INTERNATIONAL MONETARY FUND

BURUNDI

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

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Based on the external LIC DSA, Burundi's risk of debt distress remains high, unchanged from the 2011 assessment. Debt sustainability remains highly sensitive to shocks, due mainly to the narrow export base. Debt sustainability indicators have somewhat worsened as Burundi's terms of trade have substantially deteriorated in recent years, economic activities are hindered by external shocks, the discount rate has been revised downward, and new loans have been contracted. The public DSA suggests that Burundi's overall public sector debt sustainability indicators are projected to improve in the medium and long run. However, the large downside risks and the vulnerability of the indicators to shocks point to the need for prudent fiscal and debt policies, and for structural reforms to promote private sector-led growth and exports diversification.[1]

[1] The DSA has been produced jointly by Bank and Fund staffs. The fiscal year for Burundi is January to December.

BACKGROUND

1. **The last Low Income Country Debt Sustainability Analysis (LIC DSA) conducted in 2011 concluded that Burundi would continue to face a high risk of debt distress**.[2] The Present Value (PV) of debt-to-exports ratio remained above the 100 percent policy threshold over the medium term and decline below the threshold only toward the end of the projection period. In contrast, the PV of debt-to-GDP, the PV of debt-to-revenue, the debt service to exports ratio, and the debt service to revenue ratio were below the respective policy thresholds throughout the projection period.

2. **Burundi is a weak policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework (DSF).** Burundi's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) has slightly improved in recent years. However, the performance is still low, and the average for the last three years—3.08 on a scale of 1 to 6—puts Burundi in the group of weak policy performer.[3]

3. **At end-2011, Burundi's public and publicly guaranteed external debt stood at US $476 million or 23.6 percent of GDP.**[4] Burundi's stock of external debt has declined significantly since 2009 as a result of the debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). About 90 percent of Burundi's outstanding nominal external PPG debt is owed to multilateral creditors, with bilateral creditors accounting for the remainder.

Text Table 1. Burundi: Stock External Debt, end-2011
(Millions of US dollars)

	Nominal	Percent of Total	Percent of GDP
Total Debt	476	100	23.6
Multilateral	442	92.9	21.9
Bilateral	34	7.1	1.7
Paris club	0	0.0	0.0
Non-Paris club	34	7.1	1.7
Commercial	0	0.0	0.0

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

[2] See supplement in Country Report No. 12/28

[3] A score below 3.25 corresponds to a poor policy performance, according to the LIC Debt Sustainability Framework (DSF).

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

4. Domestic debt accounts for about 42 percent of total public debt at end-2011. This corresponds to about 15 percent of GDP, similar to the ratio in 2010.The share of domestic debt in total PPG debt has enlarged following the cancellation of external public debt under the HIPC Initiative and MDRI debt relief. Most domestic public debt is owed to the central bank, as a result of the financing of the government's treasury needs. The Ministry of Finance and the Central Bank agreed on a convention determining the repayment of outstanding Government debt to the central bank. The rest of domestic debt is owed to commercial banks and non-bank creditors.

UNDERLYING ASSUMPTIONS

5. Macroeconomic developments in 2011–12 underperformed the estimates and projections in the 2011 DSA, mainly due to external shocks. The economic growth estimate for 2012 has been revised downward from 4.8 percent in the 2011 DSA to 4 percent currently, as donor support is dwindling and the country faces tight liquidity conditions. Trade deficit exceeded initial projections by about 8 percentage points of GDP in 2011 and 6 percentage points in 2012, as the terms of trade deteriorated by about 27 percent cumulatively in 2011–12. The price of coffee, which accounts for about two-thirds of exports, declined by about 30 percent during 2011–12. Consequently, gross international reserves fell short of projections by about one month of imports. Inflation is slightly higher than projections owing to the persistently high food and fuel international prices.

6. The macroeconomic outlook has been revised accordingly. The average medium-term (2012–17) GDP growth is revised slightly downward compared to the 2011 DSA, although the

long-term growth is broadly kept unchanged as the growth outlook remains unaltered. Due to this revision, *i.e.* lower nominal GDP base in the medium term, the size of the economy is also projected to be smaller in the long run, implying a lower level of sustainable debt that can be carried. As the decline in coffee prices is projected to continue in 2013, medium-term exports growth is also revised downward. Prices are expected to bottom out towards the middle of the decade; thus, long-run growth is kept unchanged compared to the 2011 DSA.[5] Combined with oil price projections, which surpass the projections in the 2011 DSA, the trade deficit is projected to be more pronounced in the medium term. The various shocks to economic activities are expected to hinder revenue collection; thus, central government revenue projections have also been adjusted downward. In particular, the Burundian authorities decided to forego some taxes on fuel and some food items to attenuate the pass-through from the elevated international prices to domestic markets; this is expected to be phased out in June 2013. Financial assistance

[5] In the medium and long terms, coffee prices are assumed to increase by 5 percent per year (which corresponds broadly to the average of the last two decades). Also, coffee production is assumed to expand by 5 percent per year, reflecting the expected outcome of the on-going reforms in the sector.

from donors, all types considered, is assumed to decline from about 20 percent of GDP in 2012 to 13 percent in the long run.[6]

7. Compared to the 2011 DSA, a new credit line is added and the discount rate is lower. The Burundian government signed a credit line of US$80 million with the Exim Bank of India to finance the construction of power plant; the loan has a grant element of 31.6 percent.[7] The discount rate has been revised from 4 percent to 3 percent, in line with interest rate developments on international markets.

