May 2003
IMF Country Report No. 03/135

Burundi: Use of Fund Resources—Request for Post-Conflict Emergency Assistance—Staff Report; and Press Release on the Executive Board Discussion

In the context of the 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 Use of Fund Resources—Request for Post-Conflict Emergency Assistance, prepared by a staff team of the IMF, following discussions that ended on **March 5, 2003,** 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 April 11, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the **views of the Executive Board as expressed during its May 5, 2003 discussion** of the staff report that completed the request.

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

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

*May also be included in staff report

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BURUNDI

Use of Fund Resources—Request for Post-Conflict Emergency Assistance

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

Approved by Anupam Basu and Martin J. Fetherston

April 11, 2003

- The discussions took place in Addis Ababa and Bujumbura during November 12–22, 2002 and February 18–March 5, 2003.
- The Burundi representatives included the Minister of Finance, Mr. Kadigiri through December 2002 and Mr. Gahungu since January 2003; the Governor of the Bank of the Republic of Burundi, Mr. Banyiyezako; and other senior government officials. The mission also met President Buyoya and Vice-President Ndayizeye; Mr. Ndikumagenge, Minister of Agriculture and Livestock; Mr. Kiganahe, Minister of Good Governance and Privatization; Ambassador Dinka from the United Nations; Ambassador Bah from the African Union; and representatives from the donor community.
- The staff team consisted of Messrs. Beaugrand (head), Lopes, Zoromé (all AFR), and Sdralevich (PDR). Mr. Campos, Assistant to the Executive Director for Burundi, and Mr. Ndenzako, from the World Bank resident mission in Bujumbura, participated in some of the policy meetings.
- The Burundi authorities intend to authorize publication of the staff report.

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EXECUTIVE SUMMARY

Recent developments

- Following years of hostilities, the Arusha agreement of August 2000 has provided a framework for the restoration of lasting peace, and the government reached a cease-fire agreement with several rebel factions in late 2002.
- Economic activity continued to recover in 2002, but consumer prices rose during September–December, following the 20 percent depreciation of the Burundi franc on the official market in late August. The financial position of the coffee sector improved with the implementation of the authorities' program.
- Implementation of the 2002 program was broadly on track, despite constraints resulting from the delays in and earmarking of external aid disbursements. Fiscal developments were in line with the objectives set under the revised finance law approved in August. Domestic monetary aggregates rose somewhat faster than programmed. All but two of the quantitative indicators were observed, and all structural measures were implemented.
- Foreign exchange system reforms have been implemented as planned. The external current account deficit turned out smaller than projected, and the central bank's international reserve position recovered markedly.

Report on the discussions

- Program discussions focused on the 2003 central government budget and on further enhancements to monetary and exchange rate management. The short-term outlook has been clouded by adverse weather in late 2002 and early 2003, and real growth is projected at 1 percent only in 2003. End-period inflation is projected at 7½ percent.
- The authorities intend to contain fiscal and external imbalances within levels that can be financed by external grants and concessional loans, and to regularize all of Burundi's external debt payments arrears. The financing gap is estimated at US$200 million (34 percent of GDP) in 2003.
- Under the 2003 finance law, government revenue is projected conservatively at 1 percentage point of GDP less than in 2002. The budget provides for significant increases in civil service wages, social spending, and public investment, while maintaining a freeze in nominal military spending and reducing subsidies and transfers.
- To achieve its foreign exchange reserve target and contain inflation, the central bank plans to maintain tight liquidity conditions during 2003. It intends to limit broad money growth to 14 percent, and to improve the functioning of the foreign exchange auction market.
- Structural reforms continue to give priority to providing an enabling environment for national reconciliation and reconstruction. The government intends to pursue the

implementation of its emergency antipoverty action plan and maintain profitability in the coffee sector through an appropriate pricing mechanism.

Issues stressed in the staff appraisal

- Burundi is emerging from a decade of nearly continuous civil strife and has begun addressing its deep-seated problems. The authorities have made significant progress in the implementation of their economic and financial program in 2002 and early 2003.

- Fiscal management has continued to be cautious, but with the rise in priority expenditures, the primary budget balance is expected to turn into a deficit in 2003. The untying of external assistance will be essential to cover the servicing of external debt in a timely manner.

- Monetary policy was accommodative in 2002, in response to the large financing needs of the coffee sector. The central bank took appropriate steps to tighten liquidity conditions and is planning extensive reforms in the course of 2003 to develop the use of indirect policy instruments.

- The authorities have made good progress in improving the functioning of the foreign exchange auction market, although the differential between the official and parallel market exchange rates remains large. Notwithstanding the conditions set by some donors, the central bank needs to have full authority in the choice of the reference currency and the amounts it sells on the market. Its interventions will need to aim at preventing an appreciation of the Burundi franc against the U.S. dollar.

- Implementation of structural reforms is under way. The recently set up National Commission to Assist War Victims (CNRS) will serve as an important vehicle to channel donor support. The authorities are determined to move speedily in establishing an auditing court (Cour des comptes).

- The 2003 external current account deficit is projected to widen, reflecting larger project aid disbursements. The external financing gap is expected to be covered by debt relief from official creditors (in the context of a possible PRGF arrangement), and new disbursements from bilateral and multilateral donors. Graduation to a PRGF-supported program would be subject to continued strong program implementation, progress in regularizing relations with external creditors, and further advances in the peace process.

- The staff recommends approval of the authorities' request for a second drawing under the Fund's post-conflict emergency assistance policy.

I. Introduction

1. The approval of post-conflict emergency assistance by the Executive Board on October 9, 2002 marked the resumption of Fund support to Burundi after a decade of interruption. This followed the progress achieved in the peace process since the signing of the Arusha Peace and Reconciliation Agreement, in August 2000, as well as the economic and financial reforms launched to address domestic and external imbalances (see EBS/02/174, 9/24/02). At the time of that Board meeting, it was envisaged that continued progress in the peace process and satisfactory program implementation would lead to a second drawing during the first half of 2003 and, subsequently, to 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).

2. In a letter to the Managing Director dated April 11, 2003, the Minister of Finance and the Governor of the Bank of the Republic of Burundi (BRB) have requested a second 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), as in the earlier drawing, which would bring Burundi's use of Fund resources to 25 percent of quota (Table 1). The rate of charge on the use of the Fund's resources is being reduced to an annual rate of 0.5 percent by bilateral donors through the Administered Account for the Subsidization of Post-Conflict Emergency Assistance. As of end-February 2003, Burundi's outstanding use of Fund resources was SDR 9.625 million (12.5 percent of quota). Relations with the Fund are summarized in Appendix II.

3. The World Bank stepped up its operations in 2002 with the approval of a Transitional Support Strategy in March, which led to an Economic Rehabilitation Credit (ERC) for US$54 million in August. In addition, a Multisectoral HIV/AIDS Control and Orphans' Project was approved in May 2002. Relations with the World Bank are summarized in Appendix III. The African Development Bank (AfDB) has suspended its operations in Burundi since 1999 because of arrears (totaling SDR 21 million at end-December 2002).

II. Recent Developments

A. The Peace Process

4. **The Arusha agreement of August 2000 provides a framework for national reconciliation and the restoration of lasting peace in Burundi.** Under the agreement, a national unity transition government was appointed in November 2001. President Buyoya is scheduled to step down on May 1, 2003, to be succeeded by Vice-President Ndayizeye. National elections are to be organized by the end of the transition period, in October 2004.

5. **The conclusion of a cease-fire agreement in late 2002 with several rebel factions has enhanced the prospects for lasting peace in Burundi** (Box 1). The negotiations were conducted under the joint chairmanship of President Mkapa of Tanzania and Deputy President Zuma of South Africa, and included former President Nelson Mandela as

facilitator. The cease-fire agreement was signed between the government and several armed opposition forces in the context of regional heads of state meetings on October 7 in Dar es Salaam and on December 2 in Arusha, Tanzania.[1] Understandings were reached in January 2003 for the setting up of a joint cease-fire monitoring committee, and the committee was established in February 2003. In early March, the African Union appointed military observers, and peacekeepers are soon to be deployed to monitor the disarmament, demobilization, and reintegration of rebel forces.

Box 1. The Cease-Fire Agreement

The cease-fire agreement provides for the cantonment of rebel forces in several locations, as a first step toward the disarmament, demobilization, and reintegration (DDR) of combatants and the restructuring of armed forces. The DDR programs and the restructuring of armed forces are to be consistent with the provisions of the Arusha agreement. These will provide, in particular, for the incorporation of rebel fighters into the national army, the police, and the intelligence agency.

Monitoring of the cease-fire is being ensured by an inter-African force under the aegis of the African Union, with 43 military observers (already in place) and 3,500 peacekeepers from Ethiopia, Mozambique, and South Africa (to be deployed soon). The joint cease-fire monitoring committee comprises representatives from the government, rebel groups, and the inter-African force, and operates under the guidance of the Committee in Charge of Monitoring the Arusha Agreement (Commission de suivi de l'accord d'Arusha—CSA).

The signatories also agreed to discuss various issues in the framework of the Arusha agreement—including the return to constitutional normalcy, justice, economic development and reconstruction, civil service reform, democracy, and good governance. Rebel groups have agreed to become political parties.

6. Nevertheless, **security conditions in Burundi have remained a matter of concern, including in the Bujumbura region**. A small rebel group that did not join the cease-fire discussions has continued to launch sporadic attacks within Burundi.[2] While efforts are under way to bring it to the negotiating table, the regional partners have indicated that any holdout rebel group would be subject to sanctions.

7. **The refugee situation remains problematic**. There are 400,000 internally displaced persons and 600,000 refugees living in camps on the Tanzanian side of the border. In the past, discontent in refugee camps served to fuel ethnic extremism, which, in turn, undermined the national reconciliation efforts. The government, in collaboration with the Tanzanian authorities and the United Nations High Commission for Refugees (UNHCR), has undertaken to promote the voluntary repatriation of refugees, but with limited success so far.

[1] The first signatories were the CNDD-FDD (Conseil national pour la défense de la démocratie—Forces pour la défense de la démocratie) faction of Jean-Bosco Ndayikengurukiye and the Palipehutu-FNL (Parti pour la libération du peuple hutu—Forces nationales pour la libération) faction of Alain Mugabarabona. The larger CNDD-FDD faction of Pierre Nkurunziza signed the agreement in December 2002.

[2] The Palipehutu-FNL faction of Agaton Rwasa has so far refused to negotiate and has pursued low-intensity but spread-out guerilla operations, especially near Bujumbura. As a result, several provinces remain under the Phase IV classification of the UN security advisory system. While the city of Bujumbura is under Phase III, its suburbs (Bujumbura Rural) are also under Phase IV.

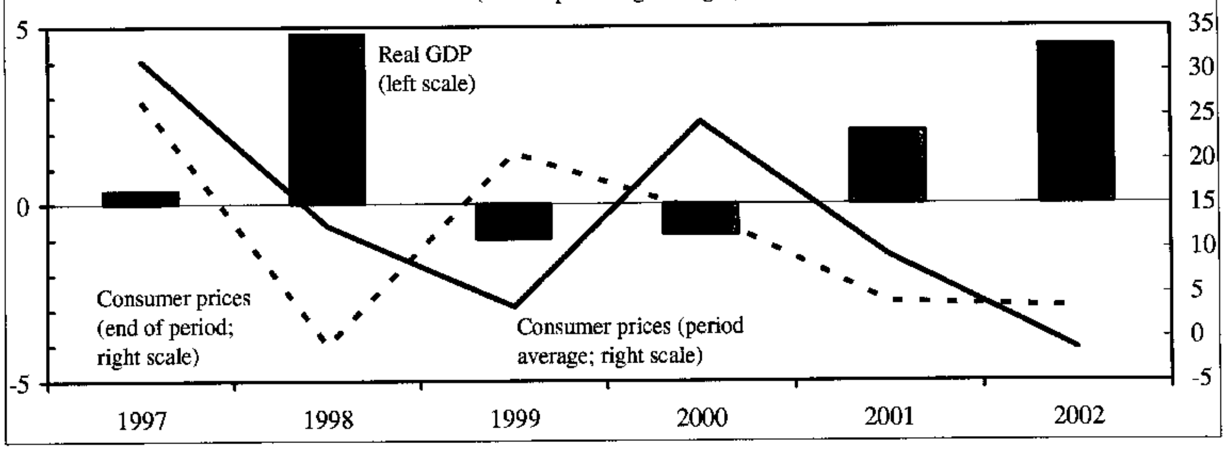
As envisaged in the 2000 Arusha agreement, the recently established National Commission to Assist War Victims (Commission nationale de réhabilitation des sinistrés—CNRS) is expected to play a leading role in coordinating the resettlement of internally displaced persons and refugees in their places of origin.

8. **Developments in neighboring countries have also continued to affect the security situation in Burundi.** In late 2002, fighting in the southern Kivu region of the Democratic Republic of the Congo (DRC) resulted in an influx of Congolese and Rwandan refugees into Burundi, which added to ethnic tensions in the northwestern border areas.[3] However, the signing in December of a peace agreement for the DRC has improved prospects for peace in the region.

B. Economic Developments

9. **Economic activity continued to recover in 2002, boosted by favorable weather for agriculture and an upturn in construction.** Real GDP growth was about 4½ percent, leading to an increase in per capita income for only the second time in a decade (Table 2 and Figure 1). After falling for several months in a row, consumer prices rose during September–December, following the 20 percent depreciation of the Burundi franc on the official market in late August.[4]

Figure 1. Burundi: Real GDP Growth and Inflation, 1997–2002
(Annual percentage changes)



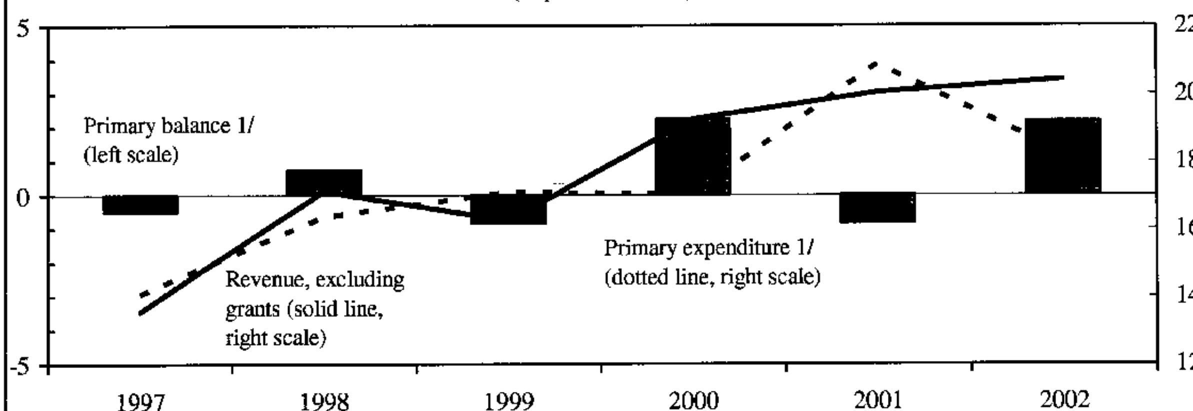
10. **Fiscal developments in 2002 were broadly in line with the objectives set under the revised finance law approved in August.** Government revenue collection was less than projected, mainly reflecting lower-than-projected imports, but this was more than offset by

[3] Stepped-up assistance is being provided by the UNHCR and the World Food Program (WFP).

