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BURUNDI

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SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR EXTENSION AND AUGMENTATION OF ACCESS—DEBT SUSTAINABILITY ANALYSIS UPDATE

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This low-income country debt sustainability analysis (LIC DSA) updates the joint IMF/IDA DSA from February 18, 2014. Compared to the previous assessment, public debt levels increase slightly due to a rise in the stock of domestic public debt at end-2014 and higher projected disbursements of loans in 2015. The updated external DSA indicates that Burundi remains at a high risk of debt distress, with one indicator (external debt-to-exports) breaching the indicative sustainability thresholds in the baseline and shock scenarios, and one indicator (debt service-to-exports) breaching the sustainability threshold in the very near term in the most extreme shock scenario. These results are mainly due to Burundi's extremely narrow export base and indicate that Burundi's prospects for graduating from the high-risk of debt distress category will critically hinge on its ability to improve its export performance. All other external debt indicators remain consistent with sustainability conditions in both baseline and shock scenarios. While no significant vulnerabilities related to public domestic debt or private external debt are observed in the baseline, in the most extreme shock scenario, the PV of public debt-to-GDP ratio breaches its benchmark in the short run, which underscores the need for prudent fiscal and debt policies.[1]

[1] The DSA has been produced jointly by Fund and Bank staff, in collaboration with the Burundi authorities. The fiscal year for Burundi is January to December.

BACKGROUND

1. The Debt Sustainability Analysis update indicates that Burundi continues to face a high risk of debt distress. While the update of the debt sustainability analysis (DSA) shows some improvements, notably in view of a better coverage of exports of services, Burundi remains assessed as being at high risk of debt distress, with the PV of external debt-to-exports ratio breaching the sustainability threshold in the baseline scenario, and debt service-to-exports as well as the PV of public debt-to-GDP ratios breaching their respective sustainability thresholds in the most extreme shock scenarios (Figures 1–2 and Tables 1–4). The DSA update suggests that Burundi has limited borrowing space, underscoring that loans should continue to be highly concessional given its narrow export base.[2]

2. Burundi is a weak policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework (DSF). Burundi's 2013 rating in the World Bank's Country Policy and Institutional Assessment (CPIA) remained at its 2012 level. A relatively low performance with an average for the last three years—3.20 on a scale of 1 to 6—keeps Burundi in the group of weak policy performers.[3]

3. In 2012–13, Burundi's debt ratios declined, reflecting real GDP growth (4.5 percent) and a real depreciation of the Burundi franc against the U.S. dollar (about 8 percent). The public debt- and external debt-to-GDP ratios declined by about 3 and 2 percentage points to 32.7 and 19.6 percent, respectively. At end-2013, Burundi's public and publicly guaranteed external debt stood at $538 million. About 86 percent of Burundi's outstanding nominal external public and publicly guaranteed (PPG) debt is owed to multilateral creditors, with bilateral creditors accounting for the remainder. The domestic debt stock reached about $359.5 million (FBu 554 billion), 70 percent of which are medium and long-term (30 percent in government securities) at end-2013.

[2] Coffee and tea account for about 80 percent of exports. The current analysis does not include informal exports, notably of gold and other high-value minerals, which are not covered in the official BOP data, but are deemed to have increased to significant levels in recent years, implying that their inclusion could alter the assessment.

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

Text Table 1. Burundi: Stock External Debt, end-2013
(Millions of US dollars)

	Nominal	Percent of Total	Percent of GDP
Total Debt	538	100	19.6
Multilateral	462	85.9	16.8
Bilateral	75	14.0	2.8
Paris club	0	0.0	0.0
Non-Paris club	75	14.0	2.8
Commercial	0	0.0	0.0

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

UNDERLYING ASSUMPTIONS

4. The baseline macroeconomic assumptions for the current DSA are consistent with the macroeconomic framework underlying the current ECF arrangement. In the short- to medium-term, they are mainly based on the poverty reduction strategy. In the longer run, they reflect: (1) a stable macroeconomic environment, with continued growth momentum, contained inflation, and fiscal consolidation; (2) responsible fiscal policy and prudent debt policy; and (3) continued improvements to the business environment that would promote private sector growth and export diversification. Reflecting these assumptions, the DSA macroeconomic framework shows that all but one principal EAC convergence criteria are met starting in 2014. The reserve coverage in terms of months of imports (4.5 months) is expected to be met starting in 2021. All the indicative criteria are expected to be met starting in 2014, with the exception of the fiscal revenue-to-GDP ratio (set at 25 percent).

Text Table 2. Burundi: Selected Macroeconomic Indicators, 2013–2034

	2013	2014	2015	2015–2034 Average
Real GDP growth (percent)				
Feb 2014 DSA	4.5	4.7	4.8	6.1
Current DSA	4.5	4.7	4.8	6.1
Primary fiscal balance (percent of GDP)				
Feb 2014 DSA	-1.3	-0.7	-1.1	-0.5
Current DSA	-1.0	-2.3	-0.4	-1.1
Non-interest current account balance (in percent of GDP)				
Feb 2014 DSA	-22.9	-21.2	-21.0	-17.5
Current DSA	-18.3	-17.5	-13.2	-12.4
Exports growth (percent)				
Feb 2014 DSA	-35.1	14.6	9.5	11.6
Current DSA	1.9	31.0	-9.2	9.0

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

5. 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 sluggish economic growth in emerging markets continue to engender negative spillovers through trade and investment channels. High volatility of coffee production and international coffee prices also adds to risks. On the positive side, Burundi is benefiting from a sharp decline in international oil prices, through a lower import bill and inflation; however, these effects may not be long-lasting and are highly dependent on domestic policy response. Meanwhile, the uncertainty in donor support also poses risks. Moreover, reintegrating repatriated refugees is likely to add to unemployment, increase demand for public services, and fuel conflict over access to land. Finally, the socio-political environment surrounding the 2015 election is highly unpredictable.

