

**Burundi: 2002 Article IV Consultation and Use of Fund Resources—Request for Post-Conflict Emergency Assistance—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with Burundi and use of Fund resources—request for post-conflict emergency assistance, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation and use of Fund resources—request for post-conflict emergency assistance, prepared by a staff team of the IMF, following discussions that ended on **August 13, 2002**, with the officials of Burundi on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on September 23, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **October 9, 2002** updating information on recent economic developments.
- a Public Information Notice (PIN) and a News Brief **summarizing the views of the Executive Board as expressed during its October 9, 2002 discussion** of the staff report on issues related to the Article IV consultation and the request for post-conflict emergency assistance, respectively.
- a statement by the Executive Director for Burundi.

The document(s) listed below have been or will be separately released.

Statistical Annex

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

**To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to [Publicationpolicy@imf.org](mailto:Publicationpolicy@imf.org).**

Copies of this report are available to the public from

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

Price: \$15.00 a copy

**International Monetary Fund  
Washington, D.C.**

BURUNDI

**Staff Report for the 2002 Article IV Consultation and Use of Fund Resources—Request for Post-Conflict Emergency Assistance**

Prepared by the African Department

(In consultation with the Legal, Monetary and Exchange Affairs, Policy Development and Review, and Treasurer's Departments)

Approved by Michael Nowak and Martin J. Fetherston

September 23, 2002

- The discussions took place at headquarters during August 1–13, 2002.
- The delegation was headed by Mr. Kadigiri, Minister of Finance, and included Mr. Banyiyezako, Governor of the Bank of the Republic of Burundi.
- The staff team consisted of Mr. Beaugrand (head), Ms. Doizé, Mr. Lopes, Mr. Zoromé (all AFR), and Mr. Hallaert (PDR), and was assisted by Ms. Dupasquier and Mr. Hajji (MAE Consultants). Mr. Campos, Advisor to the Executive Director for Burundi, and Mr. Fofack, Country Economist for Burundi at the World Bank, participated in most of the policy meetings.
- The authorities have agreed to the publication of the staff report following its consideration by the Executive Board.

	Contents	Page
Executive Summary .....		3
I. Introduction.....		5
II. Background and Recent Developments .....		6
A. The Peace Process.....		6
B. Recent Economic Developments .....		7
III. Report on the Discussions.....		10
A. The 2002–03 Program.....		11
Fiscal policy .....		11
Monetary and financial sector issues .....		13
Trade and exchange liberalization .....		14
Structural and other issues .....		15
Program financing.....		17

B.	Medium-Term Scenario .....	18
C.	Program Monitoring, Statistical Issues, and Technical Assistance .....	19
D.	Capacity to Repay the Fund and Program Risks .....	19
IV.	Staff Appraisal .....	20

#### Boxes

1.	The Arusha Peace and Reconciliation Agreement.....	7
2.	Cash Crop Sector.....	9
3.	The External Trade Regime.....	14
4.	The Foreign Exchange System .....	16

#### Figures

1.	Economic and Financial Indicators, 1998–2003.....	24
2.	Exchange Rate Developments .....	25

#### Tables

1.	Projected Payments Obligations to the Fund, 2002–03 .....	26
2.	Selected Economic and Financial Indicators, 1998–2003 .....	27
3.	Central Government Operations, 1998–2003 .....	28
4.	Monetary Survey and Central Bank Accounts, 2000–03.....	29
5.	Balance of Payments, 1998–2003.....	30
6.	External Financing Requirements and Sources, 1998–2003 .....	31
7.	External Public Debt, Arrears, and Scheduled Debt Service, 2000–07.....	32
8.	Balance of Payments, Medium-Term Scenario, 2002–07 .....	33
9.	Indicators of Fund Credit, 2002–07 .....	34

#### Appendices

I.	Letter of Intent .....	35
	Attachment I: Memorandum of Economic and Financial Policies for 2002–03 .....	37
	Table 1. Quarterly Quantitative Indicators for the 2001 Staff-Monitored Program.....	46
	Table 2. Structural Performance Indicators for 2001.....	47
	Table 3. Prior Actions and Structural Indicators Under the 2002–03 Program.....	48
	Table 4. Quantitative Indicators Under the 2002–03 Program .....	49
	Attachment II: Technical Memorandum of Understanding.....	50
II.	Relations with the Fund .....	56
III.	Relations with the World Bank Group.....	58
IV.	Statistical Issues .....	60
V.	Social and Demographic Indicators .....	63

## EXECUTIVE SUMMARY

### Background and recent developments

- Following years of fighting, a Peace and Reconciliation Agreement was signed in Arusha (Tanzania) in August 2000, and a government of national unity was appointed in November 2001. Cease-fire negotiations with all major factions started recently.
- Implementation of a staff-monitored program in 2001 was hampered by continued instability and a consequent holding back of donor support. Nevertheless, economic activity began to recover, and inflation decelerated in 2001. Coffee production has surged, but the lowest world prices in a decade pose major difficulties for the sector.
- Fiscal performance weakened in the latter part of 2001, mainly reflecting expenditure overruns. The external current account deficit also worsened, and the overall balance of payments was financed by a drawdown of official reserves and a buildup of external debt arrears.
- In the face of dwindling foreign exchange reserves, the central bank tightened restrictions and closely steered exchange rate levels to limit exchange rate depreciation.

### The 2002–03 program

- The authorities' priority is to restore a measure of financial stability, in particular through stricter budget implementation, tighter monetary conditions, and more flexible exchange rate management. The program provides for a series of prior actions designed to demonstrate the authorities' resolve and unblock much-needed budgetary support. All the prior actions were implemented by end-August 2002.
- Economic activity has remained subdued but is expected to pick up in 2003. Inflation is projected to accelerate in the latter part of 2002, but would slow in 2003.
- The program is underpinned by a cautious fiscal stance that allows essential social and security needs to be addressed. Overall government revenue remains high, in the vicinity of 20 percent of GDP, and current expenditure is set to decline by 1 percentage point of GDP in both 2002 and 2003. The program provides for the full settlement of debt service due to multilateral creditors and partial payments on the stock of arrears as external support materializes (including from the multidonor trust fund set up to this end by the World Bank).
- The central bank plans to strengthen its monetary policy capacity and pursue objectives that are consistent with program projections. Its main policy objective over the medium-term will be to keep inflation low and preserve the external value of the currency; in the short run the overriding consideration is to restore the orderly functioning of the foreign exchange market and facilitate external adjustment.

- After a period of artificially enforced stability, in late August, the Burundi franc depreciated by 16½ percent (in foreign currency terms) against the U.S. dollar and the central bank initiated a liberalization of the foreign exchange market. The exchange rate differential on the parallel market narrowed from 30 percent in July to about 20 percent in early September and is expected to decline further with the regular holding of weekly foreign exchange auctions.
- In the short run, structural reforms will continue to be geared toward providing an enabling environment for national reconciliation and private sector development. A key priority of the program is to restore profitability in the coffee sector. Various structural reforms are expected to resume as normal conditions and business confidence return.

### **Issues stressed in the staff appraisal**

- Burundi has faced extraordinarily difficult circumstances during the past decade, and its plight in recent years has been compounded by a sharp fall in the terms of trade. The August 2000 Arusha peace agreement laid the groundwork for the rebuilding of the country, the promotion of stability, and the resumption of economic development. The recent opening of direct negotiations between the government and the rebel forces, as well as other peace initiatives in the subregion, provide a basis for cautious optimism for a broad-based settlement and the restoration of stability.
- The Burundi authorities have begun addressing their economic problems and are seeking the support of the international community. The hope is to mobilize a “peace dividend” that would help consolidate the progress made under the Arusha agreement. Burundi has vast external assistance needs, including in the areas of humanitarian aid, reconstruction, capacity building, and budgetary support. The launch of a Fund-supported program is expected to help catalyze external assistance and form the basis for a more ambitious program in the future.
- The program for the remainder of 2002 and the first half of 2003 focuses on key short-term stabilization measures. The authorities should ensure steadfast program implementation and facilitate the coordinated delivery of external aid by donors, which would lay the groundwork for a resumption of economic growth.
- The proposed program entails risks, as Burundi’s overall situation remains fragile. Nevertheless, most observers believe that there is a clear window of opportunity to realize the promises of the Arusha agreement. The strong prior actions implemented by the authorities, notably in the area of exchange liberalization, provide a good basis for initiating economic reforms and addressing economic imbalances. The staff believes that the adoption of a Fund-supported program, if accompanied by the delivery of substantial assistance from Burundi’s external partners, would help consolidate the prospects for lasting peace and economic development in Burundi.

## I. INTRODUCTION

1. Burundi is on the standard 12-month consultation cycle and continues to avail itself of the transitional arrangements under Article XIV. The most recent Article IV consultation was concluded by the Executive Board on March 15, 2000. On that occasion, Directors expressed concern about the severe impact on the country of the drawn-out civil conflict. They noted in particular the destruction of the economic and social infrastructure, the massive displacement of people, and impact of the conflict on the poor. In light of the deterioration of Burundi's macroeconomic and financial situation, Directors recognized that the restoration of macroeconomic stability would largely depend on the reestablishment of peace and the resumption of international assistance. They urged the authorities to begin implementing appropriately strong measures without delay to restore macroeconomic stability, especially in the areas of fiscal, monetary, and exchange rate policies.

2. Security conditions in Burundi have remained precarious in recent months.<sup>1</sup> Nevertheless, Burundi's external partners—including international organizations and bilateral countries—have called repeatedly for a stepping up of aid as a means to support and consolidate the peace process. Against this background, the staff sought to reach understandings with the authorities on a credible package of economic and financial measures that would provide a basis for securing much-needed budgetary support. In this process, the staff maintained close contact with the United Nations, the European Commission, and Burundi's bilateral donors, in order to ensure that conditions were appropriate for the Fund to provide emergency assistance.<sup>2</sup>

3. In a letter to the Managing Director dated September 19, 2002, the Minister of Finance and Governor of the Bank of the Republic of Burundi (BRB) have requested a drawing under the post-conflict emergency assistance policy (Appendix I). The drawing would be in the amount of SDR 9.625 million (12.5 percent of quota) and could be supplemented by another drawing of the same amount in early 2003. A program supported by the Poverty Reduction and Growth Facility (PRGF) could be considered in the course of 2003, subject to the establishment of a solid track record of performance, improvements in economic management capacity, and depending on progress in the peace process. Burundi's outstanding use of Fund resources was SDR 640,000 (less than 1 percent of quota) at end-July 2002, and is scheduled to be fully repaid by year's end. Burundi's projected transactions with the Fund are summarized in Table 1. The rate of charges on the proposed use of the

---

<sup>1</sup> Bujumbura is under Phase III of the UN security advisory system, with the rest of the country under Phase IV.

<sup>2</sup> The staff has obtained confirmation of the upcoming financial support from Belgium, France, and the European Commission during a visit in Brussels and Paris on September 4–5, 2002.

Fund's post-conflict emergency assistance would be subsidized to an annual rate of 0.5 percent. Belgium is leading jointly with France a concerted international effort to help rebuild Burundi's economy.

4. The World Bank resumed its operations with Burundi in April 2000 through an Emergency Economic Recovery Credit (EERC, for US\$35 million). A Transitional Support Strategy (TSS) was approved on March 7, 2002, and an Economic Recovery Credit (ERC, for US\$54 million) was approved on August 29. In addition, a Multisectoral HIV/AIDS Control and Orphans' Project was approved in May 2002. The African Development Bank (AfDB) has suspended its operations in Burundi because of arrears (totaling US\$22 million at end-June 2002). Relations with the Fund are summarized in Appendix II, and relations with the World Bank are in Appendix III. Statistical issues and core statistical indicators are covered in Appendix IV, and selected social and demographic indicators are in Appendix V.

## II. BACKGROUND AND RECENT DEVELOPMENTS

### A. The Peace Process

5. **Ethnic fighting erupted in Burundi in 1993 and continued for the rest of the decade, intertwined at times with conflicts in neighboring countries.** The hostilities started with the ethnically motivated assassination of Burundi's first democratically elected president in October 1993. As a result of the conflict, it is estimated that, by 2000, more than 250,000 Burundi had lost their lives and more than one million had been displaced; meanwhile, real GDP had contracted by almost 30 percent. The long-standing ethnic tensions between Burundi's Hutu and Tutsi populations were also at times reinforced by developments in neighboring countries, especially in Rwanda in 1994 and the Democratic Republic of the Congo in 1997–98.

6. **Following two years of negotiations, a Peace and Reconciliation Agreement was signed in Arusha (Tanzania) in August 2000.** The agreement called for an initial power-sharing arrangement under a national transition government, which, after extensive negotiations, was appointed in November 2001 (Box 1). Nevertheless, sporadic fighting continued, as the agreement was not signed by all factions and thus did not provide for a cease-fire. Since late 2001, the transition government has been implementing the national reconciliation and reconstruction measures envisaged in the agreement.

7. **The recent initiation of cease-fire negotiations has enhanced the prospects for lasting peace in Burundi.** The negotiations started on August 12, 2002 in Dar es Salaam (Tanzania) under the joint chairmanship of President Mkapa of Tanzania and Vice-President Zuma of South Africa. These negotiations have entailed the participation of all major players in the conflict and have already resulted in a draft agreement with one rebel faction. At the same time, however, other factions have continued to launch sporadic attacks within Burundi, especially in the Bujumbura region and the provinces neighboring Tanzania.

### **Box 1. The Arusha Peace and Reconciliation Agreement**

Efforts at bringing peace to Burundi started in 1995, spearheaded by former President Julius Nyerere of Tanzania and, after his death in 1999, by former President Nelson Mandela of South Africa. In June 1998, under the sponsorship of the heads of state of East African nations, 90 representatives from 18 political parties and the government of Burundi began peace negotiations in Arusha that led to a comprehensive power-sharing arrangement in August 2000. However, this agreement did not provide for a cease-fire, and two rebel groups, the Forces for the Defense of Democracy (FDD) and the National Liberation Forces (FNL), were not part of it. In addition, many signatories issued explicit reservations on points of contention in the agreement, to be revisited in the future.

As part of the power-sharing arrangement, a national transition government was appointed in November 2001, with Major General Buyoya (a Tutsi) as President and Mr. Ndayizeye (a Hutu) as Vice-President. Mr. Ndayizeye is to be president from May 2003 onward through the end of the transition period, in October 2004. To promote power sharing, the Arusha agreement also provided for rules to distribute cabinet posts, the expansion of the National Assembly, and the establishment of an ethnically balanced Senate and defense forces. The agreement envisaged the creation of several commissions to facilitate national reconciliation, social reintegration, and institutional capacity building, as well as a series of reforms within the administration, judiciary, military, and economic system. Several of the commissions and new institutions have been created, and full implementation of the remaining steps mostly depends on the conclusion of a cease-fire agreement.

The refugee situation has remained difficult. An estimated 600,000 refugees live in camps along the Tanzania border, and there are some 400,000 internally displaced persons within Burundi itself, which raises the risk that discontent in refugee camps could undermine the national reconciliation efforts. The government has undertaken to promote the voluntary repatriation of refugees, in collaboration with the Tanzanian authorities and the UN High Commissioner for Refugees (UNHCR).

### **B. Recent Economic Developments**

8. **The authorities began addressing economic and financial issues through the implementation of a staff-monitored program (SMP) in the second half of 2001.** The program's main objectives were to stabilize the macroeconomic situation, facilitate the mobilization of external assistance, and lay the groundwork for growth and poverty reduction. To achieve these objectives, the program entailed (a) fiscal consolidation; (b) a restrictive monetary policy and flexible exchange rate policy; (c) improved transparency and good governance; and (d) well-targeted structural reforms, in collaboration with the World Bank and other donors. The authorities hoped that successful implementation of the SMP would quickly lead to the adoption of a program that could be supported by the use of Fund resources.

9. **The implementation of the 2001 SMP was hampered by higher than envisaged military outlays and delays in appointing the government of national unity, and a consequent holding back of donor support.** Although Burundi received substantial humanitarian and project aid, most quantitative targets for end-September and end-December 2001 were not observed, and three of the nine structural measures were not implemented (see memorandum of economic and financial policies (MEFP), para. 4).



10. Mainly reflecting good weather conditions, **economic activity began to recover and inflation decelerated in 2001**. Aided by a rebound in agricultural output and reconstruction activity, real GDP grew by an estimated 2.1 percent in 2001 (Table 2 and Figure 1). Inflation, which had averaged 24 percent in 2000, fell to less than 4 percent in 2001 (end-of-period basis) and turned negative in the first half of 2002, reflecting the increase in supply of basic foodstuffs.

11. **Fiscal performance weakened in the latter part of 2001, mainly reflecting expenditure overruns**. The overall budget deficit (including grants) in 2001 increased to 5.2 percent of GDP, compared with a projected deficit of 1.7 percent under the SMP (Table 3). The primary surplus (excluding interest due and foreign-financed capital outlays) fell from 2.7 percent of GDP in 2000 to 1.1 percent in 2001. Revenue collections improved (to 20 percent of GDP) but less than projected under the SMP. The increase in revenue was more than offset by higher expenditure, especially as regards defense-related outlays. However, there was a hiring of new teachers and health professionals, which raised spending on health and education to 4.5 percent of GDP. The shortfall in external assistance meant that, despite larger-than-projected recourse to domestic bank financing, the government was unable to meet its debt-servicing obligations as planned, and the stock of external arrears rose to US\$116 million (17½ percent of GDP) at end-2001.

12. **The lowest world prices in a decade pose major difficulties for the coffee sector** (Box 2). With the producer price for green coffee unchanged since 1999 and persistently low export prices (on the order of US\$0.5 per pound in 2001 and 2002, compared with more than US\$1 per pound in the late 1990s), the coffee parastatal (OCIBU) has recorded large losses, which have been covered by budget subsidies. Reflecting exceptional weather conditions, the 2002/03 crop is estimated to jump to 35,000 tons, from 16,500 tons in 2001/02. The deficit of the coffee sector reached FBu 5 billion (1 percent of GDP) in 2001/02 and could have doubled in 2002/03 if new measures had not been taken (see para. 34 below).

13. **Broad money growth accelerated to 15 percent in 2001, from 4 percent in 2000, mainly reflecting the expansion in net government credit** (Table 4). The BRB's monetary policy remained largely accommodative, geared toward meeting the financing needs of the central government and the coffee sector.<sup>3</sup> The refinancing rate was kept unchanged at 14 percent throughout 2001 and during the first half of 2002, notwithstanding the slowdown of inflation. The BRB endeavored to control bank liquidity through adjustments in refinance ceilings, which are set on a quarterly basis for each commercial bank.

14. **The external current account deficit (excluding official transfers) worsened to 16 percent of GDP in 2001 from 15 percent in 2000** (Table 5). Despite lower-than-projected imports, the combination of low coffee export revenue and delays in the disbursement of external assistance resulted in a deficit of the overall balance of payments of

---

<sup>3</sup> Crop credits are extended by commercial banks with government guarantees and refinanced in large part by the BRB.

US\$33 million (5 percent of GDP). The 2001 deficit was financed by a drawdown of official reserves of US\$10 million (taking into account Fund repurchases totaling US\$4½ million) and a buildup of external government debt arrears of US\$23 million.

### Box 2. Cash Crop Sector

Coffee is Burundi's most important cash crop, and it provided some 80 percent of total export earnings in the mid-1990s. Following a sharp fall of prices on the international markets—of nearly two-thirds since 1997—the sector has recorded substantial losses from 1996/97 onward.

High-quality arabica coffee accounts for the bulk of the coffee production. For fully washed coffee, farmers take the harvested coffee to one of several coffee-washing stations (SOGESTALS, which consist of five semipublic enterprises); coffee is then sold to one of the two state-owned hulling and bagging factories (SODECOs). For semi washed coffee, the farmers sell their product to traders, who resell it to one of two privately owned hulling and bagging factories (SONICOFF and SIVCA). The hulling factories, in turn, produce green (export-quality) coffee to be sold at auctions, which are generally held in Mombasa (Kenya). The producer price for fully washed coffee has remained unchanged at FBu 500 per kilogram since 2000/01 and has steadily declined in real terms since 1998/99.

The state coffee agency (Office des Cultures Industrielles du Burundi—OCIBU) regulates and coordinates the sector, and formulates government policies and strategies on coffee production, processing, marketing, research, and training. OCIBU is in charge of the remuneration scheme, the collection of coffee levies on behalf of the government, the management of the stabilization fund for the coffee sector, and the repatriation of foreign exchange earnings. (However, price stabilization and export taxes have been suspended in recent years.) OCIBU also establishes quality standards and classification systems, and monitors the financial results and performance of the sector.

The production of tea—Burundi's other main foreign exchange earner—has remained broadly stable at 8,000–9,000 tons in recent years; however, the export price of tea leaves also fell, from nearly US\$2 per kilogram in the late 1990s to US\$1.3 in 2001. In the past, Burundi also exported cotton, but production fell in recent years and is now almost entirely absorbed by domestic industries.

15. **In the face of dwindling foreign exchange reserves, the BRB conducted its auctions less regularly and closely steered exchange rate levels.** The BRB abandoned its dual foreign exchange market in July 2000 and introduced weekly foreign exchange auctions. However, transactions on the auction market remained severely restricted through the imposition of a positive list of imports eligible for foreign exchange on the official market and limits on eligible invisible payments.<sup>4</sup> In addition, the rules governing the functioning of the foreign exchange auction market included discretionary limits on commercial banks' minimum and maximum bid rates for foreign exchange. These restrictions helped contain the depreciation of the Burundi franc from December 2000 to June 2002 at about 10 percent in

---

<sup>4</sup> In June 2001, the list was extensively revised and narrowed further, while the restrictions on services were eased. The list covered about 55 percent of tariff positions in the harmonized system. As indicated below, the restrictive list was eliminated in August 2002.

both nominal and real effective terms (Figure 2). However, foreign exchange pressures spilled over to the parallel market, where the differential with the official rate (in foreign currency terms) remained on the order of 25 percent for most of that period and rose to about 30 percent in July 2002.<sup>5</sup>

16. **In the area of structural reforms, the government's agenda focused on the implementation of measures envisaged in the Arusha agreement.** Thus, priority was given to setting up institutions and committees, and developing programs to facilitate political stability and social rehabilitation. As part of the SMP, the government moved forward with important reforms in the area of tax administration, and prepared plans to privatize public enterprises and change prices and marketing arrangements for agricultural products. In addition, the government made substantial progress in preparing an interim poverty reduction strategy paper (I-PRSP).