[4] See memorandum of economic and financial policies (MEFP), Appendix I, Attachment I, para. 5.

lower expenditure. The primary budget balance (excluding foreign-financed projects) was in a surplus of more than 2 percent of GDP, thus exceeding the program's target (Table 3 and Figure 2). The World Bank released the first tranche of the ERC for US$20 million in November, and the European Union disbursed a program grant of € 8 million in December. There were some delays (for technical reasons) in the release of other program grants, from Belgium and France, which took place in January 2003. Partly reflecting the unexpected earmarking of a large part of external aid, including nonproject loans and grants, external debt payments were lower than planned, and net credit from the banking system fell as counterpart funds held in government deposits increased.

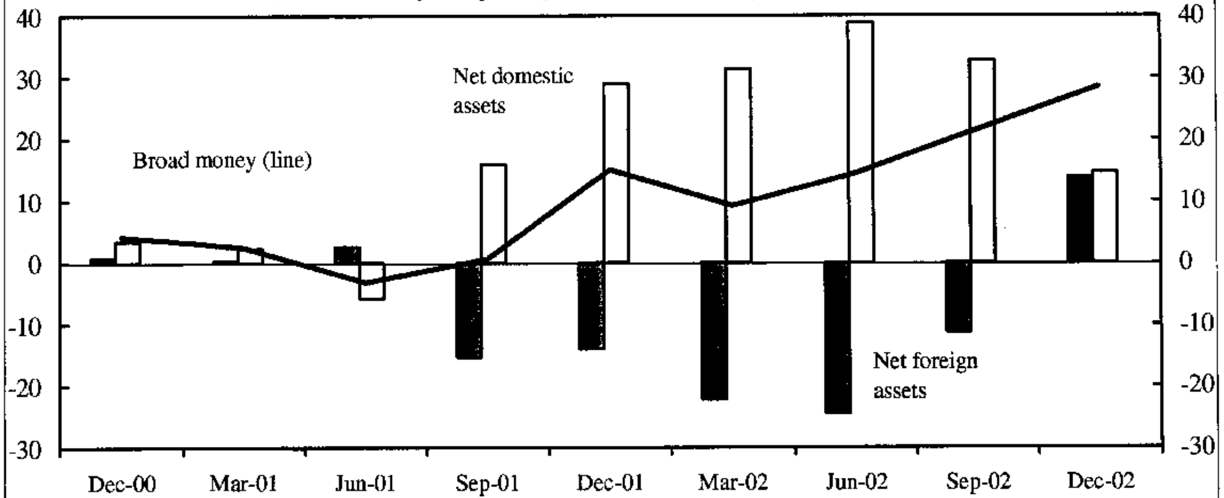
Figure 2. Burundi: Fiscal Developments, 1997–2002
(In percent of GDP)



1/ Excluding foreign-financed projects.

11. **Domestic monetary aggregates rose somewhat faster than programmed in 2002, and the BRB's international reserve position recovered markedly**. Despite continued high levels of refinancing of coffee crop credits, the net domestic assets of the BRB were in line with program projections, mainly reflecting the buildup of government deposits (see MEFP, para. 8). The 12-month rate of growth in broad money increased to 29 percent at end-December 2002, owing to a buoyancy in money demand resulting from a postwar pickup in economic activity and the decline in the inflation rate (Table 4 and Figure 3). The BRB's net foreign assets rose to US$27 million at end-2002, thus rebounding from very low levels in midyear. To maintain appropriately tight liquidity conditions, the BRB adjusted its refinancing interest rate from 14 percent to 15½ percent in August, and the preferential refinancing rate of 10 percent for new coffee crop credits was discontinued in December 2002. In addition, the banks' mandatory reserve requirements were raised from 7.5 percent to 8.5 percent, effective January 1, 2003.

Figure 3. Burundi: Monetary Developments, December 2000–December 2002
(Twelve-monthly changes, in percent of broad money; end-of-period data)



12. **Reforms of the BRB's foreign exchange system have been implemented as planned**. The restrictive list on eligible imports was eliminated in August 2002, and the BRB has been holding weekly auctions since the beginning of September. With effect from January 1, 2003, new regulations went into effect to remove all limits on exchange rate bids and lower the surrender requirement for the three traditional exports (coffee, tea, and cotton) from 100 percent to the general rate of 70 percent; the latter measure has helped banks rebuild their foreign exchange positions. Following the August depreciation, the Burundi franc held broadly steady, and the differential with the parallel market rate remained on the order of 20 percent in foreign currency terms before narrowing to 16 percent in March 2003 (Figure 4).[5] On the basis of the official rate, Burundi's nominal and real effective exchange rate indices depreciated on average by 11 percent and 15 percent, respectively, in 2002 (Figure 5).

[5] Although the parallel foreign exchange market is illegal, it is tolerated by the authorities. It is believed to be rather small relative to the official market, and to relate to informal border trade with the Democratic Republic of the Congo and remaining exchange restrictions on services (such as limits on travel allowances and the payment of dividends), as well as to political and security risks.

Figure 4. Burundi: Nominal Exchange Rates, January 2000–March 2003
(Burundi francs per U.S. dollar, monthly averages; inverted scale)

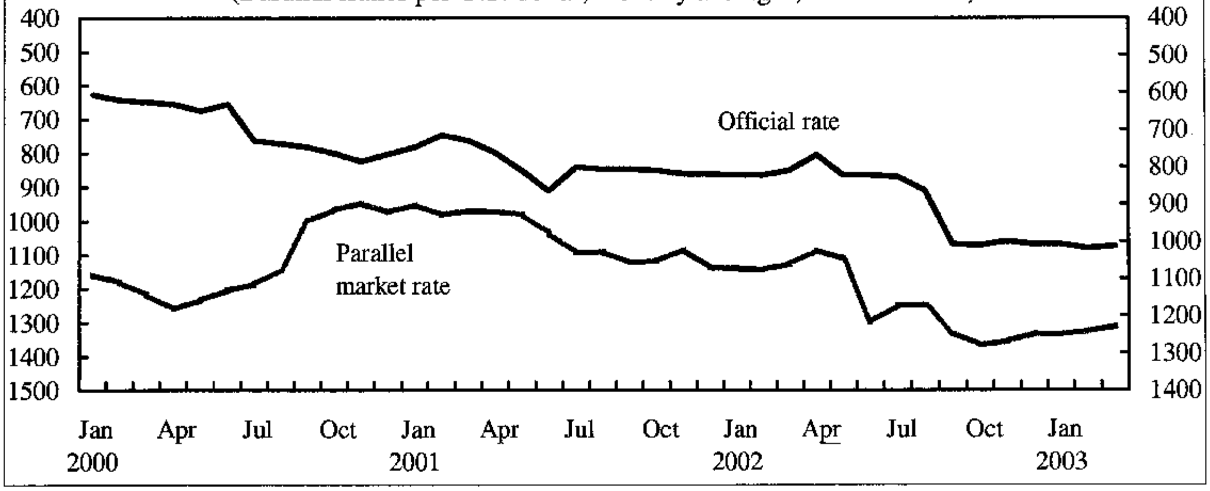
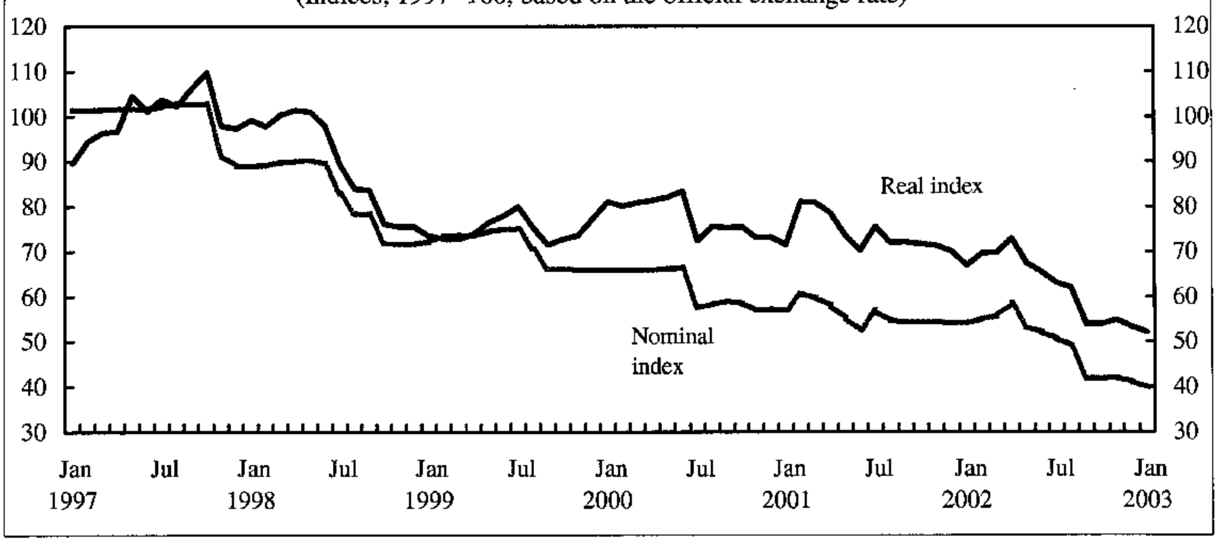


Figure 5. Burundi: Effective Exchange Rates, January 1997–January 2003
(Indices, 1997=100, based on the official exchange rate)

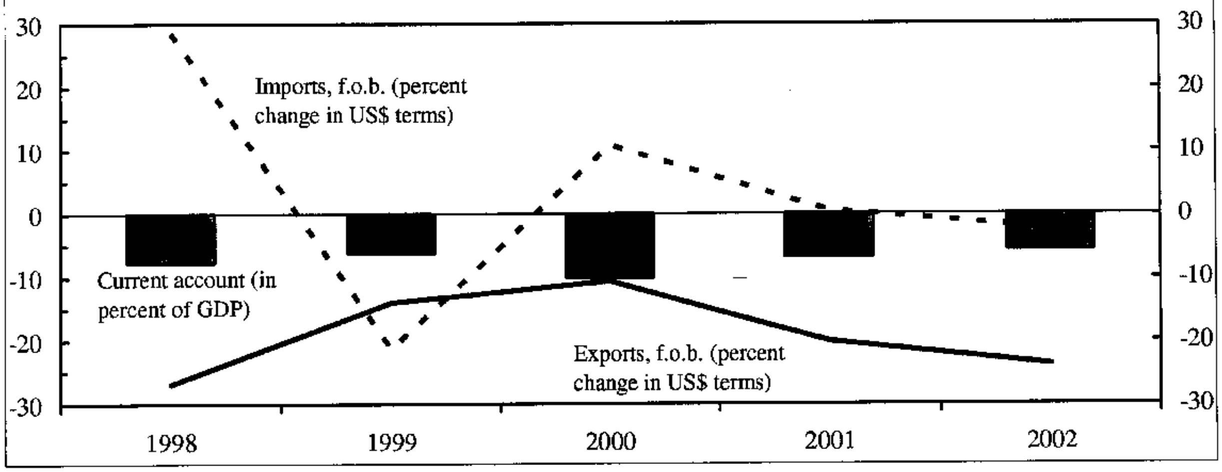


13. **The 2002 external current account deficit is estimated to have turned out smaller than projected.** Notwithstanding a deterioration of 3 percent in Burundi's terms of trade, the current account deficit narrowed from 7 percent of GDP in 2001 to 6 percent in 2002, compared with a projected deficit of 8 percent (Table 5 and Figure 6).[6] This outcome mainly

[6] The measure of the external current account is consistent with the definition of the Fund's *Balance of Payments Manual*, fifth edition (it includes current transfers but excludes capital transfers).

reflected a decline in imports, owing to smaller-than-expected project aid disbursements and the scarcity of foreign exchange throughout most of 2002. Exports were significantly lower than projected, as original program projections were overly optimistic as to the speed with which the bumper coffee crop harvested in midyear could be processed and exported in the second half of 2002.[7] External debt payments arrears rose to US$149 million (or nearly 25 percent of GDP) at end-December 2002, including late interest on bilateral debt payments arrears that had previously not been taken into account by the authorities (Tables 2 and 6).

Figure 6. Burundi: External Sector Developments, 1998–2002



14. **The financial position of the coffee sector improved with the implementation of the program, although it remains fragile.** The accounts of the coffee sector for 2002/03 (crop year ending in April) are expected to be balanced, as a result of the depreciation of the Burundi franc in August 2002, the adjustment measures implemented by the coffee marketing board (Office des cultures industrielles du Burundi—OCIBU) since September, and a slight upturn in world market prices (from US$0.50 in mid-2002 to about US$0.65 per pound by year's end). However, the renewed weakening of world coffee prices during February–March 2003 may eventually put the 2002/03 accounts of the coffee sector into a small deficit.

15. **The structural reforms envisaged under the program are under way**. The law setting up the CNRS was approved in December 2002, and the commission itself was established in February 2003 (or two months later than envisaged under the program), following protracted negotiations with the various political parties to select its members. The CNRS has since begun to draw up an action plan under the authority of the Ministry for

[7] The 2002 program projections extrapolated the results of the 2001/02 coffee crop, in which two-thirds of the crop had been exported by end-December 2001. However, the 2002/03 crop was more than twice as large as the 2001/02 crop. With limited processing capacity, the proportion of the 2002/03 crop that had been exported was only one-third at end-December 2002.

Resettlement, Reinsertion and Repatriates. In early 2003, the Ministry of Good Governance and Privatization prepared a draft law for a new auditing court (Cour des comptes), which was submitted to the National Assembly in March.

16. **Overall, implementation of the 2002 program was broadly on track, although constraints on external aid disbursements hampered the servicing of external debt.** The quantitative program targets for end-December were observed, with two exceptions: the ceiling on the stock of external arrears was exceeded, owing to delays in and the earmarking of external aid disbursements, and an upward revision (of US$6 million) of debt service due in 2002; and the ceiling on the contracting of nonconcessional debt was also exceeded by a small amount, as a result of a US$0.7 million construction loan taken by one of Burundi's embassies abroad (Appendix I, Table 1). All prior actions and structural indicators were implemented, although the setting up of the CNRS was delayed by two months (Appendix I, Table 2). The authorities also met the structural indicators set for end-March 2003.

III. Report on the Discussions

17. **The program discussions focused on the 2003 central government budget and on further enhancements to monetary and exchange rate management.** The latter benefited from the recommendations of a technical assistance mission from the Monetary and Exchange Affairs department (MAE) in November 2002, with which the AFR mission overlapped. The authorities agreed to prior actions concerning the approval of the 2003 budget in line with program understandings, the tightening of liquidity conditions, and the lifting of exchange restrictions on the payment of dividends. They also agreed to new measures in the course of 2003 to improve monetary management.

