February 2004
IMF Country Report No. 04/41

Burundi: 2003 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Public Information Notice and Press Release News Brief on the Executive Board Discussion; and Statement by the Executive Director for Burundi

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2003 Article IV consultation with Burundi and request for three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the combined 2003 Article IV consultation and request for three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **October 29, 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 January 6, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **January 23, 2004** updating information on recent economic developments.

- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its January 23, 2004, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- a statement by the authorities of Burundi.

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*
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

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

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BURUNDI

Staff Report for the 2003 Article IV Consultation and Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility (PRGF)

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

Approved by Juan Carlos Di Tata and Martin J. Fetherston

January 6, 2004

- Discussions on a program for 2004–06 that could be supported by a PRGF arrangement were initiated in June 2003 and concluded in October. The Article IV consultation discussions took place in Addis Ababa and Bujumbura during the period October 14–29, 2003.
- The Burundi delegations were headed by Mr. Gahungu, Minister of Finance, and included the Governor of the Bank of the Republic of Burundi (BRB)—successively Mr. Banyiyezako (in June) and Mr. Toyi (in October). The mission team met President Ndayizeye in Bujumbura in June and October 2003.
- The staff team consisted of Messrs. Beaugrand (head), Lopes, Schulte (all AFR), Mikhael (EP-AFR), and Sdralevich (PDR), and was assisted by Messrs. Hajji and Tompson (MFD consultants). Messrs. Nelson, Toto Same, and Ndenzako, Country Economists for Burundi at the World Bank, participated in most of the policy meetings. The team maintained close contacts with UN organizations, including the United Nations Development Program (UNDP), both in New York and in the field.
- A donors' forum is scheduled to be held in Brussels (Belgium) on January 13–14, 2004.
- The authorities have agreed to the publication of the staff report and the letter of intent following their consideration by the Executive Board.

Contents Page

Appendices

HIGHLIGHTS OF THE STAFF REPORT

Latest Article IV consultation	October 9, 2002. Directors noted that progress in the implementation of the authorities' post-conflict program in 2003 could form the basis for a more comprehensive program that could be supported by a PRGF arrangement and debt relief under the enhanced HIPC Initiative.
Fund relations	Outstanding purchases of SDR 19.25 million (25 percent of quota) under post-conflict emergency assistance policy; two drawings approved on October 9, 2002 and May 5, 2003.
Key issues for Article IV consultation	• Consolidation of the peace process • Resettlement of refugees, development of infrastructure and social services • Sources of growth, strengthening of export sector • Monetary and exchange rate management, appropriateness of the level of the exchange rate • Heavy external debt burden • Fiscal and trade policy reforms as part of membership in the Common Market for Eastern and Southern Africa (COMESA)
Key issues for PRGF-supported program	• Strong track record of performance under 2003 program • Normalization of relations with external creditors • Finalization of I-PRSP, with focus on macroeconomic components • Understandings on draft 2004 finance law • Further reduction in the parallel market exchange rate differential • Financial situation and prospects for the coffee sector • Sources to cover the external financing requirement for 2004–06
Technical assistance priorities	• Monetary management • Central bank's foreign exchange auctions • Indirect instruments of monetary control • Tax administration, expenditure control, and accounting practices • Economic statistics
Political situation	Transition national unity government (November 2001–October 2004), as part of the Arusha Peace and Reconciliation Agreement of August 2000; general elections expected in late 2004
Security	Several provinces are under Phase IV of the UN security advisory system, including Bujumbura's suburbs, while the city itself is under Phase III
Key government officials	Mr. Domitien Ndayizeye, President (since April 2003) Mr. Alphonse-Marie Kadege, Vice President (since April 2003) Mr. Athanase Gahungu, Minister of Finance (since January 2003) Mr. Salvatore Toyi, Central Bank Governor (since July 2003)

I. Introduction

1. Following many years of civil strife, most of Burundi's political parties reached a Peace and Reconciliation Agreement in Arusha (Tanzania) in August 2000 and, after further negotiations, formed a transition government in November 2001. Sporadic hostilities continued, however, as several groups refused to join the Arusha consensus. In late 2002, another milestone in Burundi's peace process was reached with the signing of a cease-fire agreement with three rebel groups. Implementation of the cease-fire moved forward decisively in 2003 with the gradual deployment of peacekeeping troops and the signing of a power-sharing agreement in Pretoria (South Africa) in October.

2. The improved political and security conditions and significant steps taken toward restoring financial stability opened the way for Fund support. In October 2002, the Executive Board approved a drawing, in an amount equivalent to 12.5 percent of quota (IMF Country Report No. 02/242), under the post-conflict emergency assistance policy. A second drawing in the same amount was approved in May 2003 (IMF Country Report No. 03/135). Satisfactory implementation of the government's post-conflict program was expected to lay the foundation for a more comprehensive program, but a deterioration of security conditions in the Bujumbura region in July 2003 prevented an early conclusion of discussions with the staff. Since then, significant progress has been made in restoring normal conditions and mobilizing international assistance in support of Burundi's peace process, reconstruction, and development.