8. Risks to the macroeconomic outlook stem mostly from the fragile social and security situation and the external environment. The protracted Euro Area debt crisis and the decelerating economic growth in emerging markets are likely to engender negative spillovers through the trade and investment channels. Uncertainty in donor support also poses risks. Despite the projected easing of oil and food international prices, uncertainty remains. Moreover, socio-political developments are highly unpredictable.

[6] Financial assistance from donors includes budget support, project loans and grants, humanitarian assistance, technical assistance, and financing related to elections and regional conflicts.

[7] See EBS 11/151.

Box 1. Burundi: Main Macroeconomic Assumptions, 2012–32

Real GDP growth is expected to accelerate from an average of 4 percent during the last ten years to 5 percent in the medium term and 7 percent in the long run.[1] The projections reflect an expected consolidation of peace and security, the easing of infrastructure bottlenecks including higher electricity generation, swift reforms in the coffee sector, improvement of the investment climate, accelerated implementation of other structural reforms including PFM, and EAC integration. Public investments are expected to focus on infrastructure rehabilitation (power, transport, and communications) to address existing bottlenecks to unlocking growth potential. Power generation is projected to increase from 30 MW to 160 MW by 2016. Sectors that could contribute to the diversification of foreign currency earning might also benefit from public investments (e.g. tourism and mining).

Inflation is assumed to decline gradually over the medium term, as it is a main priority of the Burundian authorities. It is projected to stabilize at about 6 percent over the long term.

Fiscal policy would be supportive of economic growth and poverty reduction, while ensuring macroeconomic stability in line with EAC convergence requirements and debt sustainability. Primary deficit is expected to hover 2 percent of GDP during the projection period. Revenues, excluding grants, are projected to improve to about 15 percent of GDP in the medium term and reach about 16 percent of GDP over the end of the projection period owing to the widening of the tax base. Current expenditures are expected to decline by 4 percentage points of GDP on average over the medium term, as a number of special programs are unwound. Despite the decline in external financing, the revenue collection effort and control of current spending are expected to allow room for public investments to hover 10 percent of GDP in the medium term, a level considered to be supportive of long-term economic growth.

Exports and imports of goods and services: exports are projected to increase by an average of 3 percent over the medium term reflecting the impact of coffee sector reforms, and by about 10 percent over the longer term as a result of investments in new export sectors (horticulture, mining, and tourism). Imports will accelerate from an annual average growth of about 3 percent over the medium term to about 10 percent over the longer term, expected to be driven by strong growth in infrastructure and construction sector with the support of the Burundian Diaspora. With emergency and reconstruction-related imports winding down, merchandise imports are expected to move broadly in line with real GDP growth in the later years.

The non-interest current account deficit, including budget support grants, is expected to hover at 14 percent of GDP over the medium term. It will subsequently improve to about 10 percent of GDP on average in the long run as Burundi diversifies and expands its exports base.

External financing will rely largely on grants and highly concessional loans to finance the current account deficit in the medium term, except for the financing of the new power plant Kabu 16 that has a grant element of 31.6 percent (below the 50 percent threshold required for Burundi). In the long term, Burundi will likely rely increasingly on highly concessional loans, as availability of grants is expected to be constrained. Current official transfers (budget support and special forms of grants) are assumed to decline from 12 percent of GDP in 2011 to about 3.5 percent of GDP in the long run as humanitarian assistance gradually declines. The projections assume improvements of political conditions considering that donors are increasingly tying their support to improvements in governance, as reiterated during the October 2012 donor conference.

[1] Economic growth might exceed the current projections if prospective investments in the mining sector materialize.

EXTERNAL DSA

9. **Under the baseline scenario, one indicator breaches the policy threshold during the medium term**. The PV of debt-to-exports ratio, although gradually declining, is projected to stay

above the 100 percent policy threshold until around 2020. The debt service-to-exports ratio slightly and temporarily breaches the threshold. These projected developments are mostly due to Burundi's narrow export base and the relatively limited export potential at this time. In contrast, the PV of debt-to-GDP ratio, the PV of debt-to-revenues ratio, and the debt service-to-revenue ratio are expected to remain well below the indicative policy dependent thresholds throughout the projection period. Moreover, those indicators are somewhat stabilizing in the medium term and show a declining trend in the long run, indicating an improvement of the debt sustainability profile in the long run (Text Table 2, Figure 1 and Table 1). This stems from the intention of the authorities to pursue sound macroeconomic and prudent debt policies. The combination of such policies is expected to alleviate debt burden indicators. The reduction of debt burden is a key pillar of the program currently implemented by the government and supported under the IMF's Extended Credit Facility (ECF).

