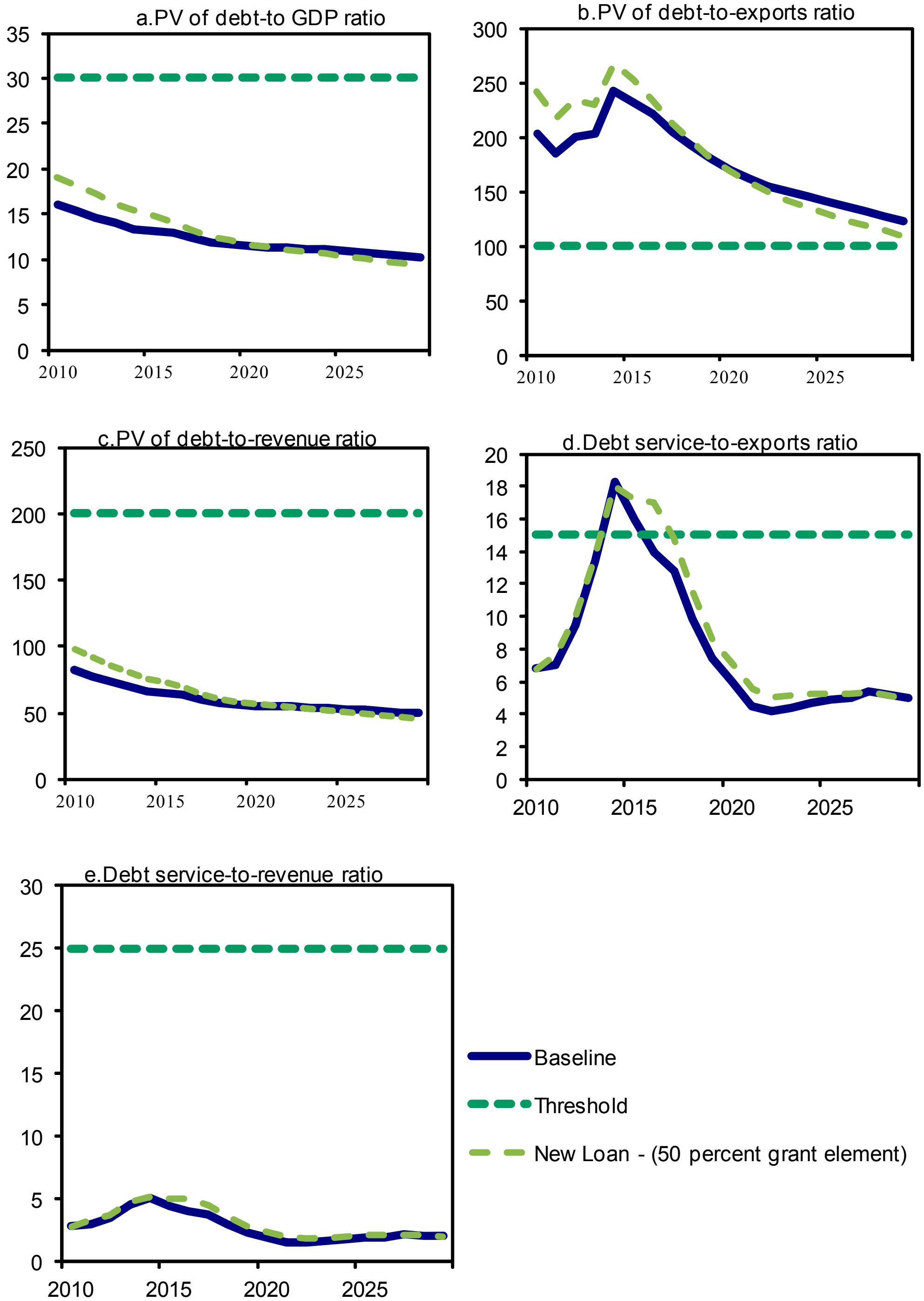
[5] The average volume of kerosene consumption comprises about 2.2 percent the total consumption of petroleum products.

[6] The estimated economic internal rate of return of the project is 33 percent, the cost of power generated by the project US$0.055/kWh compared to the price at which the electricity could be sold, US$0.33/kWh.

[7] Real GDP growth would average 6 percent during 2014–30, 1 percentage point higher relative to the baseline, and exports are assumed to increase by an annual average of 7.5 percent in volume terms during the same period, compared to 6.1 percent under the baseline.

Figure 2. Burundi: Indicators of Public and Publicly Guaranteed External Debt, 2011-30

(Percent)



Sources: Burundian authorities; and staff estimates and projections.

16. **The need to achieve debt sustainability will anchor medium-term fiscal policy (MEFP, ¶29)**. Staff emphasized that because of Burundi's high risk of debt distress, fiscal consolidation should continue in 2012 and beyond, through additional revenue mobilization and a reprioritization of spending and this could be done in the context of the upcoming PRSP, and discussion of the 2012 budget. The authorities remain committed to reducing the fiscal deficit and relying on grants and highly concessional loans to avoid unsustainable debt. Fiscal reforms during the past three years will also support debt sustainability. These include the new budget law and the reforms of tax policy, revenue administration, expenditure policy, treasury management, and debt management.

17. **The authorities recognize that mobilizing domestic revenue is critical for increased poverty-reducing expenditure (MEFP, ¶37-39).** The revised revenue target for 2011 is 19.4 percent of GDP. In view of the potential negative impact of the food and fuel price shock on tax revenue, staff urged the authorities to intensify their efforts to broaden the revenue base by reducing exemptions and strengthening tax and customs administration.

18. **The authorities are committed to reallocating spending to priority sectors (MEFP, ¶23–26).** In line with Burundi's poverty reduction strategy, additional resources are being spent on agriculture, water, rural infrastructure, health, and education. Overall, pro-poor spending is expected to increase by about 15 percent in 2011.[8] Creating more fiscal space hinges on reducing security spending. The authorities and donors acknowledge that, given the still fragile political and security situation, the defense and security forces should be right-sized gradually in the medium term, taking into account the political and social implications.

19. **Controlling the wage bill is a key medium-term challenge (MEFP, ¶28).** As projected in EBS/11/29, the wage bill for 2011 is budgeted at about BIF 250 billion (about 12 percent of GDP), taking into account additional recruitment in the social sectors and the effect of the 2010 law on security force remuneration (EBS/10/143). The medium-term objective of the government is to bring the wage bill below 11 percent of GDP. Staff advised the authorities to continue reforms of wage and employment, in consultation with the World Bank.

20. **The authorities are committed to PFM reforms (MEFP, ¶40)**. The government will continue implementing its PFM strategy and action plan with the aim of consolidating progress in the areas of fiscal governance and transparency. Notably, the authorities will adopt by end-November 2011 procedures for expenditure commitment comptrollers, consistent with the general regulation on public budget management.

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[8] As a share of GDP, propoor spending is projected to decrease by 0.3 percentage points while total spending is projected to decline by 7 percentage points.

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

21. **Monetary policy will focus on anchoring inflation expectations.** Unlike the 2008 spike in oil prices which proved transitory, oil prices are likely to remain elevated in the medium term. As the recent increase in oil prices has fed into domestic prices, the central bank should tighten monetary policy immediately. The authorities agree with the need for monetary policy tightening. They expect that the food and fuel price shock will likely lead to a considerable increase in headline inflation. To counter the inflationary impact of the shock, the central bank will tighten monetary policy by relying primarily on deposit auctions. The program foresees that reserve money in 2011 will grow by 12.3 percent, less than earlier projected, despite higher domestic financing of the government. Broad money will increase by less than nominal GDP growth.

22. **Achieving the inflation objective will require close coordination between monetary and fiscal policies (MEFP, ¶32)**. The consistency of fiscal and monetary policies is critical for ensuring effective liquidity management. Close collaboration between the central bank and Ministry of Finance is needed to improve the central bank's liquidity forecast.[9]

23. **Greater exchange rate flexibility will help the economy adjust to the food and fuel price shock**.[10] Burundi's exchange rate continues to be broadly stable, depreciating by 0.5 percent during the first quarter of 2011. Greater exchange rate flexibility would help Burundi reduce its external current account deficit. Intervention in the foreign exchange market would be limited to smoothing volatility of the exchange rate. The authorities consider that the main policy instrument to be used for achieving the inflation target will be deposit auctions, rather than sales of foreign exchange. Staff stressed that MCM TA is expected to improve Treasury bill and foreign exchange auctions, while preparing the groundwork for an interbank foreign exchange market (MEFP, ¶33). These reforms could make interest rates more responsive to market conditions. In line with LEG and MCM advice, the authorities revised the 2010 foreign exchange regulation which had given rise to foreign exchange restrictions (EBS/11/29) subject to approval under Article VIII, Section 2(a).

24. **The central bank continues to enhance banking supervision (MEFP, ¶16)**. Efforts are underway to fully implement on-site inspections according to risk-based supervision procedures. To mitigate concentration risk, a key vulnerability of the banking system (Table 7), the BRB will continue to scrutinize closely bank risk management practices and lending standards and start conducting stress tests, with the help of Central AFRITAC TA.

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[9] With MCM TA, the central bank is working to prepare monthly and subsequently weekly monetary targets, consistent with the quarterly program objectives.

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

The central bank has increased the minimum capital requirements for commercial banks from BIF 5 billion to BIF 10 billion at end-2010. All banks currently meet the new requirements.

25. **The recent adoption of the financial sector strategy will give further impetus to financial sector reforms (MEFP, ¶14).** The authorities are preparing a new banking law, consistent with international and EAC standards. They are also working closely with the World Bank to (i) modernize the payment system infrastructure, consistent with EAC action plans and international standards, and (ii) revamp the payment system's legal framework.

26. **The central bank will continue to strengthen its internal controls and safeguards (MEFP, ¶34)**. It will recruit an international auditor to (i) monitor the full implementation of all recommendations made by the 2010 special audits and (ii) verify on a test basis the controls on important domestic disbursements and transfers executed by the central bank on behalf of the government and its creditors during the first half of 2011 (MEFP Table I.4).

D. Structural Reforms

27. **The authorities are preparing a national strategy and action plan to coordinate EAC integration efforts and facilitate decision-making (MEFP, ¶42)**. Burundi must undertake significant reforms over the medium term to integrate with the EAC which will test the authorities' administrative capacity. If implemented successfully, these reforms should contribute to improving the business and policy environments.

28. **The authorities are intensifying their efforts to reform the coffee sector (MEFP, ¶ 35)**. After the recent privatization of 13 coffee washing stations, the authorities plan to re-launch the bidding for the remaining coffee stations during the second half of the year, in consultation with the World Bank.

29. **The authorities are aware of the need to continue to enhance transparency and good governance (MEFP, ¶41)**. They concur with staff that continued progress in this area is critical for securing donors' financial support and promoting private sector development. The authorities reiterated their determination to take on the daunting challenge of fighting corruption in Burundi. In this regard, the authorities are finalizing the first draft of an anti-corruption strategy.