A. The 2003 Macroeconomic Framework

18. **The macroeconomic framework for 2003 has been revised relative to the original program to reflect, inter alia, the 2002 outturn, changes in public investment financing, and a larger-than-expected increase in the government's 2003 wage bill.** In particular, the 2002 external current account and overall fiscal deficits were smaller than programmed, as foreign-financed projects fell short of the projections. With the firming up of the peace process, the delivery of external project assistance in 2003 is expected to accelerate.

19. **The prospects for growth and inflation have been clouded by adverse conditions in late 2002 and early 2003.** Real GDP growth for 2003 is projected at 1 percent only, as the exceptionally dry weather during December–February is expected to lead to a 4 percent fall in agricultural output. The program aims at limiting the increase in consumer prices to 7½ percent in the 12-month period through December 2003, compared with 3 percent in 2002. The higher inflation reflects the delayed impact of the depreciation of the Burundi franc in 2002, and higher prices for foodstuffs and petroleum products in early 2003.

20. **The negative balance in government savings is projected to worsen, but this would be more than offset by an increase in private sector savings** (Box 2 and Table 2). The 2003 central government budget takes into account the authorities' priorities of

improving the delivery of social services and strengthening administrative capacity, as well as the agreement reached with civil service unions to grant long-deferred promotion allowances. The strong growth in personal disposable income, together with the projected increase in humanitarian assistance, is expected to translate into higher private sector savings.

Box 2. Sectoral Financial Balances, 2001–03
(In percent of GDP)

	2001	2002	2003
Government			
Gross income (excluding grants) 1/	8.4	9.3	6.9
Gross national savings (including current grants)	-1.5	-0.2	-1.8
Net financial balance (savings *minus* investment)	-7.9	-5.4	-10.5
Rest of the economy			
Gross disposable income (excluding grants) 1/	91.6	90.7	93.1
Gross national savings (including current grants)	3.3	2.6	5.3
Net financial balance (savings *minus* investment)	1.1	-0.3	2.3
External current account (including current grants)	-6.8	-5.7	-8.1

1/ Net of intersectoral transfers.

21. **Owing mainly to a planned surge in public investment in 2003, the external current account deficit (including current grants) would widen** by 2½ percentage points to a projected 8 percent of GDP. While coffee output in 2003/04 is expected to fall from the high level recorded in 2002/03, the availability of stocks for exports will limit the impact on external receipts. The larger external deficit, accompanied by higher humanitarian and project support, would help sustain the economic recovery and consolidate peace, including through the assistance to refugees and the initiation of disarmament, demobilization, and reintegration (DDR) operations.

B. Fiscal Policy

22. **The 2003 finance law aims at maintaining the cautious fiscal stance achieved in 2002**. In discussions with the staff, the authorities agreed to target a primary budget surplus, excluding foreign-financed projects, at about the same level as in 2002 (1½ percent of GDP). In the event, however, the domestically financed capital budget was raised by about 3 percentage points of GDP to take into account additional expenditures earmarked under the World Bank's ERC, which was disbursed in late 2002.[8] Mainly reflecting the upturn in

[8] In effect, the ERC is akin to a foreign-financed project, insofar as it finances an equivalent amount of government expenditures. However, such expenditures are recorded as domestically financed investment, as the ERC is managed through the budget directorate, out of counterpart funds (by contrast, foreign-financed projects are managed off budget and do not involve large fluctuations in government bank deposits).

capital expenditures, the overall government deficit, excluding grants, would increase from 5 percent of GDP in 2002 to 10 percent in 2003 (Table 3 and MEFP, paras. 13–19).

23. **Government revenue in 2003 is projected conservatively at 19½ percent of GDP, or 1 percentage point lower than in 2002**. The decline relative to GDP mainly reflects an expected drop in excise duties on beer and lower domestic transaction taxes (on account of tax credits accumulated in 2002). In preparation for the adoption of the common external tariff within the Common Market for Eastern and Southern Africa (COMESA) in 2004, the authorities have begun lowering selected import duties (see MEFP, para. 15), but the revenue impact is expected to be largely offset by a widening of the base through improved customs administration. In addition, exemptions of domestic turnover taxes have been streamlined, and all export duties have been eliminated. The authorities are improving tax administration with technical assistance from the Fund's Fiscal Affairs Department, which has provided advice in setting up a large-taxpayer unit.

24. **The 2003 budget provides for significant increases in allocations for the social sectors, while raising civil service wages substantially**. The share of health and education spending in current expenditure has been raised from 21 percent in 2002 to more than 25 percent in 2003. An additional 1,700 teachers have been hired, mostly for primary education. Military spending has been kept broadly unchanged in real terms, which implies a reduction of 0.2 percentage point of GDP from 2002.[9] In response to civil service strikes in 2002, the government agreed to grant seniority pay increases that had been deferred for the last five years. As a result of this and the new hiring, the civilian wage bill is set to increase by nearly one-third in 2003. At the same time, subsidies and transfers have been cut, reflecting in particular the discontinuation of budgetary support for the coffee sector. To help ensure attainment of the budget targets, the Minister of Finance has issued an order that sets monthly ceilings on expenditure commitments. The strong increase in public investment in 2003 is expected to help rebuild and develop infrastructures, as well as support economic recovery and poverty reduction through labor-intensive projects (MEFP, paras. 16–17).

25. **The authorities intend to step up the servicing of nonreschedulable external debt**. The 2003 program provides for the full payment of debt service due to multilateral creditors and the settlement of arrears. However, Burundi's payment capacity will depend in large part on the availability of external financing (including through the activation of the multidonor trust fund for debt service managed by the World Bank). In view of the tight financing constraints, and taking into account the counterpart funds accumulated by the government at end-2002, the program provides for substantial domestic bank financing, as well as the mobilization of domestic savings through the issuance of treasury bills at market-determined rates (Table 3). The authorities expressed concern that this could exert an upward

[9] Possible DDR operations would be financed in large part through external assistance, including a Burundi component of the Multi-Country Demobilization and Reintegration Program, which was launched by the World Bank in April 2002.

pressure on domestic interest rates and thus crowd out private sector borrowing, and they indicated their preference to mobilize, to the extent possible, additional domestic revenue or concessional external resources to reduce the need for domestic financing.

C. Monetary and Exchange Rate Policies

26. **To achieve its foreign exchange reserves target and contain inflation, the BRB plans to maintain tight liquidity conditions during 2003.** The authorities intend to limit broad money growth to about 14 percent in 2003, which is in line with the projected growth of nominal GDP and a further small decline in velocity. The program envisages a moderate growth of base money and a reduction in the BRB's net foreign assets equivalent to US$12 million (Table 4).[10] To maintain tight liquidity conditions, the BRB's benchmark refinancing rate will be adjusted as needed, taking into account price developments. Following the measures taken in December 2002, the BRB also adopted in March 2003 a stricter system of penalties for banks that exceed their refinance ceilings. In the course of 2003, it intends to change the system of mandatory reserve requirements, so that reserves will be held only in the form of bank deposits with the central bank and will not include cash holdings, as is the case presently. Following the technical assistance expected from MAE, it will also reform its policy instruments to allow a shift to a system of indirect monetary control, including weekly liquidity auctions and a marginal refinancing window at a penalty rate (MEFP, para. 22).

27. **The BRB has also stepped up the enforcement of limits on commercial banks' foreign currency exposure.** This has led to a reconstitution of the foreign asset positions of the commercial banks that were overly exposed on a net basis during 2001–02 and incurred capital losses as a result of the currency depreciation. While system-wide compliance with other prudential ratios (solvency, liquidity, and maturity structure) is reportedly adequate, the authorities' shared the staff's concerns about the large volume of bank credit (160 percent of the deposit base at end-2002) and potential problems with the banks' loan portfolios. The BRB intends to increase the frequency of on-site inspections and has expressed interest in Fund technical assistance in the area of bank supervision.

28. **Improving the functioning of the BRB's foreign exchange auction market remains a key priority under the 2003 program.** With effect from January 1, 2003, the BRB has introduced a new mechanism for determining the exchange rate on the auction market, which provides for a single transaction rate.[11] In addition, the reduction in the surrender requirement for the major exports has increased the scope for interbank transactions. The new auction mechanism has translated into a greater dispersion of bid rates, and is expected to facilitate the convergence of the rates in the official and parallel markets.

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[10] The decline in international reserves corresponds in large part to the projected drawdown in government deposits through the use of counterpart funds accumulated at end-2002.

[11] Under the new system, the transaction rate is the weighted average of all accepted bids. In the past, foreign exchange was sold at multiple individual bid rates. The new system prevents the possibility of a multiple currency practice and encourages banks to submit more aggressive bids.

The staff agreed that the current level of the exchange rate was broadly appropriate in terms of external competitiveness, but cautioned that some further depreciation might be needed to achieve the convergence of the official and parallel market exchange rates.

29. **The authorities agreed with the staff on the need for additional measures to liberalize the exchange system, and for an improved coordination of monetary and exchange rate policies.** In March 2003, the BRB issued a circular to allow the payment of dividends to nonresidents with foreign exchange purchased through the official market (MEFP, para. 25). The authorities recognized the desirability of phasing out the few remaining exchange restrictions on current transactions and of reducing further the surrender requirement; they indicated that such a reduction would be considered in late 2003. They agreed with the staff that liquidity conditions should be kept tight in order to limit pressures on the exchange rate and, in particular, reduce the risk of a spiraling depreciation of the official and parallel market exchange rates. In addition, the BRB agreed to modulate its interventions on the weekly foreign exchange auction market in order to stabilize the auctioned amounts while pursuing its reserve objective.

30. **The conduct of foreign exchange auctions by the BRB has been complicated as a result of certain conditions set on the use of aid disbursements.** Specifically, the access to program grants from the European Union and Belgium has been linked to restrictions on the amounts offered at the foreign exchange auctions and the reference currency to be used.[12] Large sales of euros within a short time, which have resulted from these restrictions, have had the effect of keeping the domestic currency temporarily stable in relation to the euro and led to undesirable swings in the exchange rate of the Burundi franc against the U.S. dollar. Moreover, unexpected changes in the reference currency from the U.S. dollar to the euro have caused confusion in the market (apparently because of asymmetries in information about the euro/dollar rate) and have given rise to outlier bids, temporary jumps in the exchange rate, or inconclusive auctions. In the circumstances, the BRB indicated that it would exert its discretion in accepting bids to prevent an appreciation of the currency against the U.S. dollar.

D. Structural and Other Issues

31. **Structural reforms continue to give priority to providing an enabling environment for national reconciliation and reconstruction.** With donor support, the government will give priority in 2003 to launching the operations of the CNRS, setting up the other commissions envisaged under the Arusha agreement, and promoting job creation through labor-intensive public works projects. The government intends to speed up the privatization of public enterprises, but progress is likely to remain limited until business confidence has been restored.

[12] One of these restrictions is that there is a time limit for auctioning these grants, which at times implies selling an overly large amount in the foreign exchange market. Second, in the case of such grants, the BRB has been required to conduct its auctions in euros (rather than in U.S. dollars) to generate the counterpart funds in domestic currency.

32. **The government intends to pursue the implementation of its emergency antipoverty action plan launched in November 2002.** The action plan, which complements the authorities' draft interim poverty reduction strategy paper (I-PRSP), was endorsed by donors at the roundtable convened jointly by the government and the United Nations Development Program (UNDP) in Geneva on November 27–28, 2002. On this occasion, donors announced pledges totaling US$981 million for 2003–05. The authorities are also developing expenditure-tracking mechanisms to improve the targeting and monitoring of social spending in the budget.

33. **Enhancing budgetary control and transparency will benefit from the setting up of an independent auditing court** (Cour des comptes), for which a draft law was submitted for parliament approval in March 2003. The new court will supplement internal auditing procedures conducted by the Ministry of Good Governance and Privatization and should provide an adequate mechanism for the impartial monitoring of public expenditure, including military outlays (see MEFP, para. 28).

34. **The government plans to initiate a census of the civil service in 2003 and to set up a new payroll system**, with technical and financial assistance from donors. The creation of new positions during 2003 is to be limited to the health, education, and justice areas, and to the institutions newly set up. To the extent possible, existing staff will be redeployed to fill those positions, as well as vacant positions in other departments (MEFP, para. 29).

35. **The accounts of the coffee sector are expected to be in balance in 2002/03, and the authorities intend to maintain profitability through appropriate pricing mechanisms.** To ensure that domestic producer prices are aligned with market conditions, the government will adopt during 2003 an automatic mechanism for the periodic adjustments of these prices to reflect world prices and exchange rate developments; this will go into effect for the 2003/04 campaign. In the longer run, the government intends to launch comprehensive reforms of the coffee sector, as well as promote the diversification of the economy (MEFP, para. 30).

E. Balance of Payments and Program Financing

36. **The authorities intend to contain external imbalances within levels that can be financed by external grants and concessional loans.** Although a small nonconcessional loan was contracted last year, the authorities reaffirmed their commitment to avoid all nonconcessional borrowing. The external current account deficit is projected to widen in 2003, reflecting in particular an increase in gross investment of 3½ percentage points of GDP (Tables 2 and 5). On the basis of existing pledges, current external grants (including humanitarian assistance) are projected at US$73 million (12 percent of GDP) in 2003, while project loans and grants are expected to reach US$30 million (5 percent of GDP).

37. **The 2003 program provides for the regularization of all Burundi's external debt payments arrears.** Debt payments arrears totaled US$149 million (25 percent of GDP) at end-December 2002, including about US$65 million in nonreschedulable arrears (Table 6).

All arrears and scheduled debt service to bilateral official creditors could be eligible for concessional debt relief from Paris Club creditors (as Burundi has never benefited from Paris Club rescheduling) in the context of an eventual PRGF arrangement.

38. **Burundi's external debt-service ratio is very high and is unsustainable over the medium term** (Table 6). The heavy debt-service burden is the consequence of many years of economic decline, in the wake of Burundi's civil war, as well as the large terms of trade losses experienced since the mid-1990s. In due course, Burundi is expected to qualify for debt relief under the enhanced HIPC Initiative.[13] In the meantime, the authorities have agreed to defer legal action to recover a claim for US$14 million on Uganda, which is expected to be reduced by 87 percent in net present value terms in the context of the reduction of Uganda's debt.

39. **The financing gap is estimated at US$200 million (34 percent of GDP) in 2003.** The gap corresponds in large part to the assumed clearance of all external debt arrears and scheduled debt service payments. As most of the gap could be filled through debt relief and external balance of payments support (Table 7), the complete financing of the 2003 gap would be revisited in the context of possible further use of Fund resources under the PRGF later in the year. Should balance of payments assistance exceed program projections, the authorities have agreed to save part of the additional resources to build up external reserves. Program loans and grants would be provided by the World Bank, the European Union, and bilateral donors in the context of a concerted international effort to support Burundi's reconstruction and development (as underscored at the November 2002 roundtable in Geneva).