### III. REPORT ON THE DISCUSSIONS

17. **The discussions were held against the background of the Arusha agreement.** In particular, the mission reviewed with the authorities their progress in taking the key steps envisaged under the peace process, mobilizing humanitarian assistance and repatriating refugees, rebuilding infrastructure and institutional capacity, and promoting equitable growth through market-based economic reform.<sup>6</sup> The staff underscored, and the authorities concurred, that Burundi should take full advantage of the ongoing concerted international effort to promote lasting peace, reduce poverty, and lay the groundwork for sustainable development.

18. **The authorities explained that their short-term priority was to restore a measure of financial stability, in particular through stricter budget implementation, tighter monetary conditions, and more flexible exchange rate management.** In turn, a better coordination of fiscal, monetary, and exchange rate policies, coupled with emergency measures to reduce the deficit of the coffee sector, would enhance competitiveness and improved resource allocation. The authorities hoped that progress in the implementation of their economic and financial program would help them mobilize external assistance, including budgetary support, which, in turn, would facilitate the funding of priority programs crucial for the consolidation of peace, as well as the replenishment of the BRB's foreign currency reserves.

19. **The Article IV consultation discussions and program negotiations centered on the reforms needed to improve the functioning of the foreign exchange market.** The authorities and the staff concurred that the large exchange rate differential on the parallel

---

<sup>5</sup> The exchange restrictions are further described in Box 4 below.

<sup>6</sup> The economic aspects of the peace process are contained in Title IV of the Arusha agreement ("Reconstruction and Development") and described in greater detail in its Annex IV.

market had to be addressed as a matter of urgency, in view of the distortions and the scope for corruptive activities that may be involved. The authorities readily agreed on the importance of adequate mechanisms for the allocation of foreign exchange, but they were concerned that rapid liberalization might put excessive pressures on the exchange rate and generate inflation. The staff indicated that such pressures could be contained through appropriate demand management policies as part of a comprehensive economic and financial program, and with external financial support.

#### **A. The 2002–03 Program**

20. **The authorities and the staff agreed on the importance of launching a strong and credible program that addressed up-front the challenges at hand.** Accordingly, the program provides for a series of prior actions designed to demonstrate the authorities' resolve and unblock much-needed budgetary support (see MEFP, Table 3). All these actions were implemented by end-August 2002, which was two weeks after the conclusion of the discussions with the staff at headquarters (on August 13). The rapid progress in program implementation was instrumental in securing approval of the World Bank's ERC on August 29.

21. **Economic activity has remained subdued, although it is expected to pick up in 2003.** Preliminary indications point to a real GDP growth rate of 3½ percent in 2002, reflecting a strong expansion of food and cash crops, and buoyant construction activity. For 2003, the authorities project a further increase in the growth rate to 5 percent, despite an assumed return of average weather conditions, prompted by a recovery of manufacturing and trade, as well as by sustained increases in construction activity. Taking into account the impact on prices of the exchange rate depreciation that is expected to follow the liberalization of the foreign exchange auction market, inflation is projected to accelerate in the latter part of 2002, but is targeted to slow to 5 percent by end-2003 (Table 2).

22. **The program aims at containing external imbalances within levels that can be financed by external grants and concessional loans.** The external current account deficit (excluding grants) is projected to narrow in 2002, but would increase in 2003 (Table 5). This projection is predicated on an increase in gross national savings by 1 percentage point of GDP in 2002 and again in 2003, mainly reflecting a substantial improvement in the central government position. Gross investment would continue recovering to reach 11 percent of GDP in 2003, compared with 8–9 percent in recent years (Table 2).

#### **Fiscal policy**

23. **The program for 2002–03 is underpinned by a cautious fiscal stance that will still allow essential social and security needs to be addressed.** Fiscal management is to be coordinated with monetary and exchange rate policies, so as to contain inflationary pressures, improve competitiveness, and support growth. These objectives are underscored in the revised 2002 budget adopted by the National Assembly on August 27, 2002. The revised budget aims at raising the primary surplus (excluding foreign-financed capital outlays) from

1.1 percent of GDP in 2001 to 1.8 percent in 2002. Preliminary budget projections provide for a further increase in the primary surplus to more than 3 percent of GDP in 2003. The overall government deficit including grants would decrease from 6.8 percent of GDP in 2001 to 6.2 percent in 2002 and 5.6 percent in 2003 (Table 3).

24. **Government revenue is projected to remain in the vicinity of 20 percent of GDP in 2002 and 2003.** This ratio is high by regional standards, especially considering the low level of per capita income in Burundi. The revenue targets hinge on larger customs revenue collections in the latter part of 2002 as a result of the resumption of external balance of payments support and exchange liberalization. The authorities are focusing their efforts on improving tax and customs administration. A large-taxpayer unit is being set up in Bujumbura, with technical assistance from the Fund and financing from donor sources. Improvements in tax administration and measures to strengthen customs operations—especially through tightened controls over exemptions—would allow the authorities room in 2003 to begin reducing tariff rates, ahead of the adoption of the common external tariff of COMESA (the Common Market for Eastern and Southern Africa) scheduled for 2004. With the expected stepped-up humanitarian and project aid disbursements, grants are to increase from 1½ percent of GDP in 2001 to 2½ percent in 2002.

25. **Total expenditure is programmed to decline in 2002 by 1 percentage point of GDP, and again slightly in 2003.** Waning security outlays would allow larger allocations for the social sectors. While remaining high overall, military expenditure is set to fall from 8 percent of GDP in 2001 to 7 percent in 2002 and 5½ percent in 2003 (Table 3).<sup>7</sup> No general increase in government wages has been granted in 2002, and allocations for goods and services have been lowered (compared with the original budget) in the revised 2002 budget. Transfers and subsidies are projected to increase in 2002 and decrease in 2003, mainly reflecting the planned phasing out of subsidies to the coffee sector and the nonrecurrence of legal expenses (totaling US\$4 million, or 0.6 percent of GDP) effected in the first half of 2002.<sup>8</sup> To help ensure attainment of the revised budget targets, the Minister of Finance has issued an order to set monthly ceilings on expenditure commitments. Social expenditures, including the hiring of new health and education professionals, have been safeguarded in the revised budget, and the authorities expect them to be further enhanced by a peace dividend (through lower military spending and stepped up donor support) in 2003. The

---

<sup>7</sup> Together with other countries in the central Africa region, Burundi is expected to benefit from donors' assistance for disarmament, demobilization and reintegration, including through the Multi-Country Demobilization and Reintegration Program coordinated by the World Bank, under a project approved in April 2002.

<sup>8</sup> The large legal expenses in 2002 stemmed from an arbitration of the ICSID (the International Center for the Settlement of Investment Disputes) rendered in 1999. The decision against Burundi was made in connection with a claim from a private company whose tax exemptions obtained in 1993 under the export processing zone regime were abruptly withdrawn in 1995.

capital budget is being financed largely (80 percent) from external resources, and focuses on essential rehabilitation and reconstruction needs (notably schools, hospitals and roads).<sup>9</sup>

26. **The authorities attach high priority to the normalization of relations with external creditors.** The program for 2002–03 provides for the full payment of debt service due to multilateral creditors and partial payments on the stock of arrears as external support materializes (including from the multidonor trust fund set up to this end by the World Bank). The authorities intend to develop rapidly a strategy for clearing all remaining arrears, which would need to be finalized before consideration of a program that could be supported under the PRGF (see MEFP, para. 20).

### **Monetary and financial sector issues**

27. **The BRB plans to strengthen its monetary policy capacity and pursue objectives that are consistent with program projections.** Over the years, despite a difficult environment, the central bank has generally adhered to prudent policies aimed at containing inflationary pressures, but it had at times to accommodate large government financing requirements and refinancing needs of banks lending to the coffee sector. The BRB's main policy objective in the medium-term remains to keep inflation low and preserve the external value of the currency. However, in the short run the overriding consideration is to restore an orderly functioning of the foreign exchange market and facilitate external adjustment. Accordingly, the authorities are prepared to contemplate further exchange rate adjustments, if needed, in order to ensure the profitability of its main exports and eliminate any excess demand on the foreign exchange auction market (see MEFP, para. 22). To improve its capacity in the areas of policy formulation and implementation, the BRB expressed its wishes to benefit from technical assistance from the Fund.

28. **Following the recent depreciation of the Burundi franc, the BRB raised its base interest rate and stands ready to intervene more actively, if necessary.** The refinancing rate was increased from 14 percent to 15½ percent on August 28. The BRB does not have at present indirect instruments of monetary policy, and it resorts essentially to refinancing ceilings to control bank liquidity. From October 2002 onward, the refinance ceilings will be set on a monthly basis, rather than quarterly as in the past, and these will be readjusted as needed—depending, in particular, on the timing of aid disbursements—in order to achieve the net domestic assets targets.<sup>10</sup>

---

<sup>9</sup> A comprehensive review of public expenditure is under way with assistance from the World Bank.

<sup>10</sup> The BRB stands ready to readjust its base interest rate in the coming months, in order to ensure that inflation is kept under control. Required reserves for commercial banks are presently set at 7.5 percent on all deposits, and are unremunerated. Before considering changes in the system (such as the remuneration of reserves, or perhaps a lower ratio), the BRB would need to develop alternative instruments to control bank liquidity.

29. **The authorities intend to limit broad money growth to about 15 percent in 2002 and 12 percent in 2003** (Table 4). To achieve this objective, the program envisages a reduction in net bank credit to the government of FBu 4 billion in 2002. A further reduction is projected for 2003, so as to provide room for the credit needs of a recovering private sector and help consolidate the external reserves position.

30. **The staff stressed the importance of ensuring full compliance with prudential requirements.** The authorities indicated that the financial position of the commercial banks was sound overall, and that as a rule they all met three key prudential ratios (on solvency, liquidity, and the term structure of assets and liabilities—MEFP, para. 24). Provisioning was thought to be adequate, but it was recognized that the BRB lacked sufficient resources to conduct frequent on-site inspections. The BRB also expressed its interest in securing Fund technical assistance to enhance bank supervision.

### **Trade and exchange liberalization**

31. **The authorities reiterated their commitment to trade liberalization, notably in the regional context of the COMESA trade arrangements.** Burundi's level of protection remains high, with average import tariffs of 35 percent and a high maximum tariff of 100 percent.<sup>11</sup> Most nontariff barriers, however, have now been lifted (Box 3). As part of the COMESA protocol, which will eventually eliminate tariffs on intramembers trade, the government plans to effect initial reductions in tariffs in 2003.

#### **Box 3. The External Trade Regime**

While Burundi's trade regime remains restrictive, broad liberalization measures are under way. The average unweighted tariff rate of 29 percent is combined with a 6 percent service fee. Moreover, imports of textiles face a surcharge of 4 percent, which protects the state-owned local producer. Exemptions from duty are relatively high, averaging some 15 percent of imports value in recent years. The tariff schedule (unchanged since 1989) is under revision, especially in view of Burundi's commitment to join the COMESA free trade area by 2004. Goods originating from COMESA benefit from a 60 percent reduction of the most-favored-nation duty rate.

Many nontariff barriers have been lifted. Licensing requirements and quantitative restrictions were abolished in 1992. The restrictive list of imports eligible for foreign exchange on the auction market was eliminated on August 28, 2002. However, some nontariff barriers remain. For instance, exports of coffee remain largely subject to state trading. In addition, minimum values are used for imports of some goods, which is inconsistent with World Trade Organization (WTO) guidelines on customs valuation. Burundi intends to implement these guidelines with technical assistance from the WTO.

A total of 37 types of goods are subject to export duties of 5–10 percent, while a special tax on coffee exports (set at 31 percent) has not been enforced since 1999, in view of the losses of the sector. All export taxes and duties are to be eliminated effective January 1, 2003.

<sup>11</sup> Based on the high level of tariffs and moderate nontariff barriers, the Fund's index of trade restrictiveness for Burundi is estimated at 8 (on the standard 1–10 scale, with 10 being the highest).

32. **After a period of artificially enforced stability, Burundi recently began shifting to a more flexible exchange rate policy.** In late August, the BRB allowed the Burundi franc to depreciate by 16½ percent (in foreign currency terms) against the U.S. dollar and began implementing measures to liberalize the foreign exchange market (Box 4). The BRB intends to respond to market conditions and reduce uncertainty with regard to the availability of foreign exchange on the official market. As indicated above, the authorities aim primarily at improving the functioning of the foreign exchange market and ensuring an adequate level of competitiveness. This implies, in particular, balancing rapidly the operations of the coffee sector (in conjunction with sector-specific measures, as described below). As supply improves on the auction market, and with a gradual return of confidence, this should result in a substantial convergence of exchange rates on the official and parallel markets. Already, the exchange rate differential narrowed from 30 percent in July to about 20 percent in early September, and it is expected to decline further with the regular holding of weekly foreign exchange auctions. In addition, the more flexible exchange rate auction mechanism will facilitate attainment of the central bank's reserve target.

### **Structural and other issues**

33. **In the short run, structural reforms will continue to be geared toward providing an enabling environment for national reconciliation and private sector development.** In 2002–03, the government will focus on putting in place the commissions envisaged in the Arusha agreement and on implementing their agendas. In particular, the authorities intend to set up a national commission to assist victims (Commission nationale de réhabilitation des sinistrés—CNRS); its mandate is key to economic and social recovery, and it could serve as an important vehicle to channel donor support. To promote job creation, the government is also giving priority to labor-intensive projects under its public investment program, with donor assistance.

34. **Restoring profitability in the coffee sector is a key priority of the program.** The authorities anticipate that a depreciated exchange rate will benefit export competitiveness, particularly for the coffee sector. However, with poor prospects for a recovery in coffee prices over the medium term, they also expressed the view that sectoral policy would have to be reviewed to reassess producer prices, encourage marginal producers to take up other crops, and reduce processing costs. In the short run, the authorities have adopted a series of measures designed to lower charges and levies—including the processing margins of the coffee parastatal (OCIBU) and other intermediaries. With these measures, as well as the recent exchange rate depreciation, the financial balance of the coffee sector is projected to turn into a surplus in the 2002/03 crop year for the first time in five years.



#### **Box 4. The Foreign Exchange System**

With the advent of hostilities, the authorities used restrictions on foreign exchange sales in an effort to ensure availability of foreign exchange for imports deemed of higher priority. Thus, during 1994–99, foreign exchange sales and exchange rates remained closely steered by the BRB, which followed a policy of sporadic and controlled depreciation.

In November 1999, the BRB allowed residents to keep foreign exchange deposits in domestic commercial banks and authorized the opening of foreign exchange bureaus. As a first step towards greater liberalization, the BRB also created a “second official market” for foreign exchange, where rates and amounts could be freely transacted between banks and foreign exchange bureaus. However, this market remained thin, since surrender requirements at official market rates continued to be applied to revenues from Burundi’s major exports. To delineate clearly access to the official market, the central bank established a positive list of import categories eligible for its foreign exchange. With the persistence of a large spread between the two official rates, this measure led to a multiple currency practice and a thriving parallel market.

The two official markets were unified in July 2000, with the introduction of weekly foreign exchange auctions (*marché aux enchères de devises*) under central bank supervision. This removed a multiple currency practice, but the BRB left in place the positive list of eligible imports and the 100 percent surrender requirement for coffee, tea, and cotton exports (compared with a 70 percent requirement for other merchandise and a 50 percent requirement for services receipts). In practice, the foreign currency auctions were not held weekly as envisaged, but rather sporadically at the central bank’s initiative, and limits were set on maximum and minimum bid rates. This situation translated into a multiple currency practice, insofar as imports and invisibles payments excluded from the BRB’s list had, in effect, to be secured through the parallel market. (While commercial banks rely on the official exchange rate for their transactions, their own resources in foreign exchange are very limited.) As a result of these restrictions, the exchange rate differential with the parallel market remained in a 20–25 percent range.

Under the program, the authorities are liberalizing the foreign exchange auction market. The positive list was eliminated on August 28, 2002. The auction conducted on that day resulted in an exchange rate of FBu 1,062 per U.S. dollar, compared with a rate of FBu 885 in the previous auction. The BRB intends to hold weekly foreign exchange auctions on a regular basis. Upper bidding limits have de facto been lifted and will be formally eliminated when the BRB adopts new rules regulating the auction market by end-2002. The new rules will also provide for a uniform surrender requirement (70 percent for all goods). The remaining exchange restrictions include a limit on travel allowances (US\$2,000) and discretionary controls for services payments.

The authorities expressed their intention to accept the obligations under Article VIII, Sections 2, 3, and 4, once Burundi’s economic and social conditions have been normalized.

35. **Transparency and control over government finances are essential to ensure accountability.** The government plans to enhance budgetary control by setting up in 2003 an independent auditing court (*Cour des comptes*) that will supplement current procedures with

the auditing services of the Ministry of Finance.<sup>12</sup> To this end, it will submit to parliament the draft legislation on the new court by March 2003. In the meantime, supervision of budget operations remains the responsibility of the auditing service of the Ministry of Finance (see MEFP, para. 28).

36. **The government plans to initiate a census of the civil service in 2003.** This census will enable payrolls to be assessed accurately. The payrolls will also be managed under a new system, to be set up in 2003 at the Ministry of Finance with technical and financial assistance from donors. Although civil service management will have to accommodate the reintegration of currently displaced civil servants and the staffing implications of the ethnically balanced institutions envisaged in the Arusha agreement, new positions during 2002–03 are to be limited to the health, education, and justice areas, as well as to the newly set up institutions; meanwhile, redeployment of existing staff will be pursued in other departments.

37. **Other structural reforms aiming at private sector development are expected to be formulated once normal conditions and business confidence have been restored in Burundi.** Such circumstances are essential, inter alia, for the resumption of the privatization program, which has been on hold for lack of investor interest since the outbreak in fighting in 1993. In the meantime, the authorities will monitor closely the remaining public enterprises and seek to put in place adequate safeguards for their efficient operation.

#### **Program financing**

38. **The financing gaps under the program are projected at US\$50 million in 2002 and US\$183 million in 2003** (Table 6). The projections take into account the increase in humanitarian and project assistance expected out of funds already pledged at two earlier donors' conferences.<sup>13</sup> For 2002, the gap reflects in part the need to settle debt service due to multilateral institutions, while the 2003 gap includes the clearance of the stock of external arrears that is projected at end-2002 (US\$129 million—see Table 7). The program also provides for modest increases in the BRB's international reserves position.

39. **The 2002 gap is expected to be covered through program loans and grants (US\$37 million) and the proposed drawing from the Fund (US\$13 million).** Program loans and grants, as part of a concerted international effort to support Burundi's reconstruction and development efforts, would be provided by the World Bank, the European Union, Belgium, France, and other bilateral donors. Parts of the bilateral contributions are to be channeled through a multidonor trust fund for debt service that has been set up by the World Bank. Should balance of payments assistance exceed program projections, the

---

<sup>12</sup> The authorities initially planned to set up a General Auditor's Office in 2001; however, they did not finalize plans in this regard because of internal divergences of views over its form. The auditing court planned for 2003 would be consistent with the agenda set out under the Arusha agreement.

<sup>13</sup> Pledges made in the context of the donors' conferences in Paris in December 2000 and in Geneva in December 2001 totaled US\$830 million.

authorities would allow for a larger buildup of external reserves equivalent to at least one-half of the additional resources. The 2003 financing gap is expected to be covered through debt relief from the Paris Club and other bilateral creditors (which would be a first for Burundi); program grants and loans; and the possible further use of Fund resources.

## **B. Medium-Term Scenario**

40. **The authorities and the staff agreed that, at this juncture, the preparation of a medium-term scenario is highly tentative and subject to considerable uncertainty.** Accordingly, the scenario drawn up by the staff is essentially illustrative, and highlights Burundi's vulnerability to external trade shocks and its foreseeable dependency on external assistance, even if political and economic conditions normalize rapidly. While the projections assume continued reliance on traditional economic activities, they also highlight the importance of diversifying the economy and improving the allocation of resources, notably by establishing an overall regulatory environment conducive to private investment.

41. **At present, the main vulnerability relates to coffee export prices.** The baseline scenario indicates that increases in both the output and price of coffee would raise export revenue from 2004 onward. However, imports would rise even faster because of Burundi's reconstruction needs and the stronger GDP growth. The current account deficit would deteriorate (in U.S. dollar terms), but the financing gap would remain broadly stable, thanks to the expected inflows of foreign assistance to support the peace and reconstruction process. Under this scenario, the external current account deficit (excluding grants) would decline gradually from 19 percent of GDP in 2003 to 15 percent by 2007, and financing gaps would remain at US\$50–60 million annually (or some 7 percent of GDP) over the same period. Under higher or lower coffee price assumptions, the external deficit and financing gap could turn out smaller or larger, respectively, by 3–4 percent of GDP (Table 8).<sup>14</sup>

42. **Burundi's medium- and long-term prospects depend in large part on the full restoration of peace, strengthened domestic policies, and the delivery of external assistance, including debt relief.** The return to normalcy is a prerequisite for a resumption of private sector investment, especially from foreign sources, which in turn is essential for public enterprise privatization and economic diversification. In view of the large external financing gaps, and the extensive needs for reconstruction and rehabilitation, Burundi clearly depends on large-scale external assistance; prospects for economic development would improve further when the country eventually obtains relief on its external debt. However, the delivery of project and program aid remains tied to progress in the peace process.