30. **In consultation with donors and other stakeholders, the authorities are finalizing a new Poverty Reduction Strategy Paper (PRSP) building on implementation lessons from 2007 to 2009.** The new PRSP is expected to be finalized during the second half of 2011 and will accompany the authorities' request for a successor ECF arrangement.

E. Program Issues

31. **To mitigate the impact of the food and fuel price shock on Burundi's international reserve position, the authorities are requesting augmentation of access under the ECF by SDR 5 million (6.5 percent of quota or 0.5 percent of GDP) given the higher financing needs as a result of the food and fuel shock.** The augmentation of access is needed to help Burundi close its financing gap driven by the deterioration of the current account by about 1 percent of GDP more than previously envisaged. So far only the World

Bank has increased its support to Burundi (0.3 percent of GDP) in response the food and fuel crisis. After additional efforts made to finance demobilization and the fight against AIDS, bilateral donors are finding it difficult to mobilize further financial support to respond to the food and fuel shocks. The augmentation of access will close the remaining financing gap. Owing to the small amounts involved, the augmentation of access is not expected to have a significant impact on Burundi's long-term debt sustainability.[11] Although outstanding Fund credit will increase to 108 percent of quota as a result of the augmentation, it is expected that Burundi will meet its obligations to the Fund (Table 8).

32. **The authorities have requested an extension of the ECF arrangement to January 31, 2012**. The current ECF arrangement is set to expire at end-August 2011. Extending the arrangement to end-January 2012 will allow the authorities to reflect on the findings of the Ex-Post Assessment (EPA) of Fund's engagement in Burundi while facilitating donor engagement and ensuring policy continuity. An additional program review will be based on end-September 2011 performance criteria and indicative targets.

33. **Semi-annual 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**. Continuous performance criteria include zero ceilings for (i) new nonconcessional external debt contracted or guaranteed by the government or the BRB; (ii) short-term external debt of the government; and (iii) accumulation of external payment arrears of the government. Indicative targets have been established for domestic arrears accumulation, reserve money, and pro-poor spending (MEFP, Table I.2).

34. **The proposed structural conditionality (MEFP, Table I.4) is linked to a strategic objective of the Poverty Reduction Strategy Paper:** strengthening economic governance, especially bringing transparency to financial management.

35. **As the current ECF-supported program is winding down, staff has undertaken an Ex-Post Assessment (EPA) of Fund engagement during 2004-11.** [12] The authorities plan to reflect on the findings of the EPA before discussing a successor arrangement later in 2011.

F. Risks

36. **Although the authorities have reiterated their firm commitment to the program, significant risks remain.** Besides the possible deterioration in the political and security situation, there are two main risks:

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[11] A new Debt Sustainability Analysis (DSA) taking into account the augmentation of access is expected to be undertaken at the time of negotiation of a successor ECF arrangement in the fall of 2011.

[12] Mr. Debrun (FAD) headed the EPA team. The preliminary conclusions of the EPA were discussed in Bujumbura with the authorities during June 1-2. The authorities' comments have been incorporated in the EPA findings accompanying this report.

- *Worsening external environment*. The foremost risk would be a worsening external environment with higher food and fuel prices than currently projected. To mitigate this risk, the authorities have a contingency plan to cut nonpriority expenditure to safeguard medium-term fiscal sustainability (MEFP ¶22).[13]

- *Governance slippages*. Governance slippages could disrupt donor support. To mitigate this risk, the program emphasizes prudent management of public finances and firmer controls at the central bank.

IV. Staff Appraisal

37. **In a difficult post-conflict environment, Burundi has made steady, though uneven, progress**. Most monetary and fiscal reforms have progressed. However, structural reform has generally been slow, because of limited institutional capacity and political instability. The economic outlook is generally positive but subject to risks arising from the uncertain external environment and governance slippages.

38. **The revised program for 2011 should help consolidate macroeconomic stability and reduce poverty while helping Burundi cope with the impact of the food and fuel price shock**. Staff agrees that higher spending on social safety net programs in 2011 is necessary to help cushion the impact of the food and fuel price shock on the poor. However, the authorities should reverse the generalized fuel subsidy as it is an inefficient mechanism for targeting assistance to vulnerable groups. Monetary policy should be tightened immediately to dampen inflation expectations. Finally, increased exchange rate flexibility should help the economy adjust to the food and fuel price shock.

39. **Staff urges the authorities to anchor medium-term fiscal policy to debt sustainability.** Given the high risk of debt distress and low capacity, the fiscal easing in 2011 should be unwound beginning in 2012. The authorities should also continue to rely on grants and highly concessional loans in the future to avoid unsustainable debt. Staff urges donors to accelerate grant support, given the need to reduce poverty and mitigate the risk of debt distress. Improvements in governance will be critical in this regard, and the authorities should continue to strengthen PFM.

40. **Sustained growth depends on accelerating structural reforms**. Staff welcomes the authorities' intentions to pursue appropriate growth-enhancing reforms, notably EAC integration, coffee, and financial sector reform. Preparation of a new PRSP is an opportunity to reenergize efforts to accelerate poverty reduction.

41. **Staff recommends completion of the sixth review under the ECF arrangement and modification of the availability date from August 15, 2011 to July 13, 2011 for the seventh disbursement to be close to the review date, extension of the ECF arrangement to January 31, 2012, setting of end-September 2011 performance criteria and indicative**

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[13] These include capital spending financed with own resources.

targets and end-December indicative targets, phasing of the seventh review and eighth disbursement, and augmentation of access, based on Burundi's performance and the strength of the program.

Table 1. Burundi: Millennium Development Goals

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

Source: World Development Indicators database.

Table 2. Burundi: Selected Economic and Financial Indicators, 2008–13

	2008	2009	2010	2011 Prog.	2011 Rev. Prog.	2012 Proj.	2013 Proj.
			(Annual percentage change)				
National income and prices							
Real GDP growth	4.5	3.5	3.9	4.5	4.2	4.8	5.0
GDP deflator	25.1	14.1	7.8	10.7	11.9	13.8	11.0
Consumer prices (period average)	24.4	10.7	6.4	7.0	8.2	12.5	10.2
Consumer prices (end of period)	25.7	4.6	4.1	9.0	14.0	10.9	9.5
External sector							
Exports, f.o.b. (US$)	15.1	21.5	37.7	-15.3	3.9	20.7	-8.0
Imports, f.o.b. (US$)	26.5	-19.6	42.9	19.1	23.0	-0.3	0.0
Export volume	0.4	16.0	10.8	-19.2	-22.8	23.2	-3.3
Import volume	12.7	6.3	4.9	2.1	-1.6	2.2	5.1
Terms of trade (deterioration = –)	2.1	38.5	-8.7	-10.3	7.6	0.5	0.1
			(Change in percent of beginning of period M2, unless otherwise indicated)				
Money and credit							
Net foreign assets	21.9	-2.9	-5.4	0.2	-0.7		
Domestic credit	18.8	27.8	24.2	17.4	17.7		
Government	5.8	17.1	6.6	2.3	3.9		
Private sector	8.5	13.7	-3.6	15.2	13.8		
Money and quasi-money (M2)	34.2	19.8	19.4	15.6	14.2		
Reserve money (12–month growth rate)	25.1	26.6	6.0	13.0	12.3		
			(Percent of GDP)				
General government							
Revenue (excluding grants)	18.5	18.6	19.8	19.3	19.4	19.8	20.0
Total expenditure and net lending	56.7	50.7	54.7	44.0	47.4	42.2	39.9
Overall balance (commitment basis)							
Excluding grants	-38.2	-32.1	-34.9	-24.8	-28.0	-22.4	-19.8
Including grants (excl. HIPC)	-2.4	-5.2	-3.2	-2.6	-3.1	-2.4	-0.9
External sector							
Current account balance	-15.0	-16.1	-13.4	-15.6	-16.5	-16.9	-15.1
Overall balance of payments	7.4	4.1	0.9	-0.5	-1.2	0.5	-0.8
Savings-investment balance	-15.0	-16.1	-13.4	-15.6	-16.5	-16.9	-15.1
Private	-12.6	-10.9	-10.1	-13.0	-13.4	-14.5	-14.2
Public	-2.4	-5.2	-3.2	-2.6	-3.1	-2.4	-0.9
			(US$ million, unless otherwise indicated)				
External sector							
Gross official reserves							
US$ million	267	323	332	321	319	343	360
Months of imports	5.0	5.0	4.8	5.1	4.7	5.0	5.5
Debt-service to exports ratio (percent)	3.2	1.7	1.2	7.2	6.9	6.9	9.2
Memorandum item:							
GDP at current market prices (BIF billion)	1386	1637	1833	2132	2137	2549	2970