Text Table 2. Burundi: Summary of Baseline External Debt Sustainability Indicators
(percent)

	Indicative Thresholds	2012	2022	2032
PV of debt to GDP	30	18.6	5.4	2.7
PV of debt to exports	100	186.5	91.1	47.5
PV of debt to revenue	200	120.6	34.8	17.1
Debt service to exports	15	6.2	8.6	2.0
Debt service to revenues	25	4.0	3.3	0.7

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

10. Alternative scenarios and stress tests highlight the high vulnerability of the debt sustainability profile to adverse shocks. Under a scenario of combined adverse shocks on GDP growth, exports, and FDI flow, the debt indicators worsen significantly compared to the baseline scenario; four of the debt indicators breach the threshold in the medium term and return broadly close to the baseline in the long run.[21] However, under a scenario that assumes continuation of policies during the last ten years, two indicators breach the threshold; most indicators would double compared to that under the baseline scenario and would not improve even in the long run.[22] These

[21] The combination of shocks assumes that, during 2013-14, GDP growth, export growth, USD GDP deflator and non-debt creating flows will be at their historical averages minus one-half standard deviation.

[22] The historical scenario assumes that, throughout the projection period, key macroeconomic variables will stay at their respective average during the last ten years. The some economic variables in 2009 were adjusted as Burundi

(continued)

results underscore the need to foster a sound macroeconomic environment that would promote growth, export diversification, and inflow of foreign direct investment, and to continue the reform measures to avoid returning to policies in the past.[23]

11. All scenarios suggest that Burundi's narrow export base is the most significant factor of vulnerability of Burundi's debt sustainability. The PV of debt-to-exports ratio remains above the policy threshold of 100 percent in the baseline, historical, and stress tests scenarios. Although, the trend declines in the long term, the ratio stays stubbornly high, particularly under the historical scenario.

PUBLIC DSA

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

13. However, public debt indicators are highly vulnerable to shocks. Under a shock scenario that combines a lower GDP growth and a larger primary deficit, the PV of debt-to-GDP ratio is projected to enlarge by 6 percentage points (above the baseline scenario) throughout the projection period, and the PV of debt-to-revenue ratio by about 20 percentage points.[24] These results underscore the need for prudent fiscal policy and avoidance of past unsustainable borrowing policies. A swift adoption and implementation of a strategy based on the recent Debt Management Performance Assessment (DeMPA) would be crucial. The debt service to revenue ratio is not significantly affected by alternative scenarios and shocks because additional borrowing is expected to be on highly concessional terms.

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benefited from the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative during that year.

[23] In the event the assumption on coffee production does not materialize and the country falls back into a fragility trap, the debt indicators would significantly worsen.

[24] The scenario assumes that, in 2013-14, GDP growth and primary balance will be at their historical average minus one-half standard deviation.