EXTERNAL DSA

6. 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 2021. Also the debt service-to-exports ratio is projected to breach the sustainability threshold in the short run in the most extreme shock scenario.[4] These results 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-revenue 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 (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. In particular, keeping the PV of debt-to-GDP ratio below 10 percent in the long term is essential to bringing the PV of debt-to-exports below the sustainability threshold in the baseline scenario starting in 2020 and converging to the sustainability threshold in the most extreme shock scenario by 2030.

[4] The analysis excludes remittances, which are reported to be insignificant relative to exports. Their inclusion would make the sustainability criteria more stringent; however, without a significant impact on the conclusions.

Box 1. Burundi: Macroeconomic Assumptions, 2015–2034

In the medium term (2015–19), projections are consistent with the macroeconomic framework of the sixth ECF Review. Long-term (2012–2034) projections assume a more stable political environment, continued growth in coffee exports, and positive returns in terms of macroeconomic stabilization and economic growth from increased public investments and policies implemented in previous years under successive IMF programs.

- **Real GDP growth** is projected to accelerate over the period 2015–2034 to about 6 percent per year, exceeding performance over 2005–2014. Growth is expected to be driven by continued macroeconomic stability, improvements in infrastructure, gradual emergence of the nickel sector, and stronger performance of the agricultural sector based on favorable international prices and additional investment. Economic activity would also benefit from continued consolidation of political stability.
- **CPI inflation** over the long-term is projected to remain stable at around 5 percent per year, reflecting improved performance in agriculture and policies geared toward maintaining price stability.
- **Fiscal consolidation is expected to continue over the projection period (2015–2034).** The primary fiscal balance is projected to remain at about 1 percent of GDP from 2015 onwards, providing a strong anchor for long-term fiscal sustainability. This trend reflects: (1) a gradual decline in grants from 13 percent in 2014 to about 8 percent in 2034, improved economic conditions in Burundi and budgetary constraints in donor countries; (2) a domestic revenue-to-GDP ratio stabilized at about 14 percent; and (3) a gradual decline in primary expenditures from 29 percent of GDP in 2014 to 23.4 percent of GDP in 2034. The overall budget deficit is expected to hover at around 2 percent of GDP.
- The **current account deficit (including official grants)** is expected to persist, but would decline gradually to about 12 percent of GDP in 2034. This reflects: (1) the positive impact of an increase in exports of goods and services by about 1 percentage points of GDP over the projection period, with a gradual development of the export potential in mining (especially nickel); (2) the deceleration of imports of goods and services by about 7 percentage points of GDP, in part reflecting the impact of terms of trade improvements and import substitution in agriculture and manufacturing from ongoing and envisaged investments in these sectors; (3) a gradual decline in official transfers, in part due to declining grants; and (4) a gradual increase in FDI, driven by improvements in the business environment and greater regional integration.
- The **cost of new financing** reflects: (1) an increase in highly concessional loans in the short and medium-tem; (2) a gradual decline of external financing from about 60 percent of total financing in 2014 to about 50 percent by 2034; and (3) a gradual decline in highly concessional loans.

7. Alternative scenarios and stress tests highlight the 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 compared to the baseline scenario; the PV of debt-to-export indicator breaches the threshold in the medium term and return to the baseline in the long run.[5] Also, the indicator of debt service-to-exports worsens and breaches the threshold for one year in the very near term. Under a scenario that assumes continuation of policies during the last ten years, only the PV of debt-to-exports breaches the threshold, but most indicators would increase significantly compared to that under the baseline scenario and would not improve even in the long run.[6] These 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 reforms to avoid the return to unsustainable policies of the past.[7]

8. All scenarios suggest that Burundi's narrow export base is the most significant factor that contributes to its vulnerability of debt sustainability. In particular, the PV of debt-to-exports ratio is projected to remain above the policy threshold of 100 percent until 2021 in the baseline scenario, until 2030 in the most extreme shock scenario, and throughout the projection period in the historical scenario.

PUBLIC DSA

9. 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-revenue remain low, reflecting Burundi's reliance on grants and highly concessional loans to finance reconstruction and poverty reduction.

10. 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 rise by 5 percentage points (above the baseline scenario) throughout the projection period, and the PV of debt-to-revenue ratio by about 20 percentage points.[8] Moreover, the benchmark for the public debt-to-GDP ratio is also breached under the most

[5] The combination of shocks assumes that during 2015–16, GDP growth, export growth, the USD GDP deflator and non-debt creating flows will be at their historical averages minus one-half standard deviation.

[6] The historical scenario assumes that throughout the projection period, key macroeconomic variables will be at their respective last ten-year average levels. Some economic variables in 2009 were adjusted as Burundi benefited from the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative during that year.

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

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

extreme shock. These results underscore the need for prudent fiscal policy and show a limited scope for the recourse to additional borrowing in case of a fiscal shock. A swift implementation of a strategy based on the 2012 Debt Management Performance Assessment (DeMPA) would be crucial. The debt service-to-revenue ratio remains subdued in the baseline scenario but is significantly affected by alternative scenarios and shocks, especially in near short term, even though most additional borrowing is expected to be on highly concessional terms.