40. **Burundi is expected to continue 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 good record in discharging its financial obligations to the Fund. Under program projections, outstanding use of Fund credit would peak at 48 percent of exports of goods and nonfactor services in 2003–04; financial obligations due to the Fund would represent 19 percent of export receipts by 2007 (Table 8).

F. Program Monitoring and Technical Assistance

41. **The authorities' memorandum of economic and financial policies includes structural and quarterly quantitative indicators through December 2003** (Appendix I, Attachment I, Tables 1 and 2). 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 new program under the PRGF would depend in part on progress in meeting the program targets at end-June. The program's objectives over 2003 as a whole would be subject to revision in the context of a possible PRGF arrangement.

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[13] Based on highly preliminary estimates, the ratio of the net present value of debt to exports was on the order of 700 percent at end-2002.

42. **Despite the protracted conflict, Burundi's administrative and institutional capacity has so far proved adequate for program implementation under the policy on post-conflict emergency assistance.** Nevertheless, the authorities have extensive needs for technical assistance, including in the area of policy formulation. The October 2002 MAE mission provided valuable advice to enhance monetary and exchange rate policies, as it helped to develop procedures for monetary programming and policy implementation and set out proposals for reforming the money market and foreign exchange auction system. The authorities have requested that MAE follow up on its recommendations during 2003 and have also reiterated their interest in other areas of Fund technical assistance, including tax and customs administration, expenditure control and treasury cash management, and the compilation of external debt statistics.

IV. Staff Appraisal

43. Burundi is emerging from a decade of nearly continuous civil strife and has begun addressing its deep-seated financial problems. **The framework of the Arusha Peace and Reconciliation Agreement of August 2000 and the cease-fire agreement reached with several rebel groups in the last quarter of 2002 provide a reassuring indication that the country is on its way toward political normalcy.** In this context, the authorities' economic and financial program received Fund support under the post-conflict emergency assistance policy in October 2002, and donors pledged substantial assistance at the roundtable conference held in Geneva in November 2002.

44. **The authorities have made significant progress in the implementation of their economic and financial program in 2002 and early 2003.** Real growth was sustained in 2002, resulting in a long-awaited and much-needed increase in per capita income, and inflation was low. The 2003 growth outlook has been adversely affected by poor weather early in the year, but there are good prospects for the restoration of peaceful conditions and the return of business confidence, which will provide a sound basis for a strong and broad-based economic recovery. While inflation resumed in late 2002 and increased further in early 2003 with the surge in the prices of foodstuffs and petroleum products, it remains under control, and the authorities are determined to maintain their tight financial policies.

45. **Fiscal management has continued to be cautious, and the primary budget surplus (excluding foreign-financed projects) was larger than programmed in 2002.** For 2003, the primary budget balance is expected to turn into a deficit, reflecting an increased wage bill and the earmarking of the World Bank's ERC for priority expenditures. The credit finances mostly investment spending, in order to help improve social services and foster economic growth. As in the case of bilateral program grants, the earmarking of expenditures is designed to ensure that external assistance does not finance military outlays. The staff notes the persistent concern of donors in this area but hopes that, as peace takes hold fully, budgetary assistance will be increasingly untied—which will facilitate the servicing of external debt in a timely manner. The strengthening of Burundi's fiscal position will also require tight control over the wage bill.

46. **Monetary policy was accommodative in 2002, in response to the large financing needs of the coffee sector. Nevertheless, the BRB did take appropriate steps to tighten liquidity conditions and improve its policy implementation capacity**. The preferential refinancing of crop credits was discontinued in December 2002, and mandatory reserve requirements were raised by 1 percentage point. Extensive reforms are planned in the course of 2003 to develop the use of indirect monetary policy instruments. The staff notes the importance the BRB attaches to the provision of Fund technical assistance and expects that such assistance will be made available in a timely manner.

47. **The authorities have made good progress in improving the functioning of the foreign exchange auction market**, although the differential between the official and parallel market exchange rates remains large. The new steps taken by the BRB since December 2002 have yielded positive results, including a greater dispersion of bids on the auction market. The BRB should aim at further progress in lowering foreign exchange surrender requirements and stand ready to tighten monetary conditions, as needed, in order to reduce the exchange rate differential. The BRB's room to maneuver has been constrained by the restrictive conditions attached by some donors to the sale of foreign exchange grants on the auction market. The staff urges donors to relax such conditions, and to allow the BRB full authority in the choice of the reference currency and the amounts it sells on the market. In the meantime, the BRB should use its discretion to prevent an appreciation of the Burundi franc against the U.S. dollar and a renewed widening of the exchange rate differential.

48. **The implementation of various structural reforms is under way**. The National Commission to Assist War Victims (CNRS) was set up in February 2003, or two months behind schedule, because of the need for extensive consultations among the various partners in the transition government. The CNRS is key to economic and social recovery, and it is to serve as an important vehicle to channel donor support. The authorities have prepared a draft law for an auditing court (Cour des comptes) and submitted it for parliament approval in March 2003 as programmed. The staff notes the determination expressed by the authorities to move speedily to establish the auditing court as soon as conditions permit.

49. **The authorities will need to adhere firmly to their commitment not to have recourse to nonconcessional borrowing**, in order to avoid aggravating their debt-servicing burden. **They will be relying on concessional foreign assistance to cover the external financing gap under the 2003 program, which is estimated at US$200 million** (or 34 percent of GDP). More than half of this total is expected to be covered by debt relief from official creditors (in the context of a possible PRGF arrangement) and a deferral of part of the debt payments arrears vis-à-vis multilateral creditors. The full settlement of Burundi's payments arrears would provide a basis for fresh financing from multilateral institutions (in addition to the World Bank). Any residual financing need could be covered by new disbursements from bilateral and multilateral donors. The staff urges the authorities to settle their current debt service to all multilateral creditors, as planned under the program, and to aim at normalizing relations with external creditors as soon as possible.

50. The authorities intend to seek further Fund support under the PRGF, which would open the way for debt relief from Paris Club and other bilateral creditors and, in due course,

assistance under the enhanced HIPC Initiative. In the staff's view, **graduation to a PRGF-supported program would be subject to continued strong program implementation, progress in regularizing relations with external creditors, and further advances in the peace process.** Meeting these conditions would also allow for stepped-up budgetary assistance from bilateral and multilateral donors.

51. In the staff's view, Burundi meets the conditions for post-conflict assistance: (a) it has urgent balance of payments needs; (b) its institutional and administrative capacity has been disrupted as a result of the conflict, so that it cannot implement a program with upper-credit tranche conditionality; (c) there is, nonetheless, sufficient capacity for policy planning and implementation, as well as demonstrated commitment on the part of the authorities; and (d) Fund assistance is part of a concerted international effort to address the problems arising in the aftermath of the conflict and support the consolidation of the peace process. **In light of the measures taken and the policies adopted under the 2003 program, the staff recommends approval of the authorities' request for a second drawing under the Fund's post-conflict emergency assistance policy.**

Table 1. Burundi: Projected Payments Obligations to the Fund, 2002-03
(In millions of SDRs)

	Total 2002-03	2002 Jan.-March	2002 Apr.-June	2002 July-Sep.	2002 Oct.-Dec.	2002	2003 Jan.-March	2003 Apr.-June	2003 July-Sep.	2003 Oct.-Dec.	2003
Projected payments under existing drawings											
Total principal	1.93	0.00	1.29	0.00	0.64	1.93	0.00	0.00	0.00	0.00	0.00
Of which: Poverty Reduction and Growth Facility (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 1/	0.82	0.08	0.08	0.08	0.09	0.33	0.13	0.12	0.12	0.12	0.49
Of which: SDR net charges	0.56	0.08	0.08	0.08	0.08	0.31	0.07	0.06	0.06	0.06	0.25
Total obligations	2.75	0.08	1.38	0.08	0.73	2.26	0.13	0.12	0.12	0.12	0.49
Obligations from prospective drawings											
Total principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Of which: General Resources Account (GRA) 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 1/	0.16	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.06	0.16
Of which: periodic charges	0.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.06	0.11
Total obligations	0.16	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.05	0.06	0.16
Cumulative (existing and prospective)											
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
Interest/charges 1/	0.98	0.08	0.08	0.08	0.09	0.33	0.13	0.17	0.17	0.18	0.65
Of which: SDR net charges	0.56	0.08	0.08	0.08	0.08	0.31	0.07	0.06	0.06	0.06	0.25
Total obligations	2.91	0.08	1.38	0.08	0.73	2.26	0.13	0.17	0.17	0.18	0.65
Outstanding IMF credit (end of period)	...	1.93	0.64	0.64	9.63	9.63	9.63	19.25	19.25	19.25	19.25

Source: IMF, Treasurer's Department.
1/ Before subsidization.

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

	1998	1999	2000	2001	2002 Prog.	2002 Est.	2003 Rev. prog.
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
Real GDP growth	4.8	-1.0	-0.9	2.1	3.6	4.5	1.1
GDP deflator	11.4	14.9	13.2	5.4	9.4	1.0	10.4
Consumer prices (period average)	12.5	3.4	24.3	9.3	8.0	-1.4	9.9
Consumer prices (end of period)	-1.0	20.7	14.1	3.9	11.6	3.3	7.5
External sector							
Export, f.o.b. (in U.S. dollars)	-26.9	-14.0	-10.7	-20.2	22.0	-23.8	63.1
Imports, f.o.b. (in U.S. dollars)	28.5	-21.3	10.8	0.5	5.6	-2.3	12.5
Export volume	-26.1	7.4	5.5	4.9	21.4	-20.7	55.7
Import volume	55.2	-1.4	1.7	4.3	5.8	-1.2	5.3
Terms of trade (deterioration -)	19.4	0.3	-22.3	-21.0	0.6	-2.8	-1.9
Real effective exchange rate (annual average; depreciation -)	-9.8	-17.0	4.0	-4.9	...	-15.1	...
Central government							
Revenue and grants	27.0	18.3	33.8	6.3	15.9	15.8	2.1
Revenue	47.3	8.1	32.9	12.0	11.0	7.5	6.0
Total expenditure and net lending (commitment basis)	26.8	21.6	7.0	21.3	9.0	-1.0	28.8
Noninterest current expenditure	8.6	22.7	12.1	22.5	5.3	0.8	12.9
Money and credit							
Net foreign assets 1/	-23.3	3.3	0.8	-14.0	9.8	13.9	-4.1
Domestic credit 1/	34.6	44.2	15.4	37.9	14.6	13.5	36.9
Government 1/	8.6	23.7	-18.3	22.9	-3.6	-15.3	17.2
Private sector 1/	22.8	22.9	36.3	13.1	18.5	33.4	15.2
Public enterprises 1/	2.1	1.1	-1.4	1.5	0.3	1.8	-0.4
Money and quasi money (M2)	0.1	45.5	4.3	15.0	15.3	28.5	14.0
Income velocity (ratio of GDP to M2; end of period)	6.3	5.0	5.3	5.0	4.9	4.1	4.0
Central bank refinancing rate (in percent; end of period)	12.0	12.0	14.0	14.0	...	15.5	...
Lending rate (medium-term composite; period average; in percent)	17.6	15.2	15.8	16.8	...	19.4	...
	(In percent of GDP, unless otherwise indicated)						
External sector							
Current account balance 2/	-7.5	-6.1	-10.0	-6.8	-7.9	-5.7	-8.1
Debt-service ratio (scheduled) 3/	76.3	76.3	83.5	104.2	99.4	162.2	96.7
Central government							
Revenue (excluding grants)	17.1	16.2	19.2	20.0	19.6	20.4	19.4
Total expenditure and net lending	23.7	25.3	24.2	27.2	25.8	25.6	29.5
Primary budget balance (excluding foreign-financed projects)	0.7	-0.8	2.2	-0.8	1.8	2.2	-1.5
Overall balance (commitment basis)							
Excluding grants	-6.6	-9.1	-4.9	-7.2	-6.2	-5.2	-10.1
Including grants	-5.7	-6.6	-1.8	-5.2	-3.6	-1.4	-7.3
Gross investment	9.5	8.5	8.4	8.6	9.3	8.1	11.7
Public	6.4	6.9	6.1	6.4	6.5	5.2	8.7
Private	3.1	1.6	2.3	2.2	2.8	2.8	3.0
Gross national savings	1.9	2.4	-1.6	1.8	1.4	2.4	3.6
Public	-0.1	-2.6	0.5	-1.5	-1.0	-0.2	-1.8
Private	2.0	4.9	-2.1	3.3	2.4	2.6	5.3
	(In millions of U.S. dollars, unless otherwise indicated)						
External sector							
Current account	-67.5	-49.2	-70.9	-44.9	-53.3	-35.4	-48.3
Overall balance of payments	-58.0	-37.2	-28.8	-37.6	-55.1	-22.3	-63.2
Gross official reserves (end of period)	70.5	49.2	39.4	23.6	29.0	59.8	52.9
Gross official reserves (in months of imports, c.i.f.)	5.6	5.3	3.7	2.2	2.6	5.8	4.6
Net official reserves (in months of imports, c.i.f.)	3.4	3.3	2.5	1.6	2.2	4.2	3.1
External payments arrears	71.0	86.1	92.6	115.7	128.7	148.5	...
Memorandum items:							
Exchange rate (Burundi francs per U.S. dollar; average)	447.8	563.6	720.5	830.4	...	930.7	...
Exchange rate (Burundi francs per U.S. dollar; end of period)	505.2	628.6	778.2	864.2	...	1,071.2	...
GDP at current market prices (in billions of Burundi francs)	400.2	455.5	511.1	550.0	623.3	580.2	647.4

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

1/ In percent of broad money at the beginning of the period.
2/ Includes current transfers, but excludes capital transfers.
3/ In percent of exports of goods and services.