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

Table 3. Burundi: General Government Operations, 2008–13

	2008	2009	2010	2011	2011	FY2012	FY2013
				Prog.	Rev. Prog.	Proj.	
				(Percent of GDP)			
Revenue	18.5	18.6	19.8	19.3	19.4	19.8	20.0
Tax revenue [1]	16.6	17.0	18.6	18.1	18.2	18.6	18.8
Income tax	4.7	5.2	5.9	5.5	5.7	5.6	5.7
Taxes on goods and services	8.8	9.0	10.6	10.5	10.6	11.0	11.1
Taxes on international trade	2.9	2.7	2.1	2.1	1.9	2.0	2.1
Other tax revenue	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Nontax revenue	1.9	1.6	1.2	1.2	1.2	1.2	1.2
Expenditure and net lending	56.7	50.7	54.7	44.0	47.4	42.2	39.9
Current expenditure [2]	25.8	25.8	26.7	25.6	27.4	23.5	22.6
Salaries	11.4	11.7	11.7	11.7	11.8	11.6	11.2
Of which: priority sectors	6.1	7.0	7.5	7.3	7.1	7.2	7.2
Of which: security related	3.6	3.4	2.9	3.4	3.5	3.3	3.0
Of which: others	1.8	1.3	1.3	1.1	1.1	1.1	1.0
Other current expenditures	14.4	14.1	15.0	13.9	15.5	11.9	11.4
Of which: Election			0.5				
Externally financed special programs [3]	11.3	7.9	11.6	2.7	4.5	2.9	2.6
Of which: Election			2.4				
Capital expenditure & Net lending	19.5	17.0	16.3	15.7	15.5	15.8	14.7
Of which: MDRI-related	0.0	1.8	1.6	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-38.2	-32.1	-34.9	-24.8	-28.0	-22.4	-19.8
Overall balance (after grants, excl. HIPC)	-2.4	-5.2	-3.2	-2.6	-3.1	-2.4	-0.9
Change in arrears (reduction = –)	-0.8	0.0	-1.0	-1.0	-1.0	0.0	0.0
Overall balance (cash basis)	-39.0	-32.1	-35.9	-25.8	-29.1	-22.4	-19.8
Overall balance (after grants, excl. HIPC)	-3.2	-5.2	-4.3	-3.6	-4.1	-2.4	-0.9
Financing	37.7	30.4	35.2	25.8	29.1	21.6	18.2
External grants	37.5	90.6	31.0	22.2	25.0	19.3	17.3
Of which: Program support	9.7	4.9	6.8	8.2	8.0	4.1	3.7
Of which: HIPC relief	3.0	65.3	0.0	0.0	0.0	0.0	0.0
Of which: MDRI grant from IMF	0.0	1.8	1.6	0.0	0.0	0.0	0.0
External borrowing, net	-1.1	-64.4	2.3	1.9	1.8	2.0	1.7
Privatization proceeds	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Domestic	1.4	4.2	2.0	1.7	2.2	0.4	-0.9
Banking sector	1.4	4.6	1.6	0.7	1.2	0.4	-0.9
Nonbank sector	0.0	-0.4	0.3	1.0	1.0	0.0	0.0
Financing gap and errors and omissions [4]	1.2	1.7	0.7	0.0	0.0	0.8	1.6
				(BIF billion)			
Total revenue	256.7	304.6	363.3	410.4	413.6	504.3	594.9
Total expenditure and net lending	785.9	829.7	1002.2	938.8	1012.9	1075.3	1184.1
Of which: salaries	158.4	191.8	214.9	250.4	252.3	295.1	333.5
Financing gap and errors and omissions [4]	17.2	28.0	12.4	0.0	0.0	20.0	47.5
Total financing	522.9	497.1	645.3	550.4	621.3	551.0	541.7
				(US$ million, unless otherwise indicated)			
Memorandum items:							
MDRI stock relief from IDA and AfDB	...	84.8	0.0	0.0	0.0	0.0	0.0
MDRI savings from IDA and AfDB:							
Amortization	...	2.3	3.0	3.2	3.2	3.3	3.3
Annual interest payments	...	0.5	0.6	0.6	0.6	0.6	0.6
Propoor expenditure (percent of GDP)	15.1	16.8	17.7	18.6	17.4	17.8	17.9
Public debt (percent of GDP)	154	48	48	47	47	41	37
GDP at current market prices (BIF billion)	1386	1637	1833	2132	2137	2549	2970

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

[1] The increase in tax revenue in 2010 is partly due to one off-effects (e.g. collection of tax arrears).

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

[3] These are externally financed expenditures and include spending on elections (in 2010), demobilization, technical assistance, and temporary social safety net programs. The decline in 2011 is due to the withdrawal of one-off spending (elections, crisis related spending on social programs) and will not lead to spending pressures.

[4] Financing expected from additional donor support.

Table 4. Burundi: Monetary Survey, 2008–11

	2008	2009	2010	2011	
				Prog.	Rev. Prog.
			(BIF billion)		
Net foreign assets	181.5	168.8	139.9	141.4	135.6
Central bank	139.4	118.7	104.3	97.8	91.9
Deposit money banks	42.0	50.0	35.7	43.7	43.7
Net domestic assets	368.9	500.3	644.9	758.7	767.9
Domestic credit	436.1	559.2	687.8	797.3	800.1
Net claims on the government	176.5	252.4	287.3	301.4	311.9
Of which: on the treasury		268.8	298.5	312.7	323.2
Credit to the economy	259.7	306.8	400.5	495.8	488.2
Other items, net (assets = +)	-67.2	-58.9	-42.9	-38.6	-32.1
M3	550.4	669.1	784.8	900.1	903.5
Foreign currency deposits	107.3	138.3	151.4	175.0	179.9
M2	443.1	530.8	633.5	725.1	723.6
Currency in circulation	112.6	120.9	139.1	160.8	160.1
Local currency deposits	330.5	409.9	494.4	564.3	563.5
Demand deposits	223.3	283.5	341.3	391.1	384.1
Quasi-money	107.2	126.4	153.1	173.2	179.4
			(Change as percent of beginning of period M2)		
Net foreign assets	21.9	-2.9	-5.4	0.2	-0.7
Central bank	19.3	-4.7	-2.7	-1.0	-2.0
Deposit money banks	2.6	1.8	-2.7	1.3	1.3
Net domestic assets	21.3	29.7	27.2	19.1	19.4
Domestic credit	18.8	27.8	24.2	17.4	17.7
Net claims on the government	5.8	17.1	6.6	2.3	3.9
Credit to the economy	13.0	10.6	17.7	15.2	13.8
Of which: private sector	8.5	13.7	-3.6	15.2	13.8
M3	43.2	26.8	21.8	19.4	18.7
Foreign currency deposits	9.0	7.0	2.5	3.8	4.5
M2	34.2	19.8	19.4	15.6	14.2
Currency in circulation	8.6	1.9	3.4	3.5	3.3
Local currency deposits	25.6	17.9	15.9	12.1	10.9
Demand deposits	21.8	13.6	10.9	7.9	6.8
Quasi-money	3.8	4.3	5.0	4.2	4.2
Memorandum items:					
Reserve money (12–month percent change)	25.1	26.6	6.0	13.0	12.3
Velocity (GDP/M2; end of period)	3.1	3.1	2.9	2.9	3.0

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

Table 5. Burundi: Central Bank Accounts, 2008–11

	2008				2009				2010				2011			
	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.	Mar.	June	Sep.	Dec.
														Rev. Prog.		
	(BIF billion)															
Net foreign assets	68.1	63.4	75.1	139.4	105.1	148.8	113.0	118.7	105.3	67.7	44.0	104.3	107.6	64.6	34.2	91.9
Net domestic assets	50.2	71.6	71.4	17.0	33.6	13.9	44.8	79.3	49.8	107.7	140.2	105.6	86.4	148.9	190.7	143.6
Domestic credit	127.5	149.0	146.9	114.1	108.0	119.4	122.5	187.5	136.1	177.8	198.9	182.9	146.8	182.9	222.8	195.0
Net claims on the government	124.0	143.3	141.4	120.8	110.3	113.3	116.4	191.7	151.8	171.5	194.7	183.9	144.5	173.7	213.4	196.7
Other credit	3.4	5.6	5.4	-6.6	-2.3	6.2	6.1	-4.2	-15.7	6.3	4.2	-1.0	2.4	9.2	9.4	-1.7
Other items, net (assets = +)	-77.3	-77.3	-75.6	-97.2	-74.4	-105.5	-77.7	-108.2	-86.3	-70.1	-58.7	-77.4	-60.5	-33.9	-32.1	-51.3
Reserve money	118.3	135.1	146.5	156.4	138.7	162.7	157.9	198.0	155.1	175.4	184.1	209.8	193.9	213.5	224.9	235.5
Currency in circulation	80.6	99.3	110.4	112.6	99.9	108.0	104.5	120.9	109.5	131.1	132.5	139.1	132.5	159.5	147.1	160.1
Bank reserves	23.5	18.9	17.3	25.0	22.2	37.2	35.9	53.9	26.4	23.7	30.4	45.7	39.3	33.4	55.5	49.1
Cash in vault	9.1	9.9	12.6	11.6	12.7	12.6	13.4	15.3	15.9	16.5	16.8	16.7	17.3	16.5	16.8	16.7
Other nonbank deposits	5.1	7.1	6.2	7.2	3.8	4.9	4.1	7.9	3.3	4.1	4.4	8.3	4.8	4.1	5.5	9.6
Memorandum items:																
Net foreign assets of BRB (US$ millio	57.8	53.1	63.1	112.9	85.1	120.9	91.8	96.5	85.6	55.0	35.7	84.6	84.9	50.0	26.1	70.3

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

Table 6. Burundi: Balance of Payments, 2008–13

	2008	2009	2010	2011	2012	2013
				Proj.		
			(US$ million)			
Current account	-174.7	-213.7	-198.9	-273.7	-322.2	-320.6
(excluding official transfers)	-504.9	-480.3	-577.4	-620.8	-582.8	-581.0
Trade balance	-321.4	-233.6	-337.6	-434.7	-410.9	-421.0
Exports, f.o.b.	60.9	74.0	102.0	105.9	127.9	117.7
Of which: coffee	40.1	47.3	73.6	74.0	96.0	86.9
Imports, f.o.b.	-382.4	-307.6	-439.6	-540.7	-538.8	-538.6
Of which: petroleum products	-105.2	-80.6	-108.3	-151.5	-156.0	-156.8
Services (net)	-271.4	-307.5	-308.2	-260.0	-254.9	-247.3
Income (net)	-4.3	-6.3	-5.2	-6.8	-6.5	-6.8
Current transfers (net)	422.5	333.6	452.1	427.9	350.1	354.5
Of which: official (net)	330.2	266.6	378.5	347.2	260.6	260.4
Capital account[1]	195.8	1249.3	178.1	178.3	218.3	218.3
Of which: HIPC relief	39.7	0.0	0.0	0.0	0.0	0.0
Of which: debt forgiveness		1057.1				
Of which: other transfers (MDRI grant)	0.0	51.0	0.0	0.0	0.0	0.0
Financial account	35.9	-974.6	73.6	75.1	112.5	85.3
Direct investment	13.6	10.2	13.2	14.4	14.7	14.8
Other investment	22.3	-984.8	60.4	60.7	97.9	70.5
Assets	-30.8	-41.0	-27.3	-28.7	-35.6	-37.5
Liabilities	53.1	-943.8	87.7	89.3	133.5	108.0
Of which: SDR allocation		95.1				
Errors and omissions	28.9	-6.4	-39.4	0.0	0.0	0.0
Overall balance	85.8	54.7	13.4	-20.3	8.7	-17.0
Financing (increase in assets = –)	-85.8	-54.7	-13.4	12.4	-23.6	-16.9
Of which: change in official reserves	-89.3	-56.4	-9.1	12.8	-23.9	-17.2
Of which: SDR allocation		-95.1				
Financing gap[2]	0.0	0.0	0.0	7.9	14.9	33.9
Of which: augmentation of access under the ECF				7.8		
Of which: other donors				0.0		
	(Percent of GDP, unless otherwise indicated)					
Memorandum items:						
Current account	-15.0	-16.1	-13.4	-16.5	-16.9	-15.1
Gross official reserves						
US$ million	267	323	332	319	343	360
Months of imports	5.0	5.0	4.8	4.7	5.0	5.5
PV of external debt (percent of exports of GS)	880	193	184	203	185	200
Total external debt	129	27	28	29	27	26
Coffee price (US cents per lb)	138	142	194	280	279	271
Nominal GDP (US$ million)	1165	1330	1489	1661	1907	2119

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

[1] Based on preliminary information provided by donors.

[2] Financing expected from additional donor support.