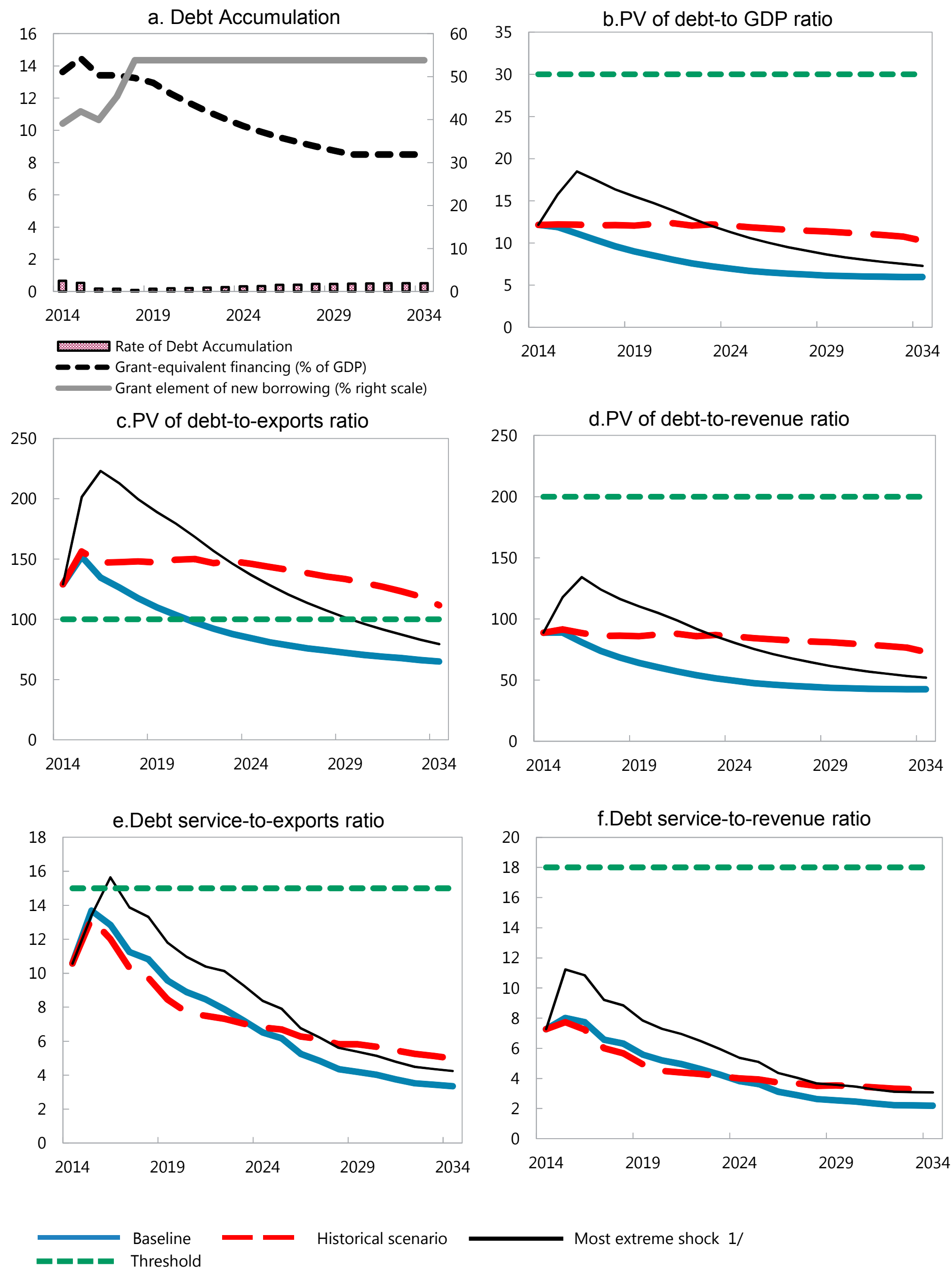
CONCLUSION

11. Based on this LIC-DSA, staff is of the view that Burundi continues to face a high risk of debt distress. The debt sustainability indicators improved compared to the 2014 DSA, although not sufficiently to warrant a change in the classification. In particular, as in the 2014 DSA, the PV of debt-to-exports ratio remains for a significant period above the policy threshold under the baseline scenario and deteriorates in the historical and most extreme shock scenarios.

12. 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 increasing exports by expanding the export base beyond the traditional coffee sector, and of diversifying export markets. This would include decisive implementation of reforms in the coffee sector, focusing on increasing its productivity and financial health, and unlocking export potential in other sectors (mining, tea, horticulture, and tourism). It is also essential for Burundi to capitalize on its fiscal reforms and macroeconomic stability to continue sound policies and avoid policy reversals, which could, as shown in the analysis, undermine debt sustainability. While the authorities scaled back their plans to engage in PPPs, it is important that any such projects are conducted and financed in a manner that does not jeopardize debt sustainability. Finally, given the high risk of debt distress and the vulnerabilities, staff encourages the authorities to continue to seek maximum concessionality in their external financing, with all nonconcessional borrowing regularly reviewed, monitored, and reported to ensure full transparency and sound governance. Staff encourages the authorities to finalize the new law on public debt, which would provide an overreaching legal debt framework and help determine the objective, strategy, signing authority, and other aspects of debt management. The strengthening of debt management practices now underway is a good step towards reinforcing debt sustainability. Staff encourages the authorities to expedite the implementation of the recommendations of the World Bank DeMPA mission assessment to facilitate putting in place a comprehensive medium-term debt strategy.

13. The authorities broadly share staffs' assessment. The authorities are keen to benefit from the recent change in the debt limits policy, notably to increase borrowing for critically important projects in energy, transport infrastructure, and agriculture. Nevertheless, they recognize that scaling up external borrowing for these purposes would require addressing the weaknesses that make Burundi prone to debt distress.