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

	1998	1999	2000	2001	2002		2003	
					Prog.	Actual	Prog.	Revised prog.
				(In billions of Burundi francs)				
Revenue	68.5	74.0	98.3	110.2	122.3	118.4	138.0	125.6
Tax revenue	62.5	70.3	93.7	103.1	109.1	104.8	122.9	111.6
Income tax	18.5	19.1	20.0	28.5	29.6	29.4	32.2	28.8
Taxes on goods and services	25.3	33.9	46.8	48.7	50.6	51.9	51.4	52.0
Taxes on international trade	18.3	17.0	22.8	21.7	26.5	23.2	36.4	30.4
Other tax revenue	0.2	0.0	3.9	4.0	2.1	0.1	2.4	0.1
Property tax	0.2	0.3	0.2	0.3	0.4	0.3	0.5	0.3
Nontax revenue	6.0	3.7	4.7	7.0	13.2	13.6	15.1	14.0
Expenditure and net lending	94.9	115.4	123.5	149.8	161.0	148.4	177.0	191.1
Current expenditure	68.8	85.7	96.0	118.6	123.2	119.6	123.7	137.1
Salaries	27.2	30.0	33.9	40.1	47.2	45.9	47.5	55.4
Civilian	15.0	16.5	18.0	21.6	23.5	23.6	27.0	31.4
Military	12.2	13.5	15.9	18.5	23.7	22.3	20.5	24.0
Goods and services	25.1	34.8	37.9	44.2	40.2	38.6	39.8	42.8
Civilian	11.0	20.0	23.3	18.4	19.7	19.2	21.8	21.3
Military	14.1	14.8	14.6	25.7	20.5	19.5	18.0	21.5
Transfers and subsidies	7.1	8.1	9.9	15.9	17.9	16.4	16.6	15.8
Interest payments (due)	9.5	12.9	14.3	18.5	17.8	18.7	19.7	23.2
Domestic	3.3	6.0	6.9	9.6	8.3	7.7	8.4	11.6
Foreign	6.2	6.9	7.4	8.9	9.5	11.0	11.4	11.5
Capital expenditure	25.6	31.3	31.1	35.1	40.2	30.2	55.6	56.4
Domestic resources	5.6	6.7	8.8	18.5	7.9	6.4	14.0	23.6
External resources	20.0	24.7	22.3	16.6	32.4	23.8	41.6	32.8
Net lending	0.5	-1.7	-3.6	-3.9	-2.4	-1.4	-2.4	-2.4
Overall balance (commitment basis)	-26.4	-41.4	-25.2	-39.6	-38.8	-30.0	-39.0	-65.5
Of which: primary balance 1/	3.0	-3.8	11.4	-4.6	11.4	12.6	22.4	-9.5
Change in arrears (reduction -)	1.2	7.7	6.9	7.7	-2.0	9.4	-37.0	-43.6
External (interest)	2.1	3.4	4.8	4.9	1.4	6.6	-37.0	-41.2
Domestic	-0.9	4.2	2.1	2.8	-3.4	2.8	0.0	-2.4
Overall balance (cash basis)	-25.2	-33.7	-18.2	-31.9	-40.8	-20.6	-75.9	-109.0
Financing (identified)	25.2	33.7	18.2	31.9	1.6	20.6	-109.4	-103.2
External	11.8	17.0	35.3	17.9	7.4	38.5	-103.4	-133.4
Program loans	0.0	0.0	22.4	5.3	0.0	21.3	0.0	0.0
Program grants	0.0	0.0	0.0	5.4	4.2	12.2	0.0	2.2
Project loans	16.3	13.3	6.4	10.7	20.5	13.9	26.7	17.0
Project grants	3.7	11.4	15.9	5.9	11.8	10.0	15.0	15.8
Amortization (due)	-14.6	-18.0	-22.0	-27.8	-39.8	-42.3	-38.5	-44.7
Change in arrears (reduction -)	6.5	10.4	12.7	18.5	10.6	23.5	-106.5	-123.6
Domestic	13.4	16.7	-17.1	14.0	-5.8	-17.9	-6.0	30.2
Banking sector	5.4	14.9	-16.8	21.9	-4.0	-16.9	-4.0	24.4
Nonbank sector	8.0	1.7	-0.2	-8.0	-1.8	-1.0	-2.0	5.8
Financing gap	0.0	0.0	0.0	0.0	39.2	0.0	185.4	212.3
				(In percent of GDP, unless otherwise indicated)				
Memorandum items:								
Revenue	17.1	16.2	19.2	20.0	19.6	20.4	19.9	19.4
Total expenditure and net lending	23.7	25.3	24.2	27.2	25.8	25.6	25.6	29.5
Of which: current expenditure	17.2	18.8	18.8	21.6	19.8	20.6	17.9	21.2
capital expenditure	6.4	6.9	6.1	6.4	6.5	5.2	8.0	8.7
Military and security expenditure	6.6	6.2	6.0	8.0	7.1	7.2	5.6	7.0
Overall balance (commitment basis)	-6.6	-9.1	-4.9	-7.2	-6.2	-5.2	-5.6	-10.1
Of which: primary balance 1/	0.7	-0.8	2.2	-0.8	1.8	2.2	3.2	-1.5
Overall balance (commitment basis) after official grants	-5.7	-6.6	-1.8	-5.2	-3.6	-1.4	-3.5	-7.3
Financing (net)	6.3	7.4	3.6	5.8	0.3	3.5	-15.8	-15.9
External	2.9	3.7	6.9	3.3	1.2	6.6	-14.9	-20.6
Domestic	3.4	3.7	-3.3	2.5	-0.9	-3.1	-0.9	4.7
Of which: banking sector	1.4	3.3	-3.3	4.0	-0.6	-2.9	-0.6	3.8
GDP at current market prices (in billions of Bur. francs)	400.2	455.5	511.1	550.0	623.3	580.2	692.1	647.4

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

1/ 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.	June	September		December		March	June	Sep.	Dec.
				Prog.	Actual	Prog.	Actual	Revised program		Proj.	Proj.
	(In billions of Burundi francs)										
Monetary survey											
Net foreign assets	23.7	10.3	-1.7	6.7	1.5	22.3	25.6	26.3	25.0	22.2	19.8
Central bank	20.5	14.6	5.0	12.7	8.4	26.3	28.9	26.5	23.1	19.8	16.8
Deposit money banks	3.2	-4.2	-6.7	-6.0	-6.9	-4.0	-3.3	-0.2	1.9	2.4	3.0
Net domestic assets	72.0	99.8	121.5	117.1	130.7	104.7	115.9	116.8	125.7	135.1	141.5
Domestic credit	131.8	168.1	192.5	194.0	207.9	184.2	189.9	191.9	208.5	228.2	235.2
Net claims on the government	24.0	46.3	50.9	48.5	49.2	41.6	29.3	35.4	41.5	47.6	53.7
Central government	31.2	53.2	58.9	57.0	56.6	49.2	36.3	42.4	48.5	54.6	60.7
Other government	-7.3	-6.9	-8.0	-8.5	-7.3	-7.6	-6.9	-6.9	-6.9	-6.9	-6.9
Credit to the economy	107.9	121.9	141.5	145.5	158.6	142.6	160.6	156.4	166.9	180.6	181.4
Claims on public enterprises	3.3	4.7	5.6	5.0	6.5	5.0	6.6	6.4	6.2	6.1	6.0
Claims on private sector	104.6	117.2	136.0	140.5	152.1	137.6	154.0	150.0	160.7	174.4	175.4
Other items, net (assets +)	-59.8	-68.3	-71.0	-76.8	-77.2	-79.5	-74.0	-75.1	-82.8	-93.1	-93.7
Money and quasi money	95.8	110.1	119.7	123.9	132.2	127.0	141.5	143.1	150.7	157.3	161.3
Money	68.9	79.1	87.6	91.0	98.1	94.0	101.2	102.3	107.8	112.6	114.8
Currency in circulation	31.3	34.1	38.9	39.5	41.1	40.0	43.0	43.5	46.5	49.0	49.0
Demand deposits	37.6	45.0	48.7	51.5	57.0	54.0	58.2	58.8	61.3	63.6	65.8
Quasi money	26.9	31.1	32.1	32.9	34.1	33.0	40.3	40.8	42.9	44.7	46.5
Central bank											
Net foreign assets	20.5	14.6	5.0	12.7	8.4	26.3	28.9	26.5	23.1	19.8	16.8
Foreign assets	30.6	20.4	23.3	29.6	28.0	30.8	64.1	53.8	64.7	61.3	59.2
Foreign liabilities	10.1	5.8	18.3	16.9	19.6	4.5	35.2	27.3	41.5	41.6	42.4
Of which: use of Fund resources	6.1	2.3	0.7	...	0.9	...	14.0	14.1	28.3	28.4	29.2
Net domestic assets	16.1	26.1	39.7	33.5	40.1	20.1	20.8	24.0	30.6	36.8	40.0
Domestic credit	53.6	68.8	84.8	78.2	87.1	67.0	67.1	62.1	71.8	79.8	85.7
Government (net)	28.0	47.1	52.4	49.7	50.4	42.5	30.4	26.3	36.9	45.7	54.5
Central government	30.2	48.9	54.3	52.0	51.5	44.9	32.0	28.0	38.7	47.6	56.4
Other government	-2.2	-1.8	-1.9	-2.3	-1.2	-2.4	-1.6	-1.7	-1.8	-1.9	-1.9
Nongovernment credit	25.5	21.7	32.4	28.5	36.8	24.5	36.7	35.8	34.9	34.0	31.2
Private sector	1.3	1.6	2.0	2.0	1.9	2.0	1.8	1.8	1.7	1.7	1.7
Commercial banks	22.5	15.1	22.9	20.0	24.4	17.0	25.7	25.6	25.5	25.5	23.5
Nonbank financial institutions	1.7	4.9	7.5	6.5	10.5	5.5	9.2	8.4	7.6	6.8	6.0
Other items, net (including revaluation)	-37.4	-42.7	-45.0	-44.7	-47.0	-46.9	-46.3	-38.2	-41.2	-43.0	-45.7
Reserve money	36.6	40.7	44.7	46.3	48.6	46.4	49.8	50.4	53.8	56.5	56.8
Currency in circulation	31.3	34.1	38.9	39.5	41.1	40.0	43.0	43.5	46.5	49.0	49.0
Commercial bank reserves	3.6	6.3	5.4	6.5	7.1	6.1	6.4	6.6	6.9	7.1	7.4
Other nonbank deposits	1.7	0.3	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.4
Memorandum items:	(Units as indicated)										
Central bank net foreign assets (US$ millions)	26.3	16.9	5.8	12.0	7.9	24.8	27.0	24.4	21.3	18.1	15.0
M2 growth (12-month percent change)	4.3	15.0	14.4	13.8	21.4	15.3	28.5	30.6	25.9	19.0	14.0
Credit to the economy (12-month percent change)	42.3	13.0	25.5	15.9	26.4	17.0	31.8	25.5	18.0	13.8	13.0
Reserve money (12-month percent change)	-2.5	11.1	17.4	12.3	17.9	14.1	22.3	27.9	20.2	16.4	14.1
Money multiplier (M2/reserve money)	2.6	2.7	2.7	2.7	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Velocity (GDP/M2; period average)	5.4	5.3	...	...	...	5.3	4.7	...	...	...	4.3
Exchange rate (Burundi francs per U.S. dollar)	778	864	865	1,060	1,073	1,060	1,071	...	...	...	...

Sources: Bank of the Republic of Burundi (BRB); and Fund staff estimates and projections.

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

	1998	1999	2000	2001	2002		2003	
					Prog.	Prel.	Prog.	Rev. prog.
	(In millions of U.S. dollars)							
Current account	-67.5	-49.2	-70.9	-44.9	-53.3	-35.4	-51.7	-48.3
Trade balance	-59.7	-42.3	-58.7	-69.2	-66.7	-76.0	-77.5	-70.4
Exports, f.o.b.	63.9	55.0	49.1	39.2	47.8	29.9	45.3	48.7
Of which: coffee	51.0	42.0	33.9	19.7	29.9	17.2	26.1	34.5
Imports, f.o.b.	-123.6	-97.3	-107.8	-108.4	-114.5	-105.9	-122.9	-119.1
Of which: petroleum products	-18.6	-17.8	-18.6	-16.4	-16.4	-15.9	-16.7	-18.6
Services (net)	-42.7	-25.5	-36.7	-31.0	-31.9	-35.7	-36.3	-39.4
Credits	7.5	6.2	6.1	6.9	8.4	7.7	8.0	5.6
Debits	-50.2	-31.7	-42.8	-37.9	-40.3	-43.3	-44.3	-45.0
Income (net)	-12.4	-12.4	-12.8	-12.8	-13.3	-14.1	-13.9	-14.2
Of which: interest on public debt (including IMF charges)	-13.8	-12.2	-11.0	-10.2	-10.3	-12.1	-10.4	-11.5
Current transfers (net)	47.3	31.0	37.3	68.1	58.5	90.4	76.0	75.7
Private (net)	6.1	5.5	4.6	6.5	5.9	5.5	4.6	4.3
Official (net)	41.2	25.5	32.7	61.6	52.6	84.9	71.4	71.4
Capital account	9.7	20.1	22.0	13.6	17.4	27.5	13.7	16.5
Project grants	8.2	20.1	22.0	7.1	12.8	15.3	13.7	14.5
Program grants	0.5	0.0	0.0	6.5	4.6	12.3	0.0	2.0
Debt cancellation	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	10.6	-11.0	22.5	-9.2	-19.1	-13.5	-9.9	-31.3
Direct investment	0.0	0.2	11.7	0.0	0.0	0.0	1.0	0.0
Medium- and long-term official loans (net)	3.7	-3.2	9.2	-18.3	-20.9	-11.6	-10.9	-25.6
Disbursements	36.4	23.6	39.8	15.2	22.2	34.6	24.4	15.5
Program loans	0.0	0.0	30.9	6.4	0.0	20.0	0.0	0.0
Project loans	36.4	23.6	8.9	8.8	22.2	14.6	24.4	15.5
Amortization (excluding IMF)	-32.7	-26.8	-30.6	-33.4	-43.1	-46.2	-35.3	-41.1
Other capital	6.9	-8.0	1.5	9.1	1.7	-1.8	0.0	-5.8
Errors and omissions	-10.8	2.9	-2.3	2.9	0.0	-0.9	0.0	0.0
Overall balance	-58.0	-37.2	-28.8	-37.6	-55.1	-22.3	-47.8	-63.2
Financing (- increase in assets)	58.0	37.2	28.8	37.6	5.0	22.3	-135.3	-136.5
Change in central bank net foreign reserves (- increase)	38.9	12.7	4.5	9.5	-8.0	-10.1	-6.6	12.0
IMF, net	-9.3	-7.6	-4.5	-4.4	-2.5	10.0	...	13.1
Other reserves, net	48.2	20.3	9.1	13.8	-5.5	-20.1	-6.6	-1.1
Change in arrears (+ increase)	19.1	24.5	24.2	28.2	13.0	32.4	-128.7	-148.5
Financing gap	0.0	0.0	0.0	0.0	50.0	0.0	183.2	199.7
	(In percent of GDP, unless otherwise indicated)							
Memorandum items:								
Trade balance	-6.7	-5.2	-8.3	-10.4	-9.9	-12.2	-12.2	-11.9
Current account	-7.5	-6.1	-10.0	-6.8	-7.9	-5.7	-8.2	-8.1
Of which: excluding current official transfers	-12.2	-9.2	-14.6	-16.1	-15.7	-19.3	-19.4	-20.2
Gross official reserves								
In million of U.S. dollars	70.5	49.2	39.4	23.6	29.0	59.8	35.7	52.9
In months of imports, c.i.f.	5.6	5.3	3.7	2.2	2.6	5.8	3.0	4.6
Net reserves (in months of imports, c.i.f.)	3.4	3.3	3.3	1.6	2.2	4.2		3.1
Total external debt	128.4	137.6	152.9	160.0	182.4	180.4	...	168.0
Debt-service ratio (in percent of exports of goods and services)								
Scheduled debt service (including IMF)	76.3	76.3	83.5	104.2	99.4	162.2	85.7	96.7
Actual debt service (including IMF)	27.1	11.4	23.2	24.1	72.2	62.5	...	...
Nominal GDP (in millions of U.S. dollars)	893.8	808.2	709.3	662.4	674.6	623.4	633.9	593.9