Table 7. Burundi: Banking System Soundness Indicators, 2008–11

(percent, unless otherwise indicated)

	2008 Dec.	2009 Dec.	2010 Mar.	2010 Jun.	2010 Sep.	2010 Dec	2011 Jan	2011 Feb	2011 Mar
Capital Requirement									
Capital requirement over weighted assets (solvency ratio)	15.2	19.1	18.8	18.4	18.0	19.7	20.9	19.7	21.7
Core capital (Tier 1 capital) over weighted assets [1]	12.7	15.5	15.4	15.4	15.1	16.9	17.9	16.8	18.9
Quality of assets									
Nonperforming loans (percent of total gross loans grantec	14.6	13.0	12.7	11.8	10.6	10.0	10.1	9.6	8.8
Provisions (percent of nonperforming loans)	90.2	88.7	82.2	80.0	82.5	87.6	86.7	87.4	90.5
Nonperforming loans net of provisions (percent of capital)	7.4	5.4	8.4	9.1	7.5	4.3	4.6	4.2	2.8
Large exposures (percent of capital)	39.3	28.2	21.3	22.1	27.6	28.6	26.7	28.9	25.8
Profitability rates									
Return on assets	2.3	2.6	0.5	1.0	1.6	2.5	0.6	0.4	1.0
Return on equity capital	29.7	22.8	4.7	8.4	13.3	21.8	4.6	3.4	6.7
Net interest (percent of gross results)	171.8	207.0	219.2	213.3	194.5	191.3	167.9	120.1	168.3
Costs excluding interest (percent of gross outturn)	155.8	172.3	174.4	174.8	150.1	143.4	179.2	115.6	101.4
Liquidity									
Liquid assets (percent of all loans granted)	86.9	91.4	84.2	77.1	74.4	90.5	89.1	84.5	77.7
Liquid assets (percent of short-term commitments)	137.9	168.8	150.9	135.2	124.4	153.5	148.0	140.9	133.0

Sources: Burundi authorities; and IMF staff estimates.

Table8. Burundi: Indicators of Capacity to Repay the Fund, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
		Projections									
Fund obligations based on existing credit											
(SDR million)											
Principal	0.0	1.4	5.0	6.7	10.6	12.5	13.0	10.1	8.6	5.9	3.3
Charges and interest	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Fund obligations based on existing and prospective credit											
(SDR million)											
Principal	0.0	1.4	5.0	6.7	10.6	12.5	13.0	11.9	11.1	8.3	5.6
Charges and interest	0.0	0.0	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit											
SDR million	0.0	1.4	5.2	7.0	10.8	12.7	13.1	12.1	11.2	8.4	5.6
Percent of exports of goods and services	0.0	1.7	5.3	7.2	10.7	14.6	14.0	11.6	9.8	6.7	4.1
Percent of debt service[1]	0.7	25.1	76.9	77.5	81.7	81.3	80.2	77.2	74.5	67.8	57.7
Percent of gross official reserves	0.0	0.7	2.4	3.1	4.5	4.8	4.8	4.3	3.8	2.8	1.8
Percent of GDP	0.0	0.1	0.4	0.5	0.7	0.8	0.8	0.7	0.6	0.4	0.3
Percent of quota	0.0	3.0	10.9	14.4	22.2	26.0	26.9	24.7	23.0	17.1	11.5
Outstanding Fund credit											
SDR million	71.2	83.0	78.0	71.2	60.7	48.2	35.2	25.1	16.5	10.6	7.2
Percent of exports of goods and services	87.6	101.0	78.7	72.9	60.5	55.8	37.4	24.3	14.5	8.5	5.2
Percent of debt service[1]	7,217.4	1,456.1	1,142.9	789.5	460.3	309.4	215.3	160.9	109.7	85.6	74.6
Percent of gross official reserves	32.7	41.4	36.2	31.4	25.2	18.4	13.0	8.9	5.7	3.5	2.3
Percent of GDP	36.8	41.1	32.9	26.7	20.7	15.2	10.4	7.0	4.3	2.6	1.6
Percent of quota	92.5	107.7	101.2	92.5	78.8	62.6	45.7	32.6	21.4	13.7	9.4
Net use of Fund credit (SDR million)	13.2	11.8	--	-6.7	-10.6	-12.5	-13.0	-11.9	-11.1	-8.3	-5.6
Disbursements	13.2	13.2	5.0	--	--	--	--	--	--	--	--
Repayments and repurchases	0.0	1.4	5.0	6.7	10.6	12.5	13.0	11.9	11.1	8.3	5.6
Memorandum items:											
Exports of goods and services (US$ million)	124.0	130.8	157.9	155.2	159.0	136.7	148.5	163.5	179.6	197.2	218.6
Debt service (US$ million)	1.5	9.1	10.9	14.3	20.9	24.6	25.8	24.7	23.7	19.5	15.4
Gross official reserves (US$ million)	332.1	319.3	343.1	360.3	381.3	413.5	429.0	444.6	460.2	475.1	490.0
Nominal GDP ((US$ million)	1,488.9	1,660.8	1,907.2	2,118.5	2,312.2	2,470.0	2609.1	2785.6	2974.0	3173.9	3381.6
Quota (SDR, million)	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0

Sources: IMF staff estimates and projections.

[1] Total debt service includes IMF repurchases and repayments.

Table 9. Burundi: Actual and Projected Schedule of ECF Disbursements and Reviews, 2008–12

Date	Disbursement (SDR million)	Conditions
July 15, 2008	6.6	Executive Board approval
February 9, 2009	6.6	Completion of first review, based on observance of performance criteria at end-September 2008.
July 16, 2009	6.6	Completion of second review, based on observance of performance criteria at end-March 2009.
February 12, 2010	6.6	Completion of third review, based on observance of performance criteria at end-September 2009.
August 2, 2010	6.6	Completion of fourth review, based on observance of performance criteria at end-March 2010.
January 15, 2011	6.6	Completion of fifth review, based on observance of performance criteria at end-September 2010.
July 13, 2011	6.6	Completion of sixth review, based on observance of performance criteria at end-March 2011.
January 15, 2012	5.0	Completion of seventh review, based on observance of performance criteria at end-September 2011
Total for the ECF arrangement	51.2	

APPENDIX. LETTER OF INTENT

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Bujumbura, June 27, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Mr. Lipsky:

1. The Executive Board of the International Monetary Fund (IMF) approved a three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi on July 7, 2008. This arrangement supports the medium-term program (April 1, 2008 to August 31, 2011) aimed at continuing the process of macroeconomic stabilization, reducing poverty, promoting structural reforms, and improving governance. In accordance with the terms of this arrangement, the government of Burundi discussed program implementation for the sixth review under the arrangement together with a mission from the IMF. The discussions focused on implementation of the program between October 1, 2010 and March 31, 2011, as well as the outlook and economic and financial measures to be implemented in 2011.

2. The economy of Burundi is currently beset by two severe shocks: the price increases for energy products and for foodstuffs. These two shocks have had a severe impact on the country's external position, the public finances, and the living conditions of the people. They have been reflected in: (i) the increase in the oil bill and the cost of imported food products; (ii) lower-than-anticipated economic growth; and (iii) an increase in expenditure, an especially in pro-poor expenditure. The preliminary estimates of the fiscal cost of this crisis are approximately Fbu 22 billion (1 percent of GDP).

3. Despite this unfavorable external environment, the government is pleased by the satisfactory implementation of the program. In particular, all the quantitative performance criteria for end-March 2011 have been met, as have the structural benchmarks for end-March 2011, although with a slight delay. However, the indicative target for base money was not observed.

4. The government is resolved to continue implementing the policies and measures described in the Poverty Reduction Strategy Paper (PRSP). The Memorandum on Economic and Financial Policies (MEFP) attached to this letter supplements the previous memoranda dated since June 24, 2008.

5. On the political and security front, the government is continuing to make every effort to consolidate the peace process and strengthen security throughout the country. The government is also convinced that the policies set forth in the MEFP are adequate to achieve the objectives of the program. It will take any further measures that may prove necessary for this purpose. The

Burundian authorities will consult with the IMF on the adoption of such measures and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

6. In view of the considerable progress made in implementing the program supported by the ECF arrangement, the government is requesting: (i) disbursement of SDR 6.6 million on completion of the sixth review and (ii) modification of the availability date from August 15, 2011 to July 13, 2011 for the seventh disbursement to be close to the review date. Moreover, given the increased requirements for budgetary financing following the two exogenous shocks referred to above, the government, while exploring the possibilities for mobilizing additional resources from among Burundi's other development partners, requests that the IMF extend to it additional resources through enlarged access under the PRGT in the amount of SDR 5 million (6.5 percent of quota) made available in a single disbursement upon completion of the seventh review. We request extension of the ECF arrangement to January 31, 2012 to allow sufficient time to reflect on the findings of the Ex-Post Assessment (EPA) of Fund's engagement in Burundi and to galvanize donor support for a new arrangement.

7. In late May 2011, the government of Burundi signed a nonconcessional energy-sector loan for US $80 million (31.6 percent grant element), but has not yet submitted the agreement to Parliament for ratification. The government will not seek ratification of the loan unless the terms of the loan are changed to meet the requirement that external borrowing has a minimum grant element of 50 percent.

8. The government of Burundi will provide the IMF with such information as it may request to monitor progress made in economic and financial policy implementation. In addition, it will carry out the seventh and final review of the EFC-supported program with the IMF, which should be completed by January 15, 2012.

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

Yours sincerely,

/s/
Clotilde NIZIGAMA
Minister of Finance

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

/s/
Gervais RUFYIKIRE
Second Vice President

Attachment I. Memorandum of Economic and Financial Policies

Bujumbura, June 27, 2011

I. Introduction

1. This Memorandum on Economic and Financial Policies (MEFP) supplements the MEFPs that have preceded it since June 24, 2008. It reviews program implementation and recent economic developments and also updates the medium-term outlook and economic and financial policies that will be implemented in 2011 under the program covering the period after April 1, 2011. The measures and objectives contained in this MEFP are compatible with the Poverty Reduction Strategy Paper (PRSP) published in September 2006 and with the findings of the annual progress report on PRSP implementation, which was sent to the IMF and the World Bank in November 2010.

2. Economic policy will continue to be guided by the following objectives: (1) to maintain single-digit inflation; (2) to improve the composition of public spending to the benefit of priority sectors while preserving fiscal sustainability; (3) to strengthen public financial management (PFM) and good governance; and (4) to strengthen the internal control systems of the central bank.

3. With the continued improvement in the security situation, the macroeconomic objectives for the medium term are as follows: (1) GDP growth should amount to 4.7 percent, compared to the 2008-2010 annual average of around 4 percent; (2) inflation (y-o-y) will decline from current levels to around 7.0 percent in 2014; and (3) gross official reserves should remain around 5.0 months' imports in the medium term.

II. Program Implementation

4. Despite an uncertain political environment owing to the timing of the elections, macroeconomic developments overall were in keeping with program forecasts. There was a slight increase in economic growth to 3.9 percent in 2010, compared to 3.5 percent in 2009, largely owing to the rise in coffee production. Moreover, reflecting the stability of petroleum product and food prices on the international market, the (end-of-period) inflation rate was lower than forecast, bordering on 4.0 percent. The external current account deficit declined from 16.1 percent of GDP in 2009 to 13.4 percent of GDP in 2010 because of higher exports volumes and favorable coffee prices. Gross official reserves remained virtually unchanged, at a level equivalent to around 5 months' imports in 2011.