---

<sup>14</sup> The baseline scenario relies on World Economic Outlook (WEO) projections for arabica prices. Under the low-case and high-case scenarios, coffee prices are 50 percent lower or higher, respectively, than in the baseline scenario.

### C. Program Monitoring, Statistical Issues, and Technical Assistance

43. **The authorities' letter of intent includes structural and quarterly quantitative indicators through June 2003** (Appendix I, Attachment I, Tables 3 and 4). The definitions and adjusters for the financial indicators are described in the technical memorandum of understanding (Appendix I, Attachment II). Consideration of a request for a second drawing under the post-conflict emergency assistance policy would depend in part on progress in meeting the program targets at end-September, and on prospects for achieving the program's objectives over 2002 as a whole.

44. Despite the disruptions caused by many years of hostilities, **the availability of statistics for the conduct of surveillance has remained good overall, although their reliability is questionable in some cases.** The BRB, in particular, continues to compile extensive data and publishes a monthly statistical bulletin that covers most areas of economic and financial activity. Nevertheless, the authorities recognized the importance of improving the quality of data, with the assistance of external partners, not only as regards national accounts, but also the balance of payments and government finance.

45. **Burundi's administrative and institutional capacity appears adequate to launch a post-conflict program.** The comprehensive data supplied and the wide-ranging views exchanged as part of the Article IV consultation discussions clearly suggested the presence of a well-functioning administration. However, the authorities also expressed extensive needs for technical assistance, including in the area of policy formulation. Among various priorities, the staff would underscore the importance of developing analyses and instruments for monetary and exchange rate policies; improving tax and customs administration; strengthening expenditure control and treasury cash management; and improving the compilation of external debt statistics. The authorities indicated that they would seek to mobilize technical assistance in all these areas as early as possible.

### D. Capacity to Repay the Fund and Program Risks

46. **Burundi is expected to be able to meet its financial obligations to the Fund in a timely manner.** Despite facing challenging circumstances since the early 1990s, the BRB has had a generally good record in discharging its financial obligations to the Fund. Under program projections, outstanding use of Fund credit would peak at 24 percent of exports of goods and nonfactor services in 2003; financial obligations due to the Fund would represent 8 percent of export receipts by 2005. The ratios relative to gross official reserves would also improve over time (Table 9).

47. **While Fund support to Burundi appears warranted at this stage, the risks facing the program are significant.** In view of the prevailing unsettled conditions, a further deterioration in security conditions cannot be ruled out. This would undoubtedly complicate the task of the authorities and could prevent attainment of some of the program's objectives, in particular as regards the fiscal consolidation and social expenditure priorities, which hinge on a peace dividend and domestic normalcy. Nevertheless, in the staff's views, these risks

must be viewed against (a) the authorities' strong commitment to the program, as underscored by the rapid implementation of all prior actions and (b) the broad support of the international community to advance the Arusha peace process. Fund support would help catalyze external assistance and thus consolidate the benefits of the peace agreement.

#### IV. STAFF APPRAISAL

48. **Burundi has faced extraordinarily difficult circumstances during the past ten years.** The civil war that started in 1993 claimed many lives and resulted in more than one million refugees and internally displaced persons, while much of the infrastructure fell into disrepair. In recent years, Burundi's plight has been compounded by a sharp deterioration in the terms of trade, as export prices of coffee—Burundi's main foreign exchange earner—have fallen by nearly two-thirds since 1997.

49. **The Arusha peace agreement of August 2000 provided a basis to start rebuilding the country, promote stability, and resume economic development.** However, the implementation of the agreement was delayed, and the transition government of national unity did not take office until November 2001. Progress in restoring peace was complicated by the fact that two rebel groups refused to sign the agreement and continued to launch sporadic attacks within Burundi. Deteriorating security conditions in late 2001 prompted the authorities to increase military outlays, which explained in large part the deviations recorded during the last quarter of 2001 under the staff-monitored program. The recent opening of direct negotiations between the government and rebel forces, as well as other peace initiatives in the subregion, provide a basis for cautious optimism for a broad-based settlement and the restoration of stability.

50. **The Burundi authorities have begun addressing their economic problems and are seeking the support of the international community.** Like the authorities, many foreign partners—including Belgium, France, the European Union and the UN—have called for an internationally concerted effort to buttress the recovery process and thus mobilize a peace dividend that would help consolidate the progress made under the Arusha agreement. Burundi has large external assistance needs, including in the areas of humanitarian aid, reconstruction, capacity building, and budgetary support. The launch of a Fund-supported program is expected to help catalyze external assistance and provide the basis for a more ambitious program in the not-too-distant future. Such a program will require the elaboration of a comprehensive medium-term macroeconomic and structural policy framework.

51. **The program for the remainder of 2002 and the first half of 2003 focuses on key short-term stabilization measures.** At this early stage in the process of reestablishing sound macroeconomic conditions, the authorities are addressing primarily the urgent needs to strengthen fiscal management and reform the foreign exchange auction market, while also adopting measures to reduce the deficit of the coffee sector and restore its competitiveness. Economic growth is projected to remain subdued in 2002, despite a strong increase in coffee output, but activity is expected to pick up in 2003 as economic and financial measures take

hold and external support increases. The authorities should ensure steadfast program implementation and facilitate donors' coordination in the delivery of external aid, which would provide the basis for a resumption of economic growth.

52. **The revised central government budget approved by parliament in August 2002 is appropriately tight and realistic.** Overall revenue remains high, at nearly 20 percent of GDP, and measures to improve the efficiency of the tax system are under way. The authorities' priority is to rein in spending while ensuring the delivery of key public services, especially the relocation of refugees and rebuilding of the health and education systems. Improved expenditure control will be important for meeting these objectives. The staff notes that military and security-related expenditure continues to absorb a large share of current outlays but welcomes the planned reduction from the high level recorded in 2001. As Burundi's situation normalizes, it is expected that military spending would decline further to make room for high-priority outlays.

53. **The central bank's monetary and exchange rate policies are playing a greater role in the authorities' macroeconomic framework.** Already, the BRB has initiated a wide-ranging liberalization of the exchange market, resulting in an up-front depreciation of the Burundi franc (of 17 percent in foreign currency terms) and an increase in the refinancing rate. The staff believes that the recent adjustment has brought the real effective exchange rate to a level closer in line with economic fundamentals. Together with the regular holding of foreign exchange auctions and a more active use of monetary policy instruments, these measures have narrowed the differential between the official and parallel market exchange rates. Over time, it will be important for the BRB to improve its capacity to monitor and control bank liquidity, and to develop more flexible monetary policy instruments.

54. **The authorities' structural reform agenda includes steps envisaged under the Arusha agreement and urgent measures to improve efficiency and accountability.** Planned reforms include setting up a national commission to assist victims (refugees and other people adversely affected by the conflict) and taking preparatory steps to establish an auditing court. The authorities are also taking measures to improve financial performance in the coffee sector, which would also help restore competitiveness. The authorities should monitor developments closely in this respect and should stand ready to adopt further cost-cutting measures, if needed, to ensure that the deficit of the coffee sector is eliminated fully by the end of the 2002/03 crop year.

55. **The authorities intend to request a second post-conflict drawing in early 2003 and develop a more comprehensive economic and financial program at a subsequent stage.** The staff urges the authorities to establish a strong track record of performance under their program, which would speed up the delivery of external assistance and lay the groundwork for a PRGF-supported program and a decision point under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative).

56. **The proposed program for 2002–03 entails risks, as Burundi's overall situation remains fragile.** Notwithstanding the delay in concluding a cease-fire agreement, most

observers believe that there is a clear window of opportunity to realize the promises of the Arusha Peace and Reconciliation Agreement. The strong prior actions implemented by the authorities, notably in the area of exchange liberalization, provide a sound basis for initiating economic reforms and addressing economic imbalances in Burundi. Donor support is also essential to the program, and the staff has obtained assurances from key donors that their support will resume as expected. The staff believes that the adoption of a Fund-supported program would help consolidate the prospects for lasting peace and economic development in Burundi.

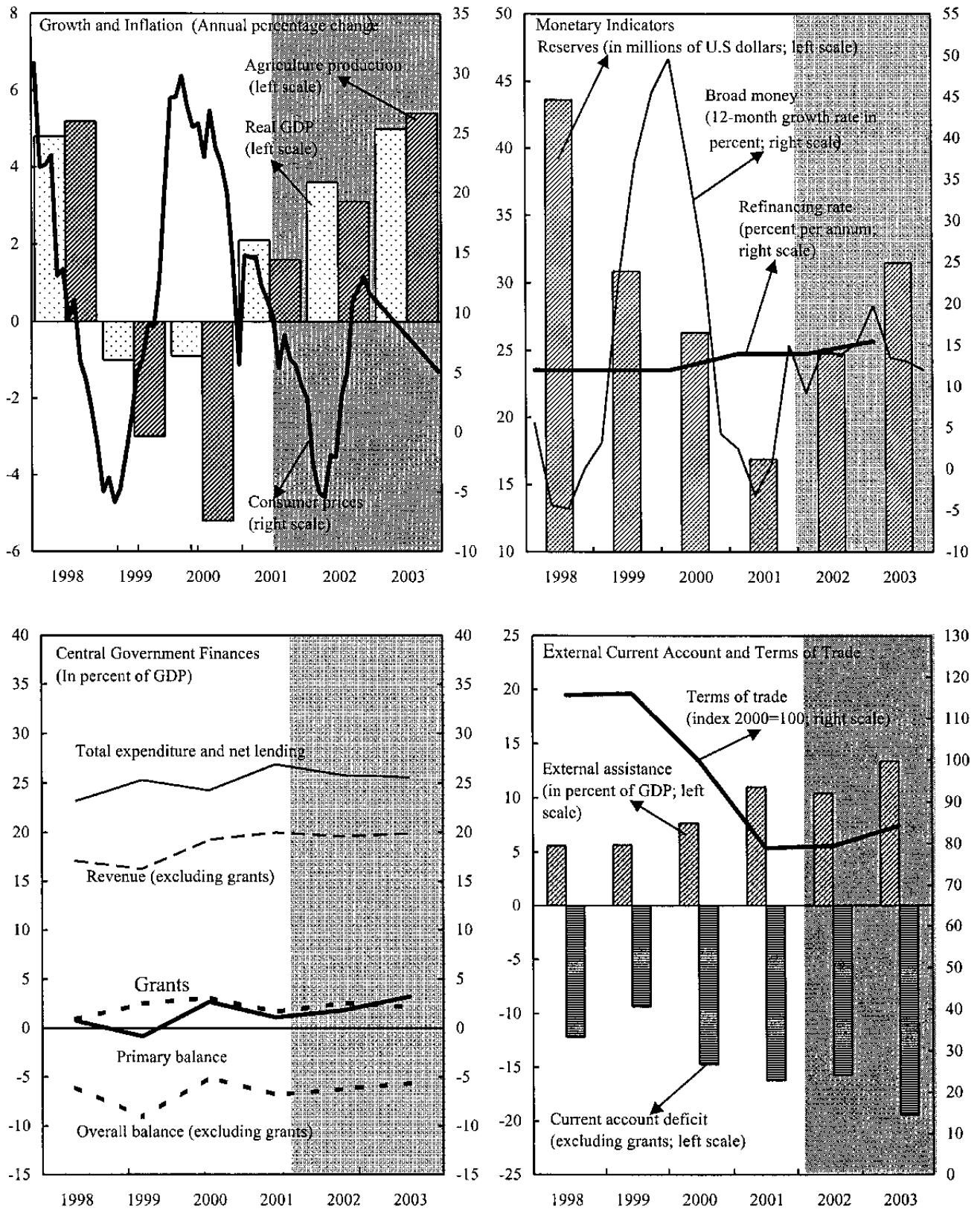
57. **Burundi maintains exchange restrictions that are subject to Fund approval under Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.** The staff welcomes the recent decision to eliminate the list of goods eligible for foreign exchange on the official auction market, which largely eliminated an exchange restriction and multiple currency practice. The authorities intend to relax the remaining restrictions gradually as the macroeconomic and financial situation improves. In the absence of a clear timetable for their removal, the staff does not recommend approval of these exchange restrictions at this stage.

58. **Burundi's statistical base is weak, but the authorities have been able to provide the staff with the key data required for Fund surveillance.** Efforts are under way to improve the compilation of statistics, and the country could benefit from extensive technical assistance in this area. The authorities are also seeking technical assistance, notably from the Fund, in the area of public finance management, and monetary and exchange rate policies. The staff hopes that the return of peaceful conditions in Burundi will allow extensive technical assistance to be provided rapidly.

59. **The staff recommends approval of the authorities' request for a drawing under the post-conflict emergency assistance policy.** In the staff's view, Burundi meets the conditions for post-conflict assistance: (a) it has an urgent balance of payments need; (b) its institutional and administrative capacity has been disrupted as a result of the conflict; (c) there is nonetheless sufficient capacity for policy planning and implementation—although Burundi may not yet be in a position to develop and implement a comprehensive economic program that could be supported by a Fund arrangement—as well as demonstrated commitment on the part of the authorities; and (d) Fund support would be part of a concerted international efforts to address the aftermath of the conflict. The Fund would thus help catalyze assistance from other official sources and contribute to a consolidation of the peace process in Burundi.

60. The staff recommends that the next Article IV consultation with Burundi be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

Figure 1. Burundi: Economic and Financial Indicators, 1998-2003 <sup>1/</sup>

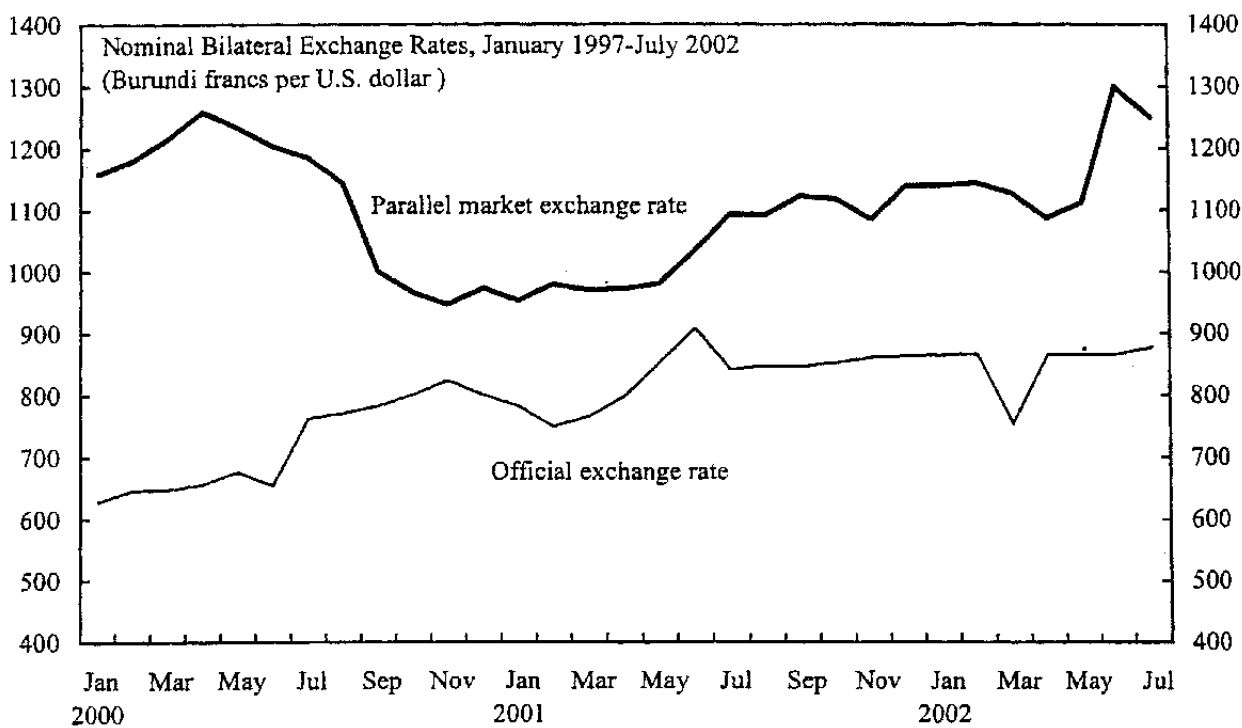
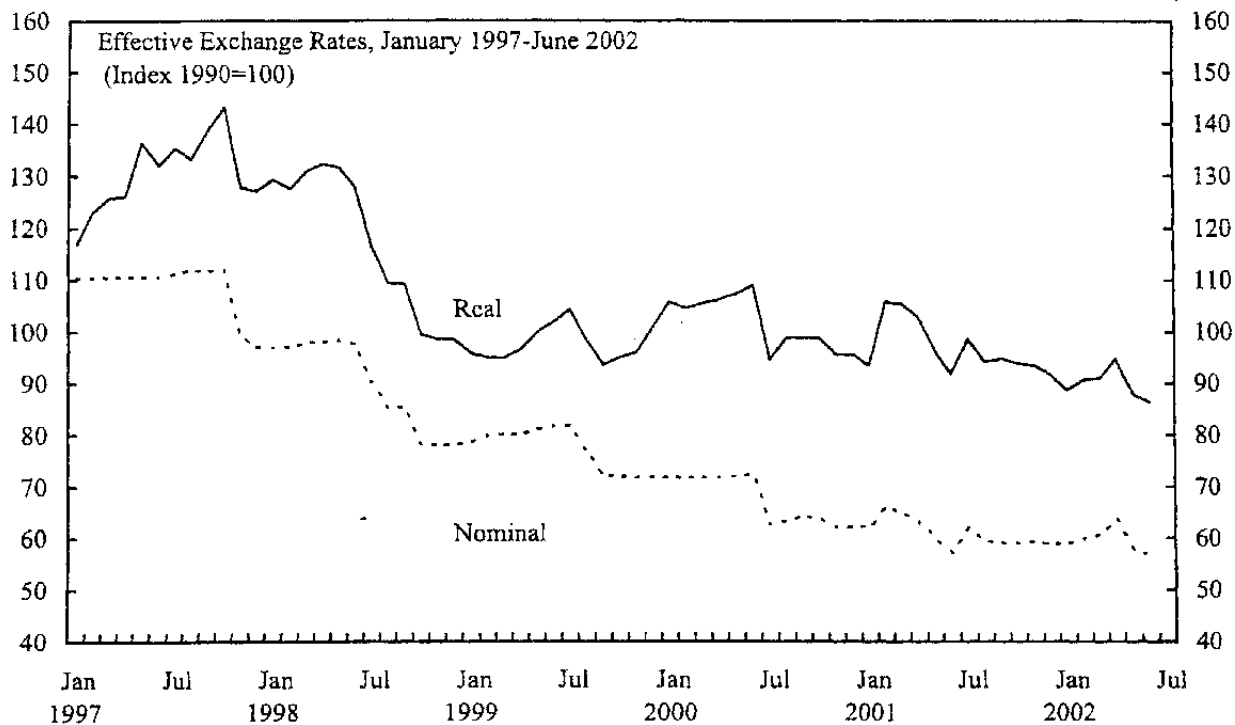


Sources: Burundi authorities; and Fund staff estimates and projections.

1/ Shaded area indicates program projections.



Figure 2. Burundi: Exchange Rate Developments  
(Period average)



Sources: Burundi authorities; and IMF, Information Notice System.

Table 1. Burundi: Projected Payments Obligations to the Fund, 2002-03

(In millions of SDRs)

	Total 2002-03	2002				2002	2003				2003
		Jan.-March	Apr.-June	July-Sep.	Oct.-Dec.		Jan.-March	Apr.-June	July-Sep.	Oct.-Dec.	
<b>Projected payments under existing drawings</b>											
Total principal	1.93	0.00	1.29	0.00	0.64	1.93	0.00	0.00	0.00	0.00	0.00
<i>Of which:</i> PRGF repayments	1.93	0.00	1.29	0.00	0.64	1.93	0.00	0.00	0.00	0.00	0.00
Total interest/charges	0.62	0.08	0.08	0.08	0.08	0.32	0.08	0.07	0.08	0.08	0.31
<i>Of which:</i> SDR net charges	0.62	0.08	0.08	0.08	0.08	0.32	0.08	0.07	0.08	0.08	0.31
Total obligations	2.56	0.08	1.37	0.08	0.72	2.25	0.08	0.07	0.08	0.08	0.31
<b>Obligations from prospective drawings</b>											
Total principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Of which:</i> General Resources Account repurchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total interest/charges	0.35	0.00	0.00	0.00	0.06	0.06	0.07	0.07	0.07	0.07	0.29
<i>Of which:</i> Periodic charges	0.35	0.00	0.00	0.00	0.06	0.06	0.07	0.07	0.07	0.07	0.29
Total obligations	0.35	0.00	0.00	0.00	0.06	0.06	0.07	0.07	0.07	0.07	0.29
<b>Cumulative (existing and prospective)</b>											
Total principal	1.93	0.00	1.29	0.00	0.64	1.93	0.00	0.00	0.00	0.00	0.00
GRA repurchases	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
PRGF repayments	1.93	0.00	1.29	0.00	0.64	1.93	0.00	0.00	0.00	0.00	0.00
Total interest/charges	0.97	0.08	0.08	0.08	0.14	0.38	0.15	0.14	0.15	0.15	0.59
Periodic charges	0.35	0.00	0.00	0.00	0.06	0.06	0.07	0.07	0.07	0.07	0.29
SDR net charges	0.62	0.08	0.08	0.08	0.08	0.32	0.08	0.07	0.08	0.08	0.31
Total obligations	2.91	0.08	1.37	0.08	0.78	2.31	0.15	0.14	0.15	0.15	0.59
Outstanding IMF credit (end of period)	...	1.93	0.64	0.64	9.63	9.63	9.63	9.63	9.63	9.63	9.63

Source: Treasurer's Department.