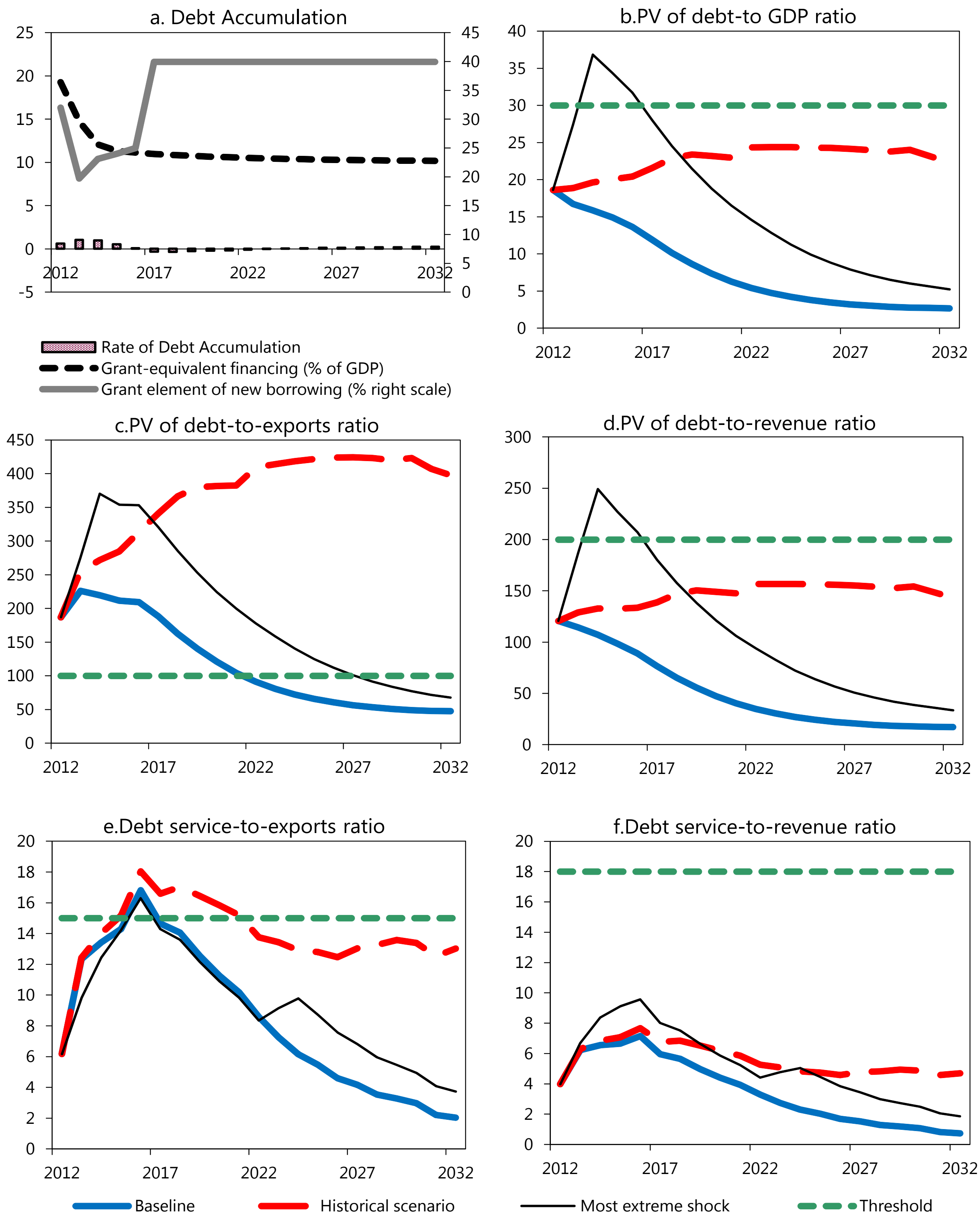
CONCLUSION

14. Based on this LIC-DSA, staffs are of the view that Burundi continues to face a high risk of debt distress. The debt sustainability indicators somewhat deteriorated compared to the 2011 DSA as (i) the macroeconomic outlook has been revised downward, owing to adverse shocks, (ii) a new credit line has been contracted, and (iii) the discount rate has been lowered. However, the classification remains unchanged, considering that, as in the 2011 DSA, only the PV of debt-to-export ratio remains above the policy threshold under the baseline scenario whereas other indicators are comfortably below their respective threshold. Burundi would not be classified downward to "in debt distress" as the country continues to service its debt and does not accumulate any arrears.

15. Based on this high risk classification and on the vulnerabilities shown through the alternative and stress tests scenarios, Burundi should pursue sound macroeconomic and prudent debt policies. In particular, the analysis points to the importance of enlarging