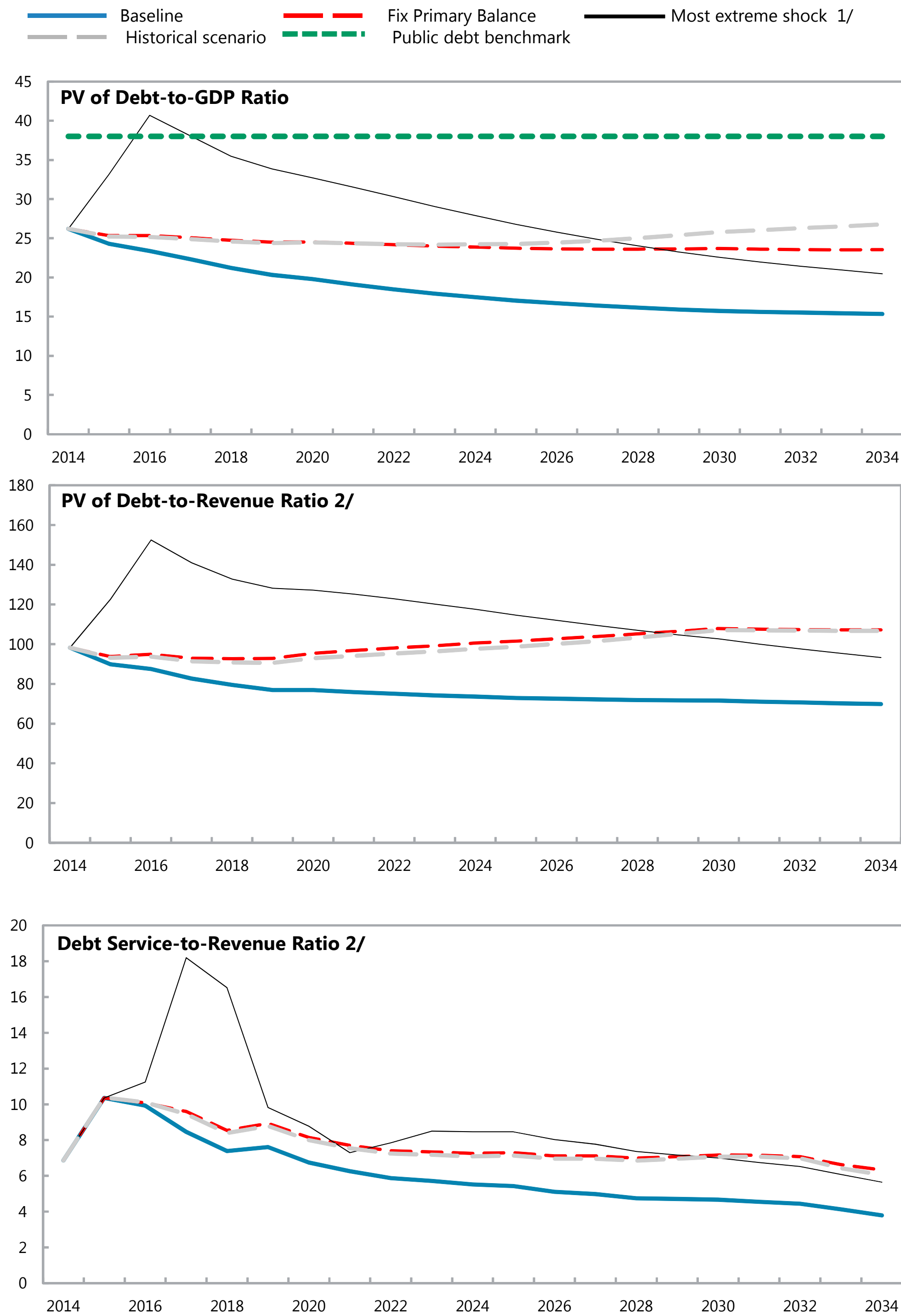
Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2.Burundi: Indicators of Public Debt Under Alternative Scenarios, 2014–2034 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2011–2034[1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**22.2**	**21.7**	**19.6**			**18.2**	**18.0**	**16.8**	**15.7**	**14.7**	**14.0**		**11.7**	**10.7**	
of which: public and publicly guaranteed (PPG)	22.2	21.7	19.6			18.2	18.0	16.8	15.7	14.7	14.0		11.7	10.7	
Change in external debt	-0.3	-0.5	-2.0			-1.4	-0.2	-1.1	-1.2	-0.9	-0.7		-0.3	0.0	
Identified net debt-creating flows	0.5	0.7	-2.5			-0.5	-0.5	-1.4	-1.4	-1.4	-1.2		-0.5	0.5	
Non-interest current account deficit	**13.5**	**17.2**	**18.3**	**9.4**	**8.0**	**17.5**	**13.2**	**12.8**	**12.3**	**11.9**	**12.0**		**13.2**	**11.4**	12.3
Deficit in balance of goods and services	31.5	34.7	31.1			27.6	24.4	22.4	21.6	20.9	20.7		20.3	17.5	
Exports	9.5	8.7	8.2			9.4	7.8	8.3	8.2	8.2	8.2		8.3	9.2	
Imports	41.0	43.4	39.2			37.0	32.2	30.7	29.8	29.0	28.9		28.5	26.6	
Net current transfers (negative = inflow)	-18.7	-17.8	-12.7	-19.9	4.2	-10.0	-11.0	-9.4	-9.1	-8.6	-8.2		-6.6	-5.9	-6.4
of which: official	-11.8	-12.9	-8.0			-5.8	-7.0	-5.6	-5.4	-5.1	-4.8		-3.8	-3.5	
Other current account flows (negative = net inflow)	0.7	0.3	-0.1			-0.1	-0.2	-0.3	-0.3	-0.4	-0.5		-0.5	-0.2	
Net FDI (negative = inflow)	**-9.9**	**-15.3**	**-19.2**	**-7.7**	**8.0**	**-17.3**	**-12.9**	**-13.5**	**-13.0**	**-12.6**	**-12.6**		**-13.2**	**-10.3**	-12.2
Endogenous debt dynamics 2/	**-3.1**	**-1.1**	**-1.6**			**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.7**	**-0.6**		**-0.6**	**-0.6**	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Contribution from real GDP growth	-0.8	-0.8	-0.9			-0.8	-0.8	-0.8	-0.8	-0.8	-0.7		-0.7	-0.7	
Contribution from price and exchange rate changes	-2.4	-0.4	-0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-0.8**	**-1.3**	**0.4**			**-0.9**	**0.2**	**0.2**	**0.2**	**0.5**	**0.4**		**0.2**	**-0.5**	
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/	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
In percent of exports	...	...	159.1			129.1	152.1	134.6	126.5	117.4	109.8		84.3	64.9	
PV of PPG external debt	**...**	**...**	**13.0**			**12.2**	**11.9**	**11.2**	**10.4**	**9.6**	**9.0**		**7.0**	**6.0**	
In percent of exports	**...**	**...**	**159.1**			**129.1**	**152.1**	**134.6**	**126.5**	**117.4**	**109.8**		**84.3**	**64.9**	
In percent of government revenues	**...**	**...**	**97.9**			**88.8**	**89.0**	**81.1**	**73.8**	**68.5**	**64.1**		**49.5**	**42.5**	
Debt service-to-exports ratio (in percent)	**3.2**	**7.2**	**14.5**			**10.6**	**13.7**	**12.8**	**11.3**	**10.8**	**9.6**		**6.5**	**3.4**	
PPG debt service-to-exports ratio (in percent)	**3.2**	**7.2**	**14.5**			**10.6**	**13.7**	**12.8**	**11.3**	**10.8**	**9.6**		**6.5**	**3.4**	
PPG debt service-to-revenue ratio (in percent)	**2.0**	**4.3**	**8.9**			**7.3**	**8.0**	**7.7**	**6.6**	**6.3**	**5.6**		**3.8**	**2.2**	
Total gross financing need (Millions of U.S. dollars)	93.5	62.7	8.4			36.5	44.0	14.6	9.2	5.3	11.7		41.8	245.5	
Non-interest current account deficit that stabilizes debt ratio	13.8	17.7	20.4			18.9	13.4	13.9	13.4	12.8	12.8		13.5	11.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.2	4.0	4.5	4.3	0.6	4.7	4.8	5.0	5.2	5.4	5.4	5.1	6.1	6.6	6.4
GDP deflator in US dollar terms (change in percent)	12.0	1.8	3.8	8.6	5.0	8.5	4.5	3.5	3.3	3.5	2.9	4.4	2.6	2.3	2.4
Effective interest rate (percent) 5/	0.6	0.5	0.6	0.6	0.2	0.6	0.7	0.7	0.8	0.8	0.8	0.7	0.8	0.8	0.8
Growth of exports of G&S (US dollar terms, in percent)	25.1	-3.1	1.9	18.7	26.1	31.0	-9.2	15.2	7.5	9.1	8.6	10.4	9.0	11.0	9.8
Growth of imports of G&S (US dollar terms, in percent)	10.2	12.0	-1.8	24.9	33.4	7.3	-4.9	3.8	5.5	6.2	7.7	4.3	15.0	7.6	8.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	39.1	41.9	40.0	45.3	53.8	53.8	45.7	53.8	53.8	53.8
Government revenues (excluding grants, in percent of GDP)	15.3	14.5	13.3			13.7	13.4	13.8	14.0	14.0	14.0		14.0	14.0	14.0
Aid flows (in Millions of US dollars) 7/	513.5	467.9	456.5			422.3	497.0	494.6	544.3	600.1	637.7		772.1	1549.9	
of which: Grants	487.7	423.0	447.1			401.9	462.7	476.6	517.4	552.2	585.7		693.6	1361.0	
of which: Concessional loans	25.8	44.9	9.4			20.4	34.3	18.1	26.9	47.9	51.9		78.6	188.9	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			13.6	14.5	13.4	13.4	13.2	13.0		10.3	8.5	9.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			93.2	92.7	95.1	95.9	96.3	96.2		95.3	94.4	95.0
Memorandum items:															
Nominal GDP (Millions of US dollars)	2371.0	2509.9	2722.6			3093.9	3387.5	3680.4	4000.4	4364.8	4732.8		7159.6	17209.5	
Nominal dollar GDP growth	16.7	5.9	8.5			13.6	9.5	8.6	8.7	9.1	8.4	9.7	8.9	9.1	9.0
PV of PPG external debt (in Millions of US dollars)			356.8			374.7	391.1	396.9	402.8	406.3	413.5		483.5	997.3	
(PVt-PVt-1)/GDPt-1 (in percent)						0.7	0.5	0.2	0.2	0.1	0.2	0.3	0.3	0.5	0.4
Gross workers' remittances (Millions of US dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	159.1			129.1	152.1	134.6	126.5	117.4	109.8		84.3	64.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	14.5			10.6	13.7	12.8	11.3	10.8	9.6		6.5	3.4	