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

Table 6. Burundi: External Public Debt, Arrears, and Scheduled Debt Service, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
			Prel.	Projections				
	(In millions of U.S. dollars)							
Total medium-and long-term debt outstanding,								
including arrears 1/	1,077.3	1,057.6	1,111.8	962.6	945.2	913.4	870.0	822.7
Multilateral	916.0	904.1	966.6	...	...	...	...	...
Of which: IMF	7.0	2.5	13.1	...	...	...	...	...
Bilateral	150.4	148.0	141.6	...	...	...	...	...
Paris Club	85.0	82.4	88.9	...	...	...	...	...
Non-Paris Club	65.4	65.7	52.7	...	...	...	...	...
Other	10.9	5.5	3.5	...	...	...	...	...
External arrears outstanding	92.6	115.7	148.5	...	...	...	...	...
Multilateral	43.1	55.0	65.4	...	...	...	...	...
Of which: IMF	0.0	0.0	0.0	...	...	...	...	...
Bilateral	49.5	59.4	73.8	...	...	...	...	...
Paris Club	26.0	31.9	38.3	...	...	...	...	...
Non-Paris Club	23.5	27.5	35.6	...	...	...	...	...
Other	0.0	1.3	9.3	...	...	...	...	...
Scheduled debt service 1/								
Interest	11.0	10.2	12.1	11.5	10.9	10.5	9.8	9.2
Multilateral	9.1	7.8	8.7	9.3	9.6	9.2	8.6	8.3
Of which: IMF	0.8	0.5	0.4	0.9	1.0	1.0	0.9	0.6
Bilateral	1.9	2.4	3.4	2.2	1.3	1.2	1.2	0.9
Paris Club	1.6	2.3	2.3	1.1	1.0	1.0	1.0	0.8
Non-Paris Club	0.2	0.1	1.1	1.0	0.3	0.2	0.2	0.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	35.1	37.8	48.7	41.1	30.4	30.3	41.7	45.4
Multilateral	25.8	23.5	21.0	21.0	22.6	23.3	34.8	38.7
Of which: IMF	4.5	4.4	2.5	0.0	0.0	0.0	9.8	13.1
Bilateral	9.3	9.2	11.1	12.2	7.8	7.0	6.9	6.7
Paris Club	4.3	4.4	4.0	4.2	4.2	4.2	4.3	4.3
Non-Paris Club	5.0	4.8	7.1	7.9	3.5	2.8	2.6	2.4
Other	0.0	5.1	16.7	7.9	0.0	0.0	0.0	0.0
Memorandum items:	(In units indicated)							
Scheduled debt service (in percent of exports of goods and services)	83.5	104.2	162.2	96.7	76.0	63.7	75.6	75.7
External debt outstanding (in percent of GDP)	151.9	159.7	178.3	162.1	148.2	133.1	116.9	101.4

Source: Treasury Directorate, Ministry of Finance of Burundi; and Fund staff estimates and projections.

1/ On the basis of existing commitments.

Table 7. Burundi: External Financing Requirements and Sources, 1998-2003
(In millions of U.S. dollars)

	1998	1999	2000	2001	2002		2003	
					Prog.	Prel.	Prog.	Revised program
External resources (identified)	174.3	130.0	168.7	153.9	158.4	189.0	171.1	158.8
Exports of goods and services	71.4	61.2	55.2	46.1	56.2	37.5	53.3	54.3
Other private services	3.6	1.9	1.1	1.9	2.3	0.9	2.6	2.6
Private transfers (net)	6.1	5.5	4.6	6.5	5.9	5.5	4.6	4.3
Current official transfers (net)	41.2	25.5	32.7	61.6	52.6	84.9	71.4	71.4
Capital official transfers (net)	8.7	20.1	22.0	13.6	17.4	27.5	13.7	16.5
Foreign direct investment	0.0	0.2	11.7	0.0	0.0	0.0	1.0	0.0
Medium-and long-term official loans	36.4	23.6	39.8	15.2	22.2	34.6	24.4	15.5
Other capital	6.9	-8.0	1.5	9.1	1.7	-1.8	0.0	-5.8
Use of resources	-163.5	-132.9	-166.3	-156.8	-208.4	-188.2	-354.2	-358.5
Imports of goods and services	-173.8	-129.0	-150.6	-146.3	-154.8	-149.2	-167.2	-164.1
Other private services	-2.2	-2.1	-2.9	-4.5	-4.8	-2.8	-5.1	-5.4
Debt-service payments (including IMF charges)	-26.4	-14.6	-17.3	-15.5	-40.9	-26.0	-175.3	-201.1
Of which: net accumulation of arrears (+)	19.1	24.5	24.2	28.2	13.0	32.4	-128.7	-148.5
Net change in reserves, including IMF (- increase)	38.9	12.7	4.5	9.5	-8.0	-10.1	-6.6	12.0
Errors and omissions	-10.8	2.9	-2.3	2.9	0.0	-0.9	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	50.0	0.0	183.2	199.7
Program loans and grants	0.0	0.0	0.0	0.0	...	0.0	...	52.3
Debt relief (under existing mechanisms)	0.0	0.0	0.0	0.0	...	0.0	...	97.4
Residual financing need	0.0	0.0	0.0	0.0	...	0.0	...	50.0

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

Table 8. Burundi: Indicators of Fund Credit, 2002-07 1/

(In millions of SDRs, unless otherwise indicated)

	2002	2003	2004	2005	2006	2007
	Est.	Projections				
Fund credit outstanding (end of period) 1/						
In millions of SDRs	9.6	19.3	19.3	19.3	12.0	2.4
In millions of U.S. dollars	13.1	26.2	26.2	26.2	16.4	3.3
In percent of quota	12.5	25.0	25.0	25.0	15.6	3.1
Fund obligations	2.3	0.6	0.7	0.7	7.9	10.1
Fund total charges and interests	0.3	0.6	0.7	0.7	0.7	0.4
Existing drawings	0.3	0.5	0.5	0.5	0.4	0.3
Prospective drawings 2/	0.0	0.2	0.2	0.2	0.2	0.1
Fund total repayments/repurchases	1.9	0.0	0.0	0.0	7.2	9.6
Existing drawings	1.9	0.0	0.0	0.0	4.8	4.8
Prospective drawings	0.0	0.0	0.0	0.0	2.4	4.8
Fund credit outstanding in percent of:						
Exports of goods and nonfactor services	34.9	48.3	48.3	41.0	24.0	4.5
Gross official reserves	21.9	49.6	47.6	45.0	26.5	5.0
Fund obligations in percent of:						
Exports of goods and nonfactor services	8.2	1.6	1.8	1.5	15.7	19.0
Gross international reserves	5.1	1.7	1.8	1.7	17.3	20.8
Memorandum items:						
Exports of goods and nonfactor services (in millions of U.S. dollars)	37.5	54.3	54.3	64.0	68.2	72.2
Gross official reserves (in months of imports, c.i.f.)	5.8	4.6	4.6	4.6	4.6	4.6

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

1/ Includes the prospective disbursement under the post-conflict emergency assistance for SDR 9.625 million (12.5 percent of quota).
2/ Before the subsidization of charges.

Bujumbura,
April 11, 2003

NREF: 540/0532/2003

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

Dear Mr. Köhler,

1. Recent advances with the peace process and economic recovery have improved prospects for Burundi after almost a decade of hostilities. In the spirit of the Peace and Reconciliation Agreement concluded in August 2000 in Arusha (Tanzania), national reconciliation is under way and substantial progress has been made. A global settlement of the conflict is now closer, after a cease-fire agreement was reached between the transition government with the two armed factions of the CNDD-FDD and with one faction of the Palipehutu-FNL (in the course of the last quarter of 2002 and in early 2003). In February 2003, some of the leaders of the rebel groups returned to Bujumbura in order to participate in the implementation of the cease-fire. At the same time, the African Union approved Burundi's request for help and its main committee responsible for settling conflicts has already begun to implement the accord to dispatch international military observers, who will supervise the implementation of the cease-fire. In addition, this committee is continuing to put pressure on the last holdout armed faction, which has not yet started negotiations.

2. Against this background, the approval in October 2002 by the IMF's Executive Board of a drawing under the post-conflict emergency assistance policy marked the resumption in Fund support to economic reform in Burundi after a decade long hiatus. This important step has helped catalyze the support of the international community, as underscored by the positive outcome of the November 2002 Geneva Round Table, where donors pledged US$981 million over the 2003–05 period in support of the peace process and national reconstruction.

3. Although successful to date, implementation of the program is taking place against a background of serious economic difficulties, including those posed by unfavorable terms of trade. Low world coffee prices have resulted in a major contraction in foreign exchange earnings, while higher oil prices have further strained Burundi's external position. This difficult outlook has further strengthened the government's resolve to follow sound policies to generate equitable and sustainable growth.

4. The government's updated program for 2003 is summarized in the attached memorandum of economic and financial policies. This program continues to address the immediate needs of security, humanitarian aid, and the rehabilitation of basic infrastructure, as well as to improve the macroeconomic environment. The main elements of the economic and financial program include the strengthening of fiscal and monetary policies, the implementation of major reforms of the exchange system, and efforts to normalize relations with external creditors.

5. In support of this program, the government of Burundi requests a second drawing from the IMF under the post-conflict emergency assistance policy in an amount equivalent to SDR 9.625 million (12.5 percent of quota). 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). With a view to concluding such an arrangement, the government has prepared a comprehensive national anti-poverty action plan that will serve as the basis for an interim poverty reduction strategy paper (I-PRSP).

6. The government believes that the economic and financial policies presented in the attached memorandum are adequate to address the difficulties faced by the country 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/	/s/
Athanase Gahungu Minister of Finance	Grégoire Banyiyezako Governor, Bank of the Republic of Burundi

Attachments: Memorandum of economic and financial policies for 2003
Technical memorandum of understanding

Memorandum of Economic and Financial Policies for 2003

April 11, 2003

I. Introduction

1. The signing of a cease-fire agreement in Dar es Salaam in October 2002 and Arusha in December between the transition government and several armed opposition forces represented another important milestone in bringing closure to the internal conflict that devastated the country during most of the 1990s. In parallel, the government has pursued other steps under the Arusha Peace and Reconciliation Agreement of August 2000, which set conditions for power sharing and the social and economic rehabilitation of the refugee populations and internally displaced persons, which are essential for lasting peace and economic development. Of key significance among these steps was the setting up in February 2003 of the national commission to assist war victims (*Commission nationale de réhabilitation des sinistrés*—CNRS) that will enhance the government's efforts to address national reconciliation and social reintegration priorities. Despite the persistence of sporadic attacks by one holdout rebel group, the government continues with determination to seek peaceful solutions for the restoration of lasting peace and security.

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 1997. 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 live in absolute poverty, including about 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, strong support from the international community, including through humanitarian assistance, remains crucial to improve living conditions in the context of the implementation of the Arusha agreement.

3. The government of Burundi is aware of the challenges ahead, and, following the progress recorded in 2002, remains determined to continue to implement its program for 2003 to ensure the consolidation of proper conditions for peace and economic recovery.

II. Recent Economic Developments

4. Program implementation during the second half of 2002 was hampered by delays in the release of external assistance, but performance was broadly satisfactory at end-2002. Taking into account the shortfalls in budgetary loans and grants, quantitative indicators for end-December 2002 were in line with projections, with the exception of the stock of external debt payments arrears and a minor occurrence of nonconcessional borrowing for the

construction of a new embassy (Table 1). Two of the three structural indicators were also observed as envisaged, and the third one (setting up of the CNRS) was achieved in February 2003 (Table 2).

5. Economic activity continued to recover in the second half of 2002, boosted by reconstruction and the strong coffee crop, which doubled from the level recorded in the previous year. As a result, real GDP growth is estimated to have reached 4½ percent, which represented an increase in Burundi's per capita income for only the second time in a decade. However, despite some resumption of investment and the improvement in the global environment, activity in the manufacturing and services sectors remained subdued, in part due to the scarcity of foreign exchange. Buoyant agricultural output reversed the increase in consumer prices recorded in 2001, and the average rate of inflation turned out slightly negative in 2002. Nevertheless, consumer prices increased in the last four months of the year, following a 20 percent depreciation of the Burundi franc in August. Notwithstanding weak world prices for arabica coffee and lags in exporting the 2002/03 crop, the external current account deficit narrowed in 2002, owing to a contraction of imports reflecting foreign exchange shortages.

6. Fiscal developments during 2002 were broadly in line with the revised 2002 budget adopted in August. Mainly as a result of the deflationary environment, revenue collection was somewhat less than projected, but this was offset by lower expenditure. The disbursement of budgetary assistance toward the end of the year allowed the government to reduce its net indebtedness vis-à-vis the banking system. However, available resources were insufficient to step up debt-service payments to external creditors as planned under the program, as the bulk of external aid (notably from the World Bank and the European Union) was earmarked for other specific uses.

7. The policies implemented by the Bank of the Republic of Burundi (BRB) in the context of the program aimed, in particular, at improving the functioning of the foreign exchange market. All restrictions on discriminatory merchandise trade and related services, which had been in effect for the last two years, were eliminated in August 2002, and the BRB held weekly auctions of foreign exchange from September onward. The exchange rate differential between the official and parallel market exchange rates narrowed, but remained on the order of 20 percent (in foreign currency terms), compared with more than 30 percent during the first half of 2002, reflecting the scarcity of foreign exchange and difficulties in the operations of the auction market.

8. Reflecting unforeseen developments in the coffee sector, monetary policy was more accommodative than programmed in 2002, which resulted in overruns with respect to the net domestic assets objectives at end-September. Bank refinancing remained higher than expected at end-December 2002, but this was offset by higher government deposits. The expansion of credit and associated central bank refinancing during the second half of 2002 stemmed largely from the needs of the 2002/03 coffee crop, which exceeded program assumptions as to the amounts and their seasonal elements. Meanwhile, net official reserves recovered to reach US$27 million at end-2002, compared with an adjusted program target of

US$22 million. Gross international reserves at end-2002 rose to US$60 million (equivalent to six months of imports of goods and services), but only less than one-half was readily usable.

III. Objectives and Strategies of the 2003 Program

9. The government's program for 2003 continues to focus on addressing Burundi's economic and financial difficulties and laying the basis for a significant improvement in living conditions. The main objectives are to (a) address the urgent needs for humanitarian assistance and the implementation of the Arusha peace process; (b) improve the functioning of basic infrastructure; (c) strengthen economic institutions; and (d) accelerate the liberalization of the economy to increase efficiency, stimulate supply, and promote growth and welfare. Determined support from the international community in the provision of humanitarian and financial aid is crucial to achieve the government's social and macroeconomic objectives. The government also continues to count on its international partners to support the peace process through mediation and to help monitor the implementation of the Arusha agreement.