export base and diversifying export markets. This would include swift implementation of reforms in the coffee sector and unlocking export potential in other sectors (mining, tea, horticulture, and tourism). It would also be key to continue sound policies as policy reversals are shown in the analysis as having serious hindering effect on debt sustainability. Finally, given the high risk of debt distress and the vulnerabilities, staffs encourage the authorities to continue to rely on grants and highly concessional loans to meet financing needs. The Debt Management Performance Assessment (DeMPA) and the debt management mission conducted by the World Bank in 2012 can guide the authorities in the preparation of a medium term debt strategy (MTDS). A first key step would be to adopt a new law on public debt determining the objective, the strategy, the signing authority, and other aspects of debt management. Control over sources of contingent liabilities should also be strengthened.

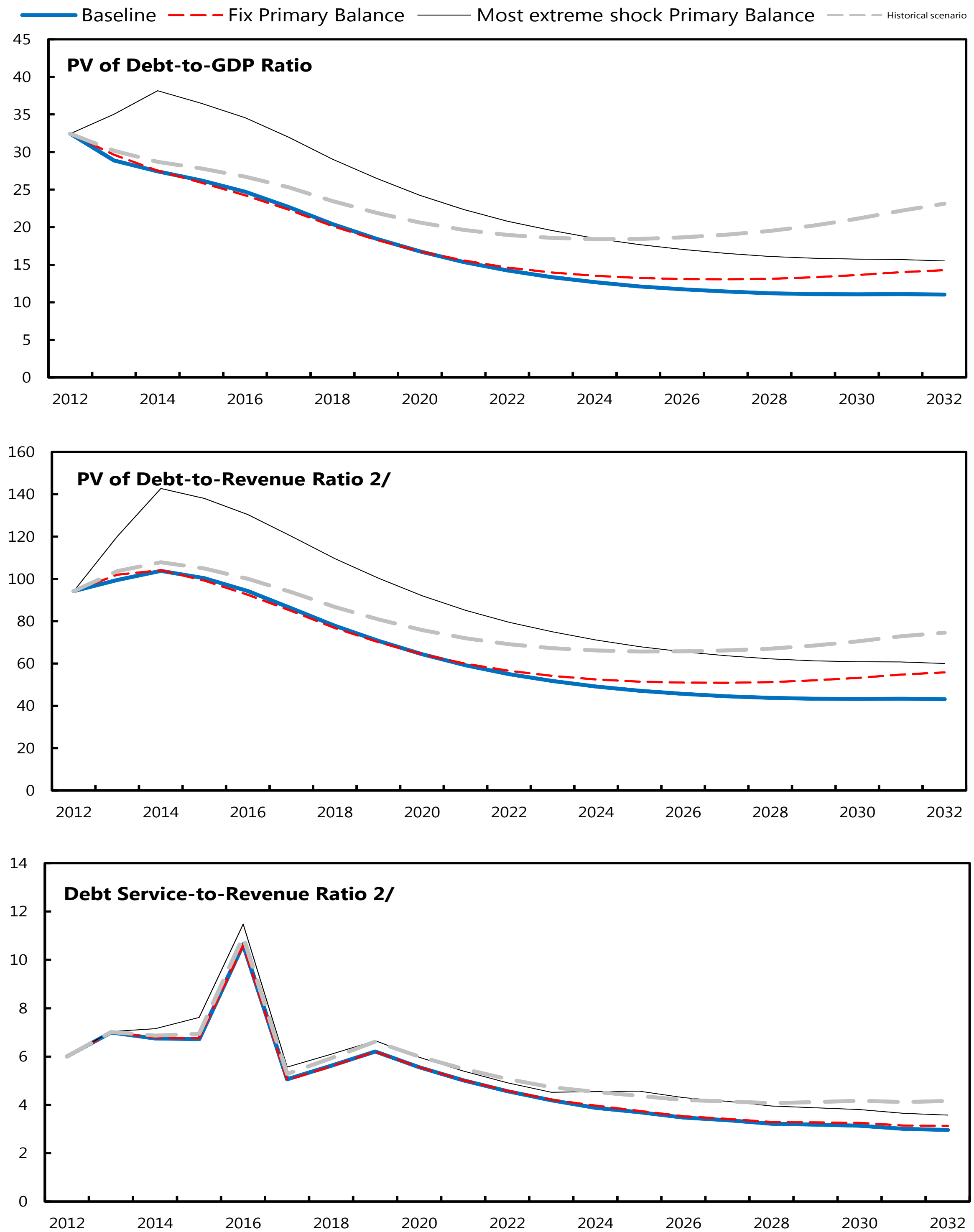
16. The authorities broadly share staffs' assessment.

Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032



Sources: Country authorities; and staff estimates and projections.

Figure 2.Burundi: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022.
2/ Revenues are defined inclusive of grants.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**21.6**	**22.5**	**23.6**			**21.4**	**19.1**	**18.1**	**16.9**	**15.5**	**13.7**		**6.8**	**4.1**	
of which: public and publicly guaranteed (PPG)	21.6	22.5	23.6			21.4	19.1	18.1	16.9	15.5	13.7		6.8	4.1	
Change in external debt	-80.6	0.9	1.0			-2.1	-2.3	-1.1	-1.1	-1.4	-1.9		-0.9	-0.1	
Identified net debt-creating flows	-7.8	-0.8	2.4			0.0	-1.5	-1.3	-1.4	-1.8	-3.5		-3.3	0.1	
Non-interest current account deficit	**-2.3**	**12.2**	**14.7**	**6.2**	**7.1**	**16.2**	**15.9**	**15.6**	**15.1**	**14.6**	**12.4**		**7.6**	**10.9**	9.7
Deficit in balance of goods and services	22.0	34.7	34.2			33.8	29.5	27.2	25.6	24.4	21.7		14.4	15.4	
Exports	6.8	8.9	10.3			10.0	7.4	7.2	7.0	6.5	6.3		6.0	5.6	
Imports	28.8	43.6	44.6			43.8	36.9	34.4	32.7	31.0	28.0		20.4	21.0	
Net current transfers (negative = inflow)	-24.8	-23.0	-20.3	-19.7	4.8	-18.2	-14.1	-12.0	-10.9	-9.9	-9.3		-6.8	-4.7	-6.2
of which: official	-15.7	-17.4	-12.9			-11.2	-7.8	-6.2	-5.4	-4.7	-4.5		-4.0	-3.6	
Other current account flows (negative = net inflow)	0.5	0.5	0.7			0.6	0.5	0.4	0.3	0.0	0.0		0.0	0.2	
Net FDI (negative = inflow)	**5.2**	**-10.0**	**-10.8**	**-4.5**	**6.5**	**-15.4**	**-16.6**	**-16.1**	**-15.7**	**-15.8**	**-15.3**		**-10.6**	**-10.5**	-10.7
Endogenous debt dynamics 2/	**-10.7**	**-3.0**	**-1.5**			**-0.8**	**-0.7**	**-0.8**	**-0.8**	**-0.6**	**-0.5**		**-0.3**	**-0.3**	
Contribution from nominal interest rate	0.6	0.1	0.1			0.1	0.2	0.1	0.1	0.2	0.2		0.1	0.0	
Contribution from real GDP growth	-3.2	-0.7	-0.9			-0.9	-0.9	-0.9	-0.9	-0.8	-0.7		-0.4	-0.3	
Contribution from price and exchange rate changes	-8.1	-2.3	-0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-72.7**	**1.7**	**-1.4**			**-2.2**	**-0.8**	**0.2**	**0.3**	**0.5**	**1.6**		**2.4**	**-0.2**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	20.3			18.6	16.7	15.9	14.9	13.6	11.9		5.4	2.7	
In percent of exports	...	...	196.4			186.8	226.2	219.6	211.6	209.2	188.2		91.0	47.5	
PV of PPG external debt	**...**	**...**	**20.3**			**18.6**	**16.7**	**15.9**	**14.9**	**13.6**	**11.9**		**5.4**	**2.7**	
In percent of exports	**...**	**...**	**196.4**			**186.8**	**226.2**	**219.6**	**211.6**	**209.2**	**188.2**		**91.0**	**47.5**	
In percent of government revenues	**...**	**...**	**122.1**			**120.6**	**114.4**	**107.3**	**98.5**	**89.1**	**76.6**		**34.8**	**17.1**	
Debt service-to-exports ratio (in percent)	**901.4**	**1.3**	**2.8**			**6.2**	**4700.0**	**13.4**	**14.3**	**16.8**	**14.6**		**8.6**	**2.0**	
PPG debt service-to-exports ratio (in percent)	**901.4**	**1.3**	**2.8**			**6.2**	**12.3**	**13.4**	**14.3**	**16.8**	**14.6**		**8.6**	**2.0**	
PPG debt service-to-revenue ratio (in percent)	**430.7**	**0.8**	**1.7**			**4.0**	**6.2**	**6.6**	**6.7**	**7.2**	**6.0**		**3.3**	**0.7**	
Total gross financing need (Millions of U.S. dollars)	1116.4	46.8	91.2			33.5	9131.2	13.7	11.9	-5.0	-82.6		-196.6	124.1	
Non-interest current account deficit that stabilizes debt ratio	78.3	11.3	13.6			18.4	18.2	16.7	16.2	16.0	14.2		8.5	11.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.5	3.8	4.2	4.0	1.0	4.0	4.5	5.1	5.5	5.5	5.5	5.0	5.9	8.2	6.6
GDP deflator in US dollar terms (change in percent)	8.6	12.1	3.5	6.4	11.8	4.5	6.2	6.2	4.5	4.2	7.4	5.5	7.6	3.0	5.7
Effective interest rate (percent) 5/	0.6	0.3	0.6	0.7	0.2	0.5	0.9	0.6	0.6	1.6	1.7	1.0	2.2	0.6	1.7
Growth of exports of G&S (US dollar terms, in percent)	-22.6	52.3	25.1	20.3	27.1	4.9	-17.6	8.9	7.6	1.7	10.0	2.6	12.9	10.0	11.8
Growth of imports of G&S (US dollar terms, in percent)	-14.1	76.0	10.2	25.6	32.9	6.7	-6.5	4.1	4.8	4.1	2.6	2.6	6.5	16.7	10.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.0	19.7	23.1	24.0	25.0	39.9	27.3	39.9	39.9	39.9
Government revenues (excluding grants, in percent of GDP)	14.2	14.6	16.6			15.4	14.6	14.8	15.1	15.3	15.5		15.6	15.6	15.6
Aid flows (in Millions of US dollars) 7/	1218.5	490.9	513.5			465.1	388.3	360.6	374.0	403.8	453.3		844.4	2513.5	
of which: Grants	1205.1	460.9	487.7			450.0	379.1	342.4	356.8	388.6	435.8		810.6	2409.4	
of which: Concessional loans	13.4	30.0	25.8			15.1	9.2	18.1	17.1	15.1	17.4		33.8	104.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			19.3	14.7	12.1	11.3	11.2	11.0		10.5	10.2	10.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			96.7	91.6	89.7	91.5	93.8	97.7		97.6	97.5	97.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	1739.3	2024.0	2181.9			2371.8	2632.1	2938.2	3239.9	3562.5	4037.1		7828.0	24079.0	
Nominal dollar GDP growth	12.4	16.4	7.8			8.7	11.0	11.6	10.3	10.0	13.3	10.8	13.9	11.4	12.7
PV of PPG external debt (in Millions of US dollars)			410.0			423.2	447.3	473.1	488.6	490.6	478.4		421.3	638.2	
(PVt-PVt-1)/GDPt-1 (in percent)						0.6	1.0	1.0	0.5	0.1	-0.3	0.5	-0.1	0.2	0.0
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.3			18.6	16.7	15.9	14.9	13.6	11.9		5.4	2.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	196.4			186.8	226.2	219.6	211.6	209.2	188.2		91.0	47.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.8			6.2	12.3	13.4	14.3	16.8	14.6		8.6	2.0	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. The large residual in 2009 corresponds to HIPC-MDRI debt relief.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2.Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	19	17	16	15	14	12	**5**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	19	19	20	20	20	22	**24**	22
A2. New public sector loans on less favorable terms in 2012-2032 2	19	17	17	16	15	13	**7**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	19	17	17	16	14	12	**6**	3
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	19	17	16	15	14	12	**5**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	19	19	20	19	17	15	**7**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	19	30	39	36	33	30	**16**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	19	27	37	34	32	28	**15**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	19	24	22	21	19	17	**7**	4
PV of debt-to-exports ratio								
Baseline	187	226	220	212	209	188	**91**	47
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	187	255	272	285	313	341	**409**	398
A2. New public sector loans on less favorable terms in 2012-2032 2	187	233	233	228	230	208	**114**	78
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	187	230	223	214	211	187	**90**	47
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	187	205	249	239	236	209	**101**	53
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	187	230	223	214	211	187	**90**	47
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	187	401	536	513	512	468	**265**	95
B5. Combination of B1-B4 using one-half standard deviation shocks	187	275	370	354	353	321	**178**	68
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	187	230	223	214	211	187	**90**	47
PV of debt-to-revenue ratio								
Baseline	121	114	107	98	89	77	**35**	17
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	121	129	133	132	133	139	**157**	143
A2. New public sector loans on less favorable terms in 2012-2032 2	121	118	114	106	98	84	**44**	28
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	121	118	113	104	94	79	**36**	18
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	121	113	109	100	90	77	**35**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	121	131	138	126	114	97	**44**	22
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	121	203	262	239	218	190	**101**	34
B5. Combination of B1-B4 using one-half standard deviation shocks	121	187	249	227	207	180	**94**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	121	162	152	139	125	106	**48**	24