Table 2. Burundi: Selected Economic and Financial Indicators, 1998-2003

	1998	1999	2000	2001		2002 Prog.	2003 Prog.
				SMP	Est.		
(Annual percentage change, unless otherwise indicated)							
<b>National income and prices</b>							
Real GDP growth	4.8	-1.0	-0.9	3.2	2.1	3.6	5.0
GDP deflator	11.4	14.9	13.2	13.4	5.4	9.4	5.7
Consumer prices (period average)	12.5	3.4	24.3	14.0	9.3	8.0	8.0
Consumer prices (end of period)	-1.0	20.7	14.1	13.4	3.9	11.6	5.1
GDP at current market prices (in billions of Burundi francs)	400.2	455.5	511.1	572.3	550.0	623.3	692.1
<b>External sector</b>							
Export, f.o.b (in U.S. dollars)	-26.9	-14.0	-10.7	-2.6	-20.2	22.0	-5.2
Imports, f.o.b (in U.S. dollars)	28.5	-21.3	10.8	17.2	0.5	5.6	7.3
Export volume	-26.1	7.4	5.5	11.2	4.9	21.4	-11.7
Import volume	55.2	-1.4	10.2	15.4	4.3	5.8	6.1
Terms of trade index (1985=100; deterioration -)	65.7	65.8	51.2	44.1	40.4	40.7	43.2
Exchange rate (in Burundi francs per U.S. dollar; average)	447.8	563.6	720.5	...	830.4	852.2 <sup>4/</sup>	...
Exchange rate (in Burundi francs per U.S. dollar; end of period)	505.2	628.6	778.2	...	864.2	882.4 <sup>4/</sup>	...
Real effective exchange rate (depreciation -)	-10.5	-19.5	3.5	...	-3.3	-9.7 <sup>4/</sup>	...
<b>Central government</b>							
Revenue and grants	26.6	18.3	33.8	20.0	4.5	15.9	10.6
Revenue	46.7	8.1	32.8	21.5	12.0	11.0	12.9
Total expenditure and net lending (commitment basis)	24.0	24.3	7.5	18.3	19.1	9.0	9.9
Current expenditure	12.1	24.5	12.6	7.5	22.8	3.9	0.4
<b>Money and credit</b>							
Net foreign assets 1/	-23.3	3.3	0.8	12.3	-14.0	9.8	6.9
Domestic credit 1/	34.6	44.2	15.4	8.6	37.9	14.6	9.4
Government 1/	8.6	23.7	-18.3	0.8	22.9	-3.6	-3.1
Private sector 1/	22.8	22.9	36.3	8.3	13.1	18.5	13.8
Public enterprises 1/	2.1	1.1	-1.4	-0.3	1.5	0.3	-1.2
Money and quasi money (M2)	0.1	45.5	4.3	17.0	15.0	15.3	12.0
Income velocity (ratio of GDP to M2; end of period)	6.3	5.0	5.3	5.1	5.0	4.9	4.9
Deposit rate (12-month deposit)	9.6	10.6	12.1	...	13.2	13.6 <sup>4/</sup>	...
Lending rate (medium term)	17.6	18.0	20.0	...	20.4	20.9 <sup>4/</sup>	...
(In percent of GDP, unless otherwise indicated)							
<b>External sector</b>							
Current account balance							
Excluding official transfers	-12.2	-9.3	-14.7	-17.1	-16.2	-15.7	-19.4
Including official transfers	-6.6	-3.7	-7.0	-3.1	-5.2	-5.3	-6.0
Debt-service ratio (scheduled) 2/	76.7	76.3	83.5	98.3	104.4	99.4	85.7
<b>Central government</b>							
Revenue (excluding grants)	17.1	16.3	19.2	20.9	20.0	19.6	19.9
Total expenditure and net lending	23.2	25.3	24.3	25.7	26.9	25.8	25.6
Primary domestic balance	0.8	-0.8	2.7	4.1	1.1	1.8	3.2
Overall balance (commitment basis)							
Excluding grants	-6.1	-9.1	-5.0	-4.8	-6.8	-6.2	-5.6
Including grants	-5.2	-6.6	-1.9	-1.7	-5.2	-3.6	-3.5
<b>Gross investment</b>							
Public fixed investment	8.9	8.5	8.4	10.4	8.2	9.3	11.0
Private fixed investment	5.9	6.9	6.1	8.2	6.0	6.5	8.0
Gross national savings	3.1	1.6	2.3	2.2	2.2	2.8	3.0
Public	2.4	4.8	1.4	7.3	3.0	3.9	5.0
Private	0.7	0.3	4.2	6.5	0.8	2.8	4.6
Private	1.6	4.5	-2.8	0.8	2.2	1.1	0.5
(In millions of U.S. dollars, unless otherwise indicated)							
<b>External sector</b>							
Current account							
Excluding official transfers	-108.7	-75.6	-104.4	-115.1	-107.0	-105.9	-123.1
Including official transfers	-58.8	-30.0	-49.7	-21.0	-34.3	-35.9	-38.0
Overall balance of payments	-58.0	-37.2	-28.8	-30.2	-32.6	-55.1	-47.8
Gross official reserves	70.5	49.2	39.4	43.9	23.6	29.0	35.7
Gross official reserves 3/	5.6	5.3	3.7	3.2	2.2	2.6	3.0
Net official reserves 3/	3.4	3.3	2.5	2.9	1.6	2.2	2.6
External payments arrears	71.0	84.0	92.6	112.7	115.7	128.7	...

Sources: Burundi authorities; and staff estimates and projections.

1/ In percent of beginning-of-period broad money supply.

2/ In percent of exports of goods and nonfactor services.

3/ End of period; in months of imports, c.i.f.

4/ Actual data at end-July 2002.

Table 3. Burundi: Central Government Operations, 1998-2003

	1998	1999	2000	2001		2002 Prog.	2003 Prog.
				SMP	Est.		
(In billions of Burundi francs)							
Revenue and grants	72.2	85.4	114.2	137.1	119.3	138.3	152.9
Revenue	68.5	74.0	98.3	119.5	110.1	122.3	138.0
Tax revenue	62.5	70.4	93.7	105.5	103.1	109.1	122.9
Income tax	18.5	19.1	20.0	30.8	28.5	29.6	32.2
Taxes on goods and services	25.3	33.9	46.8	44.8	48.7	50.6	51.4
Taxes on international trade	18.3	17.0	22.8	27.0	21.7	26.5	36.4
Other tax revenue	0.2	0.0	3.9	2.6	4.0	2.1	2.4
Property tax	0.2	0.3	0.2	0.2	0.3	0.4	0.5
Nontax revenue	6.0	3.7	4.7	7.8	7.0	13.2	15.1
Revenue measures	0.0	0.0	0.0	6.2	0.0	0.0	0.0
Grants	3.7	11.4	15.9	17.6	9.2	16.1	15.0
Current budgetary grants	0.0	0.0	0.0	5.6	5.4	4.2	0.0
Project grants	3.7	11.4	15.9	12.0	3.8	11.8	15.0
Expenditure and net lending	92.8	115.4	124.1	147.1	147.7	161.0	177.0
Current expenditure	68.8	85.7	96.5	104.1	118.6	123.2	123.7
Salaries	27.2	30.0	33.9	40.3	40.1	47.2	47.5
Civilian	15.0	16.5	18.0	20.2	21.6	23.5	27.9
Military	12.2	13.5	15.9	20.2	18.5	23.7	20.5
Goods and services	25.1	34.8	37.9	37.0	44.2	40.2	39.8
Civilian	11.0	20.0	23.3	22.2	18.4	19.7	21.8
Military	14.1	14.8	14.6	14.8	25.7	20.5	18.0
Transfers and subsidies	7.1	8.1	9.9	11.9	15.9	17.9	16.6
Interest payments (due)	9.5	12.9	14.8	14.9	18.5	17.8	19.7
Domestic	3.3	6.0	6.9	6.3	9.6	8.3	8.4
Foreign	6.2	6.9	7.9	8.5	8.9	9.5	11.4
Capital expenditure	23.5	31.3	31.1	47.0	33.0	40.2	55.6
Domestic resources	5.6	6.7	8.8	10.8	18.5	7.9	14.0
<i>Of which: EERC expenditures<sup>1/</sup></i>	0.0	0.0	2.2	15.3	10.6	0.0	0.0
External resources	17.9	24.7	22.3	20.9	14.5	32.4	41.6
Project lending	14.2	13.3	6.4	8.9	10.7	20.5	26.7
Capital grants	3.7	11.4	15.9	17.0	3.8	11.8	15.0
Net lending	0.5	-1.7	-3.6	-4.0	-3.9	-2.4	-2.4
Domestic primary balance <sup>2/</sup>	3.0	-3.8	13.6	23.5	6.0	11.4	22.4
Overall balance (commitment basis)							
Including grants	-20.6	-30.0	-9.8	-10.0	-28.4	-22.7	-24.0
Excluding grants	-24.3	-41.3	-25.7	-27.6	-37.6	-38.8	-39.0
Change in arrears (reduction -)	1.2	7.7	7.5	3.0	8.0	-2.0	-37.0
External (interest)	2.1	3.4	4.8	2.8	5.2	1.4	-37.0
Domestic	-0.9	4.2	2.7	0.2	2.8	-3.4	0.0
Overall balance (cash basis)	-19.4	-22.3	-2.3	-7.0	-20.4	-24.7	-61.0
Financing (identified)	19.4	22.3	2.3	7.3	20.4	-14.5	-124.4
External	8.6	5.7	19.4	-7.7	2.2	-8.7	-118.4
Program loans	0.0	0.0	22.4	7.9	5.3	0.0	0.0
Project loans	16.3	13.3	6.4	8.9	10.7	20.5	26.7
Amortization (due)	-14.2	-18.0	-22.0	-32.7	-27.8	-39.8	-38.5
Change in arrears (reduction -)	6.5	10.4	12.7	8.1	14.0	10.6	-106.5
Domestic	10.8	16.6	-17.1	0.5	18.2	-5.8	-6.0
Banking sector	5.4	14.9	-16.8	0.8	22.0	-4.0	-4.0
Nonbank sector	5.4	1.7	-0.2	-0.3	-3.8	-1.8	-2.0
Financing gap	0.0	0.0	0.0	14.2	0.0	39.2	185.4
(In percent of GDP, unless otherwise indicated)							
Memorandum items:							
Revenue, excluding grants	17.1	16.3	19.2	20.9	20.0	19.6	19.9
Total expenditure and net lending	23.2	25.3	24.3	25.7	26.9	25.8	25.6
<i>Of which: current expenditure</i>	17.2	18.8	18.9	18.2	21.6	19.8	17.9
capital expenditure	5.9	6.9	6.1	8.2	6.0	6.5	8.0
Military and security expenditure	6.6	6.2	6.0	6.1	8.0	7.1	5.6
Domestic primary balance <sup>2/</sup>	0.8	-0.8	2.7	4.1	1.1	1.8	3.2
Overall balance (commitment basis)							
Excluding grants	-6.1	-9.1	-5.0	-4.8	-6.8	-6.2	-5.6
Including grants	-5.2	-6.6	-1.9	-1.7	-5.2	-3.6	-3.5
Financing (net)	4.9	4.9	0.5	-1.3	3.7	-2.3	-18.0
External	2.1	1.2	3.8	-1.4	0.4	-1.4	-17.1
<i>Of which: external arrears</i>	1.6	2.3	2.5	1.4	2.5	1.7	-15.4
Domestic	2.7	3.7	-3.3	0.1	3.3	-0.9	-0.9
<i>Of which: banking sector</i>	1.4	3.3	-3.3	0.1	4.0	-0.6	-0.6
GDP at current market prices (in billions of Burundi francs)	400.2	455.5	511.1	572.3	550.0	623.3	692.1

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

<sup>1/</sup> Expenditure financed by the World Bank Emergency Economic Recovery Credit (EERC).

<sup>2/</sup> Revenue minus noninterest current expenditure, domestically financed capital expenditure and net lending.

Table 4. Burundi: Monetary Survey and Central Bank Accounts, 2000-03

	2000	2001	2002				2003		
	Dec.	Dec.	Mar.	June Est.	Sep. Prog.	Dec. Prog.	Mar. Prog.	June Prog.	Dec. Proj.
(In billions of Burundi francs)									
<b>Monetary survey</b>									
Net foreign assets	23.7	10.3	3.4	-3.0	6.7	22.3	25.2	28.8	34.4
Central bank	20.5	14.6	9.6	5.0	12.7	26.3	28.5	31.3	35.4
Deposit money banks	3.2	-4.2	-6.2	-8.0	-6.0	-4.0	-3.3	-2.5	-1.0
Net domestic assets	72.0	99.8	106.2	123.0	117.1	104.7	106.0	107.4	107.9
Domestic credit	131.8	168.1	169.9	192.8	194.0	184.2	187.2	191.6	196.1
Net claims on the government	24.0	46.3	45.3	51.2	48.5	41.6	40.6	39.6	37.6
Central government	31.2	53.2	52.0	60.2	57.0	49.2	48.2	47.2	45.2
Other government	-7.3	-6.9	-6.8	-9.0	-8.5	-7.6	-7.6	-7.6	-7.6
Credit to the economy	107.9	121.9	124.7	141.6	145.5	142.6	146.6	152.0	158.5
Claims on public enterprises	3.3	4.7	4.9	5.2	5.0	5.0	4.6	4.3	3.5
Claims on private sector	104.6	117.2	119.8	136.4	140.5	137.6	141.9	147.8	155.0
Other items, net (assets +)	-59.8	-68.3	-63.8	-69.8	-76.8	-79.5	-81.2	-84.2	-88.3
Money and quasi money	95.8	110.1	109.6	120.0	123.9	127.0	131.2	136.2	142.2
Money	68.9	79.1	77.5	87.9	91.0	94.0	97.1	101.0	104.8
Currency in circulation	31.3	34.1	32.0	38.9	39.5	40.0	41.6	44.0	44.8
Demand deposits	37.6	45.0	45.5	49.0	51.5	54.0	55.5	57.0	60.0
Quasi money	26.9	31.1	32.0	32.1	32.9	33.0	34.1	35.2	37.4
<b>Central bank</b>									
Net foreign assets	20.5	14.6	9.6	5.0	12.7	26.3	28.5	31.3	35.4
Foreign assets	30.6	20.4	24.7	23.3	29.6	30.8	32.4	34.7	40.1
Foreign liabilities	10.1	5.8	15.0	18.3	16.9	4.5	3.9	3.3	4.7
Net domestic assets	16.1	26.1	29.8	41.3	33.5	20.1	19.5	19.1	16.0
Domestic credit	53.6	68.8	69.3	84.3	78.2	67.0	64.9	62.5	58.7
Government (net)	28.0	47.1	45.9	52.8	49.7	42.5	41.4	40.0	38.2
Central government	30.2	48.9	47.5	55.0	52.0	44.9	43.9	42.6	40.9
Other government	-2.2	-1.8	-1.6	-2.2	-2.3	-2.4	-2.5	-2.6	-2.7
Nongovernment credit	25.5	21.7	23.5	31.5	28.5	24.5	23.5	22.5	20.5
Private sector	1.3	1.6	1.9	2.0	2.0	2.0	1.8	1.5	1.0
Commercial banks	22.5	15.1	17.0	22.0	20.0	17.0	16.5	16.0	15.0
Nonbank financial institutions	1.7	4.9	4.6	7.5	6.5	5.5	5.3	5.0	4.5
Other items, net (incl. revaluation)	-37.4	-42.7	-39.5	-43.0	-44.7	-46.9	-45.4	-43.5	-42.6
Reserve money	36.6	40.7	39.4	46.3	46.3	46.4	48.0	50.4	51.4
Currency in circulation	31.3	34.1	32.0	38.9	39.5	40.0	41.6	44.0	44.8
Commercial bank reserves	3.6	6.3	6.9	7.0	6.5	6.1	6.1	6.1	6.3
Other nonbank deposits	1.7	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.3
<b>Memorandum items:</b>									
(Units as indicated)									
M2 growth (12-month percent change)	4.3	15.0	9.2	14.7	13.8	15.3	19.7	13.5	12.0
Credit to the economy (12-month percent change)	42.3	13.0	12.4	25.6	15.9	17.0	17.6	7.4	11.2
Reserve money (12-month percent change)	-2.3	11.1	13.0	21.4	12.3	14.1	21.8	8.9	10.7
Money multiplier (M2/reserve money)	2.6	2.7	2.8	2.6	2.7	2.7	2.7	2.7	2.8
Velocity (GDP/M2; period average)	5.4	5.3	...	...	...	5.3	...	...	5.1

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

Table 5. Burundi: Balance of Payments, 1998-2003

	1998	1999	2000	2001		2002 Prog.	2003 Prog.
				SMP	Prel.		
(In millions of U.S. dollars)							
Trade balance	-59.7	-42.3	-58.7	-78.7	-69.2	-66.7	-77.5
Exports, f.o.b.	63.9	55.0	49.1	47.8	39.2	47.8	45.3
<i>Of which: coffee</i>	51.0	42.0	33.9	30.5	19.7	29.9	26.1
Imports, f.o.b.	-123.6	-97.3	-107.8	-126.5	-108.4	-114.5	-122.9
<i>Of which: petroleum products</i>	-18.6	-17.8	-18.6	-20.0	-16.4	-16.4	-16.7
Services (net)	-55.1	-38.7	-50.3	-44.0	-44.3	-45.2	-50.1
Nonfactor services (net)	-42.7	-25.5	-36.7	-32.0	-31.0	-31.9	-36.3
Factor services (net)	-12.4	-13.2	-13.6	-12.0	-13.3	-13.3	-13.9
<i>Of which: interest on public debt</i>	-13.8	-12.2	-11.0	-9.9	-10.2	-10.3	-10.4
Private transfers (net)	6.1	5.5	4.6	7.6	6.5	5.9	4.6
Current account (excluding official transfers)	-108.7	-75.6	-104.4	-115.1	-107.0	-105.9	-123.1
Official transfers (net)	49.9	45.6	54.7	94.1	72.7	70.0	85.1
<i>Of which: program grants</i>	0.5	0.0	0.0	6.5	6.5	4.6	0.0
Current account (including official transfers)	-58.8	-30.0	-49.7	-21.0	-34.4	-35.9	-38.0
Capital account	10.5	-12.0	22.5	-9.2	-9.2	-19.1	-9.9
Direct investment	0.0	0.2	11.7	6.0	0.0	0.0	1.0
Medium- and long-term official loans (net)	4.8	-3.2	9.2	-18.7	-18.3	-20.9	-10.9
Disbursements	36.4	23.6	39.8	19.8	15.2	22.2	24.4
Program loans	0.0	0.0	30.9	9.3	6.4	0.0	0.0
Project loans	36.4	23.6	8.9	10.5	8.8	22.2	24.4
Amortization	-31.6	-26.8	-30.6	-38.4	-33.4	-43.1	-35.3
Other capital	5.7	-9.0	1.5	3.5	9.1	1.7	0.0
Errors and omissions	-9.7	4.8	-1.5	0.0	11.0	0.0	0.0
Overall balance	-58.0	-37.2	-28.8	-30.2	-32.6	-55.1	-47.8
Financing (- increase in assets)	58.0	37.2	28.8	2.6	32.6	5.0	-135.3
Change in central bank net foreign reserves (- increase)	38.9	12.7	4.5	-9.0	9.5	-8.0	-6.6
<i>Of which: IMF (net)</i>	-9.3	-7.6	-4.5	-4.4	-4.4	-2.5	0.0
other reserves, net	48.2	20.3	9.1	-4.6	13.9	-5.5	-6.6
Change in arrears (+ increase)	19.1	24.5	24.2	11.6	23.1	13.0	-128.7
Financing gap	0.0	0.0	0.0	27.6	0.0	50.0	183.2
(In percent of GDP, unless otherwise indicated)							
Memorandum items:							
Trade balance	-6.7	-5.2	-8.3	-11.7	-10.4	-9.9	-12.2
Current account (excl. official transfers)	-12.2	-9.3	-14.7	-17.1	-16.2	-15.7	-19.4
Current account (incl. official transfers)	-6.6	-3.7	-7.0	-3.1	-5.2	-5.3	-6.0
Gross official reserves							
In million of U.S. dollars	70.5	49.2	39.4	43.9	23.6	29.0	35.7
In months of imports, c.i.f.	5.6	5.3	3.7	3.2	2.2	2.6	3.0
Total external debt	136.4	149.0	169.3	179.4	182.3	182.4	....
Scheduled debt service, including IMF							
(in percent of exports of goods and nonfactor services)	76.7	76.3	83.5	98.3	104.4	99.4	85.7
Nominal GDP (in U.S. dollars)	893.8	808.2	709.3	673.3	662.4	674.6	633.9

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

Table 6. Burundi: External Financing Requirements and Sources, 1998-2003  
(In millions of U.S. dollars)