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.

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, 2014–2034

(In percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	12	12	11	10	10	9	**7**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	12	12	12	12	12	12	**12**	10
A2. New public sector loans on less favorable terms in 2014-2034 2	12	12	11	11	10	10	**9**	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	12	12	11	10	10	9	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	12	11	11	11	10	9	**7**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	12	12	11	10	9	9	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	12	16	18	17	16	16	**11**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	12	12	11	10	10	9	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	12	16	15	14	13	12	**9**	8
PV of debt-to-exports ratio								
Baseline	129	152	135	127	117	110	**84**	65
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	129	156	147	148	148	147	**146**	112
A2. New public sector loans on less favorable terms in 2014-2034 2	129	153	138	134	128	123	**112**	103
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	129	148	130	123	114	106	**82**	63
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	129	144	169	159	148	139	**106**	79
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	129	148	130	123	114	106	**82**	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	129	202	223	213	200	189	**137**	79
B5. Combination of B1-B4 using one-half standard deviation shocks	129	132	128	121	112	105	**80**	60
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	129	148	130	123	114	106	**82**	63
PV of debt-to-revenue ratio								
Baseline	89	89	81	74	68	64	**50**	42
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	89	91	89	86	86	86	**86**	73
A2. New public sector loans on less favorable terms in 2014-2034 2	89	90	83	78	74	72	**66**	67
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	89	87	80	73	68	64	**49**	42
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	89	86	83	76	71	66	**51**	42
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	89	87	79	72	67	63	**48**	41
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	89	118	134	124	116	110	**80**	52
B5. Combination of B1-B4 using one-half standard deviation shocks	89	89	80	73	68	64	**49**	41
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	89	121	110	101	93	87	**67**	58