5. In 2010, the overall fiscal deficit (cash basis, including non-HIPC grants) is estimated at around 4.3 percent of GDP, in line with the program target. Domestic revenue came at 19.8 percent of GDP, higher than projected earlier, because of the coming into operation of the Burundi Revenue Authority (OBR) and the collection of arrears. Total expenditure exceeded forecasts by 3.9 percentage points of GDP, partly because of an increase in programs financed by

external aid. However, pro-poor spending was in line with budgetary targets and made it possible to address the pressing needs of the most vulnerable population groups, in close collaboration with the World Food Program. The wage bill in 2010 was contained within the budgetary ceiling.

6. The monetary survey was characterized by a stable growth rate of broad money resulting from the mixed performance of its various counterparties. The strong expansion of bank credit to the private sector was partially offset by a reduction in credit to the government. Similarly, base money expanded less than projected and fell short of the indicative benchmark owing to the sharp drop in the net foreign assets of the Bank of the Republic of Burundi (BRB) and the commercial banks.

7. Implementation of the ECF-supported financial program was satisfactory overall. All the quantitative performance criteria for end-March 2011 were met. Similarly, all the indicative targets for end-March 2011 were met, with the exception of those for base money and pro-poor spending. The structural benchmarks were observed, but with some delay.

8. In the area of public financial management, the draft decree establishing the General Regulations on Public Budget Management was adopted by the Council of Ministers. This decree will make it possible to define the rules for executing, recording, and auditing the revenue and expenditure in the budgets of subnational entities, as well as managing their assets. It also defines the powers and obligations of any person involved in the management of public budgets, as well as the systems of accountability and sanctions applicable to them. The cash flow management committee is continuing to produce regular monthly and weekly cash flow plans, which are now coordinated with the commitments plan. The streamlining of the government's accounts has been completed with the final accounts being closed at end-December 2010.

9. The Burundi Revenue Authority (BRA) is operational, and the recruitment process carried out in the fourth quarter was completed successfully. Indeed, upon conclusion of the process, two directors (Information and Communication Technologies—ICT, and Internal Audit) were selected and 414 candidates for other posts (support staff, assistants, and technicians) were identified by the OBR. Among these, around 149 staff members seconded from the Ministry of Finance were selected, and the remainder, 356 employees, were redeployed to their ministry. An employee separation scheme was introduced for staff who were either downsized or eligible to take up early retirement. The male/female ratio improved, with 43 percent of staff being female, and representation by ethnic group and by region has also improved.

10. The BRA also carried out various capacity building activities:

- Six long-term technical assistance positions are in the process of being filled, and will contribute significantly to building capacities and introducing international best practices in the tax and customs administration. Short-term advisors are in place while the recruitment process for filling various other positions is in progress;
- The training program for new staff is also under way.

11. Regarding Customs, steps have been taken with a view to improving customs revenues over the long-term. Thus, for example, the authorities have simplified customs clearance procedures, extended working hours from 7:30 a.m. to 8:00 p.m., and introduced petroleum product import controls at entry and departure points from the Petroleum Product Storage Company (SEP). The ASYCUDA++ computer system has been expanded to other customs posts, and the installation of the RADDEx system will allow for better accounting of customs revenues at the level of the East African Community (EAC).

12. Major steps were taken to improve transparency in public financial management. In the area of government procurement, a new public procurement code was adopted and a director-general and support staff appointed to the Public Procurement Regulatory Authority. In addition, annual procurement plans have been prepared to facilitate the transparency of budget execution. With regard to budget nomenclature, a new economic classification was introduced with the 2010 budget in order to bring it into line with the new chart of accounts. In the area of control and audit, the final report of the audit office on execution of the 2009 budget has been completed.

13. In the monetary area, the central bank intensified its operations aimed at sterilizing reserve money in order to ease pressures on the exchange rate and control inflation. Technical training sessions on repurchase operations have been organized with pilot commercial banks. Once the results of the pilot phase are satisfactory, the final rollout of repurchase operations could take place by end-June 2011.

14. In the area of finance, the financial sector reform strategy was adopted by the Council of Ministers on April 7, 2011. Its implementation should make it possible to: (i) increase the transparency and stability of the financial sector; (ii) develop financial infrastructure; (iii) deepen the financial sector; and (iv) improve the legal and judicial framework. To implement this strategy, a donors' meeting was held in May 2011. Drafting of the Financial Market Development Plan is continuing with the support of financial partners.

15. In the area of foreign exchange, the exchange regulations were updated in June 2010 to bring them more into line with the requirements for integration into the EAC. In order to correct for certain omissions identified, certain articles of the exchange regulations were amended on the basis of recommendations from the IMF aimed at eliminating exchange restrictions. Plans are also in place to further expand the deregulation of foreign exchange operations and introduce innovations relating to the use of foreign-currency payment cards and instant money transfers. The central bank is continuing its cooperation with the IMF with a view to improving the operation of the symmetrical foreign exchange auctions market (MESD) with a view to enhancing the flexibility of the Burundi franc.

16. In the context of strengthening banking supervision, the central bank received technical assistance to train inspectors on risk-based supervision procedures and in drafting the related manual. The banking law is also being revised with technical assistance support. A draft regulation on remote banking and money transfers by mobile phone has been drawn up. In addition, a draft revision of the decree governing microfinance institutions is in its final stages.

Furthermore, commercial banks will be submitting their simulated financial statements using International Financial Reporting Standards (IFRS) beginning June 30, 2011, while retaining the existing system. Final migration to IFRS reporting is scheduled for February 2012. Lastly, all commercial banks and financial establishments are in compliance with the minimum capital requirement of FBu 10 billion and FBu 6 billion, respectively.

17. In keeping with its commitment to put the private sector at the center of development and economic growth, the government is determined to speed up the issuing of competitive bidding for coffee washing stations as well as the implementation of reforms aimed at improving the business climate. Given the encouraging evaluation of the first sale of washing stations, the government intends to put the other stations still held in its portfolio up for sale by end-December 2011. In addition, the decision-making committee and the technical groups have been operational since November 2010 and have drawn up action plans aimed at improving Burundi's ranking in *Doing Business*. In this connection, major reforms have been initiated and have already made it possible to reduce the time lags and number of procedures required for (i) obtaining a building permit; (ii) transferring property; and (iii) creating a business. In this context, amendments will be made to the law establishing the "Company Code" in order to better protect investors.

18. In the area of good governance, the draft National Strategy on Good Governance has been examined by development partners and is expected to be adopted by the Council of Ministers in June 2011. Implementation of the action plan will facilitate significant progress in combating corruption and the mismanagement of public funds. More particularly, emphasis will be placed on strengthening and streamlining internal and external supervisory bodies. Furthermore, the authorities have approached the constitutional court in an effort to bring the case of the oil company Interpetrol back before the courts, seeking a ruling on the governance issues involving this enterprise since 2007. In this connection, the amount of FBu 6 billion belonging to Interpetrol and held as security will continue to be sequestered at the central bank until a verdict is finalised.

III. ECONOMIC OUTLOOK AND POLICIES FOR 2011

19. Because of the increase in petroleum product and food prices, the macroeconomic framework has been revised as follows: (i) GDP growth is expected to be weaker than previously forecast, at 4.2 percent; (ii) end-of-period inflation should be higher, reaching 14.0 percent; and (iii) gross external reserves are expected to decline to 4.7 months' imports. The external shocks are expected to contribute to expansion of the fiscal deficit with respect to the program, requiring additional financing. However, the government will resolutely implement all the tax, public spending, monetary and foreign exchange, and structural policies outlined below and in the MEFP of February 21, 2011.

20. The year 2011 is pivotal for domestic resource mobilization policy. This is the year that the BRA will come fully on stream and begin implementing its reform mandate aimed at improving revenue collection by broadening the tax base and strengthening staff capacity through the computerization of collection units, enhancing supervision of the informal sector

through expansion of the use of the Tax Identification Number (NIF), and combating tax avoidance and evasion.

21. As at end-March, the financial situation in Burundi was generally satisfactory. The government's overall financial operations deficit was maintained within the agreed ceilings driven by revenue gains and much lower-than-expected expenditure levels. Tax revenue, excluding exemptions, amounted to FBu 101.6 billion, some 26 percent of the revenue forecasted for the year. Internal revenue mobilization has improved with the setting up of the BRA, which has facilitated the collection of income taxes, taxes on goods and services, and tax arrears. This performance is explained by the payment of provisional installments on income tax, the filing of corporate income tax declarations, and the effective implementation of the VAT. Expenditure is below forecast levels owing to the low rate of execution of investment expenditure. With regard to investment expenditure financed either through own resources, the low execution level is attributable to the extremely slow public procurement procedures and to the delays in project preparation by line ministries. In the case of externally-financed expenditures, the low level is associated primarily with the delay in establishing the team of the EDF National Authorizing Officer Support Unit (CELON), resulting in a (the) temporary stoppage (suspension) of expenditures financed by the European Development Fund (EDF). However, this situation is now being regularized.

22. The energy and food crisis has repercussions on budget execution. Given the impact of petroleum product pump price increases on the prices of other basic consumer goods, in particular transportation, rice, and bread, the government has decided to introduce a temporary subsidy on petroleum products by lowering the related excises taxes. The fiscal impact of this measure is estimated at 0.3 percent if it were to remain in effect for the entire year. The government has targeted this measure on diesel fuel and kerosene, the prices of which have an impact on transportation costs and therefore on the prices of food products. However, owing to cash flow problems, this measure will be temporary and the government has undertaken to limit the amount of this subsidy to its current level even if petroleum product prices continue to rise on the international market. Moreover, if the downward trend in petroleum product prices currently being observed should continue, the government would gradually restore the level of excise taxes on petroleum products and consider reconstituting the stabilization fund with a view to attenuating excessive fluctuations in petroleum product prices at the pump in the future. The government intends to continue its policy of strengthening the social safety net by Fbu 15 billion or 0.7 percent of GDP. Accordingly, the increase in pro-poor spending would be around 15 percent of GDP. To this end, the Burundi authorities would like to receive additional financial assistance from development partners. In order to protect priority expenditures, the government has identified nonpriority expenditures that will not be authorized in the event of a revenue or financing shortfall. Despite the difficult financial situation, the government intends to continue its efforts to considerably improve the expenditure composition in favor of priority sectors, with a view to accelerating progress toward meeting the Millennium Development Goals.

23. In the health sector, the government will continue its policy of free health care for all children under 5 and care for women in childbirth. To absorb the ensuing increased demand for

health services, additional health infrastructures will be built and the quality of care improved through the contracting of healthcare personnel.