	1998	1999	2000	2001 Actual	2002 Proj.	2003 Proj.
External resources (identified)	173.2	129.0	168.6	151.4	158.4	171.1
Exports of goods and services	71.4	61.2	55.2	46.1	56.2	53.3
Other private services	3.6	1.9	1.1	1.9	2.3	2.6
Private transfers (net)	6.1	5.5	4.6	6.5	5.9	4.6
Official transfers (net)	49.9	45.6	54.7	72.7	70.0	85.1
Foreign direct investment	0.0	0.2	11.7	0.0	0.0	1.0
Medium-and long-term official loans	36.4	23.6	39.8	15.2	22.2	24.4
Other capital	5.7	-9.0	1.5	9.1	1.7	0.0
Use of resources	-163.5	-133.7	-167.1	-162.4	-208.4	-354.2
Imports of goods and services	-173.8	-129.0	-150.6	-146.3	-154.8	-167.2
Other private services	-2.2	-2.1	-2.9	-4.5	-4.8	-5.1
Debt-service payments (excluding IMF)	-26.3	-14.6	-17.3	-20.6	-40.4	-174.5
<i>Of which: net accumulation of arrears (+)</i>	19.1	24.5	24.2	23.1	13.0	-128.7
IMF repurchases and charges	-9.3	-8.4	-5.3	-5.0	-3.0	-0.8
Net buildup of reserves excluding IMF (- increase)	48.2	20.3	9.1	13.9	-5.5	-6.6
Errors and omissions	-9.7	4.8	-1.5	11.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	50.0	183.2
Program loans and grants	0.0	0.0	0.0	0.0	37.3	...
IMF purchase	0.0	0.0	0.0	0.0	12.7	...
Residual financing need	0.0	0.0	0.0	0.0	0.0	183.2

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

Table 7. Burundi: External Public Debt, Arrears and Scheduled Debt Service, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
(In millions of U.S. dollars)								
Total medium-and long-term debt								
outstanding, including arrears 1/	1,077.3	1,046.1	1,034.7	1,023.8	1,021.0	1,011.5	1,000.0	991.3
Multilateral	916.0	893.2	...	...	...	...	...	...
<i>Of which:</i> IMF	7.0	2.5	...	...	...	...	...	...
Bilateral	150.4	133.5	...	...	...	...	...	...
Paris Club	85.0	81.0	...	...	...	...	...	...
Non-Paris Club	65.4	52.5	...	...	...	...	...	...
Other	10.9	19.4	...	...	...	...	...	...
External arrears outstanding	92.6	115.7	128.7	...	...	...	...	...
Multilateral	43.1	55.0	...	...	...	...	...	...
<i>Of which:</i> IMF	0.0	0.0	...	...	...	...	...	...
Bilateral	49.5	59.4	...	...	...	...	...	...
Paris Club	26.0	31.9	...	...	...	...	...	...
Non-Paris Club	23.5	27.5	...	...	...	...	...	...
Other	0.0	1.3	...	...	...	...	...	...
Scheduled debt service 1/								
Interest	11.0	10.2	10.3	10.4	9.7	9.1	8.7	8.4
Multilateral	9.1	7.8	8.5	9.0	8.6	8.1	7.9	7.6
<i>Of which:</i> IMF	0.8	0.5	0.5	0.8	0.8	0.8	0.7	0.5
Bilateral	1.9	2.4	1.8	1.4	1.1	1.0	0.9	0.7
Paris Club	1.6	1.3	1.0	0.9	0.8	0.7	0.6	0.5
Non-Paris Club	0.2	1.1	0.8	0.5	0.3	0.3	0.2	0.2
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	35.1	37.9	45.5	35.3	27.2	33.9	35.9	33.1
Multilateral	25.8	23.5	23.1	20.8	21.5	28.8	30.4	28.5
<i>Of which:</i> IMF	4.5	4.4	2.5	--	--	5.1	5.1	2.6
Bilateral	9.3	9.2	7.6	10.0	5.8	5.1	5.5	4.7
Paris Club	4.3	4.4	4.3	4.2	4.0	4.0	4.6	3.8
Non-Paris Club	5.0	4.8	3.3	5.8	1.8	1.1	1.0	0.8
Other	0.0	5.1	14.9	4.5	0.0	0.0	0.0	0.0
Memorandum items:	(In units indicated)							
Scheduled debt service (in percent of exports of goods and nonfactor services)	83.5	104.4	99.4	85.7	57.4	56.0	52.2	44.7
External debt outstanding (in percent of GDP)	151.9	147.5	145.9	144.3	143.9	142.6	141.0	139.8

Source: Treasury Directorate, Ministry of Finance of Burundi.

1/ On the basis of existing commitments.



Table 8. Burundi: Balance of Payments, Medium-Term Scenario, 2002-07

	2002 Prog.	2003 Prog.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.
(In millions of U.S. dollars)						
Trade balance	-66.7	-77.5	-76.2	-75.1	-77.4	-78.7
Exports, f.o.b.	47.8	45.3	54.8	65.3	72.7	78.8
<i>Of which: coffee</i>	29.9	26.1	34.8	44.3	50.8	55.9
Imports, f.o.b.	-114.5	-122.9	-131.0	-140.4	-150.1	-157.5
Services (net)	-45.2	-122.9	-131.0	-140.4	-150.1	-157.5
Private transfers (net)	5.9	4.6	4.7	5.0	5.3	5.6
Current account (excluding official transfers)	-105.9	-123.1	-122.4	-122.1	-125.9	-126.1
Official transfers net	70.0	85.1	78.4	77.9	77.6	77.4
Current account (including official transfers)	-35.9	-38.0	-44.0	-44.2	-48.3	-48.7
Capital account	-19.1	-9.9	1.1	2.8	3.7	7.3
Overall balance	-55.1	-47.8	-42.9	-41.4	-44.6	-41.4
Financing (- increase in assets)	5.0	-135.3	-4.9	-12.1	-15.7	-13.0
Financing gap	50.0	183.2	47.8	53.5	60.3	54.5
(In percent of GDP, unless otherwise indicated)						
Memorandum items:						
Trade balance	-9.9	-12.2	-11.3	-10.3	-9.9	-9.3
Current account (excl. official transfers)	-15.7	-19.4	-18.1	-16.8	-16.1	-14.7
Current account (incl. official transfers)	-5.3	-6.0	-6.5	-6.1	-6.2	-5.7
Gross official reserves						
In U.S. dollars	29.0	35.7	40.6	47.5	58.1	68.6
In months of imports, c.i.f.	2.6	3.0	3.2	3.5	4.0	4.5
Nominal GDP (in U.S. dollars)	674.6	633.9	674.6	727.6	784.9	846.4
Real growth rate	3.6	5.0	6.0	6.0	6.0	6.0
Inflation rate (period average)	8.0	8.0	4.5	3.7	3.5	3.5
Sensitivity to coffee prices						
Low coffee prices 1/						
Current account (excl. official transfers)						
In millions of U.S. dollars	-105.7	-137.7	-142.4	-148.3	-155.6	-160.5
In percent of GDP	-15.7	-21.7	-21.1	-20.4	-19.9	-18.7
Financing gap (in millions of U.S. dollars)	49.7	193.1	67.8	74.6	83.0	84.7
High coffee prices 2/						
Current account (excl. official transfers)						
In millions of U.S. dollars	-105.7	-107.1	-101.5	-96.2	-95.6	-94.6
In percent of GDP	-15.7	-16.9	-15.0	-13.2	-12.2	-11.0
Financing gap (in millions of U.S. dollars)	49.7	162.5	26.9	22.5	23.1	18.8

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

1/ Prices are assumed to be half that of the World Economic Outlook (WEO) projection.

2/ Prices are assumed to be 1.5 times higher than that of the WEO projection.

Table 9. Burundi; Indicators of Fund Credit, 2002-07 1/  
(In millions of SDRs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007
	Projections					
Fund credit outstanding (end of period) 1/						
In millions of SDRs	9.6	9.6	9.6	5.8	1.9	0.0
In millions of U.S. dollars	12.7	12.8	12.8	7.7	2.6	0.0
In percent of quota	12.5	12.5	12.5	7.5	2.5	0.0
Fund obligations	2.3	0.6	0.6	4.5	4.4	2.3
Fund total charges and interests	0.4	0.6	0.6	0.6	0.5	0.4
Existing drawings	0.3	0.3	0.3	0.3	0.3	0.3
Prospective drawings 2/	0.1	0.3	0.3	0.3	0.2	0.1
Fund total repayments/repurchases	1.9	0.0	0.0	3.8	3.8	1.9
Existing drawings	1.9	0.0	0.0	0.0	0.0	0.0
Prospective drawings	0.0	0.0	0.0	3.8	3.8	1.9
Fund credit outstanding in percent of:						
Exports of goods and nonfactor services	22.6	23.9	19.9	10.0	3.0	0.0
Gross official reserves	43.8	35.8	31.5	16.2	4.4	0.0
Fund obligations in percent of:						
Exports of goods and nonfactor services	5.4	1.5	1.3	7.7	6.8	3.3
Gross international reserves	10.5	2.2	2.0	12.5	10.0	4.5
Memorandum items:						
Exports of goods and nonfactor services (in millions of U.S. dollars)	56.2	53.3	64.4	76.8	85.5	92.7
Gross official reserves (in months of imports, c.i.f.)	2.6	3.0	3.2	3.5	4.0	4.5

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

1/ Includes the prospective disbursements under the post-conflict assistance of SDR 9.625 million (12.5 percent of quota).

2/ Before the subsidization of charges.

Bujumbura,  
September 19, 2002

NREF: 5401/1629/2002

Mr. Horst Köhler  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. Köhler,

1. Burundi endured from 1993 onward a period of civil war that resulted in widespread loss of human life, major displacements of population, and the destruction of part of the productive infrastructure. Following the conclusion in August 2000 of the Peace and Reconciliation Agreement in Arusha (Tanzania), the national unity government appointed in November 2001 undertook to establish conditions conducive to lasting peace. Despite the government's efforts and the mediation of foreign partners, it has not yet been possible to conclude a cease-fire agreement. Negotiations are under way, with the facilitation of several African countries and the international community, to conclude such an agreement as soon as possible.

2. The implementation of the Peace and Reconciliation Agreement is taking place against a background of serious economic difficulties, in particular those posed by a sharp fall in the terms of trade. The drop in world coffee prices has resulted in a major contraction in foreign exchange earnings, while foreign assistance has remained at modest levels, well below the amounts Burundi used to receive in the early 1990s.

3. The Burundi government's program for 2002–03 is summarized in the attached memorandum. This program aims, on the one hand, to address the immediate needs of security, humanitarian aid, and the rehabilitation of basic infrastructure, and, on the other hand, to improve the macroeconomic environment to promote a resumption of stable economic growth. Major elements of the economic and financial program include the strengthening of fiscal policy, the launch of major reforms of the exchange system and efforts to normalize relations with external creditors.

4. In support of this program, the government of Burundi requests a drawing from the IMF under the emergency post-conflict assistance policy in an amount equivalent to SDR 9.625 million (12.5 percent of quota). As program implementation proceeds during the next few months, the government plans to request further support from the IMF, in the same amount, by early 2003. Satisfactory implementation of the program would in turn open the way for adopting a medium-term program aimed at reducing poverty and promoting strong and sustainable economic growth, which could be supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF).

5. The government believes that the economic and financial policies presented in the attached Memorandum are adequate to address the difficulties faced by Burundi and achieve the objectives of the program. In any event, it will consult with IMF staff on the adoption of additional measures, should this prove to be necessary in the course of the program period. In addition, the government will report to IMF staff all information necessary to monitor program developments.

Sincerely yours,

/ s /

Édouard Kadigiri  
Minister of Finance

/ s /

Grégoire Banyiyezako  
Governor, Bank of the Republic of Burundi

Attachments: Memorandum of Economic and Financial Policies for 2002–03  
Technical Memorandum of Understanding

## **Memorandum of Economic and Financial Policies for 2002–03**

September 19, 2002

### **I. INTRODUCTION**

1. After a difficult period of internal armed conflict during 1993–2000, the signing of the Arusha Peace and Reconciliation Agreement on August 28, 2000 opened the way for a normalization of the situation in Burundi. Despite the absence so far of a cease-fire agreement, the setting up of institutions and the adoption of multiple measures envisaged in the Arusha agreement are under way. Thus, the National Assembly and the Transition Senate, established in December 2001 and February 2002, respectively, comprise representatives from nearly all signatories of the agreement; in addition, several commissions were set up with the participation of the various parties concerned. The resumption in August 2002, of cease-fire negotiations with the participation of all major parties in the conflict opened encouraging prospects for the consolidation of the peace process.

2. The economic difficulties stemming from the conflict have been aggravated by the drop in the terms of trade, resulting especially from the fall of world coffee prices (the main foreign exchange earner), which have more than halved since 1999. Since 1992, GDP per capita has fallen by almost 30 percent in real terms, and social conditions have seriously deteriorated. It is estimated that two-thirds of the population lives in absolute poverty, including more than one million Burundians internally displaced or in refugee camps in neighboring countries. In addition, the spread of HIV/AIDS, which already affects 12 percent of the population, has strained the national health system while the deterioration of the national education system has caused an increase in illiteracy. Against this difficult background, humanitarian assistance from the international community remains crucial to improve living conditions in support of the implementation of the Arusha agreement.

3. The government of Burundi is aware of the challenges ahead, and is determined to implement the measures required to strengthen economic policies and lay the groundwork for a resumption of sustainable growth. To this end, it requests the support of the international community to ensure the consolidation of proper conditions for peace and economic recovery.

### **II. RECENT ECONOMIC DEVELOPMENTS**

4. The implementation during the second half of 2001 of a staff-monitored program was hampered by the continuation of hostilities and political uncertainties resulting from delays in appointing a government of national unity, which did not take place until November 2001. Notwithstanding substantial humanitarian aid and the resumption of project aid, these developments prevented the disbursement of program assistance, as had been envisaged at the donors' roundtables in Paris in December 2000 and Geneva in December 2001. Thus, the low level of external support aggravated the external payments difficulties caused by the fall

in coffee prices. In this very difficult environment, and despite the governments' efforts, performance relative to program objectives was broadly unsatisfactory. Most of the quantitative indicators for end-September and end-December 2001 were not observed (Table 1); however, six of the nine structural targets were implemented (Table 2).

5. Economic activity began to recover in 2001, with real GDP growing by 2.1 percent despite a major reduction in coffee output. This recovery continued during the first half of 2002, buoyed in particular by the initial resettlement of refugees and the reconstruction projects under way. Coffee output doubled from the level of the 2001/02 crop year while the increase in subsistence agriculture dampened the pressures on prices. Despite the depreciation in the Burundi franc, the 12-month rate of inflation excluding foodstuffs fell from 24 percent in June 2001 to 15 percent in December 2001 and to less than 2 percent in June 2002. The external current account deficit (excluding grants) widened slightly to 16.2 percent of GDP in 2001, mainly owing to the fall in coffee export revenue (of 32 percent, in dollar terms). While world prices for arabica coffee were on the order of US\$1.10 per pound in 1999, prices for the 2001/02 crop year have averaged US\$0.50 per pound.

6. The fiscal situation was kept under control during the first half of 2001 but deteriorated toward the end of the year. Government revenues remained below target as regards both taxes on domestic activity and international trade, although they remained relatively high overall (at about 20 percent of GDP). Expenditures exceeded the projections, owing to additional needs to ensure national defense and security, and to cover the deficit of the coffee sector. As a result, the primary budget surplus (excluding externally financed investment) was relatively low, at the equivalent of 1.1 percent of GDP in 2001, compared with 2.7 percent in 2000 and a program objective of 4.1 percent. Given the low level of external budgetary support, and despite bank financing in excess of program targets, the government was unable to service its external debt as planned, and it accumulated arrears totaling about US\$23 million.

7. In 2001, the Bank of the Republic of Burundi (BRB) extended large advances to the government while bank refinancing fell. The BRB's net domestic assets rose by FBu 10 billion, equivalent to 27 percent of base money at end-2001. Meanwhile, net foreign assets declined by approximately the same amount, equivalent to US\$9.5 million, and net official reserves fell to less than six weeks of imports at end-2001. During the first half of 2002, central bank credit to the government continued to increase, and bank refinancing rose even faster in response to the financing needs of the coffee sector, which, in turn, led to a further decline in net foreign assets on the order of US\$10 million.

8. Following the unification of the foreign exchange market in July 2000, the BRB began sporadic sales of foreign exchange on the auction market (*marché des enchères en devises*). Available resources, however, were insufficient to satisfy demand, and the central bank had to resort to administrative measures to contain pressures on the exchange rate. The depreciation of the Burundi franc vis-à-vis the U.S. dollar was about 11 percent (in local

currency terms) in 2001 and another 2 percent in the first half of 2002. During this period, the parallel market premium remained generally at 30–35 percent, but it rose to 40 percent in July 2002.

### **III. OBJECTIVES AND STRATEGIES OF THE 2002–03 POST-CONFLICT PROGRAM**

9. To address Burundi's economic and financial difficulties and establish the basis for a significant improvement in living conditions, the government has prepared a program for 2002–03, for which it is requesting IMF support under its emergency post-conflict assistance policy. The program's main objectives are to (a) address the urgent needs for humanitarian assistance and the implementation of the peace process; (b) ensure a minimal functioning of basic infrastructure; (c) strengthen the institutions that are essential for economic activity; and (d) pursue economic liberalization to increase efficiency, stimulate supply, and promote growth and welfare.

10. The government's objectives stem from the political and social choices underscored in the Arusha agreement. These objectives include political pluralism, democracy, and social peace; the withdrawal by the state from competitive sectors; and free markets. The implementation of this program requires determined support from the international community, not only as regards the mediation with the parties that have not yet joined the Arusha agreement and the monitoring of the implementation of the agreement, but also the provision of humanitarian and financial aid required to achieve program objectives. In this context, the government maintains a close dialogue with its international partners: (a) political and security issues are addressed in cooperation with the countries in the subregion, and with the support of the African Union and the UN; (b) humanitarian aid is coordinated with the specialized UN agencies, the European Union, bilateral donors, and nongovernmental organizations; and (c) economic and financial assistance is led jointly by Belgium and France, in coordination with the staffs of the IMF and the World Bank, and in collaboration with the European Union and United Nations Development Program (UNDP).

11. To achieve its economic recovery objectives, the government will aim at (a) restoring macroeconomic equilibrium; (b) improving economic policy instruments, notably by introducing reforms in the areas of monetary and exchange rate policies; (c) strengthening the management of public finances, so as to steer expenditure toward the social sectors, especially primary education and basic health care; (d) improving the business climate and fostering the agricultural sector; (e) rehabilitating and developing basic infrastructure; (f) fighting poverty through job creation, especially for the young; and (g) promoting economic diversification and integration in the subregion. Progress in these areas has been achieved under the SMP and will be consolidated under the program for 2002–03.

12. Continued growth in 2002 is expected to result in an increase of real GDP of 3.6 percent, owing mainly to favorable weather conditions. With the resumption of investment and the improvement in the global environment, growth could accelerate in 2003 to 5 percent. The external current account deficit (excluding official grants) would narrow slightly to

15.7 percent of GDP in 2002 (against 16.2 percent in 2001), taking into account the doubling of coffee output and good prospects for tea output. However, the return of coffee production to more normal levels and higher imports should translate into an increase in the external current account deficit to 19.4 percent of GDP in 2003. The government aims at keeping the average inflation rate at about 8 percent in 2002 and 2003 through an appropriate monetary policy. The 12-month rate of inflation is projected to fall to 5 percent at end-2003.

13. In the short run, the main program objectives are to bring the budget deficit under control, initiate the normalization of relations with foreign creditors, and improve monetary and exchange rate management. The implementation of flexible and rational policies is expected to improve the allocation of available resources while allowing the reconstitution of the BRB's foreign exchange reserves. To achieve the restoration of a sound macroeconomic and financial framework, Burundi will continue to need foreign assistance on a large scale to fund its development plans.

#### **A. Fiscal Policy**

14. The 2002–03 program envisages the allocation of resources to address the needs for emergency humanitarian assistance, reconstruction, and reintegration, taking into account financial constraints. The program provides for the full servicing of nonreschedulable debt, while comprehensive efforts to normalize relations with all creditors will be undertaken at a subsequent stage. In addition, fiscal management should support the central bank's policies, so as to contain inflationary pressures and reestablish confidence among economic agents.

15. The program's objectives are in line with the projections of the revised 2002 budget adopted by the National Assembly on August 27, 2002. The primary budget surplus (excluding foreign-financed investment) is projected to increase from 1.1 percent of GDP in 2001 to 1.8 percent in 2002 and 3.2 percent in 2003. To this end, the decline in revenue collections relative to GDP (19.6 percent in 2002, compared with 20.0 percent in 2001) will be offset by a reduction in primary expenditure. For 2003, revenue would increase while expenditure would stabilize relative to GDP. The overall deficit, on a commitment basis, excluding grants, would narrow from 6.8 percent of GDP in 2001 to 6.2 percent in 2002 and 5.6 percent in 2003. Inclusive of grants, the deficit would decline even more in view of the expected recovery in budgetary assistance.

16. Aggregate government revenue remains high, despite the impoverishment of the population and the reduced level of economic activity. The relative decline in collections during 2002 reflects mainly the slowdown in imports in the second quarter, following the shortage in foreign exchange, as well as lower collection of beer excise taxes. The government is pursuing its efforts to improve the performance of revenue collection agencies. In particular, a large-taxpayers' unit is being set up at the tax directorate, with IMF technical assistance and financial support from the French development agency. For 2003, the government will initiate a reduction in customs tariffs in preparation for the adoption of the common



external tariff of COMESA (the Common Market for Eastern and Southern Africa) and will eliminate all export taxes. The impact of these measures should be more than offset by a widening of the tax base and improvements in customs administration.

17. Budget expenditure in 2002 takes into account the costs of setting up the transition institutions (namely, the Senate and the expanded National Assembly), increases in health and education outlays, and other current expenditure in connection with the reintegration of refugees. Salary levels in the civil service have remained unchanged, but the wage bill has increased as a result of new hiring for education, health, and the judiciary. The larger military wage bill reflects an increase in operations allowances, especially during the first half of the year. In addition, the government had to make a one-time outlay to settle a commercial dispute with foreign investors, following a 1999 arbitration by the ICSID (International Center for Settlement of Investment Disputes). Transfers and subsidies take into account the losses of the coffee sector in the 2001/02 crop year, which were also supported by refinancing of crop credits by the BRB. In view of these developments, the government has decided to reduce expenditure on other goods and services, so as to limit the increase in primary expenditure to 6½ percent. Adherence to this target will be ensured through the setting of monthly ceilings on expenditure commitments, under the direct authority of the Minister of Finance.