Table 2.Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032 (continued)

(In percent)

Debt service-to-exports ratio

Baseline	6	12	13	14	17	15	**9**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	6	12	14	15	18	17	**14**	13
A2. New public sector loans on less favorable terms in 2012-2032 2	6	12	14	15	18	16	**9**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	6	12	13	14	17	15	**9**	2
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	6	11	15	16	19	16	**10**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	6	12	13	14	17	15	**9**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	6	12	15	18	21	18	**11**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	6	10	12	14	16	14	**8**	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	6	12	13	14	17	15	**9**	2

Debt service-to-revenue ratio

Baseline	4	6	7	7	7	6	**3**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2012-2032 1/	4	6	7	7	8	7	**5**	5
A2. New public sector loans on less favorable terms in 2012-2032 2	4	6	7	7	8	6	**3**	1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	4	6	7	7	7	6	**3**	1
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	4	6	7	7	7	6	**3**	1
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	4	7	8	8	9	8	**4**	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	4	6	8	8	9	7	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	4	7	8	9	10	8	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	4	9	9	9	10	8	**5**	1
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	34	34	34	34	34	34	**34**	34

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly a an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3.Burundi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2009	2010	2011	Average 5/	Standard Deviation 5/	2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	25.5	39.7	39.7			35.2	31.3	29.6	28.2	26.6	24.4		15.6	12.4	
of which: foreign-currency denominated	21.6	22.5	23.6			21.4	19.1	18.1	16.9	15.5	13.7		6.8	4.1	
Change in public sector debt	-81.2	14.2	0.0			-4.5	-4.0	-1.6	-1.4	-1.6	-2.2		-1.1	-0.1	
Identified debt-creating flows	-110.3	-0.7	1.8			-4.6	-4.3	-0.2	0.1	0.3	-0.6		0.1	0.2	
Primary deficit	-46.0	2.3	2.5	-4.3	14.7	0.6	0.6	2.8	2.4	2.1	1.7	1.7	1.5	0.9	1.3
Revenue and grants	83.5	37.4	39.0			34.4	29.0	26.4	26.2	26.2	26.3		25.9	25.6	
of which: grants	69.3	22.8	22.4			19.0	14.4	11.7	11.0	10.9	10.8		10.4	10.0	
Primary (noninterest) expenditure	37.6	39.7	41.5			35.0	29.7	29.2	28.5	28.3	28.0		27.4	26.5	
Automatic debt dynamics	-14.3	-3.0	-0.7			-4.8	-4.7	-2.9	-2.3	-1.8	-2.2		-1.3	-0.7	
Contribution from interest rate/growth differential	-10.3	-3.0	-4.3			-6.1	-4.5	-3.2	-2.6	-2.1	-2.5		-1.4	-0.7	
of which: contribution from average real interest rate	-6.8	-2.1	-2.7			-4.6	-3.0	-1.7	-1.0	-0.6	-1.1		-0.5	0.2	
of which: contribution from real GDP growth	-3.6	-0.9	-1.6			-1.5	-1.5	-1.5	-1.5	-1.5	-1.4		-0.9	-0.9	
Contribution from real exchange rate depreciation	-4.0	0.1	3.6			1.3	-0.2	0.3	0.3	0.2	0.3		...	...	
Other identified debt-creating flows	-50.0	0.0	0.0			-0.4	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			-0.4	-0.2	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	-50.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	...	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	29.1	14.9	-1.8			0.1	0.3	-1.4	-1.5	-1.8	-1.6		-1.3	-0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	36.5			32.4	28.9	27.4	26.2	24.7	22.7		14.3	11.0	
of which: foreign-currency denominated	...	...	20.3			18.6	16.7	15.9	14.9	13.6	11.9		5.4	2.7	
of which: external	...	...	20.3			18.6	16.7	15.9	14.9	13.6	11.9		5.4	2.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	19.2	5.7	7.5			5.5	5.1	8.0	8.8	10.5	10.0		9.8	9.0	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	93.6			94.3	99.4	103.8	100.3	94.3	86.1		55.0	43.1	
PV of public sector debt-to-revenue ratio (in percent)	...	...	219.6			210.2	197.3	185.7	173.2	161.4	145.9		91.6	70.8	
of which: external 3/	...	...	122.1			120.6	114.4	107.3	98.5	89.1	76.6		34.8	17.1	
Debt service-to-revenue and grants ratio (in percent) 4/	74.2	1.8	2.8			6.0	7.0	6.7	6.7	10.6	5.1		4.6	3.0	
Debt service-to-revenue ratio (in percent) 4/	435.5	4.5	6.6			13.4	13.9	12.1	11.6	18.2	8.6		7.6	4.9	
Primary deficit that stabilizes the debt-to-GDP ratio	35.2	-11.9	2.5			5.1	4.6	4.4	3.8	3.7	3.9		2.6	1.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.5	3.8	4.2	4.0	1.0	4.0	4.5	5.1	5.5	5.5	5.5	5.0	5.9	8.2	6.6
Average nominal interest rate on forex debt (in percent)	0.6	0.3	0.6	0.7	0.2	0.5	0.9	0.6	0.6	1.6	1.7	1.0	2.2	0.6	1.7
Average real interest rate on domestic debt (in percent)	4.6	3.6	-0.8	-1.5	8.3	-10.7	-8.2	-4.0	-1.3	0.1	-2.4	-4.4	-0.4	4.3	1.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.3	0.3	19.1	6.1	16.0	6.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.7	12.2	6.0	10.8	11.3	19.4	17.7	7.9	5.5	5.3	6.7	10.4	8.5	4.0	6.6
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.1	0.1	0.1	0.1	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	32.0	19.7	23.1	24.0	25.0	39.9	27.3	39.9	39.9	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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Table 4. Burundi: Sensitivity Analysis for Key indicators of Public Debt 2012-2032