24. In the area of education, the government will capitalize on the success of the abolition of school fees at the primary level by introducing the basic education reform in 2012. The government will increase student capacity by building new classrooms and recruit more teachers to reduce the pupil-teacher ratio.

25. In agriculture, the government will take advantage of the increase in resources allocated to this sector to increase food production and thereby mitigate the adverse effects of the increase in foodstuff prices on the most vulnerable population groups. In order to reach this objective, in addition to increasing the resources allocated to the sector, the government plans to introduce modern farming techniques, including irrigation, rebuilding herd sizes, and providing high quality inputs and seeds to farmers in a timely manner.

26. In the energy sector, the government has begun the construction of a 10.4 megawatt hydroelectric plant in order to reduce the energy deficit and its negative impact on private investment. In addition, the government will submit to its technical and financial partners (TFPs), in particular the World Bank, additional plans for building hydroelectric plants in order to ensure that their financing does not undermine Burundi's medium-term debt sustainability.

27. The reform of the government's vehicle fleet, which began in 2009, was speeded up in 2010 by the withdrawal of almost all of the central government vehicles. The government intends to expand this reform to parastatal enterprises and companies. In this connection, an interministerial committee chaired by the Second Vice President has been established to design an implementation strategy for the zero vehicle fleet policy. The mission of the committee will also include proposing associated measures as well as a timetable for policy implementation.

28. Controlling the wage bill remains an important medium-term priority of the government. It intends to continue the wage and jobs reform in order to achieve the objective of a wage bill of less than 11 percent of GDP in the medium term. To achieve this, the software modules to be used for payroll purposes have been installed and are operational, making it possible to identify and eliminate ghost workers. Moreover, the government will continue the freeze on civil service hiring except in the priority sectors (health, education, justice, etc.) and will continue its strict monitoring of the systematic retirement of all civil servants who reach the legal retirement age as well as of the civil service performance ratings used as the basis for annual merit increases.

29. With regard to borrowing policy, the government is aware that debt sustainability is the cornerstone of its macroeconomic stability policy and therefore undertakes to finance its development program using highly concessional loans and grants. Regarding the US$80 million loan (31.6 percent grant element) to address Burundi's energy shortages, the government will not seek ratification of the loan unless the terms of the loan are changed so as to meet the concessional level of 50 percent grant element. A draft decree on the establishment of the National Debt Monitoring Committee is available and is expected to be submitted to the

government for analysis and approval so as to ensure proper coordination between debt management and macroeconomic objectives. A national public debt strategy covering the period 2011-2030 is being prepared. The strategy and related action plan are expected to be adopted this year.

30. With regard to the domestic borrowing policy, the government will strengthen coordination between monetary and fiscal policies with a view to preserving macroeconomic stability. To this end, the forecast cash flow plan is expected to serve as the primary instrument for active cash flow management. In addition, the government intends to accelerate financial sector reforms in order to expand its financing capacity and reduce financing costs by pursuing the development of the secondary securities market.

A. **Monetary and Exchange Policies**

31. Monetary policy remains focused on price stability. In an environment characterized by rising prices for food and petroleum products, the central bank will continue to pursue a prudent monetary policy in order to confront inflationary pressures. To maintain the target of single-digit inflation, the central bank plans to keep broad money within limits compatible with nominal GDP growth. This would imply a restrictive monetary policy in order to reduce the risks of overheating.

32. Better coordination of fiscal and monetary policies remains essential, and the Ministry of Finance and central bank will continue to hold monthly meetings in this connection. Also, the cash flow management committee has been given new authority and has been asked to prepare fiscal and monetary policy recommendations for presentation to the central bank and Ministry of Finance.

33. To further improve the functioning of the symmetrical foreign exchange auctions, the central bank will continue the reforms of the foreign exchange auctions system with technical assistance from the IMF's MCM Department. The medium-term objective is to introduce an interbank foreign exchange market and increase exchange rate flexibility with a view to attenuating the effects of external shocks.

34. The central bank is committed to further reinforcing safeguards. In this regard, it will recruit an international auditor to (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2010 special audit reports (consistent with the 2010 agreed-upon action plan between the central bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2011.

B**. Structural Reforms**

35. The reform of the coffee sector is still among the priorities of the government, which regards it as a key growth sector. The decision to continue the privatization policy should benefit from the experience gained with the previous sale of coffee washing stations. Hence, to guarantee the successful sale of the 104 remaining washing stations that have not yet been sold,

the government plans to intensify the public awareness campaigns with the dual goal of achieving mutual understanding of the key components to be included in the bidding materials now being prepared, and to redefine the operation to include the option open to coffee growers of purchasing the reserved shares, estimated at 25 percent of the capital. This preparatory stage will open the way for the relaunch of the bidding process for the sale of the 104 washing stations during the second half of the year. Moreover, steps will be taken to encourage INTERCAFE to make optimum use of the authorities vested in it, in particular to ensure greater regularity in the provision of inputs, while ARFIC should build its supervisory capacities in order to ensure further improvements in coffee quality.

36. In the context of promoting the private sector, the government intends to strengthen its actions through the creation of the Permanent Secretariat of the Public Sector-Private Sector Dialogue Framework and the Permanent Reformers Framework in order to perpetuate all the various reforms initiated with a view to improving the business climate. In addition, the draft revision of the privatization law will be submitted for approval by Parliament in order to make privatization procedures more operational. Moreover, simultaneously obtaining listing in the commercial registry and the Tax Identification Number (NIF) will become possible beginning May 30, 2011, and standard charters for the creation of enterprises will be drafted soon.

37. In close collaboration with our development partners, we are turning to the task of revising the tax laws. This new tax legislation and the draft law on the new taxation procedure will lay down common tax administration procedures for all of Burundi’s tax laws, and will be similar to the tax legislation in other countries in the East African region. The regulatory framework for revenue mobilization will be renovated by updating the law on the VAT and issuing a new Tax Code. These draft laws will be submitted to Parliament before the end of the year.

38. In the tax administration area, we are engaging in a resolute campaign to register taxpayers and collect arrears. We have also initiated an improved categorization of taxpayers. The best performers among Large Taxpayers in terms of tax compliance have been identified so as to enable them to benefit from the “Gold Card” program, facilitating customs clearance and simplifying VAT refund applications.

39. At Customs, computerization using the ASYCUDA++ system will be expanded to all customs posts and the simplification of customs procedures will be continued. In order to speed up the customs clearance of goods, working hours have been extended to 8:00 p.m., making it possible to reduce waiting times at customs, and anti-smuggling measures have been put in place. The tax base has been broadened with the reorganization and securitization of the Gitega Petroleum Products Depot and the strengthening of petroleum product control measures at the warehouse facility’s entry and departure points.

40. The reforms in the area of budget programming, transparency, and execution will seek to improve the alignment of the budgetary framework with the objectives of the new generation PRSP II now being finalized. In this regard, the government will promote a participatory and inclusive approach to the budget preparation process. Budget execution will

continue to rely upon commitments plans harmonized with rolling three-month cash flow plans. In addition, the effective implementation of the recently adopted General Regulations for Public Budget Management (RGGBP) will guarantee increased transparency in budget execution, which will be further strengthened by the adoption of a decree on budget governance intended to redefine the procedures for submitting, drafting, and voting the budget as well as for budget execution and control. The adoption and promulgation of this decree is scheduled to be completed by the end of the year. Finally, the use of the new payroll software will allow for more transparent and rapid management of the wage bill.

41. In the area of good governance, the government has entered into further commitments aimed at strengthening transparency, financial accountability, and combating corruption in the public sector. In this context, it intends to: (i) adopt the National Good Governance Strategy by end-December; (ii) ensure the availability of the budget laws and quarterly budget execution reports on the government's websites; and (iii) establish Look-Up Tables (in French and Kirundi) at the communal level enabling citizens to obtain information on allocations from the sectoral budgets. The government further undertakes to improve the monitoring process for the decisions of entities for combating public financial management abuses.

42. New reforms will be implemented in the central government to better manage the requirements of Burundi's membership in the East African Community (EAC) and ensure effective follow-up of the government's commitments. To this end, a National Regional Integration Strategy is being prepared and will be adopted in the first quarter of 2011. It will include an action plan specifying the structural measures to be adopted for successful implementation of all agreements signed between the government and the EAC.

IV. Poverty Reduction Strategy Paper

(PRSP 2011–2014)

43. Upon completion of the implementation of the first generation PRSP in 2010, the government plans to draw up a new strategy before the end of 2011. The new strategy will capitalize on the gains made under the earlier strategy by emphasizing new development concerns and new directions expressed at the grassroots level and adopted by the government through the various sectoral strategies. To this end, the government has strengthened the participatory process through inclusive and comprehensive involvement of all stakeholders at every stage of the process. The new strategy will focus more on sectoral and local development issues and strategies which were not addressed in depth in the preceding strategy. These issues include youth and women's employment policies and social protection issues. Along the same lines, the organization of rural areas, agricultural diversification, and issues related to regional integration are highlighted.

V. PROGRAM MONITORING

44. Program monitoring will be subject to performance criteria, objective indicators, and structural benchmarks as specified in Tables I.1-I.4. The information to be reported to the IMF and the definitions of the relevant variables can be found in the attached Technical Memorandum of Understanding (TMU). Program implementation, achievement of the related targets, and attainment of the performance criteria will be examined during the seventh review. The government is also ready to adopt any new financial or structural measures necessary for the program's success, in consultation with IMF staff.

Table I.1. Burundi: Performance Criteria and Indicative Targets for 2010

(BIF billion, unless otherwise indicated)

	2009	2010											
	Dec.	Mar.			Jun.[1]			Sep.			Dec.[1]		
	Act.	Prog.	Prog. Adj.	Act.	Rev. Prog.	Prog. Adj.	Act.	Rev. Prog.	Prog. Adj.	Act.	Rev. Prog.	Prog. Adj.	Act.
Performance criteria													
Net foreign assets of the BRB (floor; US$ million) [2]	96.5	59.6	59.6	85.6	76.2	65.0	55.0	79.3	19.3	35.7	101.5	41.5	84.6
Net domestic assets of the BRB (ceiling) [2]	79.3	74.8	74.8	49.8	83.3	97.7	107.7	91.5	169.7	140.2	89.2	168.1	105.6
Net domestic financing of the government (ceiling) [2]	68.7	58.0	58.0	-22.4	71.1	85.5	88.0	83.7	161.9	138.0	27.5	106.4	36.0
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of calendar year) [3, 4]	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Indicative targets													
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0
Reserve money (ceiling)	198.0	150.9		155.1	178.3		175.4	191.6		184.1	219.0		209.8
Pro-poor spending (floor; cumulative from beginning of calendar year)	274.8	50.1		64.5	105.4		152.2	200.7		231.4	342.2		323.8
Memorandum item:													
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	58.8	11.2		35.0	46.2		35.0	107.2		45.5	186.0		101.3

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

[1] Indicative targets.