18. For 2003, primary expenditures are projected to increase by 7½ percent, a level that is below the projected rate of inflation. Following the government's commitment to raise civil service salaries, in particular to improve teachers' remunerations, this objective implies substantial reductions in other expenditures. Such reductions will be made possible by lower military spending—provided a cease-fire agreement is concluded shortly—and reduced transfers and subsidies (made possible in particular by the nonrecurrence of legal settlement expenses and a balancing of the accounts of the coffee sector).

19. Public investment is projected to increase steadily, rising from 6.0 percent of GDP in 2001 to 6.5 percent in 2002 and 8 percent in 2003. Most of the financing will be provided by donors, in line with the commitments made at the Paris and Geneva roundtables in December 2000 and December 2001, respectively. The public investment program will give priority to labor-intensive projects to rehabilitate and rebuild social and economic infrastructure, and will emphasize rural development and poverty alleviation.

20. The government plans to settle nonreschedulable debt-service arrears during the program period, subject to the availability of external assistance. On the basis of existing commitments, available projected resources will not suffice to clear the stock of arrears outstanding at end-June 2002 (which totaled about US\$129 million). However, if additional resources were to become available, notably through the trust fund set up by the World Bank, the government will give priority to the settlement of arrears vis-à-vis multilateral creditors. As soon as possible, and in any event before concluding an IMF-supported program under the Poverty Reduction and Growth Facility (PRGF), Burundi will adopt an appropriate strategy to clear all nonreschedulable arrears.

21. In order to support the tightening of monetary policy, the government will seek to mobilize sufficient resources to start reimbursing its bank debt, in particular to the BRB. The program's objective is to reduce net bank credit to the government by FBu 4 billion in 2002, or the equivalent of 3.6 percent of end-2001 broad money. In addition, in collaboration with the BRB and IMF staffs, the government will look into options for improving procedures for the issuance of treasury bills, in order to avail itself of a more effective instrument to address short-term liquidity needs.

### **B. Monetary and Exchange Rate Policies**

22. The BRB's monetary policy will remain governed by the objectives of maintaining a low rate of inflation and an adequate level of foreign exchange reserves, which require *inter alia* currency stability. However, considering the persistent weakness of coffee export prices, the BRB is prepared to adopt a more flexible exchange rate policy to preserve competitiveness. In addition, the BRB will implement a sufficiently restrictive monetary policy so as to avoid situations of excess liquidity and contain inflationary pressures.

23. The BRB's room for maneuver was severely curtailed in 2001 and the first half of 2002 by the pressures from the fiscal deficit and the financing needs of the coffee sector. The adoption of a stricter fiscal policy and the elimination of the deficit of the coffee sector should allow the BRB to strengthen its control over monetary aggregates. In the short run, the BRB will raise its discount rate and, if necessary, lower its refinance ceilings to ensure sufficiently tight liquidity conditions. At a later stage, the BRB intends to adopt more flexible intervention procedures through the use of indirect instruments; this implies the development of an interbank money market and auctions of treasury bills, as well as more frequent adjustments of the discount rate.

24. The soundness of the banking system has been broadly preserved and all of Burundi's seven banks generally observe key prudential requirements (in terms of solvency, liquidity, and the term structure of assets and liabilities). The current ratio of required reserves is 7.5 percent on all deposits, but could be gradually reduced as indirect monetary policy instruments are introduced. The BRB wishes to benefit from IMF technical assistance to develop its monetary programming capacity and strengthen its effectiveness in the area of bank supervision.

25. Improving the functioning of the foreign exchange auction markets is of key importance, both to ensure a better allocation of available resources and to replenish foreign exchange reserves. To allow unimpeded market access for all foreign exchange demand arising from merchandise imports and related services (freight and insurance), the BRB issued on August 28, 2002 a decision eliminating all discriminatory merchandise and related services restrictions that had been in effect for the last two years. Thus, there now remain only limits on certain services, as well as prior authorizations on capital transfers. In addition, the BRB will henceforth hold regular weekly foreign currency auctions without pre-imposed ceilings on bids. The regulations governing the auction market will be fully revised by

December 2002, in close collaboration with IMF staff. The new regulations will include a provision lowering the surrender requirement for coffee, tea, and cotton to 70 percent (compared with 100 percent at present), as is the case for other export earnings. These measures, along with the resumption of foreign assistance, are expected to lead to a convergence between the official and parallel market exchange rates.

### C. Structural Reforms

26. The government plans to resume and accelerate the implementation of structural reforms, which has been interrupted by the civil war. To that end, priority will be given to liberalizing external trade, strengthening budget-auditing mechanisms, privatizing public enterprises, reforming the civil service, and implementing poverty reduction measures.

27. Burundi's external position remains highly vulnerable, owing to the deterioration in economic conditions during the 1990s and low coffee prices. Nevertheless, the external position is expected to improve gradually as a result of the envisaged liberalization of the exchange system and mobilization of external assistance, which will allow implementation of major reforms conducive to improved resource allocation. The government eliminated, several years ago, all quantitative restrictions on imports and exerts no control a priori over import decisions (other than for public health and security reasons). As part of the reforms agreed under COMESA, the government will lower import tariffs (which at present are levied at five rates ranging from 10 percent to 100 percent) in 2003, ahead of the adoption of the common external tariff in January 2004. Moreover, all export duties will be eliminated as part of the 2003 budget law, including the 31 percent tax on coffee exports, which has not been enforced since the 1998/99 crop year.

28. Enhancing transparency and control over public finances are key government objectives in the context of its economic and financial policies. At present, there is neither an external budget audit mechanism nor procedures to account for the execution of budget laws to parliament. In accordance with the Arusha agreement, the government plans to set up an auditing court (*Cour des comptes*), which would be independent from the executive and legislative branches. To this end, a draft law will be submitted to the National Assembly by March 2003. In the meantime, budgetary control—including defense and security budgets—will continue to be exercised by the auditing services of the Ministry of Finance (*Inspection des finances*).

29. The government has prepared a program of public enterprise privatization, and plans to withdraw gradually from the coffee and tea sectors. However, given the current situation, it is difficult to find private partners willing to invest and develop production activities in Burundi. In these circumstances, the privatization program will be implemented gradually, as economic and security conditions normalize.

30. The drop in world coffee prices over the last five years poses a major challenge to Burundi. Unlike previous price fluctuations, the current low prices may well be long lasting.

At any rate, the government intends to avoid subsidizing producer prices and will re-evaluate its policies in the cash crop sectors. The objective is to reduce costs, inter alia, by reorienting marginal producers, reducing charges for washing and hulling, and lowering the margins retained by OCIBU (Burundi's Coffee Board) and exporters. To this end, the government has adopted a regulation to limit the allowable margins of OCIBU and other intermediaries below what had been initially proposed by OCIBU, while the BRB's recent exchange rate depreciation has helped restore the competitiveness of Burundi's coffee exports.

31. Controlling the government's wage bill involves monitoring closely the civil service roster and payroll, which at present are entirely under the purview of the Ministry of Civil Service. The government plans to launch in 2003 a civil service census, while developing a new payroll management system at the Ministry of Finance with technical and financial assistance from donors. In addition, the government will launch a civil service reform and will reintegrate individuals presently exiled or internally displaced. A first stage of this reform entails the elaboration of an interim technical census and control procedures to verify the civil service roster, for which financial assistance is being sought from the European Union. Pending the finalization of this operation, new recruitments have been limited to the health, education, and justice sectors, and to the transition institutions.

32. The government has also prepared a series of labor-intensive projects to promote job creation to be implemented with external financial assistance mainly from the World Bank and Belgium. As envisaged in the Arusha agreement, the government will set up by end-2002 a national commission to assist victims (Commission nationale de réhabilitation des sinistrés—CNRS). Also, work is under way on an interim poverty reduction strategy paper (I-PRSP) and workshops have been held in most districts to ensure a broad consultation of the population. The government expects to finalize in early 2003 its I-PRSP, which would provide a basis for preparing a medium-term program that could be supported by the IMF under the PRGF.

#### **D. Technical Assistance**

33. Burundi has vast technical assistance needs in the areas of public administration, policy design, and the compilation of statistics. The government plans to secure support in this respect from multilateral institutions and bilateral partners. As indicated above, priorities include the operation of revenue collection agencies and control over the civil service roster and the wage bill, as well as monetary policy, foreign exchange and exchange rate management, and bank supervision by the BRB. Assistance will also be necessary to improve the statistical apparatus, notably as regards the national accounts, balance of payments, and social indicators.

#### **IV. PROGRAM FINANCING**

34. On the basis of program projections for 2002, external financing needs are estimated at US\$208 million while available resources are US\$158 million. Uses of resources take into

account the accumulation of arrears already recorded during the first half of 2002, while available funds include program disbursements (from the EU's 'STABEX' commodities stabilization fund) recorded in the first half of 2002. Thus, there remains a financing gap of US\$50 million. For 2003, the financing gap is projected at US\$183 million, including the amounts needed to settle all external arrears.

35. The financing gap for 2002 is expected to be covered by program support from the World Bank under an Economic Recovery Credit (ERC); the trust fund to service external debt; the European Union; and bilateral donors, including Belgium and France; and a drawing under the IMF's emergency post-conflict assistance policy. The government intends to continue discussions with international partners to mobilize additional financing to speed up the settlement of nonreschedulable external arrears. The financing gap for 2003 is expected to be covered by program assistance, debt rescheduling, and the further use of Fund resources.

#### **V. PRIOR ACTIONS AND PROGRAM MONITORING**

36. Table 3 summarizes the prior actions and performance indicators under the 2002–03 program. The quantitative performance indicators for program monitoring are presented in Table 4. The definitions of these performance indicators are provided in the attached technical memorandum of understanding.

Table 1. Burundi: Quarterly Quantitative Indicators for the 2001 Staff-Monitored Program  
(In billions of Burundi francs, unless otherwise indicated)

	2000 Actual	2001						
		June Actual	September		Actual	December		
			Program			Program		
			Original	Adjusted		Original	Adjusted	
1. Floor on the primary fiscal balance (cumulative from beginning of year) 1/	13.6	-1.5	8.4	...	-1.6	23.5	...	8.1
2. Ceiling on stock of net bank credit to the central government 3/	31.2	39.7	34.1	30.3	48.5	32.0	35.6	53.2
3. Ceiling on stock of net domestic assets of the central bank	16.1	12.9	10.9	...	23.6	11.0	...	26.1
4. Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars)	92.6	102.8	112.7	...	106.9	112.7	...	115.7
5. Ceiling on new nonconcessional external debt 3/ contracted or guaranteed by the central government or the central bank (cumulative from beginning of year; in millions U.S. dollars) 4/	0.0	0.0	0.0	...	0.0	0.0	...	0.0
6. Ceiling on central government's outstanding stock of short-term 3/ external debt with a maturity of less than one year (cumulative from beginning of year) 5/	0.0	0.0	0.0	...	0.0	0.0	...	0.0
(cumulative from beginning of year)	0.0	0.0	0.0	...	0.0	0.0	...	0.0
7. Floor on changes in the net foreign assets of the central bank (cumulative from beginning of year; in millions of U.S. dollars)	1.1	4.7	8.2	...	-2.9	9.0	...	-5.9
Memorandum item:								
Exceptional cash financial assistance (cumulative from beginning of year)	22.4	8.9	5.9	...	9.7	14.2	...	10.6

1/ Defined as the difference between government total revenue and expenditure, excluding all interest payments and investment financed by external resources.

2/ The ceiling or the floor will be adjusted downward (or upward) to accommodate positive (or negative) deviations between actual and projected disbursements of exceptional financial assistance (see para. 12 of technical memorandum of understanding (TMU)).

3/ As defined in the Annex to Attachment II (TMU) of staff-monitored program document (SM/01/296, 10/1/01).

4/ With a grant element of less than 35 percent.

5/ Excluding short-term import-related trade credits.

Table 2. Burundi: Structural Performance Indicators for 2001

Structural Measures	Implementation Date	Implementation Status
<b>Prior actions</b>		
1. Adopt a revised budget law consistent with the staff-monitored program		Implemented
2. Introduce special treasury checks to control exemptions on government imports and ensure their monitoring		Implemented
3. Liberalize access to the official exchange market through adoption and publication of central bank regulation authorizing access to the auctions marked by all licensed exchange bureaus		Implemented
4. Prepare a detailed public expenditure review program in collaboration with the World Bank		Implemented
<b>Structural benchmarks</b>		
1. Government finance		
• Systematically issue garnishment orders to improve revenue collection	Throughout the program	Implemented
• Launch campaign for the collection of property, water and forest revenues, and other administrative revenues	October 2001	Implemented
• Set bimonthly ceiling on expenditure on the basis of available resources.	Throughout the program	Not implemented
2. Money and banking supervision		
• Reassess the system of overall ceilings to improve the refinancing policy	October 2001	Implemented
• Complete liberalization of the exchange system, with a view to achieving convergence of the two official and parallel exchange rates	December 2001	Not implemented
3. Governance		
• Establish a General Auditing Office responsible for auditing the government's resources and expenditures	December 2001	Not implemented
4. Public enterprises		
• Establish a privatization program for public enterprises	October 2001	Implemented
• Revise producer pricing policy and marketing arrangements in the agricultural subsectors	Throughout the program	Implemented
5. Social policy		
• Prepare an interim poverty reduction strategy paper (I-PRSP) and a timetable for the full PRSP	November 2001	Implemented

Table 3. Burundi: Prior Actions and Structural Indicators Under the 2002–03 Program

Measures	Timetable
Prior actions implemented in August 2002	
<ul style="list-style-type: none"> <li>• Adoption by the National Assembly of a revised budget for 2002 in line with program objectives</li> </ul>	
<ul style="list-style-type: none"> <li>• Issuance of regulation setting monthly ceiling for budget expenditure commitments</li> </ul>	
<ul style="list-style-type: none"> <li>• Issuance by the Bank of the Republic of Burundi (BRB) of regulation eliminating all restrictions on merchandise and related services eligible for foreign exchange on the auction market</li> </ul>	
<ul style="list-style-type: none"> <li>• Issuance of regulation setting maximum limits for processing margins of the Coffee Board of Burundi (OCIBU) and other intermediaries, in order to limit the deficit of the coffee sector</li> </ul>	
Structural indicators	
<ul style="list-style-type: none"> <li>• Holding of regular weekly foreign exchange auctions at the BRB</li> </ul>	From September 2002 onward
<ul style="list-style-type: none"> <li>• Issuance by the BRB of regulation for the foreign exchange auction market (to include, in particular, the elimination of limits on bidding rates and the setting of a uniform surrender requirement of 70 percent for all exports)</li> </ul>	December 2002
<ul style="list-style-type: none"> <li>• Setting up of the national commission to assist victims (Commission nationale de réhabilitation des sinistrés—CNRS)</li> </ul>	December 2002
<ul style="list-style-type: none"> <li>• Submission to the National Assembly of a draft law for a new auditing court (<i>Cour des comptes</i>)</li> </ul>	March 2003



Table 4. Burundi: Quantitative Indicators Under the 2002-03 Program

(In billions of Burundi francs, unless otherwise indicated)

	2002				2003	
	Mar. Estimates	June	Sep. Prog.	Dec Prog.	Mar. Prog. 1/	June Prog. 1/
1. Ceiling on central government financing including program grants (cumulative from beginning of calendar year) <sup>2/</sup>	-3.9	1.6	0.6	-3.1	-3.2	-6.8
2. Ceiling on stock of net domestic assets of the central bank <sup>2/</sup>	29.8	41.3	33.5	20.1	19.5	19.1
3. Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars)	125.9	139.3	140.8	128.7	105.3	88.5
4. Ceiling on central government's outstanding stock of short-term external debt with a maturity of less than one year <sup>4/</sup> (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0
5. Ceiling on new nonconcessional external debt <sup>3/</sup> contracted or guaranteed by the central government or the central bank (cumulative from beginning of calendar year; in millions of U.S. dollars) <sup>5/</sup>	0.0	0.0	0.0	0.0	0.0	0.0
6. Floor on the stock net foreign assets of the central bank (in millions of U.S. dollars) <sup>2/</sup>	12.8	5.7	12.0	24.8	26.5	28.7
Memorandum item: External nonproject financial assistance (cumulative from beginning of calendar year, in million of U.S. dollars)	0.0	4.9	12.9	39.5	21.3	47.6

1/ Tentative projections to be revised in the context of an eventual request for second disbursement.

2/ The ceiling or the floor will be adjusted to accommodate 50 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the memorandum item. In case of, respectively, positive (negative) deviations (excess financing) the ceiling on government financing and the floor on net foreign assets of the central bank will be adjusted upward (downward), and the ceiling on net domestic assets of the central bank will be adjusted downward (upward).

3/ As defined in the technical memorandum of understanding (Appendix I, Annex II).

4/ Excluding short-term import-related trade credits.

5/ With a grant element of less than 50 percent.

## BURUNDI

### Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) sets out the terms and conditions for monitoring the implementation of the program and the reporting requirements for the government of Burundi. It defines (a) the quantitative and structural performance indicators; (b) the adjusters for the quantitative indicators; and (c) the key assumptions used in formulating the economic program for 2002–03, as set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi annexed to the letter of September 19, 2002 from the Minister of Finance and the Governor of the Bank of the Republic of Burundi (BRB) to the Managing Director of the International Monetary Fund.
2. Program monitoring will be based on an assessment of the observance of the quantitative and structural performance indicators.

#### A. Structural Indicators

3. The structural indicators listed in Table 3 of Annex I are the following:
  - (a) holding of regular weekly foreign exchange auctions at the BRB—the BRB will report each week the results of the sessions, including the amounts transacted, exchange rates, and any unmet demands for foreign exchange;
  - (b) issuance by the BRB of regulations for the foreign exchange auction market (to include, in particular, the elimination of limits on bidding rates and the setting of the surrender requirement at 70 percent for all exports);
  - (c) setting up of the national commission to assist victims (Commission nationale de réhabilitation des sinistrés—CNRS), which will entail the adoption of relevant regulations and the nomination of the key members of the commission; and
  - (d) submission to the National Assembly of a draft law for a new auditing court (*Cour des comptes*).

#### B. Quantitative Indicators and Adjuster

##### Quantitative indicators

4. Quantitative indicators under the program are set on the basis of cumulative flows from January 1 of each calendar year or the basis of end-of-period stocks, and are set out in Table 4 as follows:
  - (a) a ceiling on the cumulative change in central government financing, defined as the sum of the following flows: official program assistance grants (excluding project grants)

minus interest on external debt, plus net accumulation of domestic and external arrears, plus other net domestic and external budget financing (excluding project loans, but including gap financing for the projections);

- (b) a ceiling on the end-period stock of net domestic assets of the BRB;
- (c) a ceiling on the end-period stock of the central government's external payments arrears;
- (d) a ceiling on the outstanding stock of short-term (maturity of less than one year) external debt of the central government and the BRB;
- (e) a ceiling on the new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB; and
- (f) a floor on the end-period stock of net international reserves of the BRB.

5. The program includes an adjuster for the first, second, and sixth quantitative indicators, as specified in footnote 2 of Table 4, Annex I and explained in paragraph 11 below.

#### Definition and computation

6. Total **financing of the central government** is measured in accordance with accounting practices of the BRB and the Burundi Treasury, following the IMF format and taking into account residual gap financing for program projections. For the period January 1–June 30, 2002, such financing totaled FBu 1.6 billion, broken down as follows:

Financing of the Central Government	
Central government financing (in billions of Burundi francs)	1.6
External financing, net	-4.9
Grants, excluding projects grants (budgetary grants)	4.2
Loans, excluding project loans (budgetary loans)	0.0
Interest payments on external debt	-5.1
Principal due on external debt	-24.4
Net accumulation of interest arrears on external debt	2.9
Net accumulation of principal arrears on external debt	17.5
Debt relief (on current maturities and arrears)	0.0
Domestic financing, net	6.4
Bank financing, net	7.0
Bank of the Republic of Burundi (BRB), net	5.7
Commercial banks, net	1.3
Nonbank financing	-0.7
Net accumulation of domestic arrears	0.1

7. The **net domestic assets of the BRB** are defined as the difference between (a) the amount of reserve money, comprising currency in circulation, reserves of commercial banks and other deposits held at the BRB, and (b) the amount of net foreign assets of the BRB (see below). Net domestic assets of the BRB totaled FBu 41.3 billion at end-June 2002 and are broken down as follows:

Net Domestic Assets of the BRB	
Net domestic assets of the BRB (in billions of Burundi francs)	41.3
Reserve money	46.3
Currency in circulation	38.9
Reserves of commercial banks	7.0
Other deposits	0.4
Minus: net foreign assets of the BRB	5.0

8. The stock of **external payments arrears** corresponds to the amount at the end of period of external debt service due and not paid, including contractual and late interest. The government's external payment arrears were estimated at US\$129.1 million at end-June 2002, broken down as follows:

External Payments Arrears	
External payments arrears (in millions of U.S. dollars)	129.1
Multilateral	60.0
African Development Bank	13.4
African Development Fund	11.8
International Fund for Agriculture development	0.4
Arab Bank for Economic Development in Africa	14.9
Arab League	0.3
European Investment Bank	1.8
European Union	7.3
International Development Association	1.0
OPEC Fund	9.1
Bilateral	63.9
French Cooperation Agency (AFD)	26.6
Japan (FCEOM)	8.2
Abu Dhabi Fund for Development	1.9
Kuwait Fund for Arab Economic Development	15.0
Saudi Fund for Development	12.3
Other creditors	5.1
AD Consultants	3.6
Kreditanstalt für Wiederaufbau (KfW)/AMSAR	1.5

9. Indicators relating to external debt are ceilings on the **stock of short-term external debt** owed by the central government and the BRB, with a maturity of up to one year (one year included). This quantitative indicator does not cover normal import credits. Ceilings are also set on **new nonconcessional external debts** contracted or guaranteed by the government. Medium- and long-term loans have an initial maturity, as recorded in the original loan agreement, of more than one year. This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leasing). Excluded from this performance criterion are rescheduling arrangements and borrowing from the Fund. The concessional nature of debt will be ascertained on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is said to be concessional if, on the date of its initial disbursement, the ratio between the present value of the debt, computed on the basis of reference interest rates, on the one hand, and the face value of the debt, on the other hand, is less than 50 percent (equivalent to a grant element of at least 50 percent).