Table 2. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–2034 (concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	11	14	13	11	11	10	**7**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	11	13	12	10	10	8	**7**	5
A2. New public sector loans on less favorable terms in 2014-2034 2	11	14	13	12	11	10	**7**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	11	14	13	11	11	10	**7**	3
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	11	13	16	14	13	12	**8**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	11	14	13	11	11	10	**7**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	11	14	14	13	12	11	**10**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	11	12	12	11	10	9	**6**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	11	14	13	11	11	10	**7**	3
Debt service-to-revenue ratio								
Baseline	7	8	8	7	6	6	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	7	8	7	6	6	5	**4**	3
A2. New public sector loans on less favorable terms in 2014-2034 2	7	8	8	7	7	6	**4**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	7	8	8	7	6	6	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	7	8	8	7	6	6	**4**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	7	8	8	7	6	6	**4**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	7	8	8	7	7	6	**6**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	8	8	6	6	5	**4**	2
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	7	11	11	9	9	8	**5**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	50	50	50	50	50	50	**50**	50

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 assuming 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, 2011–2034

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	37.2	36.1	32.7			32.3	30.4	29.0	27.6	26.4	25.3		22.2	20.1	
of which: foreign-currency denominated	22.2	21.7	19.6			18.2	18.0	16.8	15.7	14.7	14.0		11.7	10.7	
Change in public sector debt	-2.5	-1.2	-3.3			-0.4	-1.9	-1.3	-1.4	-1.3	-1.0		-0.5	-0.1	
Identified debt-creating flows	-1.4	-0.8	-4.4			-0.6	-1.3	-1.2	-1.2	-1.1	-0.8		-0.2	0.0	
Primary deficit	2.3	2.8	0.2	1.9	14.5	2.3	0.4	0.6	0.6	0.6	0.7	0.9	1.0	1.2	1.1
Revenue and grants	35.9	31.4	29.7			26.7	27.0	26.7	27.0	26.7	26.4		23.7	22.0	
of which: grants	20.6	16.9	16.4			13.0	13.7	12.9	12.9	12.7	12.4		9.7	7.9	
Primary (noninterest) expenditure	38.2	34.2	29.9			29.0	27.4	27.3	27.6	27.3	27.1		24.8	23.2	
Automatic debt dynamics	-3.7	-3.3	-4.5			-2.9	-1.7	-1.6	-1.7	-1.6	-1.4		-1.2	-1.3	
Contribution from interest rate/growth differential	-5.6	-5.8	-4.5			-3.1	-2.4	-2.0	-2.0	-1.9	-1.7		-1.5	-1.5	
of which: contribution from average real interest rate	-4.0	-4.3	-2.9			-1.6	-1.0	-0.5	-0.5	-0.5	-0.3		-0.2	-0.2	
of which: contribution from real GDP growth	-1.6	-1.4	-1.5			-1.5	-1.5	-1.4	-1.4	-1.4	-1.3		-1.3	-1.3	
Contribution from real exchange rate depreciation	2.0	2.5	-0.1			0.1	0.8	0.4	0.2	0.3	0.2		...	...	
Other identified debt-creating flows	0.0	-0.4	-0.1			0.0	-0.1	-0.2	-0.1	-0.1	-0.1		0.0	0.0	
Privatization receipts (negative)	0.0	-0.4	-0.1			0.0	-0.1	-0.2	-0.1	-0.1	-0.1		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.1	-0.4	1.0			0.2	-0.6	-0.2	-0.2	-0.2	-0.2		-0.3	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	26.1			26.2	24.3	23.4	22.3	21.2	20.3		17.5	15.3	
of which: foreign-currency denominated	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
of which: external	...	...	13.0			12.2	11.9	11.2	10.4	9.6	9.0		7.0	6.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.6	17.2	9.2			7.5	6.3	8.4	8.9	9.2	9.7		10.3	10.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	87.9			98.2	89.9	87.5	82.7	79.5	76.9		73.7	69.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	196.6			191.4	181.9	169.8	158.9	151.1	144.7		124.5	109.3	
of which: external 3/	...	...	97.9			88.8	89.0	81.1	73.8	68.5	64.1		49.5	42.5	
Debt service-to-revenue and grants ratio (in percent) 4/	12.8	36.6	22.6			6.9	10.4	9.9	8.5	7.4	7.6		5.5	3.8	
Debt service-to-revenue ratio (in percent) 4/	30.0	79.0	50.5			13.4	21.0	19.3	16.3	14.1	14.3		9.3	5.9	
Primary deficit that stabilizes the debt-to-GDP ratio	4.8	4.0	3.6			2.8	2.3	1.9	2.0	1.8	1.7		1.5	1.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.2	4.0	4.5	4.3	0.6	4.7	4.8	5.0	5.2	5.4	5.4	5.1	6.1	6.6	6.4
Average nominal interest rate on forex debt (in percent)	0.6	0.5	0.6	0.6	0.2	0.6	0.7	0.7	0.8	0.8	0.8	0.7	0.8	0.8	0.8
Average real interest rate on domestic debt (in percent)	-8.4	-9.7	-6.2	-4.2	8.7	-2.4	0.0	2.3	1.4	1.4	1.9	0.8	2.6	1.6	2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	10.5	13.6	-0.3	3.7	7.5	0.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	14.7	16.4	11.7	12.6	5.7	8.1	6.6	5.5	5.4	5.5	5.0	6.0	4.7	4.4	4.5
Growth of real primary spending (deflated by GDP deflator, in percent)	0.7	-6.7	-8.7	-1.4	3.4	1.5	-0.9	4.5	6.3	4.2	4.7	3.4	4.3	6.4	5.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	39.1	41.9	40.0	45.3	53.8	53.8	45.7	53.8	53.8	...

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.