3. In a letter to the Managing Director dated December 31, 2003 (Appendix I), the Minister of Finance and the Governor of the Bank of the Republic of Burundi (BRB) have requested a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount of SDR 69.3 million (90 percent of quota). Of this total, an amount equivalent to 25 percent of quota would be used to repay early nonconcessional drawings outstanding under the post-conflict emergency assistance policy. The proposed arrangement is in support of the authorities' economic and financial program for 2004–06, and would help Burundi implement its interim poverty reduction strategy paper (IMF Country Report No. 04/14). The joint staff assessment of Burundi's I-PRSP was issued to the Executive Board on January 6, 2004 (IMF Country Report No. 04/36). Projected disbursements under the PRGF would bring Burundi's use of Fund resources to 43.6 percent of quota at end-2004 (Table 1). Relations with the Fund and the World Bank are summarized in Appendices II and III, respectively; statistical issues and core statistical indicators are covered in Appendix IV; and selected social and demographic indicators are in Appendix V.

4. Burundi continues to avail itself of the transitional arrangements under Article XIV. The latest Article IV consultation was concluded on October 9, 2002. Directors commended the authorities for the progress made in implementing economic reforms since 2001. They expressed the view that the 2003 program would help consolidate macroeconomic stability and strengthen the prospects for strong and broad-based economic growth. They noted that this could form the basis for a more comprehensive program that could be supported by a PRGF arrangement and debt relief under the enhanced Initiative for Heavily Indebted Poor

Countries (HIPC Initiative). Directors stressed that Fund financial support under the PRGF would be conditional upon a continued strong track record of performance, sustained efforts toward normalizing relations with external creditors, and further progress in consolidating the peace process.

II. Background and Recent Developments

A. The Peace Process

5. **After nearly four decades of instability and civil strife, Burundi reached a turning point with the Arusha agreement of August 2000.**[1] Although sporadic hostilities continued thereafter, much progress was made during 2001–03 with the support of regional partners and the African Union (Box 1). Nearly all parties have now joined the peace process and accepted the Arusha framework, as well as the terms of the cease-fire agreement concluded in December 2002.

Box 1. Regional Efforts to Restore Peace in Burundi

Since the late 1990s, efforts toward resolving the Burundi civil war have been spearheaded by African countries and monitored by the African Union. Mediators have successively been Julius Nyerere, former President of Tanzania (until his death in December 1999); Nelson Mandela, former President of South Africa (until April 2001); and Jacob Zuma, Deputy President of South Africa (since May 2001). Regional summits—involving the heads of state and senior officials from countries in the subregion—have been instrumental in bringing the warring parties together and finding a long-lasting solution to the conflict.

The key steps in the process included the following: **Arusha Peace and Reconciliation Agreement**, signed by 17 political parties in August 2000; inception of **transition government** in November 2001; signing of **cease-fire agreement** with several rebel groups in Arusha in December 2002; **presidential rotation** on April 30, 2002, in which Mr. Domitien Ndayizeye (a Hutu) succeeded Major General Pierre Buyoya (a Tutsi); signing of a **protocol on security and power sharing** with the largest rebel group in Pretoria, in October 2003; and appointment of a broadened **national unity government** on November 23, 2003.

Implementation of the peace and cease-fire agreements is being monitored by 43 observers and 3,128 peacekeepers (from Ethiopia, Mozambique, and South Africa) under a mandate from the African Union. The initial funding for the deployment of troops was provided by South Africa, the United Kingdom, the United States, and the European Union. In order to secure funding for peacekeeping troops, the African Union is considering seeking a mandate from the United Nations.

6. **The latest protocol signed in Pretoria in October 2003 broadens the political spectrum and details the steps toward the initiation of the disarmament, demobilization, and restructuring (DDR) of military forces**. The DDR operations are being monitored by peacekeeping troops under the aegis of the African Union; financing has been secured under a regional multidonor project managed by the World Bank that includes an envelope of US$80 million for its Burundi component. Former rebel groups have established political parties and some of their members have joined the national unity

[1] The main elements of the Arusha agreement were summarized in Box 1 (IMF Country Report No. 02/242), and are detailed in the forthcoming selected issues paper.

government. Moreover, negotiations are under way to draft an election law, as a preamble to the organization of local, legislative, and presidential elections in the second half of 2004.