10. The **net foreign assets of the BRB** are defined as the difference between (a) foreign exchange assets and gold holdings (valued at market prices), and (b) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). These amounts are valued in terms of U.S. dollars based on end-of-period exchange rates. The net foreign assets of the BRB totaled FBu 5.0 billion at end-June 2002, broken down as follows:

Net Foreign Assets of the BRB	
Net foreign assets of the BRB (in billions of Burundi francs)	5.0
Foreign assets	23.3
Deposits with correspondents (excluding IMF)	21.8
SDR holdings	0.1
Reserve position with the IMF	0.4
Gold holdings	0.0
Cash on hand	1.0
Foreign liabilities	18.3
Liabilities vis-à-vis correspondents (excluding IMF)	17.6
Use of IMF resources	0.7
Other liabilities	0.0

### Adjusting mechanism

11. The program provides for a symmetrical adjuster (upward and downward) that applies to quantitative indicators on aggregate government financing, the net domestic assets of the BRB, and the net foreign assets of the BRB, based on deviations (excess or shortfall) on nonproject external financing (namely, budgetary support, measured in terms of U.S.

dollars, as indicated as a memorandum item in Table 4). In case of a positive deviation (or, respectively, negative) of nonproject external financing, the ceiling on aggregate government financing will be raised (lowered), the ceiling on the net domestic assets of the BRB will be lowered (raised), and the floor on the net foreign assets of the BRB will be raised (lowered) by an amount equivalent to 50 percent of the recorded deviation. External financing will be converted in terms of Burundi francs on a quarterly basis, using the average official exchange rate.

### C. Key Program Assumptions

12. The main program assumptions are as follows:

Main Program Assumptions		
	2002	2003
Average export prices		
Coffee (U.S. cents per pound)	48.5	53.3
Tea (U.S. dollars per kilogram)	1.25	1.27
U.S. dollars per SDR exchange rate		
Annual average	1.293	1.324
End of period	1.323	1.336
U.S. dollars per euro exchange rate		
Annual average	0.939	0.979
End of period	0.966	0.968

### D. Provision of Information to IMF Staff

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

- (a) the monetary survey, comprising the position of the central bank and of commercial banks;
- (b) the financial position of the government vis-à-vis the banking system;
- (c) a detailed breakdown of government revenue;
- (d) a detailed breakdown of government expenditure on a commitment basis;

- (e) a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, in interest and principal, as well as the detail by creditor and any accumulation of arrears on domestic or external debt;
- (f) a detailed breakdown of the stock of domestic payments arrears and cumulative flows from January 1, 2002 onward; the accumulation of new arrears is defined as the difference between commitments and actual payments (on a cash basis, as reported in the cash statement summary—*Reddition des comptes*);
- (g) the amount of new debts contracted or guaranteed by the government, including detailed information on its conditions (such as currency denomination, interest rate, grace period, and maturity);
- (h) actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors;
- (i) the weekly balance sheet of the BRB and the outcome of weekly foreign exchange auctions, including the allocated amounts and exchange rate levels, as well as the level of buying and selling exchange rates used by commercial banks and those observed on the parallel market;
- (j) indicators and other statistical data to allow an evaluation of macroeconomic developments, such as the consumer price index, and indices of manufacturing output, merchandise imports and exports (volume and value), with a breakdown by main categories; and
- (k) an update on the implementation of structural measures planned under the program, as summarized in Table 3 of Annex I.

14. The SP/REFES will also provide the African Department of the IMF with any information that is deemed necessary to ensure the effective monitoring of the program.

Burundi: Relations with the Fund  
(As of July 31, 2002)

**I. Membership Status:** Joined 09/28/63; Article XIV

<b>II. General Resources Account:</b>	<u>SDR million</u>	<u>% Quota</u>
Quota	77.00	100.0
Fund holdings of currency	76.64	99.5
Reserve position in Fund	0.36	0.5

<b>III. SDR Department:</b>	<u>SDR million</u>	<u>% Allocation</u>
Net cumulative allocation	13.70	100.0
Holdings	0.12	0.9

<b>IV. Outstanding Purchases and Loans:</b>	<u>SDR million</u>	<u>% Quota</u>
Enhanced Structural Adjustment Facility (ESAF)/Poverty Reduction and Growth Facility (PRGF)	0.64	0.83

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval date</u>	<u>Expiration date</u>	<u>Amount approved (SDR million)</u>	<u>Amount drawn (SDR million)</u>
ESAF	11/13/91	11/12/94	42.70	19.21
SAF	8/8/86	8/7/89	29.89	29.89
Stand-By Arrangement	8/8/86	3/31/88	21.00	0.00

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

	<u>2002</u>	<u>2003</u>	<u>Forthcoming</u>		
			<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal	0.64				
Charges/interest	0.20	0.30	0.30	0.30	0.30
Total	0.84	0.30	0.30	0.30	0.30

**VII. Safeguards Assessments:**

The safeguards assessment procedures are not applicable to the Bank of the Republic of Burundi (BRB) at this time.



### **VIII. Exchange Rate Arrangement**

The Burundi franc was pegged to the SDR until April 1, 1992. From 1993 to 1999, there were two foreign exchange markets. The first market (the BRB window) comprised exports proceeds from coffee and tea, which then amounted to about 95 percent of total export proceeds. The second market (the second window) was operated by foreign exchange bureaus. A weekly foreign exchange auction system was introduced in July 2000, through which the BRB sells foreign exchange at the auction to authorized dealers. At the end of each weekly session, a market exchange rate is obtained that serves as a reference rate for determining the buying and selling exchange rates. However, over the past two years, the authorities have attempted to influence the exchange rate to respond to balance of payments pressures, and the parallel market is consequently still thriving. Since November 1997, Burundi has imposed restrictions on the making of payments and transfers for current international transactions that are subject to Fund approval under Article VIII, Section 2(a). These restrictions include the provision of foreign exchange for imports of luxury goods, transfers of income from rents and the sale of real estate, and travel and study allowances. Furthermore, all foreign exchange operations remain centralized at the central bank. Over the past several years, Burundi has accumulated external payments arrears to various bilateral and multilateral creditors.

### **IX. Article IV Consultation**

Burundi is on the standard 12-month cycle. The 1999 Article IV consultation discussions were conducted at Fund headquarters during the period October 4-16, 1999. The staff report (SM/00/49; 3/3/00) was discussed by the Executive Board on March 16, 2000.

### **X. Technical Assistance**

2001-02:	Three FAD visits by a tax administration expert, in preparation for large-taxpayer unit
2000:	STA mission on monetary and banking statistics
2000:	FAD mission on tax and customs administration
1998:	MAE mission on foreign exchange auctions
1993:	MAE mission on monetary management
1993:	FAD mission on tax and customs administration
1992:	PDR/AFR mission on exchange system options

### **XI. Resident Representative**

None.

**Burundi: IMF-World Bank Group Relations Annex**  
(As of end-August 2002)

**Statement of IFC investments**

In 1981, the International Finance Corporation (IFC) committed a loan amounting to US\$5.9 million to Verreries du Burundi, a glass container manufacturer. US\$4.6 million has been repaid and US\$0.2 written off. The loan portion has been fully reimbursed, and IFC still holds the US\$1 million equity portion, which is not salable, owing to the poor performance of this public enterprise.

**Statement of MIGA investments**

Burundi signed the MIGA convention in April 1995 and ratified it in March 1996. It also completed the payment of its initial subscription to the capital stock; however, MIGA has not yet received any portion of its contribution to the general capital increase. The MIGA portfolio in Burundi includes two active applications for a total investment of US\$6.5 million.

**Structural adjustment program**

Burundi's structural reform program was supported by three structural adjustment credits during 1986–92, totaling US\$135 million. The last one was partially canceled in June 1995, as the reform program was derailed by civil unrest. In 2000, the International Development Association (IDA) approved an Emergency Economic Recovery Credit in an amount equivalent to US\$35 million, directed at financing key imports and essential social services. An Economic Rehabilitation Credit (ERC) amounting to US\$54 million, of which US\$20 million will be disbursed during the current year, was approved in August 2002. This credit would finance eligible imports based on a negative list, and the counterpart funds from the imports would finance programs in the national budget.

**Investment lending program**

Since 1970, Burundi has received 50 IDA credits totaling US\$660 million. Disbursements from IDA credits have totaled US\$596 million, and have financed a broad range of projects in agriculture and rural development, infrastructures and energy, economic and social infrastructure, education, and health. The current IDA project portfolio (see table below) consists of seven projects for a total commitment of US\$205 million, with an undisbursed balance of US\$142 million. IDA project lending program for 2002 is expected to comprise two new projects, whose objectives are as follows:

- The first one, Health Population Project III, of an amount of US\$12 million, would focus on improving access to health care, strengthening health sector management, and enhancing family planning.

- The second one, a multisectoral HIV/AIDS/Orphans Project, of an amount of US\$36 million, would aim at supporting the implementation of Burundi's Action Plan for the Struggle Against HIV/AIDS for the period 2002-2006. The objectives of the program are to slow the spread of HIV/AIDS in the population and mitigate its damage to individuals and families.

**Active Portfolio in Burundi—Bank Loans and IDA Credits**  
(As of end-August 2002)  
(In millions of U.S. dollars, unless otherwise indicated)

Project Name	Approval Fiscal Year	Closing Date	Net Commitment	Undisbursed	Disbursed in Fiscal Year
Health Population II	1995	6/30/02	21.30	3.13	3.54
Emergency Economic Recovery Credit	2000	4/30/02	35.00	0.25	0.25
BURSAP II	2000	12/31/03	12.00	9.07	4.60
Regional Trade Facilitation Project	2001	6/30/11	7.50	7.47	1.80
Public Works and Employment Creation	2001	12/31/06	40.00	36.40	3.55
ERC	2003		54.00	53.87	0.00
HIV/AIDS and Orphans	2002		36.00	36.00	0.00

**World Bank Staff**

Questions may be referred to Hippolyte Fofack, Senior Economist in charge of Burundi (Tel. 202-473-6298).

## **Burundi: Statistical Issues**

Burundi's database remains weak, particularly regarding the real sector, government finances, and balance of payments. The authorities are aware of these deficiencies and would welcome technical assistance from the international community, including the Fund, to help strengthen their statistical system.

### **Outstanding statistical issues**

#### ***Real sector***

Burundi reports annual national accounts data, to the Fund with about a three-month lag. Moreover, the national accounts estimates are often compiled on the basis of limited information. There are no producer and foreign trade price data and data on employment are seriously out of date.

#### ***Government finance***

Burundi ceased to be a regular reporter of government finance statistics for publication in *International Financial Statistics (IFS)* and the *Government Finance Statistics (GFS) Yearbook* in July 2001. At that point, the authorities requested technical assistance in statistics. The quality of fiscal reporting had improved significantly in January 1997, when the authorities introduced a new *tableau des opérations financières* presentation of fiscal data in the central bank's monthly bulletin. In June 1998, the central bank began reporting monthly data for publication in *IFS*. However, the monthly data contain a large "errors and omissions" balancing item. This item is caused by the difference of coverage of government units in the fiscal and monetary data. There is a need to integrate all extrabudgetary accounts into a unified budget framework and to isolate local government data from the measures of central government financing.

#### ***Monetary accounts***

Following the technical assistance mission on monetary and financial statistics in September 2000, the timeliness of data reporting to the Fund has considerably improved and is now satisfactory. Data for the monetary authorities and the deposit money banks through April 2002 have been published in *IFS*. Progress in various areas of the action plan for the development of monetary and financial statistics has been made (the allocation of additional computer resources for monetary data compilation, and electronic transmission of data to the Fund). Work in other areas is under way, including extension of the institutional coverage to other financial intermediaries. However, some other important recommendations have not been undertaken to date or are behind schedule, mainly owing to staffing constraints.

***Balance of payments***

Balance of payments data are compiled on an annual basis, and are reported to the Fund in a timely fashion; however, compilation is often based on limited information. International trade data are reported to the Fund with a three-month lag. Burundi sent methodological notes describing the compilation methods for balance of payments statistics that were included in Part 3 of the 2001 *Balance of Payments Statistics Yearbook*. Data on the international investment position have not been compiled.

**Burundi: Core Statistical Indicators**  
(As of September 10, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Export/ Imports	Current Account Balance	Overall Government Balance	External Debt/Debt Service	GDP/GNP
Date of latest observation	9/02	7/02	6/02	6/02	6/02	8/02	6/02	2001	2001	6/02	6/02	2001
Date received	9/02	8/02	8/02	8/02	8/02	8/02	8/02	8/02	8/02	8/02	8/02	8/02
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Annual	Quarterly	Monthly	Annual
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Annual	Quarterly	Monthly	Annual
Source of update 1/	BRB	BRB	BRB	BRB	BRB	BRB	BRB	BRB	BRB	Ministry of Finance	Ministry of Finance	Ministry of Plan
Mode of reporting	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality	No	2/	2/	2/	2/	No	No	2/	2/	2/	No	2/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Annual	Quarterly	Annual	Annual

1/ BRB = Bank of the Republic of Burundi.

2/ Preliminary data for staff use only; actual data unrestricted.

## Burundi: Social and Demographic Indicators 1/

---

Land area (sq. km.)	25,680
Population	
Total (in millions; 2000)	6.8
Urban population (percent of total)	9.0
Rural population (percent of total)	91.0
Density (people per sq. km)	264.7
Growth rate (percent)	2.9
GDP per capita (U.S. dollar; 2000) 2/	110
Life expectancy at birth (years)	
Overall	42.4
Men	41.0
Women	43.8
Crude birth rate (per 1,000)	42.5
Crude death rate (per 1,000)	17.0
Infant mortality rate (per 1,000)	97.2
Education (1999)	
Gross primary enrollment rate (percent)	51.0
Gross secondary enrollment rate (percent)	7.0
Adult literacy rate (percent)	44.6
Health (1999)	
Physicians (in hospitals)	357
Hospitals	35
Population per physician	18,696
Population per nurse	5,214
Population per hospital/bed	1,657
Access to safe water (percent)	52.0
Immunization rate (percent)	63.0
Urban areas	92.0
Rural areas	33.9

---

Sources: Burundi authorities; World Bank; *World Development Indicators*; and IMF, *International Financial Statistics*.

1/ Most recent estimates available.

2/ *World Bank Atlas* method.

**Statement by the IMF Staff Representative  
October 9, 2002**

The following information has become available since the issuance of the staff report (EBS/02/174) on September 24, 2002. It does not change the thrust of the staff appraisal.

Negotiations on a cease-fire continued throughout most of September, but appeared to run into difficulties in the latter part of the month. Preliminary agreement was reached with one faction of the CNDD-FDD (Conseil national pour la défense de la démocratie – Forces pour la défense de la démocratie) and one faction of the Palipehutu-FNL (Parti pour la libération du peuple hutu – Forces nationales pour la libération), but progress in the discussions with the other rebel factions remained elusive. Following a two-week suspension, cease-fire negotiations resumed on October 7, 2002 in the context of a heads of state regional summit in Dar es Salaam (Tanzania).

Recent data on developments through August 2002 suggest no significant change in macroeconomic trends. In particular, prices continued to decline in July–August, and the 12-month change in consumer prices was -1.9 percent through August 2002, compared with -2.1 percent through June. It is likely that inflation picked up in September as a result of the exchange rate depreciation of end-August and the increase in the prices of petroleum products (by 8–9 percent), which the authorities implemented on September 10, 2002.

The Bank of the Republic of Burundi (BRB) has been conducting weekly foreign exchange auctions (except on one occasion in early September, because of a lack of funds). Following the initial depreciation, the exchange rate has remained broadly stable at about FBu 1,070 per U.S. dollar, compared with FBu 885 in mid-August. The exchange rate differential with the parallel market has also remained broadly constant at 20 percent (in foreign currency terms), compared with some 30 percent in mid-August. The BRB expects the exchange rate differential to narrow further once it steps up sales on the auction market, following the disbursement of external assistance. The first tranche (US\$20 million) of the World Bank's Economic Recovery Credit (approved on August 29) is due to be released soon, once the loan agreement has been ratified by Burundi's National Assembly.





INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 02/123  
**EMBARGOED**  
**NOT FOR NEWSWIRE TRANSMISSION**  
**UNTIL 6:00 PM WASHINGTON TIME (2300 GMT)**  
October 30, 2002

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Concludes 2002 Article IV Consultation with Burundi**

On October 9, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.<sup>1</sup>

### **Background**

By 2000, following nearly a decade of civil strife, more than 250,000 Burundians had lost their lives and about 1 million had been displaced; meanwhile, real GDP had contracted by almost 30 percent since the early 1990s. A Peace and Reconciliation Agreement was signed in Arusha, Tanzania, in August 2000, and a government of national unity was appointed in November 2001. While rebel activity has continued in recent years, cease-fire negotiations with all rebel factions started in August 2002.

The authorities began addressing economic and financial issues through the implementation of a staff-monitored program (SMP) in the second half of 2001. The program's main objectives were to stabilize the macroeconomic situation, facilitate the mobilization of external assistance, and lay the groundwork for growth and poverty reduction. However, implementation of the SMP was hampered by continued instability and a consequent holding back of donor support.

---

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the October 9, 2002, Executive Board discussion based on the staff report.

Economic activity began to recover and inflation decelerated in 2001. Aided by a rebound in agricultural output and reconstruction activity, real GDP grew by an estimated 2.1 percent, and the 12-month rate of inflation fell to less than 4 percent in December. These positive trends continued during the first half of 2002, but the lowest world coffee prices in a decade have posed major difficulties for Burundi. Larger losses of the coffee parastatal (OCIBU) in 2001/02, equivalent to about 1 percent of GDP, have been covered by budget subsidies; such losses would have doubled in tandem with production in 2002/03 in the absence of new measures.

Fiscal performance weakened in the latter part of 2001, mainly reflecting expenditure overruns, and the overall budget deficit increased to 5.2 percent of GDP. Confronted with lower-than-expected donor support, the government resorted to domestic bank financing and ran up external debt service arrears, amounting to US\$116 million at end-2001. The external current account deficit also worsened (to 16.2 percent of GDP) and gross official foreign exchange reserves fell to less than ten weeks of imports of goods and services at end-2001. In the face of dwindling foreign exchange reserves, the Bank of the Republic of Burundi (BRB) resorted to restrictions, including a narrowing of the list of imports eligible for foreign exchange on the official auctions market and limits on bid rates, and conducted its auctions less regularly. Such restrictions helped contain the depreciation of the Burundi franc, but the discount (in foreign currency terms) on the parallel market remained in excess of 20 percent.

The authorities' program for 2002–03 was drawn up in the light of the broader framework of the Arusha agreement. In particular, it takes into account the key steps envisaged under the peace process, the mobilization of humanitarian assistance and the repatriation of refugees, the rebuilding of infrastructure and institutional capacity, and the promotion of equitable growth through market-based economic reform. In the short run, the authorities' priority is to restore a measure of financial stability, in particular through stricter budget implementation, tighter monetary conditions, and more flexible exchange rate management. In turn, a better coordination of fiscal, monetary, and exchange rate policies, coupled with emergency measures to reduce the deficit of the coffee sector, is expected to enhance competitiveness and improve resource allocation. The authorities hope that progress in the implementation of their economic and financial program will help them mobilize external assistance, including budgetary support; this assistance would facilitate the funding of priority programs that are crucial for the consolidation of peace, as well as the replenishment of the BRB's foreign currency reserves.

### **Executive Board Assessment**

Executive Directors noted that Burundi had faced unusually difficult circumstances since the mid-1990s, as the severe impact on the economy of the drawn-out conflict had been compounded by a sharp fall in the terms of trade. Against this background, Directors welcomed the progress made toward normalizing the situation since the signing of the Arusha Peace and Reconciliation Agreement in August 2000. These developments provided a basis for cautious optimism that a broad-based settlement would be reached soon, allowing for a full recovery of the economy.

Directors commended the Burundi authorities for having introduced measures designed to restore economic and financial stability and mobilize the support of the international community. They agreed that improved economic management and the launch of the much-needed rehabilitation and reconstruction of basic infrastructure, with substantial external assistance, would help consolidate the progress made under the Arusha agreement. Measures to achieve macroeconomic stability were clearly essential in this respect, especially to strengthen the fiscal position, reform the foreign exchange auction market, and restore the competitiveness of coffee exports. However, Directors noted that progress toward high sustainable growth and poverty reduction would require the elaboration of a comprehensive medium-term macroeconomic program and structural policy framework.

Directors considered that the authorities' fiscal consolidation objectives for 2002–03 struck an appropriate balance between the requirements of emergency needs and reconstruction, on the one hand, and the objective of reducing internal and external imbalances, on the other. They welcomed the authorities' decision to strengthen tax and customs administration, as well as their efforts at containing the growth of current expenditure, and called for further improvements in public expenditure management. Directors emphasized the importance of reducing military outlays as soon as circumstances permit, thereby facilitating an increase in spending on high-priority sectors.

Directors welcomed the adoption of a more flexible approach to monetary and exchange rate management. They noted that the holding of more regular auctions would help improve the allocation of foreign exchange, and urged the authorities to phase out exchange restrictions as soon as possible. This, together with sufficiently tight liquidity conditions, should allow a convergence between the official and parallel market exchange rates. Directors also stressed the importance of improving monetary control to ensure a pace of broad money growth that is consistent with price stability and the economic recovery needs.