Table 4. Burundi: Sensitivity Analysis for Key Indicators of Public Debt 2014–2034

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	26	24	23	22	21	20	17	15
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	26	25	25	25	25	24	24	27
A2. Primary balance is unchanged from 2014	26	25	25	25	25	25	24	24
A3. Permanently lower GDP growth 1/	26	24	23	22	21	21	18	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	26	25	24	23	22	21	19	18
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	26	33	41	38	35	34	28	20
B3. Combination of B1-B2 using one half standard deviation shocks	26	29	33	31	30	28	24	20
B4. One-time 30 percent real depreciation in 2015	26	29	28	26	25	23	19	15
B5. 10 percent of GDP increase in other debt-creating flows in 2015	26	30	29	27	26	24	21	17
PV of Debt-to-Revenue Ratio 2/								
Baseline	98	90	87	83	79	77	74	70
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	98	93	94	91	91	91	98	107
A2. Primary balance is unchanged from 2014	98	94	95	93	93	93	101	107
A3. Permanently lower GDP growth 1/	98	90	88	83	80	78	76	78
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	98	91	89	85	83	80	80	80
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	98	123	152	141	133	128	118	93
B3. Combination of B1-B2 using one half standard deviation shocks	98	108	123	116	110	107	102	90
B4. One-time 30 percent real depreciation in 2015	98	108	104	97	92	88	79	68
B5. 10 percent of GDP increase in other debt-creating flows in 2015	98	110	107	100	96	92	87	77
Debt Service-to-Revenue Ratio 2/								
Baseline	7	10	10	8	7	8	6	4
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	7	10	10	9	8	9	7	6
A2. Primary balance is unchanged from 2014	7	10	10	10	9	9	7	6
A3. Permanently lower GDP growth 1/	7	10	10	8	7	8	6	4
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	7	10	10	9	8	8	6	4
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	7	10	11	18	17	10	8	6
B3. Combination of B1-B2 using one half standard deviation shocks	7	10	11	14	12	9	7	5
B4. One-time 30 percent real depreciation in 2015	7	11	12	10	9	9	7	5
B5. 10 percent of GDP increase in other debt-creating flows in 2015	7	10	11	14	8	9	6	4

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.

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FOR IMMEDIATE RELEASE
March 23, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review under Burundi's ECF Arrangement, Augments Access and Approves US$6.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the sixth review of Burundi's economic performance under the program supported by an Extended Credit Facility (ECF) arrangement.[1] The Board's decision enables the immediate disbursement of SDR 5 million (about US$6.9 million), bringing total disbursements under the arrangement to SDR 30 million (about US$41.6 million).

In completing the sixth review, the Board also approved the authorities' request for an extension of the current ECF arrangement to end March 2016 and an augmentation of access by SDR 10 million (about US$13.9 million or 13 percent of quota). The additional financing and time will help strengthen the management of public finances and consolidate the country's economic reform program.

Burundi's three-year ECF arrangement in the amount equivalent to SDR 30 million (about US$41.6 million) was approved by the Executive Board on January 27, 2012 (see Press Release No. 12/35).

At the conclusion of the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, issued the following statement:

"Progress under the ECF-supported program has been broadly satisfactory. Economic growth is estimated to have picked up slightly in 2014, while inflation declined markedly, aided by falling international fuel prices and prudent monetary policy. The near-term economic outlook remains challenging, and prudent policies will continue to be needed in the face of uncertainties in the external environment, and in the run-up to the 2015 national elections.

[1] The Extended Credit Facility (ECF) is the IMF's main tool for medium-term financial support to low-income countries. It provides for a higher level of access to financing, more concessional terms, enhanced flexibility in program design, and more focused, streamlined conditionality. Financing under ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years.

“The 2015 budget provides an adequate basis for fiscal policy in the current election year, and should be implemented with vigilance. Revenue slippages that emerged in early 2014 were addressed through corrective revenue measures, and are expected to have a lasting, positive impact on revenue performance. Strengthening tax administration and improving the coordination between tax policy design and its implementation will be critical to increasing the tax-to-GDP ratio on a sustainable basis.

“Public financial management should be strengthened, to enhance efficiency and mitigate fiscal risks. Efforts are needed to improve cash management by the Treasury and strengthen expenditure controls, while safeguarding pro-poor spending.

“Achieving debt sustainability will help anchor fiscal policy in the medium term. Burundi continues to be at a high risk of debt distress, and it will be important that any future borrowing be done on a concessional basis. Passage of the law on public debt, which would provide a legal framework for debt management, would be important. In this regard, better domestic debt management, notably by aligning the issuance of government securities with government’s financing needs, will help prevent recourse to central bank financing and the buildup of arrears.

“Underlying inflation has declined significantly in recent months and low international food and fuel prices will help keep inflation at bay. Nevertheless, it will be important for monetary policy to continue to focus on supporting a low-inflation environment. Financial stability should be strengthened through enhanced banking surveillance, and current plans to establish a credit bureau and a collateral registry.

“A strengthened pace of structural reforms is key to boosting Burundi’s external competitiveness, mobilize private sector investment, and lift Burundi’s growth potential. Efforts should focus on raising agricultural productivity; alleviating energy and other infrastructure bottlenecks; expanding credit access; and deepening regional integration.”

Statement by Ms. Kapwepwe, Executive Director for
Burundi and Mr. Yamuremye, Advisor
March 23, 2015

The Burundian authorities are appreciative of the Fund's constructive engagement and support under the Extended Credit Facility Arrangement (ECF), and thank staff for the helpful policy dialogue and advice. They remain committed to implementing policies and structural reforms under the ECF program to maintain macroeconomic stability, boost inclusive economic growth, lay strong foundation to reduce poverty, and strengthen security and political stability. While the economy is benefiting from the reduction in international oil prices, the authorities are aware that the economy remains fragile due to dwindling donors' budget support and political uncertainty in the run up to 2015 general elections. Against this backdrop, the authorities are committed to safeguard macroeconomic stability by pursuing prudent fiscal and monetary policies, and enhancing political environment.

In spite of the difficult economic environment, the authorities have made an impressive progress in the implementation of the program. All performance criteria and most end September and end December 2014 indicative targets were met. Further, satisfactory progress was made with the structural reforms. Given this strong performance, the authorities are requesting a one year extension of the current ECF program to create a macroeconomic framework for dialogue with their partners, and allow them to complete the ongoing structural reforms. The authorities are also seeking for augmentation of access under the current ECF arrangement to help them mitigate the heightened BOP needs, and catalyze donor support to the budget in the run up of 2015 general election. In addition, it would create room to smoothly negotiate a new program with the authorities after the general elections. Therefore, the authorities seek the support of the Executive Board in completion of the sixth ECF review, and request for extension and augmentation of access.