10. To achieve its economic recovery objectives, the government will seek to enhance the steps already taken to (a) reduce macroeconomic imbalances; (b) improve economic policy instruments, notably in the areas of monetary and exchange rate policies; and (c) strengthen public finance management, so as to steer expenditure toward the social sectors, especially primary education and basic health care. As regards the structural agenda, the government aims at (a) improving business conditions, especially in the coffee sector; (b) strengthening public finance control mechanisms; (c) rehabilitating and developing basic infrastructure; (d) fighting poverty through job creation; and (e) promoting economic diversification and integration in the subregion.

11. The government aims to keep the rate of inflation at about 7½ percent (end-of-period basis) in 2003 through an appropriately restrictive monetary policy. It will also continue to keep the fiscal position under control, normalize relations with foreign creditors, improve monetary and exchange rate management, and maintain an adequate level of international reserves. To restore a sound macroeconomic and financial framework, fund its development plans, and alleviate the scarcity of foreign exchange, Burundi will continue to need foreign assistance on a large scale.

12. In spite of the expected consolidation of political and security conditions and the continuation of economic reforms, growth would be on the order of 1 percent only in 2003, reflecting a contraction in agricultural output in the wake of poor weather conditions early in the year. The external current account deficit is projected to widen to the equivalent of 8 percent of GDP in 2003, compared with an estimated 6 percent in 2002, taking into account in particular higher project-related imports.

A. Fiscal Policy

13. The 2003 program rests in good part on the efficient mobilization of resources to address the needs for emergency humanitarian assistance, reconstruction, and reintegration,

while strengthening the country's overall financial situation. Thus, in 2003 the government intends to achieve broad improvements in social conditions while pursuing budgetary targets that are consistent with consolidation of the macroeconomic situation and the promotion of greater stability. In particular, fiscal management will support the central bank's policies, so as to contain inflationary pressures and help the development of financial intermediation.

14. The 2003 budget approved by the National Assembly in December 2002 provides for a primary budget deficit (excluding foreign-financed projects) equivalent to 1½ percent of GDP, compared with a surplus of 2 percent in 2002. This projection is predicated on government revenue collections of 19½ percent of GDP, compared with 20½ percent in 2002, and primary current expenditure broadly unchanged at 17½ percent of GDP. The turnaround in the primary budget balance essentially reflects the increase in capital expenditure associated with the World Bank's Economic Recovery Credit (of which the first tranche, for US$20 million, was disbursed in November 2002). The overall deficit, on a commitment basis, excluding grants, would reach 10 percent of GDP in 2003, compared with 5 percent in 2002. Externally financed capital outlays are projected at US$30 million in 2003, up by 45 percent compared with 2002.

15. The government will continue in 2003 ongoing efforts to enhance tax administration. The large-taxpayers' unit of the tax directorate started operations on January 1, and it is expected to improve gradually the collection of income and transaction taxes through enhanced monitoring of assessments and compliance. As part of Burundi's commitments under COMESA (the Common Market for Eastern and Southern Africa), and ahead of the adoption of the common external tariff in January 2004, the 2003 budget law reduced tariffs on intra-regional trade (to 20 percent of the normal rate); in addition, external tariffs have been lowered from a maximum of 100 percent to 40 percent, while tariff bands have been reduced from five to four. All domestic transactions on goods and services will be subject to the turnover tax from April onward, which will partly offset the loss of revenue from lower tariffs. Moreover, all export duties have been eliminated as part of the 2003 budget law, including the tax on coffee exports (which has not been enforced since the 1998/99 crop year).

16. The increase in primary current expenditure reflects the implementation of the government's commitment to recruit new teachers, raise salaries in the education sector, and unblock the freeze on promotions—which had been deferred for the last five years—and thereby correct an untenable situation in this sector. Current expenditure in the social sectors in the 2003 budget is projected at 5.3 percent of GDP, compared with 4.0 percent in 2002. Meeting this commitment necessitates containing the growth of other expenditures on goods and services. In addition, subsidies and transfers will decline in nominal terms (reflecting in particular the discontinuation of subsidies to the coffee sector). Military and security outlays will continue to decline relative to GDP (7 percent in 2003, compared with 7.2 percent in 2002 and 8 percent in 2001). To ensure adherence to the expenditure targets, monthly ceilings on commitments have been set under the direct authority of the Minister of Finance.

17. Public investment is projected to increase from 5 percent of GDP in 2002 to nearly 9 percent in 2003, reflecting stepped up project disbursements. This projection takes into account the pledges made at the Geneva Round Table of November 27–28, 2002. The public investment program gives priority to labor-intensive projects to rehabilitate and rebuild the social and economic infrastructure, and emphasizes rural development and poverty alleviation.

18. The government plans to service nonreschedulable debt and settle nonreschedulable debt-service arrears during the program period, subject to the availability of resources. On the basis of existing aid commitments, projected resources will not suffice to clear the stock of arrears outstanding at end-December 2002 (of nearly US$150 million). However, if additional resources were to become available, notably through the multidonor trust fund set up by the World Bank, the government will give priority to the settlement of arrears owed to multilateral creditors. As soon as possible, and before concluding an IMF-supported program under the Poverty Reduction and Growth Facility (PRGF), Burundi will adopt and begin to implement an appropriate strategy to regularize nonreschedulable arrears.

19. The program provides for an increase in net bank credit to the government by FBu 24½ billion in 2003, which corresponds in large part to the drawdown of the counterpart funds accumulated at end-2002. The government intends to step up the issuance of treasury bills at competitive rates, in order to cover part of the budget's financing requirement through the mobilization of domestic savings and foster the development of a domestic securities market.

B. Monetary and Exchange Rate Policies

20. The conduct of monetary policy will seek to keep inflation under control, maintain an adequate level of foreign exchange reserves, and preserve a competitive exchange rate. In this context, in the latter part of 2002 the BRB moved to tighten access to its refinancing window and rein in domestic liquidity—in particular through an increase in reserve requirements—so as to contain inflationary pressures.

21. The BRB's room for maneuver was curtailed in 2002 by the priority attached to the financing needs of the coffee sector. Coffee crop credits continued to benefit from a preferential refinancing interest rate (10 percent, compared with a normal rate of 15½ percent since September 2002), which was eliminated by the central bank in December 2002. In addition, the BRB adopted in March 2003 a stricter system of penalties for exceeding refinance ceilings. Pending the introduction of more flexible procedures, it continues to make use, as necessary, of its discount rate and set bank refinance ceilings monthly (rather than quarterly) to ensure sufficiently tight liquidity conditions.

22. In line with recommendations of the IMF technical assistance mission of November 2002, the BRB intends to develop more flexible intervention procedures through the use of indirect monetary control instruments in the course of 2003. To this end, the BRB will adopt weekly liquidity auctions and introduce a marginal refinancing window at a penalty rate. At

the same time, to facilitate monetary programming and control, the BRB will reform the system of mandatory reserve requirements, with reserves to be held in the form of deposits with the BRB rather than cash holdings, as is the case at present. Subject to the availability of technical assistance, the BRB will launch the new system by end-June 2003.

23. While there is no systemic problem of compliance with the key prudential requirements (in terms of solvency, liquidity, and the term structure of assets and liabilities), the IMF technical assistance mission noted overexposure in foreign currency by some of Burundi's seven commercial banks. In January 2003, the BRB issued a circular to regulate exposure in foreign currencies, which is presently limited at 20 percent of own funds. This limit will be reduced gradually to reach 5 percent by 2004 at the latest. To rebuild their foreign exchange positions, banks benefit from the recent unification of the export surrender requirement, and part of the resources available through the foreign exchange auction market. In the latter part of 2003, the BRB will consider the possibility of lowering further the surrender requirement for all goods and services.

24. The 2003 program features a projected growth rate in money supply of 14 percent and a drawdown of official reserves of US$12 million. The reserve target is predicated on a limit in the increase of the BRB's net domestic assets of FBu 19 billion in 2003, equivalent to 12½ percent of broad money at end-2002.

25. Improving the functioning of the foreign exchange auction markets remains of key importance, both to ensure a better allocation of available resources and help safeguard foreign exchange reserves. Following the reforms initiated in August 2002, the BRB introduced new regulations for the foreign exchange auction market in December. The new regulations lifted limits on bid rates and administrative constraints on the use of foreign exchange bought through the auction market, and introduced a modified Dutch auction mechanism resulting in a single settlement rate for all foreign exchange transactions. In addition, the BRB lowered the export surrender requirement to a maximum of 70 percent for all commodities. Restrictions on the payment of dividends by private companies were lifted in March 2003.

26. The government hopes that competitive conditions will take root quickly and expects a gradual convergence between the official and parallel market exchange rates. In any event, over the immediate future, the success of the reforms will depend in large part on the availability of foreign assistance to supply the auction market adequately.

C. Structural Reforms

27. With the gradual improvement in security conditions, the government plans to step up implementation of its structural reform agenda in 2003. To this end, priority will be given to reforming the coffee sector, strengthening budget-auditing mechanisms, initiating the privatization of public enterprises, reforming the civil service, and implementing the government's poverty reduction plan (*Programme social d'urgence du Cadre stratégique intérimaire pour la relance économique et la lutte contre la pauvreté*), which was launched

in April 2002. The government hopes that this plan will advance discussions during 2003 with the staffs of the IMF and World Bank on an I-PRSP in the context of a prospective PRGF-supported program. In support of this objective, and with assistance from its international partners, the government will also seek to develop and implement during 2003 expenditure tracking mechanisms that would allow better targeting and monitoring of social outlays.

28. Enhancing transparency and control over public finances is an important objective in the 2003 program. At present, there is neither an external budget-auditing mechanism nor procedures to account for budgetary execution to parliament. In accordance with the Arusha agreement, the government plans to set up an auditing court (*Cour des comptes*), which will be statutorily independent. To this end, a draft law was submitted to the National Assembly in March 2003, and the court will be formally set up as soon as possible after the law is promulgated. In the meantime, budgetary control—including defense and security budgets—continue to be exercised by the auditing services (*Inspection des finances*) of the Ministry of Good Governance.

29. Controlling the government's wage bill involves monitoring closely the civil service roster and payroll. The government plans to launch in 2003 a civil service census, and to implement a new payroll management system at the Ministry of Finance with technical and financial assistance from donors. A first stage of this operation entails the elaboration of an interim technical census and control procedures to verify the civil service roster. Pending the finalization of this operation, new recruitments have been limited to the health, education, and justice sectors, and to the newly set up transition institutions. In addition, the government is preparing the reintegration of civil servants presently exiled or internally displaced.

30. Burundi's external position remains dependent on developments in world coffee prices, which have been depressed during the last five years. This situation poses a major challenge to Burundi, insofar as prices may not fully recover given the new reality in world markets. The government intends to avoid subsidizing producer prices and will re-evaluate its policies in the cash crop sector. The objective is to reduce costs and the margins of all operators in the sector. To this end, by April 2003, the government will devise a formal mechanism to set the producer price in line with world prices and exchange rate developments; the price for the 2003/04 campaign will be announced by May 2003. Over the coming months, in collaboration with staffs from the World Bank and the European Union, the government will prepare a plan to liberalize the coffee sector and transform Burundi's coffee board (OCIBU) into a regulatory board.

31. The government intends to continue its program of public enterprise privatization as soon as conditions permit, and to withdraw gradually from commercial activities. To promote job creation, the government will also expand a series of labor-intensive public work projects financed with external assistance from multilateral and bilateral donors. Through the CNRS, which has begun to set its operational plans, the government will undertake to help the socioeconomic reintegration of refugees and internally displaced persons.

D. Technical Assistance

32. Burundi has vast technical assistance needs and the government will continue to work closely with its multilateral and bilateral partners to address priority areas in rebuilding administrative capacity. This includes, in particular, tax administration, civil service reform, monetary and exchange rate policy, and bank supervision. Assistance will also continue to be needed to improve the statistical apparatus, notably as regards the national accounts, balance of payments, and social indicators. As mentioned above, the BRB has begun implementing the recommendations of the November 2002 IMF technical assistance mission on liquidity management and foreign exchange operations. The BRB expects substantial technical assistance during 2003, which will be essential for implementing the planned monetary policy reforms.

IV. Program Financing

33. On the basis of program projections for 2003, external financing needs are estimated at US$359 million while available resources are US$159 million. Uses of resources take into account the clearance of external arrears, which were estimated at US$148.5 million at end-2002. Thus, there remains a financing gap of US$200 million (equivalent to 34 percent of GDP). At present, only part of this gap is expected to be covered by program loans and grants already committed from the World Bank, the European Union, bilateral partners, and disbursements from the multidonor trust fund for debt service set up with the World Bank; possible debt relief on bilateral debt and arrears; and a second drawing under the IMF's emergency post-conflict assistance policy. The government intends to continue discussions with its international partners to speed up the settlement of nonreschedulable external arrears and mobilize additional financing.

V. Prior Actions and Program Monitoring

34. The quantitative performance indicators for program monitoring are presented in Table 1. Table 2 summarizes the prior actions and performance indicators under the 2003 program. The definitions of these performance indicators are provided in the attached technical memorandum of understanding.

Table 1. Burundi: Quantitative Indicators Under the 2002-03 Program
(In billions of Burundi francs, unless otherwise indicated)

	2001	2002							2003			
	Dec.	June	September			Dec.			March	June	Sep. 1/	Dec. 1/
	Actual	Actual	Prog.	Adj.	Actual	Prog.	Adj.	Actual	Program			
1. Ceiling on central government financing, including program assistance (cumulative from beginning of calendar year) 2/	14.2	-2.4	0.6	4.3	1.4	-3.1	-0.5	-4.9	-4.1	8.6	14.2	21.2
2. Ceiling on stock of net domestic assets of the central bank 2/	26.1	39.7	33.5	37.1	40.1	20.1	22.8	20.8	24.0	30.6	36.8	40.0
3. Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars)	115.7	133.0	140.8	...	140.0	128.7	...	148.5	...	...	0.0	0.0
4. Ceiling on central government's outstanding stock of short-term 3/ external debt with a maturity of less than one year (in millions of U.S. dollars) 4/	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0
5. Ceiling on new nonconcessional external debt 3/ contracted or guaranteed by the central government or the central bank (cumulative from beginning of calendar year; in millions of U.S. dollars) 5/	0.0	0.0	0.0	...	0.0	0.0	...	0.7	1.0	1.0	1.0	1.0
6. Floor on the stock of net foreign assets of the central bank (in millions of U.S. dollars)												
Excluding IMF emergency assistance drawings 2/	16.9	5.8	12.0	8.2	7.9	24.8	22.3	40.1	...	...	...	...
Including IMF emergency assistance drawings 2/	...	...	...	...	...	...	...	27.0	24.4	21.3	18.1	15.0
Memorandum items for adjuster calculations:												
External nonproject financial assistance (cumulative from beginning of calendar year, in millions of U.S. dollars) 6/	7.0	5.2	12.9	...	5.2	39.5	...	34.6	2.1	24.1	32.3	199.6
Quarterly average exchange rate (Burundi francs per U.S. dollar)	...	...	...	...	950	...	...	1,067	...	...	...	...