		Projections										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2032
PV of Debt-to-GDP Ratio												
Baseline	32	29	27	26	25	23	20	18	17	15	14	11
A. Alternative scenarios												
A1. Real GDP growth and primary balance are at historical averages	32	30	29	28	27	25	23	22	21	20	19	23
A2. Primary balance is unchanged from 2012	32	30	28	26	24	22	20	18	17	16	15	14
A3. Permanently lower GDP growth 1/	32	29	28	27	25	23	21	19	18	16	15	14
B. Bound tests												
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	32	29	29	28	27	25	23	21	19	18	17	15
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	32	39	47	44	41	38	34	31	28	25	23	14
B3. Combination of B1-B2 using one half standard deviation shocks	32	35	38	36	35	32	29	27	24	22	21	16
B4. One-time 30 percent real depreciation in 2013	32	36	34	32	30	27	24	22	20	18	16	12
B5. 10 percent of GDP increase in other debt-creating flows in 2013	32	35	33	32	30	27	25	22	20	18	17	12
PV of Debt-to-Revenue Ratio 2/												
Baseline	94	99	104	100	94	86	78	71	64	59	55	43
A. Alternative scenarios												
A1. Real GDP growth and primary balance are at historical averages	94	104	108	105	100	94	87	81	76	72	69	75
A2. Primary balance is unchanged from 2012	94	102	104	99	93	85	77	70	64	60	57	56
A3. Permanently lower GDP growth 1/	94	100	104	101	95	88	80	73	67	63	59	55
B. Bound tests												
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	94	101	108	105	100	93	85	79	73	69	65	58
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	94	136	176	168	158	144	130	118	107	98	90	56
B3. Combination of B1-B2 using one half standard deviation shocks	94	120	143	138	130	120	110	100	92	85	79	60
B4. One-time 30 percent real depreciation in 2013	94	124	128	122	114	104	93	84	76	69	64	45
B5. 10 percent of GDP increase in other debt-creating flows in 2013	94	122	126	121	114	104	94	85	78	71	66	47
Debt Service-to-Revenue Ratio 2/												
Baseline	6	7	7	7	11	5	6	6	6	5	5	3
A. Alternative scenarios												
A1. Real GDP growth and primary balance are at historical averages	6	7	7	7	11	5	6	7	6	5	5	4
A2. Primary balance is unchanged from 2012	6	7	7	7	11	5	6	6	6	5	5	3
A3. Permanently lower GDP growth 1/	6	7	7	7	11	5	6	6	6	5	5	3
B. Bound tests												
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	6	7	7	7	11	5	6	6	6	5	5	3
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	6	7	7	8	12	6	6	7	6	5	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	6	7	7	8	11	6	6	7	6	5	5	4
B4. One-time 30 percent real depreciation in 2013	6	8	8	8	13	7	7	8	7	6	6	3
B5. 10 percent of GDP increase in other debt-creating flows in 2013	6	7	7	7	11	5	6	6	6	5	5	3

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
February 14, 2013

International Monetary Fund
Washington, D.C. 20431 USA

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

The Executive Board of the International Monetary Fund (IMF) has completed the second review of Burundi's performance under the program supported by the Extended Credit Facility (ECF). The Executive Board's decision will allow for the disbursement of an amount equivalent to SDR 5 million (about US$7.6 million), bringing disbursements under the arrangement to an amount equivalent to SDR 10 million (about US$15.3 million). The Executive Board's decision was taken on a lapse of time basis.[1] Burundi's three-year ECF arrangement was approved on January 27, 2012 (See Press Release No.12/35).

Real gross domestic product growth is estimated to have decelerated to 4 percent in 2012, in the face of a sharp deterioration in the terms of trade by a cumulative 27 percent during 2011–12. Inflation peaked at 25.3 percent (year-on-year) in March 2012 before declining sharply to 11.8 percent at end-2012, owing in part to tight monetary policy and the temporary removal of taxes on food products. Lower liquidity within the banking system contributed to a slowdown in growth in credit to the private sector.

[1] The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal decisions.