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

[3] Continuous performance criterion.

[4] See definitions in TMU.

Table I.2. Burundi: Performance Criteria and Indicative Targets for 2011

(BIF billion, unless otherwise indicated)

	2010	2011					
	Dec.			Mar.	Jun.[1]	Sep.	Dec.[1]
	Act.	Prog.	Prog. Adj.	Act.	Rev. Prog.		
Performance criteria							
Net foreign assets of the BRB (floor; US$ million) [2]	84.6	58.3	37.2	84.9	50.0	26.1	70.3
Net domestic assets of the BRB (ceiling) [2]	105.6	101.9	129.1	86.4	148.9	190.7	143.6
Net domestic financing of the government (ceiling) [2]	36.0	36.2	63.4	-8.7	65.2	96.1	46.6
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0		0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0		0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of calendar year) [3, 4]	0.0	0.0		0.0	0.0	0.0	0.0
Indicative targets							
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0		0.0	0.0	0.0	0.0
Reserve money (ceiling)	209.8	176.9		193.9	213.5	224.9	235.5
Pro-poor spending (floor; cumulative from beginning of calendar year)	323.8	74.6		64.8	125.7	192.2	372.6
Memorandum item:							
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	101.3	46.8		25.7	54.9	54.9	145.2

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

[1] Indicative targets.

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

[3] Continuous performance criterion.

[4] See definitions in TMU.

Table I.3. Burundi: Structural Benchmarks for 2010

Proposed Measures	Dates	Status	Rationale
Public Financial Management			
Adopt a new "convention" between the Ministry of Finance and the BRB redefining the role of the central bank in public financial management, as stipulated under the new budget organic law.	March 31, 2010	Completed	Key to implementing the new budget organic law.
Prepare a final report on the closing of government accounts.	December 31, 2010	Completed	Implementation of a single treasury account is key to sound public financial management.
Central Bank and Treasury Safeguard measures			
Recruit an international auditor to: (i) monitor the full implementation of all the recommendations formulated in Deloitte's 2008 special audit reports (consistent with the September 2009 agreed-upon action plan between Burundi's central bank and the Ministry of Finance); and (ii) verify on a test basis the controls on significant domestic disbursements and transfers executed by the central bank on behalf of the government or its creditors during the first half of 2010.	June 30, 2010	Completed	To enhance the safeguard measures in force at the central bank and the Treasury.
Submit to the General Council, the audit committee, and the Minister of Finance the report on special audits of the controls on important domestic disbursements and transfers—on behalf of the government or its creditors— that took place in the first half of 2010.	December 31, 2010	Completed	To enhance the safeguard measures in force at the central bank and the Treasury.
Fiscal Governance			
In accordance with the laws of Burundi, the BIF 6 billion and the deeds for 25 properties belonging to INTERPETROL that have been placed under seal will remain in place until a court decision has been reached on the INTERPETROL case.	Structural benchmark (continuous)	Not met[1]	Enhance fiscal governance to ensure the continuation of budget support.

[1] The benchmark was not met because Interpetrol property deeds which were to remain under seal were released without a court ruling on the case. The authorities are taking steps to bring back the case before a court. In the meantime, the Fbu 6 billion, belonging to Interpetrol and taken as security, will remain under seal.

Table I.4. Structural Benchmarks for 2011

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

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

Bujumbura, June 27, 2011

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

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

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

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

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

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

Definitions and measurement

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

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

Adjuster for changes in the compulsory reserves coefficients

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

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

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

9. The program includes a ceiling on **new nonconcessional external debt** contracted or guaranteed by the government or the BRB. This performance criterion applies to the contracting or guaranteeing by the government, local governments, 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 coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government. The term "debt" shall be understood as defined in the Executive Board Decision 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)). Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. The grant element of debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of contracting is calculated by discounting the future stream of payments of debt service due on this debt. The calculation of concessionality will take into account all aspects of the loan

agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month average CIRRs, the following margins should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude 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 government is to remain at zero under the program. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of one year or more are considered medium-term or long-term loans. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the IMF, and any Burundi franc-denominated treasury securities held by nonresidents. As of September 2007, the stock of short-term debt outstanding was nil.

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

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

External financial assistance adjustor

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

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

15. The floor on the stock of net foreign assets of the BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up to a maximum

of US$60 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The program exchange rate for end-September 2011 is 1300.4.

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

B. Provision of Information to IMF Staff

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

18. The following weekly data:

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

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

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

and debt relief granted by Burundi's external creditors (Ministry of Finance); and

- an update on the implementation of structural measures planned under the program (REFES).

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

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

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

INTERNATIONAL MONETARY FUND

BURUNDI

Sixth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Extension of the Arrangement and Augmentation of Access

Informational Annex

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

June 30, 2011

- **Relations with the Fund**. Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 77.08 million (100.1 percent of quota) at end-May 2011.
- **Relations with the World Bank**. Describes the joint World Bank–IMF program.
- **Relations with the African Development Bank**. Describes the AfDB Group's operations and portfolio.
- **Statistical Issues**. Assesses the quality of statistical data. Shortcomings in economic statistics are hampering surveillance.

Contents Page

BURUNDI: RELATIONS WITH THE FUND

(As of May 31, 2011)

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

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

III. SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	73.85	100.00
Holdings	79.11	107.12

IV. Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF arrangements	77.08	100.10

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jul. 07, 2008	Aug. 31, 2011	46.20	39.60
ECF	Jan. 23, 2004	Jan. 22, 2008	69.30	69.30
ECF	Nov. 13, 1991	Nov. 12, 1994	42.70	17.21

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

	Forthcoming				
	2011	2012	2013	2014	2015
Principal	0.72	5.01	6.73	10.56	12.49
Charges/Interest	0.00	0.18	0.17	0.15	0.12
Total	0.72	5.19	6.90	10.71	12.60

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

VII. Safeguards Assessments

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

VIII. Exchange Arrangements

The exchange rate has been reclassified from floating to stabilized. The US dollar is the intervention currency. On March 31, 2011, the official exchange rate was BIF 1241.5 to the US dollar. In 2003 the central bank eliminated most remaining exchange restrictions on current international transactions and delegated authority to commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered to 50 percent and in early 2005 it was eliminated. The central bank has admitted foreign exchange bureaus to the weekly auctions. Most external arrears to bilateral and multilateral creditors were cleared by the end of 2005. In December 2006 the government published a new foreign exchange regulation, the Foreign Exchange Regulation of 2006 that liberalized access to foreign exchange for current transactions and removed one multiple currency practice. In June 2010, the government replaced the Foreign Exchange Regulation of 2006 with the Exchange Regulation of 2010. The new regulation became operational in July 2010.

Burundi has availed itself of the transitional arrangements of Article XIV since it joined the Fund in 1962 but no longer maintains any exchange restrictions or multiple currency practices that relate to that article. It does have one multiple currency practice that is inconsistent with Article VIII, Section 2(a): the exchange rate used for government transactions may differ by more than 2 percent from market exchange rates. Burundi maintains certain foreign exchange restrictions for security reasons and has notified the Fund of those restrictions pursuant to Decision 144-(52/51). Burundi modified the 2010 foreign exchange regulation on March 3, 2011. Consequently the two foreign exchange restrictions mentioned in EBS/11/29 Sup. 1 relating to: (i) a tax clearance requirement for certain current international transactions such as payments of moderate amounts for amortization of loans or for depreciation of direct investments by nonresidents and (ii) the limitations on the availability of foreign exchange for the making of payments and transfers for current international transactions based on noncompliance with obligations that are unrelated to such transactions are no longer in place.

IX. Article IV Consultation

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

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

X. Technical Assistance

March 2011	FAD mission on implementing the organic budget law
January 2011	MCM mission on Foreign exchange operations
September 2010	FAD mission on implementing the organic budget law
November 2010	MCM mission on monetary operations
May 2010	FAD mission on Tax administration.
April 2010	MCM mission on Foreign exchange operations.
November 2009	AFRITAC mission on VAT implementation.
September 2009	MCM mission on BRB capacity building and public debt management
June 2009	MCM multitopic mission
April 2009	FAD mission on implementing the organic budget law
March 2009	MCM mission on monetary operations
March 2009	MCM mission on foreign exchange
March 2009	MCM mission on internal audit
March 2009	MCM mission on reserve management
February 2009	AFRITAC mission on banking regulation and supervision
February 2009	FAD PSIA mission on fuel pricing policy and social protection
January 2009	MCM FSAP mission
December 2008	AFRITAC mission on fiscal administration
December 2008	MCM multitopic mission
December 2008	MCM mission on internal audit
August 2008	MCM mission on organizational, human resources, and

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

XI. Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Aug 2005
Assistance committed	
by all creditors (US$ million) [1]	832.6
of which: IMF assistance (US$ million)	27.87
(SDR equivalent in millions)	19.28
Completion point date	Jan. 2009
II. Disbursement of IMF assistance (SDR million)	
Assistance disbursed to the member	19.28
Interim assistance	0.26

Completion point balance	19.02
Additional disbursement of interest income [2]	3.07
Total disbursements	22.35

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

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

XII. Resident Representative:

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

II. BURUNDI: JOINT WORLD BANK–IMF WORK PROGRAM, 2010–12

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

III. Burundi: Relations with the African Development Bank Group
(As of May 15, 2011)

Burundi has been a member of the African Development Bank (AfDB) Group since the group was founded in 1964. AfDB grant and loan operations with the country were interrupted by the outbreak of civil strife in 1993. On July 19, 2004, the AfDB Boards approved general policy guidelines to help postconflict countries clear their arrears and created a facility, the PCCF, initially funded with about SDR 100 million in AfDB funds, to provide financial assistance to qualifying countries. The policy guidelines call for a three-way burden-sharing formula among the country, donors, and the PCCF. On October 27, 2004, the AfDB Boards endorsed an arrears clearance proposal for Burundi whereby the balance of arrears was settled with the help of donors and the PCCF before the decision point for the enhanced HIPC Initiative.

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

In support of the Government's economic and social program, the Board approved the Country Strategy Paper (CSP) in October 2008. The CSP covers the period 2008 to 2011 and focuses on 2 pillars of the CSLP namely, (i) support to effective government by improving economic governance and the functioning of key public sector institutions, and (ii) increase employment opportunities through developing infrastructure and targeted interventions in the agricultural sector. The Bank Group current portfolio of a total commitment of UA 159.95 comprises 14 ongoing operations, out of which 5 are regional in scope. The Bank Group intervenes actively in infrastructure (transport, water and sanitation, and energy), agriculture, governance and social sectors. The amount of 10 million UA for the third phase of Burundi's Programme d'Appui aux Reformes Economic (PARE III) has been fully disbursed in 2010. The revised Country Strategy Paper Mid-Term Review and country Portfolio Review has been presented to CODE on 30th of November 2010. The Bank prepares PARE IV currently.