1/ Tentative projections to be revised in the context of an eventual request for a new Fund-supported program.
2/ The ceiling or the floor was or will be adjusted to accommodate 50 percent (in 2002) and 75 percent (in 2003) of any deviation from the projected disbursements of external nonproject financial assistance shown in the memorandum item. In case of, respectively, an excess (shortfall) in 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 (EBS/02/174, 9/24/02, Appendix I, Annex II).
4/ Excluding short-term import-related trade credits.
5/ With a grant element of less than 50 percent.
6/ Nonproject assistance includes debt relief.

Table 2. Burundi: Prior Actions and Structural Indicators Under the 2002–03 Program

Measures	Timetable	Status
Prior actions implemented in August 2002		
• Adoption by the National Assembly of a revised budget for 2002 in line with program objectives		Implemented
• Issuance of regulation setting monthly ceiling for budget expenditure commitments		Implemented
• 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		Implemented
• Issuance of regulation setting maximum limits for processing margins of the coffee marketing board (OCIBU) and other intermediaries, in order to limit the deficit of the coffee sector		Implemented
Prior actions implemented in December 2002 and March 2003		
• Adoption by the National Assembly of a budget for 2003 in line with program objectives	December 2002	Implemented
• Unification of the BRB refinancing window (elimination of preferential refinancing for new coffee crop credits)	December 2002	Implemented
• Adoption of stricter system as regards penalties for exceeding refinance ceilings	March 2003	Implemented
• Elimination of exchange restrictions on the payment of dividends by private companies	March 2003	Implemented
Structural indicators		
• Holding of regular weekly foreign exchange auctions at the BRB	From September 2002 onward	Implemented
• 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)	December 2002	Implemented
• Setting up of the national commission to assist war victims (*Commission nationale de réhabilitation des sinistrés*—CNRS)	December 2002	Implemented in February 2003
• Submission to the National Assembly of a draft law for a new auditing court (*Cour des comptes*)	March 2003	Implemented
• Adoption of a formal mechanism to set the producer price of coffee in line with world prices and exchange rate developments, and announcement of the price for the 2003/04 campaign	May 2003	
• Adoption of weekly liquidity auctions and introduction of a marginal refinancing window at a penalty rate; and reform of the system of mandatory reserve requirements, with reserves to be held in the form of deposits with the BRB	June 2003	

BURUNDI

Technical Memorandum of Understanding

April 11, 2003

1. This technical memorandum of understanding 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 performance indicators and the applicable adjuster; (b) the prior actions and structural performance indicators; and (c) the key assumptions used in formulating the economic program for 2003 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi attached to the letter of April 11, 2003 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. Quantitative Indicators and Adjuster

Quantitative indicators

3. 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 1, Attachment I, as follows:

(a) A ceiling on the cumulative change in central government financing defined as the sum of the following flows: official program assistance loans and grants (excluding project assistance) 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);[14]

(b) A ceiling on the end-period stock of net domestic assets of the BRB;

(c) A ceiling on the end-period stock of central government's external payments arrears;

(d) A ceiling on the outstanding stock of short-term external debt (maturity of less than one year) of the central government and the BRB;

[14] Nonproject assistance is defined as all external financing, in the form of loans or grants, that generates counterpart funds with the banking system, and/or are spent with the concurrence of the Budget Directorate.

(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.

4. The program includes an adjuster for the quantitative indicators (a), (b), and (f), as specified in footnote 2 of Table 1, Attachment I, and explained in paragraph 11 below.

Definition and computation

5. **Total financing of the central government** is measured in accordance with accounting practices of the BRB and the Treasury, following the IMF format, and taking into account residual gap financing for program projections. For the period January 1–December 31, 2002, such financing totaled FBu -4.9 billion, broken down as follows:

Central government financing, net	-4.9
External financing net	10.3
Grants excluding projects grants (budgetary grants)	12.2
Loans excluding project loans (budgetary loans)	21.3
Interest payments on external debt	-10.9
Principal due on external debt	-42.3
Net accumulation of interest arrears on external debt	6.5
Net accumulation of principal arrears on external debt	23.5
Debt relief (on current maturities and arrears)	0.0
Domestic financing, net	-15.1
Bank financing, net	-16.9
Bank of the Republic of Burundi (BRB), net	-16.9
Commercial banks, net	0.0
Nonbank financing	-1.0
Net accumulation of domestic arrears	2.8

6. A transfer of **dividends from the BRB to the central government** is programmed to take place in March 2003 in the amount of FBu 9.0 billion. Any excess payment from the central bank over this amount will be treated as bank financing (rather than government revenue) and counted against the 2003 ceilings.

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, including the counterpart to the use of Fund resources (see below). Net domestic assets of the BRB totaled FBu 20.8 billion at end-December 2002, broken down as follows:

Net domestic assets of the BRB	20.8
Reserve money	49.8
Currency in circulation	43.0
Reserves of commercial banks	6.4
Other nonbank deposits	0.4
Minus: Net foreign assets of the BRB	28.9

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$148.5 million at end-December 2001, broken down as follows:

External payments arrears	148.5
Multilateral	65.4
African Development Bank	14.4
African Development Fund	14.2
International Fund for Agriculture development	1.1
Arab Bank for Economic Development in Africa	15.4
Arab League	0.3
European Investment Bank	2.0
European Union	8.2
International Development Association	0.0
OPEC Fund	9.6
Bilateral	73.8
French Cooperation Agency (AFD)	29.1
Japan (FCEOM)	9.2
Abu-Dhabi Fund	2.0
Kuwait Fund	16.2
Saudi Arabia Fund	13.2
Libyan Bank	4.2
Other creditors	9.3
AD Consultants	7.2
KfW AMSAR	1.4
CSPAS Brussels	0.2
Demimpex	0.6

9. Indicators relating to external debt include a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government, and a ceiling 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). The latter does not cover normal import credits. 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 on

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 at concessional conditions 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). The short-term debt outstanding was nil as of end-December 2002, and the nonconcessional medium- and long-term debt contracted in 2002 was US$0.7 million.

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). For monitoring purposes, the definition used in Table 1 excluded the liabilities vis-à-vis the IMF arising from the post-conflict emergency assistance drawing through December 2002. The new definition used from 2003 onward takes into account all liabilities to the IMF. These amounts are valued in terms of U.S. dollars based on end-of-period exchange rates. The net external assets of the BRB totaled FBu 28.9 billion, equivalent to US$27.0 million, at end-December 2002, broken down as follows:

	In billions of FBu	In millions of U.S. dollars
Net foreign assets of the BRB	28.9	27.0
Of which: excluding counterpart of the use of IMF resources	39.4	36.8
External assets	64.1	59.9
Deposits with correspondents (excluding IMF)	62.2	58.1
SDR holdings	0.2	0.2
Reserve position with the IMF	0.5	0.5
Gold holdings	0.4	0.4
Cash on hand	0.8	0.7
External liabilities	35.2	32.9
Liabilities vis-à-vis correspondents (excluding IMF)	24.7	23.1
Counterpart of the use of IMF resources	10.5	9.8
Other liabilities	0.0	0.0

Adjuster

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 external 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 1). 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 external assets of the BRB will be raised (lowered) by an amount equivalent to 75 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.

B. Prior Actions and Structural Indicators

12. The prior actions implemented in December 2002 and March 2003 listed in Table 2 of Attachment I are the following:

(a) Adoption by the National Assembly of a budget for 2003 in line with program objectives;

(b) Unification of the BRB refinancing window (elimination of preferential refinancing for new coffee crop credits);

(c) Adoption of a stricter system as regards penalties for exceeding refinance ceilings (penalty rate applied on the outstanding refinancing, rather than on the amount in excess of the ceiling); and

(d) Elimination of exchange restrictions on the payment of dividends by private companies.

13. The structural indicators for 2003 listed in Table 2 of Attachment I are the following:

(a) Holding of regular weekly foreign exchange auctions at the BRB, with results to be reported weekly;

(b) Submission to the National Assembly of a draft law for a new auditing court (*Cour des comptes*);

(c) Adoption of a formal mechanism to set domestic producer prices of coffee in line with world prices and exchange rate developments, and announcement of the price for the 2003/04 campaign;[15] and

(d) Adoption of weekly liquidity auctions and introduction of a marginal refinancing window at a penalty rate; and reform of the system of mandatory reserve requirements, with reserves to be held in the form of deposits with the BRB.

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[15] The producer price will be set for fully washed coffee only, given that the price for washed coffee will be liberalized in the 2003/04 campaign.

C. Key Program Assumptions

14. The main program assumptions are as follows:

	2002	2003	
	Est.	Orig. prog.	Rev. prog.
Average export prices			
Coffee (cents per pound)	45.5	53.3	47.6
Tea (dollar per kg)	1.08	1.27	1.14
Dollar per SDR exchange rate			
Annual average	1.295	1.324	1.362
End of period	1.360	1.336	1.362
Dollar per euro exchange rate			
Annual average	0.944	0.979	1.052
End of period	1.005	0.968	1.038

D. Provision of Information to IMF Staff

15. To facilitate the monitoring of program implementation, the Burundi government will prepare a monthly report within five weeks from the end of each month, which will be sent to IMF staff. In addition, the staff of the monitoring committee (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, 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, 2003; 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, 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, 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 2 of Attachment I.

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

Burundi: Relations with the Fund
(As of March 31, 2003)

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

II. General Resources Account:

	SDR million	% Quota
Quota	77.00	100.0
Fund holdings of currency	86.27	112.03
Reserve position in Fund	0.36	0.47

III. SDR Department:

	SDR million	% Allocation
Net cumulative allocation	13.70	100.0
Holdings	0.08	0.61

IV. Outstanding Purchases and Loans:

	SDR million	% Quota
Post-conflict emergency assistance	9.625	12.5

V. Latest Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
Enhanced Structural Adjustment Facility (ESAF)	11/13/91	11/12/94	42.70	19.21
Structural Adjustment Facility (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 Payments to the Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	0.00	0.00	0.00	4.81	4.81
Charges/interest	0.36	0.48	0.48	0.43	0.32
Total	0.36	0.48	0.48	5.24	5.13

VII. Implementation of HIPC Initiative:
Not applicable

VII. Safeguards Assessments:

The safeguards assessment procedures are not applicable to the Bank of the Republic of Burundi (BRB) at this time, but, in light of Burundi's intention to move to a PRGF arrangement, the staff has apprised the authorities of the Fund's safeguards assessment policy.

VIII. Exchange Rate Arrangement

The Burundi franc was pegged to the SDR until April 1, 1992. With the break out in hostilities in 1993 and subsequent trade embargo, the authorities resorted to exchange restrictions to manage dwindling foreign currency reserves. This was facilitated by the fact that foreign exchange sales are mostly conducted through the central bank, which handles external assistance disbursements and most of Burundi's main export receipts. In July 2000, the authorities began reversing restrictions by introducing a weekly foreign exchange auction system. In 2002, in the context of a Fund-supported program, the central bank eliminated restrictions on bid rates and the positive list of imports eligible for BRB foreign exchange, implemented a single, competitive settlement exchange rate for each weekly auction, and reduced the surrender requirement for coffee, tea, and cotton exports to the general rates of 70 percent. Further liberalizations measures were agreed to for implementation during 2003.

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 transfers of income from rents and the sale of real estate, and travel and study allowances. 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 24-month cycle. The 2002 Article IV consultation discussions were conducted at Fund headquarters during the period August 1-13, 2002. The staff report (EBS/02/174; 9/24/02) was discussed by the Executive Board on October 9, 2002, along with the consideration of the request for a purchase under the post-conflict emergency assistance policy. On that occasion, Executive Directors noted Burundi's difficult social circumstances and the challenge posed by the recent deterioration in the terms of trade. They welcomed the progress made toward peace and commended the authorities for initiating economic and financial measures designed to restore stability and mobilize the support of the international community. They expressed the view that 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 and a decision point under the Initiative for Heavily Indebted Poor Countries.

X. Technical Assistance

2003 (Feb.)	Visit by MAE expert on monetary policy management
2003 (Feb.)	Visit by FAD expert on tax administration
2002 (Nov.)	MAE mission on liquidity management and foreign exchange operations
2002	Participation of MAE experts on Article IV/UFR mission
2001–02:	Three FAD visits by a tax administration expert, in preparation for setting up 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-February 2003)

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 was disbursed during 2002 and the remainder is expected to be disbursed in [month] 2003. This credit is intended to 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-February 2003)

(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	33.87	...
HIV/AIDS and Orphans	2002	...	36.00	...	...

World Bank Staff

Questions may be referred to Eric R. Nelson, Senior Economist in charge of Burundi

Press Release No. 03/64
FOR IMMEDIATE RELEASE
May 5, 2003

International Monetary Fund
Washington, D.C. 20431 USA

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

The International Monetary Fund (IMF) today approved a second drawing of SDR 9.625 million (about US$13 million) in post-conflict emergency assistance for Burundi to support the government's reconstruction and economic recovery program in the aftermath of the August 2000 Peace and Reconciliation Agreement signed in Arusha, Tanzania. This program continues to address the immediate needs of security, humanitarian aid, and the rehabilitation of basic infrastructure, as well as to improve the macroeconomic environment. 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 been moving toward political normalcy since the conclusion of the Arusha Peace and Reconciliation Agreement in August 2000, and the authorities have begun addressing the country's deep-seated economic problems. Significant progress was made in implementing the economic program in 2002 and early 2003. Economic growth was sustained and inflation has remained under control. Despite poor weather early in 2003, economic activity is expected to continue to recover with the gradual restoration of peaceful conditions and the return of business confidence. However, foreign exchange earnings have been adversely affected by the currently low world price of coffee.

"The government's program for 2003 appropriately calls for monetary restraint to contain inflationary pressures and preserve an appropriate level of external reserves. Fiscal policy aims to maintain the cautious fiscal stance achieved in 2002, while meeting priority spending in line with the government's national reconciliation and poverty reduction priorities. A number of key foreign exchange market reforms have been implemented, including steps to improve the functioning of the auction system, which have helped reduce the differential between the official and parallel market exchange rates. However, further progress in liberalizing the exchange system is needed in order to unify the exchange rates.

"The authorities have indicated that they intend to seek further Fund support under the Poverty Reduction and Growth Facility (PRGF) as early as conditions permit. Adoption of a PRGF-supported program could pave the way for debt relief from external creditors, including relief under the enhanced Initiative for Heavily Indebted Poor Countries. The Fund stands ready to consider further financial support for Burundi in the coming months, subject to continued strong program implementation, progress in regularizing relations with external creditors, and further advances in the peace process," Mr. Aninat said.