Directors agreed on the priority assigned to ensuring the profitability of coffee and tea exports, which continue to account for the bulk of Burundi's foreign exchange earnings. The measures taken by the coffee marketing board to reduce processing margins were steps in the right direction, but Directors took the view that these steps would need to be followed by reforms of the entire subsector, including through deregulation and privatization. Directors noted the importance of proceeding with other structural reforms, especially the setting up of the auditing court, which would improve accountability in the management of public finances. They also encouraged the authorities to take measures to foster private sector development and economic diversification once normal conditions and business confidence have been restored.

Directors commended the authorities for maintaining core statistics that are deemed adequate for Fund surveillance. However, they noted the need for improving the quality and timeliness of data, and supported the provision of technical assistance in this area. The authorities were also encouraged to mobilize technical assistance in the areas of tax administration, expenditure control, monetary and exchange rate management, and bank supervision.

While welcoming Burundi's support for the global fight against terrorist financing, Directors encouraged the authorities to take steps to combat money laundering and to implement all relevant United Nations regulations.

Directors expressed the view that Burundi's political and economic situation remained fragile, despite the progress made during the last two years. They hoped the authorities would seize the opportunity, with the help from external assistance, to consolidate the prospects for lasting peace and economic development in Burundi.

***Public Information Notices (PINs)*** are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Burundi: Selected Economic and Financial Indicators, 1998–2002

	1998	1999	2000	2001	2002 Proj.
	(Annual percentage change)				
Domestic economy					
GDP at constant market prices	4.8	-1.0	-0.9	2.1	3.6
Consumer prices (period average)	12.5	3.4	24.3	9.3	8.0
	(In millions of U.S. dollars) <sup>1/</sup>				
External economy					
Exports, f.o.b.	63.9	55.0	49.1	39.2	47.8
Imports, f.o.b.	-123.6	-97.3	-107.8	-108.4	-114.5
Current account (excluding official transfers)	-108.7	-75.6	-104.4	-107.0	-105.9
(in percent of GDP)	-12.2	-9.3	-14.7	-16.2	-15.7
Overall balance	-58.0	-37.2	-28.8	-32.6	-55.1
Gross official reserves	70.5	49.2	39.4	23.6	29.0
(in months of imports, c.i.f.)	5.6	5.3	3.7	2.2	2.6
Change in real effective exchange rate (in percent) <sup>2/</sup>	-9.8	-17.0	4.1	-4.7	...
	(In percent of GDP) <sup>1/</sup>				
Financial variables					
Revenue (excluding grants)	17.1	16.2	19.2	20.0	19.6
Total expenditure and net lending	23.7	25.3	24.3	26.9	25.8
Primary budget balance <sup>3/</sup>	0.7	-0.8	2.7	1.1	1.8
Overall fiscal balance (excluding grants) <sup>3/</sup>	-6.6	-9.1	-5.0	-6.8	-6.2
Change in broad money (in percent)	0.1	45.5	4.3	15.0	15.3
Interest rate (in percent) <sup>4/</sup>	9.6	10.6	12.1	13.2	13.6

Sources: Burundi authorities; and IMF staff estimates.

1/ Unless otherwise indicated.

2/ Bilateral trade-weighted period averages; a negative sign signifies a depreciation.

3/ On a commitment basis and excluding grants.

4/ Twelve-month deposit rate.



Press Release No. 02/48  
FOR IMMEDIATE RELEASE  
October 9, 2002

International Monetary Fund  
Washington, D.C. 20431 USA

## **IMF Approves US\$13 Million in Emergency Post-Conflict Assistance for Burundi**

The International Monetary Fund (IMF) today approved a credit of SDR 9.625 million (about US\$13 million) in emergency post-conflict assistance for Burundi to support the government's reconstruction and economic recovery program in the aftermath of the August 2000 Peace and Reconciliation Agreement. The credit is available immediately.

Following the Executive Board's discussion of the request by Burundi, Eduardo Aninat, Deputy Managing Director and Acting Chairman, stated:

"Burundi has made significant progress in laying the basis for normalcy since the conclusion of the Arusha Peace and Reconciliation Agreement in August 2000. Notwithstanding sporadic hostilities, the recent opening of direct negotiations between the government and rebel forces, as well as other peace initiatives in the subregion, provide a basis for cautious optimism that a broad-based settlement could be reached. However, the authorities still face major challenges to reduce domestic and external imbalances, improve financial management, and reduce poverty.

"The Fund welcomes the adoption by the Burundi authorities of measures designed to restore financial stability, including through tighter fiscal management, a more active monetary policy, a liberalization of the foreign exchange auction market, and lower processing charges in the coffee sector. The mobilization of external assistance in the context of the authorities' program is expected to facilitate economic and financial reforms, and thus help consolidate the prospects for lasting peace and economic growth in Burundi.

"Further liberalization of the foreign exchange market, together with regular auctions of foreign exchange and a more active use of monetary policy instruments, should help narrow the differential between the official and parallel market exchange rates. Over time, it will be important for the Bank of the Republic of Burundi to improve its capacity to monitor and control bank liquidity, and develop more flexible monetary policy instruments.

"Subject to the establishment of a good record of performance under the authorities' program, the Fund stands ready to consider further assistance to Burundi under the post-conflict emergency assistance policy. Rapid progress in the implementation of the program would speed up the delivery of external assistance and lay the groundwork for a medium-term program that

could be supported by the Fund under the Poverty Reduction and Growth Facility (PRGF) and a decision point under the Initiative for Heavily Indebted Poor Countries (HIPC Initiative),” Mr. Aninat said.

## **Recent Economic Developments**

The authorities began addressing economic and financial issues through the implementation of a staff-monitored program (SMP) in the second half of 2001. The program's main objectives were to stabilize the macroeconomic situation, facilitate the mobilization of external assistance, and lay the groundwork for growth and poverty reduction. The implementation of the staff monitored program was however hampered by higher than envisaged military outlays and delays in appointing the government of national unity, and a consequent holding back of donor support. As a result, despite substantial humanitarian and project aid, a number of quantitative targets and structural measure were not met. Fiscal performance weakened in the latter part of 2001, mainly reflecting expenditure overruns.

## **Program Summary**

The 2002-03 program aims at containing external imbalances within levels that can be financed by external grants and concessional loans. The external current account deficit (excluding grants) is projected to narrow in 2002, but would increase in 2003. This projection is predicated on an increase in gross national savings by 1 percentage point of GDP in 2002 and again in 2003, mainly reflecting a substantial improvement in the central government position.

The program is also underpinned by a cautious fiscal stance that will still allows essential social and security needs to be addressed. Fiscal management is to be coordinated with monetary and exchange rate policies, so as to contain inflationary pressures, improve competitiveness, and support growth.

Government revenue is projected to remain in the vicinity of 20 percent of GDP in 2002 and 2003. Total expenditure is programmed to decline in 2002 by 1 percentage point of GDP, and again slightly in 2003. Waning security outlays would allow larger allocations for social sectors. While remaining high overall, military expenditures is set to fall to 7 percent in 2002 and 5 ½ percent in 2003 from 8 percent of GDP in 2001.

Structural reforms will, in the short run, continue to be geared toward providing an enabling environment for national reconciliation and private sector development. In this regard, the authorities intend to set up a national commission to assist victims. Its mandate is key to economic and social recovery, and it could serve as an important vehicle to channel donor support. The government is also giving priority to labor-intensive projects under its public investment program to promote job creation.

Restoring profitability in the coffee sector is a key priority of the program. The authorities anticipate that a depreciated exchange rate will benefit export competitiveness, particularly for the coffee sector. Other structural reforms aiming at private sector development are expected to be formulated once normal conditions and business confidence have been restored.



Burundi joined the Fund on September 28, 1963, and its quota<sup>1</sup> is SDR 77 million (about US\$101 million). Its outstanding use of IMF financing currently totals SDR 0.64 million (about US\$0.8 million).

---

<sup>1</sup> A member's quota in the IMF determines, in particular, the amount of its subscription, its voting weight, its access to the IMF financing, and its allocation in SDRs.

Table 2. Burundi: Selected Economic and Financial Indicators, 1998-2003

	1998	1999	2000	2001		2002	2003
			Est.	SMP	Est.	Prog.	Prog.
(Annual percentage change, unless otherwise indicated)							
National income and prices							
Real GDP growth	4.8	-1.0	-0.9	3.2	2.1	3.6	5.0
GDP deflator	11.4	14.9	13.2	13.4	5.4	9.4	5.7
Consumer prices (period average)	12.5	3.4	24.3	14.0	9.3	8.0	8.0
Consumer prices (end of period)	-1.0	20.7	14.1	13.4	3.9	11.6	5.1
GDP at current market prices (in billions of Burundi francs)	400.2	455.5	511.1	572.3	550.0	623.3	692.1
External sector							
Export, f.o.b. (in U.S. dollars)	-26.9	-14.0	-10.7	-2.6	-20.2	22.0	-5.2
Imports, f.o.b. (in U.S. dollars)	28.5	-21.3	10.8	17.2	0.5	5.6	7.3
Export volume	-26.1	7.4	5.5	11.2	4.9	21.4	-11.7
Import volume	55.2	-1.4	10.2	15.4	4.3	5.8	6.1
Terms of trade (deterioration -)	65.7	65.8	51.2	-13.9	40.4	40.7	43.2
Exchange rate (in Burundi francs per U.S. dollar; average) 4/	447.8	563.6	720.5	...	830.4	852.2	...
Exchange rate (in Burundi francs per U.S. dollar; end of period) 4/	505.2	628.6	778.2	...	864.2	882.4	...
Real effective exchange rate (depreciation -) 4/	-10.5	-19.5	3.5	...	-3.3	-9.7	...
Central government							
Revenue and grants	26.6	18.3	33.8	20.0	4.5	15.9	10.6
Revenue	46.7	8.1	32.8	21.5	12.0	11.0	12.9
Total expenditure and net lending (commitment basis)	24.0	24.3	7.5	18.3	19.1	9.0	9.9
Current expenditure	12.1	24.5	12.6	7.5	22.8	3.9	0.4
Money and credit							
Net foreign assets 1/	-23.3	3.3	0.8	12.3	-14.0	9.8	6.9
Domestic credit 1/	34.6	44.2	15.4	8.6	37.9	14.6	9.4
Government 1/	8.6	23.7	-18.3	0.8	22.9	-3.6	-3.1
Private sector 1/	22.8	22.9	36.3	8.3	13.1	18.5	13.8
Public enterprises 1/	2.1	1.1	-1.4	-0.3	1.5	0.3	-1.2
Money and quasi money (M2)	0.1	45.5	4.3	17.0	15.0	15.3	12.0
Income velocity (ratio of GDP to M2; end of period)	6.3	5.0	5.3	5.1	5.0	4.9	4.9
Deposit rate (12-month deposit) 4/	9.6	10.6	12.1	...	13.2	13.6	...
Lending rate (medium term) 4/	17.6	18.0	20.0	...	20.4	20.9	...
(In percent of GDP, unless otherwise indicated)							
External sector							
Current account balance							
Excluding official transfers	-12.2	-9.3	-14.7	-17.1	-16.2	-15.7	-19.4
Including official transfers	-6.6	-3.7	-7.0	-3.1	-5.2	-5.3	-6.0
Debt-service ratio (scheduled) 2/	76.7	76.3	83.5	98.3	104.4	99.4	85.7
Central government							
Revenue (excluding grants)	17.1	16.3	19.2	20.9	20.0	19.6	19.9
Total expenditure and net lending	23.2	25.3	24.3	25.7	26.9	25.8	25.6
Primary domestic balance	0.8	-0.8	2.7	4.1	1.1	1.8	3.2
Overall balance (commitment basis)							
Excluding grants	-6.1	-9.1	-5.0	-4.8	-6.8	-6.2	-5.6

Including grants -5.2 -6.6 -1.9 -1.7 -5.2 -3.6 -3.5

Table 2. Burundi: Selected Economic and Financial Indicators 1998-2003/ continued

Gross investment	8.9	8.5	8.4	10.4	8.2	9.3	11.0
Public fixed investment	5.9	6.9	6.1	8.2	6.0	6.5	8.0
Private fixed investment	3.1	1.6	2.3	2.2	2.2	2.8	3.0
Gross national savings	2.4	4.8	1.4	7.3	3.0	3.9	5.0
Public	0.7	0.3	4.2	6.5	0.8	2.8	4.6
Private	1.6	4.5	-2.8	0.8	2.2	1.1	0.5
(In millions of U.S. dollars, unless otherwise indicated)							
External sector							
Current account							
Excluding official transfers	-	-75.6	-	-	-	-	-
Including official transfers	108.7		104.4	115.1	107.0	105.9	123.1
Overall balance of payments	-58.8	-30.0	-49.7	-21.0	-34.4	-35.9	-38.0
Gross official reserves	70.5	49.2	39.4	43.9	23.6	29.0	35.7
Gross official reserves 3/	5.6	5.3	3.7	3.2	2.2	2.6	3.0
Net official reserves 3/	3.4	3.3	2.5	2.9	1.6	2.2	2.6
External payments arrears	71.0	84.0	92.6	112.7	115.7	128.7	...

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

1/ In percent of beginning-of-period broad money supply.

2/ In percent of exports of goods and nonfactor services.

3/ End of period; in months of imports, c.i.f.

4/ Actual data at end-July 2002.

**Statement by Cyrus D.R. Rustomjee, Executive Director for Burundi  
and Gualberto Campos, Assistant to the Executive Director  
October 9, 2002**

**Introduction**

On behalf of my Burundi authorities, I would like to express gratitude to Management and the staff for their ongoing constructive engagement with Burundi as well as for their work in conducting the Article IV consultation, and in assisting in the request for Post-Conflict Emergency Assistance. The discussions have provided a valuable opportunity for the authorities to take a critical look at their own macroeconomic policies and the recommendations provided by staff are effectively helping the authorities in their efforts to address the challenges facing the economy.

After a decade of a devastating armed conflict, which has claimed the lives of more than 250,000 people and has left about 1 million people displaced, the prospects for peace and national reconciliation in Burundi are extremely encouraging. Following the signature of the Peace and Reconciliation Agreement in Arusha, Tanzania, by 18 political parties in August 2000, a government of national unity was appointed in November 2001. In addition, the National Assembly was expanded to include representatives of other ethnic and political affiliations, and several commissions to facilitate national reconciliation, and social integration were created. To achieve a social compromise it was decided that during the transition period, a Tutsi ethnic person will chair the Presidency of the Republic until May 2003 and a Hutu ethnic individual will then take the lead until October 2004.

Notwithstanding the signature of the Agreement, sporadic rebel activity by two groups has continued. The national unity government is, nevertheless, committed to establish conditions conducive to lasting peace. Cease-fire negotiations between the government and both rebel factions are under way with the support of the international community including some African countries. Recent conversations with the most prominent group, the Palipehutu-FNL, were adjourned on September 26, 2002. At that time, the South African Deputy President, who is serving as facilitator for the talks, has declared that "the amicable atmosphere in which the discussions took place, and the commitment displayed indicates that the two parties are serious about finding a solution." It is expected that the parties will finalize agreements soon.

The implementation of the Agreement is taking place against a background of serious economic difficulties, in particular a sharp fall in the terms of trade, while donor assistance has remained at modest levels. Since 1992, GDP per capita has fallen by almost 30 percent in real terms while social conditions have seriously deteriorated. With a GDP per capita of US\$110 Burundi ranks today among the five poorest countries in the world. It is estimated that two-thirds of the population lives in absolute poverty. In addition, there is a serious HIV/AIDS problem affecting 12 percent of the population while the illiteracy rate is estimated to have deteriorated.

## **Recent Economic Developments**

The authorities began addressing macroeconomic imbalances through the implementation of a staff monitored program (SMP) in the second half of 2001, aimed at reviving the economy and increasing the fight against poverty. Quantitative targets for end-September and end-December 2001 were, however, not observed while three of the nine structural measures were not implemented. Indeed, the precarious security situation induced an increase in military spending, which combined with a substantial shortfall in donor assistance as well as the hiring of new teachers and health professionals resulted in a higher than expected fiscal deficit. The overall budget deficit in 2001 was about 5.2 percent of GDP while broad money growth accelerated to 15 percent mainly reflecting an expansion in net government credit.

However, despite the non-observance of the SMP targets, the authorities continued to maintain an overall adequate control of macroeconomic indicators. The fiscal situation broadly followed the projected framework during the first half of 2001, and has only deteriorated toward the end of the year owing to the security situation. Also, although revenues were below the target level, they have remained relatively high at about 20 percent of GDP. In addition, inflation in 2001 fell sharply to 4 percent from 24 percent in 2000, and has turned negative in the first half of 2002. Furthermore, the authorities continued in 2001 to tenaciously honor their monthly debt payments to the Fund and the Bank, and this despite a severe shortage of foreign exchange and limitations in servicing the entire external debt. At end-July 2002 Burundi's outstanding use of Fund resources was less than 1 percent of quota (SDR 640,000), as compared to 29 percent of quota at end-1997 (SDR 22.2 million), and it is scheduled to be fully repaid by the end of 2002.

Notwithstanding the global slowdown, in 2001 real GDP grew by an estimated 2.1 percent, mainly on account of a rebound in agricultural output and reconstruction activity. However, Burundi's terms of trade continued to deteriorate, as world prices of coffee, the main cash crop, have declined in the international markets to the lowest levels in a decade. Coffee exports, which were valued at US\$77 million in 1997, accounted for less than US\$20 million in 2001. Low export revenues compounded with important delays in the disbursement of external assistance lead to an overall balance of payments deficit of US\$33 million, accounting for 5 percent of GDP. In addition, due to the scarcity of foreign exchange, the national currency depreciated by about 11 percent in 2001, while the parallel market premium has generally remained at 30-35 percent. In these circumstances, the central bank resorted to administrative measures to contain pressures on the exchange rate, including the introduction of a positive list of imports eligible for foreign exchange and restrictions on invisible payments.

## **Economic and Financial Program for 2002-03**

To address Burundi's economic and financial difficulties and to establish the basis for a significant improvement in living conditions, the authorities have prepared a program for 2002-03, for which they are requesting IMF support under the emergency post-conflict

assistance policy. The program is realistic and coherent, includes a comprehensive structural reform agenda and stems from the political and social choices underscored in the Arusha Peace and Reconciliation Agreement. Its main objectives are to (i) address the urgent needs for humanitarian assistance and the implementation of the peace process; (ii) ensure a minimal functioning of basic infrastructure; (iii) strengthen the institutions that are essential for economic activity; and (iv) pursue economic liberalization to increase efficiency, stimulate supply, and promote growth and welfare. To achieve these objectives the authorities will aim at achieving macroeconomic stability, promoting growth and poverty reduction, and strengthening the management of public finances by encouraging fiscal transparency and good governance. Accordingly, the economy is expected to grow by 3.6 percent in 2002 and by 5 percent in 2003. Another key element of the program is to keep the inflation rate at about 8 percent in 2002 and 2003.

The success of the program would very much depend on its fiscal strategy, which will focus on expenditure and revenue measures designed to reduce the overall government deficit in 2002 and allow for a further reduction in 2003. In line with the revised 2002 budget adopted by the National Assembly, budget expenditure takes into account the costs of setting up the transitional institutions including the Senate and the expanded National Assembly, increases in health and education outlays and for the reintegration of refugees, as well as increases in the military wage bill and subsidies to the coffee sector. For 2003, the authorities are expecting a peace dividend through lower military spending and increased donor support, as well as a reduction of coffee sector subsidies, which will allow an increase in the civil service bill and the implementation of an ambitious public investment program focused on labor-intensive projects to rehabilitate and rebuild social and economic infrastructure.

The monetary program will be consistent with the inflation and external objectives. The central bank will implement an adequately restrictive monetary policy to avoid excess liquidity and contain inflationary pressures. The control of public spending and the elimination of the coffee sector deficit will ensure a controlled expansion in reserve money and allow the central bank to strengthen its control over monetary aggregates. On the exchange rate policy the authorities have already taken a major step defined as prior action. The central bank has, as of August 28, 2002, eliminated all restrictions on merchandise and related services eligible for foreign exchange on the auction market that had been in effect for the last two years. In addition, the central bank will henceforth permanently hold regular weekly foreign currency auctions without pre-imposed ceilings on bids. With these measures, a convergence of the official and parallel market exchange rates is expected in the near term.

Regarding structural measures, the authorities will concentrate their actions on liberalizing external trade, improving budget auditing mechanisms, reforming the civil service as well as implementing poverty reduction measures. The government has also prepared a program of public enterprise privatization, and plans to withdraw gradually from the coffee and tea sectors. However, the authorities intend first to concentrate on improving the management of public enterprises and, as economic and security conditions normalize, gradually implement privatization of the state-owned enterprises.

### **Concluding remarks**

My Burundi authorities believe that the economic and financial policies included in the program are adequate to address the difficulties faced by the country and, to support it, they are requesting a drawing from the IMF under the Fund's emergency post-conflict assistance policy in an amount equivalent to SDR 9.625 million (12.5 percent of quota). However the financing gaps under the program are projected at US\$50 million in 2002 and US\$183 million in 2003. Most pressing needs include the areas of humanitarian aid, reconstruction, and capacity building. In this context, strong support from the international community remains critical to sustain the recovery process and consolidate the progress made under the Arusha Peace and Reconciliation Agreement.

As program implementation proceeds during the next few months, the government plans to request further support from the Fund, in the same amount, by early 2003. Satisfactory implementation of the program would in turn open the way for adopting a medium-term program aimed at reducing poverty and promoting strong and sustainable economic growth, which could be supported by an arrangement under the Poverty Reduction and Growth Facility (PRGF) and debt relief from the Paris Club and other creditors from which Burundi has never benefited.