Program performance

The program remains on track. All quantitative criteria were observed, and indicative targets end September and end December 2014 were broadly met. While the indicative target for pro–poor spending was observed at end September, it was missed at end December 2014 due to the spending cuts related to the 2014 budget adjustment. Progress on the structural reform has been uneven due partially to the delays in technical assistance. Three out of seven structural benchmarks were implemented timely while one was achieved with delay. Satisfactory progress has been made with two other structural benchmarks related to the audit of extra-budgetary arrears and the decree on the organization chart of administrative and financial directors in line ministries. The structural benchmark related to setting of an interface between the Burundian Revenue Authority (OBR), and the Ministry of Finance and Economic Planning was technically impossible until the implementation of the new IT system at OBR is completed. Meanwhile, steps have been taken to improve the sharing of information between the two institutions.

Recent economic developments

Burundi's economic growth continued to gain momentum in 2014 while inflation declined markedly and the current account narrowed slightly. Economic growth was driven by a rebound in coffee production, construction sector, and the implementation of major infrastructure projects, including fiber optics, hydropower and roads. Headline inflation declined owing to the decrease in international oil prices. The latter contributed to improve terms of trade and trade balance by reducing the cost of imports. Notwithstanding this commendable economic performance, poverty and youth unemployment remain high.

The fiscal policy stance remains in line with the program requirements despite the revenue shortfall and dwindling budget support. The authorities endorsed tax measures in July 2014 to address revenue shortfall recorded in the first half of the year to keep the program on track. At the same time, revenue windfall stemming from the removal of fuel subsidies due to the declining international oil prices improved tax collection. However, the delayed disbursement of budget support widened budget deficit at end December 2014 triggering the increase in domestic debt. Nevertheless, it is expected that the situation will be normalized in the first quarter of 2015 upon the disbursement of the budget support from the African Development Bank and World Bank.

With regard to the monetary policy, the Bank of the Republic of Burundi (BRB) utilized the room created by the lower inflation to ease monetary condition. The BRB reduced its policy rate between June and December 2014 to facilitate credit access. The exchange rate remained flexible while the central bank's interventions dampened excess exchange rate volatility. To ensure transparency and credibility of monetary policy, the Monetary Policy Committee has continued to publish quarterly reports since 2013 accompanied by a monetary policy statement announcing the monetary authority's orientation going forward.

Economic outlook and policies

The macroeconomic outlook is favorable due to ongoing public investment in infrastructure which will contribute to boost economic growth. However, notwithstanding the current positive spillovers of low oil prices, external vulnerabilities persist owing to a high volatility of coffee prices, combined with low external financial access. In this regard, the authorities will strive to maintain prudent fiscal and monetary policies to ensure macroeconomic stability. On the structural reforms, more attention will be geared to the main economic growth drivers especially infrastructure, health and education, agriculture, mining sector especially the implementation of nickel project, tourism and regional integration. The authorities will continue to improve business environment to bolster private investment.

Fiscal policy and debt management

In response to lower budget support trend, the authorities will strive to maintain prudent fiscal policy. To that end, the authorities will enhance revenue mobilization and streamline public spending. Although the corrective revenue measures approved in July 2014 are expected to improve domestic resources in the medium term, more efforts are needed to improve the tax ratio to GDP. In this regard, the authorities will continue to strengthen tax administration and widen the tax base, and enhance credibility of the tax policy. Efforts will be made to strengthen the Tax Policy Department in designing and implementing tax policy coherent with the overall fiscal policy objectives. On the expenditure side, the authorities will continue to strengthen expenditure control and seek to create more room to support economic growth. The authorities will also implement the Public Financial Management strategy to strengthen accounting, budget preparation and execution, treasury cash flow management, and management of the Treasury Single Account.

With regard to the debt management, the authorities will strive to source grant and high concessional loans. However, given the scarcity of such resources, the authorities will implement the reforms that will foster the graduation from the high – risk of debt distress. In this regard, the authorities will continue to strengthen debt management capacity, and will make efforts to widen exports base.

Monetary policy and Financial sector development

The central bank will continue to implement monetary policy measures to maintain price stability and exchange rate consistency with the economic fundamentals. In the context of low inflation the authorities will ease monetary conditions while avoiding reigniting inflation pressure. To enhance the effectiveness of the monetary policy instruments, different measures including improving liquidity management, deepening the domestic financial market and enhancing inter – banks monetary market will be taken to reinforce monetary transmission mechanism. Exchange rate flexibility will be maintained while reducing excess volatility through interventions.

The banking system is broadly well capitalized, liquid and profitable. However, given the increased non-performing loans from 10.3 percent in 2013 to 12.5 percent in September 2014, the authorities will strengthen banking surveillance to ensure the soundness of the financial system. Furthermore, in order to enhance intermediation operations and boost credit to the private sector, the authorities will implement measures like the establishment of credit bureau, collateral registry, and improving the supervision of microfinance institutions.

Structural reforms

The authorities will continue to deepen structural reforms to unleash high potential economic growth. They will implement reforms to address the low productivity in agriculture, especially in coffee sector. In addition, to alleviate infrastructure bottlenecks several projects are underway in the energy sector. This will contribute to diversify the economy and develop large country’s mineral potential. Moreover, efforts will also be focused on improving business climate, and enhancing regional integration.

Conclusion

The Burundian authorities are aware that macroeconomic stability is a key pillar to foster economic growth and reduce poverty. In this regard, despite challenging environment, the authorities are committed to maintaining prudent fiscal and monetary policies. In addition, to unlocking the growth potential, they are committed to sustain the momentum to structural reforms to improve productivity, support economic diversification, and enhance regional integration. Further to this, the authorities will mitigate political uncertainty by strengthening the dialogue among key political stakeholders.