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

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

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

IV. BURUNDI STATISTICAL ISSUES

(As of June 15, 2011)

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

records. Normally, transactions between the central bank and ODC show up in ODC balance sheet with one-day lag that affects other items (net) (OIN) in the Depository Corporations survey. The liabilities of three banks in liquidation are shown in the central bank balance sheet; however, the information on these banks is not included in the summary of ODC data.
External sector statistics: Annual balance of payments and international investment position statistics are compiled by the BRB according to the fifth edition of the *Balance of Payments Manual (BPM5)*. However, severe coverage and measurement difficulties impart a high degree of uncertainty to external sector statistics and surveillance. For example, there are significant unrecorded imports and exports (particularly coffee and tea) of merchandise and services, and while adjustments are made, the uncertainty remains. For both services and income, the accuracy of the source data is not routinely assessed against other data sources. Similarly, measurement of capital and financial account transactions relies on Burundi's International Transaction Reporting System, which is known to have incomplete coverage. Further actions are required to improve the accuracy and reliability of external sector data.

II. Data Standards and Quality	
Burundi does not participate in the General Data Dissemination System (GDDS). Burundi could benefit from participation in the GDDS, as a framework to improve its macroeconomic statistics and coordination between institutions.	No data ROSC is available.

III. Reporting to STA
Summary government finance transactions data are reported for publication in *International Finance Statistics (IFS)*. The BRB has completed migration to the Standardized Report Forms for the submission of its monetary statistics to the Fund; detailed monetary statistics are published in the *IFS.* Balance of payments and international investment position data are published in *IFS* and in the *Balance of Payments Yearbook.*

Burundi: Table of Common Indicators Required for Surveillance
(as of June 15, 2011)

	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]	Dec. 2010	May 2011	M	M	M
Reserve/Base Money	Mar. 2011	May 2011	M	M	M
Broad Money	Mar. 2011	May 2011	M	M	M
Central Bank Balance Sheet	Dec. 2010	May 2011	M	M	M
Consolidated Balance Sheet of the Banking System	Dec. 2010	May 2011	M	M	M
Interest Rates[2]	Mar. 2011	May 2011	M	M	M
Consumer Price Index	April 2010	May 2011	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	Mar. 2011	May 2011	Q	Q	Q
Stocks of Central Government and Central Government-Guaranteed Debt[5]	NA	NA	NA	NA	NA
External Current Account Balance	2010	May 2011	A	A	A
Exports and Imports of Goods and Services	2010	May 2011	M	M	M
GDP/GNP	2010	May 2011	A	A	A
Gross External Debt	2010	May 2011	M	M	A
International Investment Position[6]	2010	May 2011	A	A	A

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

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

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

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

[5] Including currency and maturity composition.

[6] 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 EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
July 13, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under the ECF arrangement for Burundi and Approves US$10.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Burundi's economic program supported by the Extended Credit Facility (ECF). The approval will enable an immediate disbursement in an amount equivalent to SDR 6.6million (about US$10.5 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 46.2 million (about US$73.2 million).

In completing the review, the Board approved an augmentation of access by an amount equivalent to SDR 5.0 million to mitigate the impact of the food and fuel crisis on the balance of payments, and an extension of the ECF arrangement to end-January 2012. Burundi's ECF Arrangement was approved on July 7, 2008 by the Executive Board (See Press Release No. 08/167).

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"Performance under the ECF-supported program has been satisfactory, and Burundi's economic outlook is broadly positive. The most imminent policy challenge is to preserve macroeconomic stability while cushioning the impact of rising commodity prices.

"The revised 2011 program appropriately addresses priority social needs in the context of needed fiscal consolidation. However, the fuel subsidy should be better targeted to the most vulnerable groups. Over the medium term, enhancing revenue mobilization, prioritizing spending, and relying on grants and highly concessional financing will be key to the sustainability of the fiscal position.

"Coherence of monetary and fiscal policies is a requirement for effective macroeconomic policymaking. With the recent fuel and food price increases feeding into domestic prices, monetary policy should be tightened to curb price pressures and better anchor inflation expectations.

"To raise long-term growth, it will be critical to accelerate structural reforms, particularly in the coffee and financial sectors. Improving governance will be important for continued donor support," Mr. Shinohara added.

Statement by Mr. Majoro, Executive Director for Burundi
July 13, 2011

My Burundian authorities thank the Fund for the policy support, and technical and financial assistance. This support helped bolster macroeconomic stabilization and garner donor support towards the attainment of the Millennium Development Goals. The authorities' economic program was anchored on the Poverty Reduction Strategy Paper (PRSP), which was prepared in 2006 and has now been completed. It focused on four pillars—governance and security, sustainable and equitable growth, development of human capital, and combating HIV/AIDS. Following a review of the first PRSP, the authorities are preparing a successor new generation PRSP II, which will anchor economic policy going forward. The main economic objectives are to: maintain single-digit inflation; improve the composition of public spending towards priority sectors while preserving fiscal sustainability; strengthen public financial management and good governance; and strengthen the central bank's internal control system.

Economic performance

Economic growth picked-up to 3.9 percent in 2010, propelled by increased agricultural production, despite emerging from a difficult post-conflict and unfavorable external environment. Inflation was contained at single-digits. The fiscal deficit was limited within the program target of 4.3 percent of GDP while the external current account narrowed and gross official international reserves remained at a comfortable level. Pro-poor spending remained in line with budgetary targets. In the medium-term growth will be moderate, projected at 4.2 percent in 2011, lower than earlier forecasted on account of higher global fuel and food prices. For the same reasons, inflation is expected to spike above single-digits and, thereafter, move to trend level in the subsequent years. The fiscal deficit will marginally expand, relative to the program target but lower than the 2010 outcome. The external current account is expected to widen and the gross official international reserves will remain strong, though marginally decline.

Program performance

Program performance was satisfactory as demonstrated by meeting all the quantitative performance criteria for end-March 2011. Similarly, all the indicative targets for end-March 2011 were observed, except for the reserve money and pro-poor spending. The reserve money target was missed on account of bunching of donor disbursements in the first quarter of the year. The pro-poor spending target was missed by a narrow margin due to procurement delays earlier in the year. The structural benchmarks were observed, albeit a few with a delay—approval of the general regulation on public budget management and adoption of the financial sector reform. **In light of the above, my authorities seek completion of the sixth review under the ECF arrangement and modification of the availability date for the seventh disbursement, extension of the ECF arrangement, phasing of the seventh review and eighth disbursement, and augmentation of access**. Further, modification of the availability date for the seventh disbursement is in order to align it with the review date, and extension of the ECF arrangement is to allow for sufficient deliberations of key policy reforms and consultations with donors.

Fiscal policy

The fiscal stance envisages temporary easing relative to the program target in order to cushion the impact of high global food and fuel prices on vulnerable groups. The authorities will create fiscal space for priority capital and pro-poor spending. On the revenue side, focus is on improving revenue performance by enhancing revenue collection and broadening the tax base. On the expenditure side, focus is on re-prioritizing spending and containing current spending, which includes continuing the civil service hiring freeze, except for the priority sectors, and expanding downsizing of the vehicle fleet policy to parastatals and companies while strengthening the social safety nets and maintaining a temporary subsidy on diesel and kerosene in the face of the high global fuel and food prices. Borrowing will be limited to highly concessional loans and grants in order to ensure macroeconomic stability and debt sustainability.

Monetary, financial and exchange rate policies

The monetary policy objective is price stability. The authorities aim at maintaining single-digits inflation target. In order to anchor inflation expectations and contain the second round impact of the high global fuel and food prices, the authorities will tighten monetary policy by keeping broad money compatible to nominal GDP growth. On the financial sector, the authorities are committed to further reinforce bank safeguards measures. On the exchange rate, the authorities aim to increase exchange rate flexibility by establishing an interbank foreign exchange market in the medium term.

Structural reforms

The structural reforms agenda focuses on improving tax administration and public financial management, enhancing foreign exchange rate flexibility, strengthening the financial sector, and enhancing governance and private sector development. On tax administration, improved categorization of tax payers has been initiated and computerization of customs offices will be expanded. The tax base has been broadened with the reorganization and securitization of the Gitega petroleum products depot, and strengthening of petroleum product control measures at warehouse facilities as well as implementation of the recent general regulation for public budget management and improved capacity in public finance management through Fund TA.

On enhancing foreign exchange flexibility and strengthening the financial sector, reforms of the foreign auction system will continue with TA from the Monetary and Capital Markets department. The central bank is strengthening its internal controls and safeguards by recruiting an internal auditor and enhancing bank supervision by scrutinizing bank risk management practices, lending standards and conducting stress tests with the help of the Central AFRITAC TA.

On governance, the authorities have made further commitments to strengthen transparency, financial accountability and combating corruption. This will be enhanced by adopting a National Good Governance Strategy, publication of budget laws and quarterly budget execution reports on the government website and provision of look-up tables at community level.

On enhancing private sector development, the authorities aim at lowering transaction costs through streamlining the business registration process, safeguarding investor protection and facilitating property transfer. Privatization of the remaining coffee washing stations will continue. Further, the authorities have established a Permanent Secretariat of the Public-Private Sector Dialogue Framework to oversee speedy implementation of the various reforms aimed at improving the business climate, including the enactment of the draft revision of the privatization law. A National Regional Integration Strategy is being prepared to enhance implementation of new reforms to better manage the integration of Burundi in the East African Community.

Energy project

Recently, Burundi signed a US$80 million loan facility with a grant element of 31.6 percent for construction of a hydroelectric power station. Being a high risk of debt distress country, the loan cannot be ratified unless the terms can meet a minimum grant element of 50 percent. The World Bank has appraised the loan and found it to be economically viable and the authorities and donors agree that the project is critical in order to address the current energy shortages faced by the country. Moreover, tourism and mining as well as the country's export base cannot be improved without adequate electricity supply.

In this regard, we request the Board to consider using its flexibility to make a onetime exception and allow the authorities to ratify the loan based on the strength of its economic viability to enable the country expand its export base and get out of the poverty circle. My authorities have a demonstrable commitment and adherence to program conditionalities. To that end, they did abide by the requirement to provide information to the Fund on this project in advance. The project will have a very manageable implication on the country's debt sustainability in the medium-term, as explained in the staff report.

Ex-post assessment

My authorities welcome the ex-post assessment, which will form the basis for their deliberations on the successor ECF arrangement with the Fund. They emphasized that significant progress have been recorded in a number of areas described in the report, including their increased involvement in designing the program and implementation of the reforms, which benefited from various TA inputs. Nonetheless, much more remains to be done.

Conclusion

My Burundian authorities seek completion of the sixth review under the ECF, extension of the arrangement and augmentation of access. They consider continued engagement with the Fund critical in providing external oversight in their implementation of macroeconomic policies and structural reforms and also important in providing reassurances to donors to increase their support to the country, which supports the achievement of the Millennium Development Goals.