7. **Widespread poverty continues to pose major humanitarian problems**. An estimated two-thirds of the population live in absolute poverty and one out of eight adults is HIV-positive. The authorities and regional partners expect that the progress made toward resolving the conflict will prompt the return of Burundi's 350,000 refugees (mostly in camps in Tanzania) and 400,000 internally displaced persons.[2] The government, together with the United Nations High Commission for Refugees (UNHCR), has taken steps to promote the voluntary repatriation of refugees. A national commission to assist war victims (Commission Nationale de Réhabilitation des Sinistrés—CNRS) was set up in February 2002, but its work has been affected by uncertainty over its statutory independence from the Ministry of Reinsertion and Resettlement of Displaced Persons and Refugees, as well as by a lack of funds.[3]

B. Recent Economic Developments

8. **After growing by 4½ percent in 2002, real GDP has contracted by an estimated 1 percent in 2003** (Table 2), as poor weather early in the year affected adversely the first crop season. Activity in the nonfarm sectors of the economy—including construction, manufacturing, and trade—which underpinned Burundi's broad-based recovery in 2001–02, has remained buoyant. Reflecting the pass-through of a 20 percent depreciation of the exchange rate in the third quarter of 2002 and higher food prices induced by poor food crops, inflation rose from exceptionally low levels in 2002 to 10–14 percent in mid-2003 (12-month basis), before receding to 8–10 percent in the third quarter of the year. Inflation is expected to decline further in the coming months as the food supply returns to normal levels (Figure 1).

9. **Data through September indicate that the authorities' 2003 fiscal program remained broadly on track** (Appendix I, Table 1). Budget execution in the first three quarters of the year was in line with program projections as regards revenue and current expenditure, including military spending, which remained at 7 percent of GDP (Table 3). Social expenditure was one percentage point of GDP higher than budgeted on account of earmarked donor support. Slower-than-expected spending out of other earmarked external assistance offset an unforeseen deficit in the coffee sector and led to substantially smaller than programmed primary and overall budget deficits and bank financing for the year.

10. **Monetary policy was tightened in the third quarter of 2003 and all program indicators at end-June and end-September were observed.** The 12-month growth rate of broad money fell from high rates of 30–35 percent in late 2002 and early 2003 to

[2] In addition, an estimated 200,000 Burundi have been living in Tanzania since 1972, only a few of whom have acquired Tanzanian citizenship.

[3] The status of the CNRS was clarified through an executive order issued in August 2003. The CNRS has developed its work program and will soon seek donors' contributions, which would be channeled through a trust fund (Fonds national pour les sinistrés) set up to that end.

24½ percent at end-September.[4] Following the decline in inflation, the central bank cut its benchmark refinancing rate from 15½ percent to 14½ percent in December 2003. Reflecting the accumulation of earmarked foreign assistance funds in the form of deposits at the BRB, net international reserves rose to the equivalent of 3½ months of imports at end-September 2003, and the net domestic assets of the central bank fell accordingly, both comfortably meeting program targets (Table 4 and Appendix I, Table 2).

11. **Throughout 2003, the Burundi franc has remained broadly stable vis-à-vis major currencies** (Table 2). Following the 20 percent currency devaluation of August 2002 and the steps taken since then to improve the functioning of the auction market, the exchange rate differential between the official and parallel markets narrowed to a range of 15–20 percent in foreign currency terms during the first half of 2003 and has declined further to 10–15 percent from September onward (Figure 2). In line with understandings reached with the staff in June 2003, the central bank lifted in September all remaining restrictions on current account transactions, except for some limits on health, travel, and study allowances.

12. **The external current account deficit is projected to narrow to 6 percent of GDP in 2003 from 6½ percent of GDP in 2002**, mainly reflecting the boost to exports from an exceptionally large coffee crop in 2002/03 (Table 5).[5] Debt-service payments through September fell short of program projections, which had envisaged faster progress in reaching understandings with creditors, including in the context of the Paris Club. Still, part of the shortfall was expected to be made up in the last quarter of the year following the activation of the World Bank-managed multidonor trust fund for debt service.[6] Program aid disbursements in the first ten months of the year included an Economic Rehabilitation Credit (ERC) from the World Bank and grants from France, Belgium, and the European Union.

13. **Burundi's coffee sector continued to face difficulties because of low world market prices and adverse weather in early 2003**. After recovering in early 2003, coffee prices retreated to near-ten-year lows, and the cost-cutting measures implemented since August 2002 to improve the financial position of the coffee parastatal (OCIBU) did not prevent a loss in the 2002/03 season. Based on outstanding unpaid bank credit, the deficit was about FBu 6 billion, or the equivalent of 0.8 percent of GDP, compared with a midyear

---

[4] There were indications that the buoyant broad money growth in 2002 and 2003 had reflected an increase in money demand, although it was also partly related to the unusually large coffee crop in 2002/03 (May–April), which entailed a corresponding increase in central bank refinancing of crop credits. Nonfood inflation remained broadly stable during this period, in line with the authorities' 9 percent target for 2003, and there was no significant pressure on international reserves or the exchange rate.

[5] The external current account is defined in line with the Fund's *Balance of Payments Manual*, fifth edition: it includes current transfers but excludes capital transfers.

[6] Throughout the year, Burundi has kept up payments to the Fund, the World Bank, and the International Fund for Agricultural Development (IFAD). The government also resumed payments to the African Development Bank (AfDB) in July 2003—consistent with understandings reached with AfDB staff in June. In addition, the authorities took steps to restore relations with the Arab Bank for Economic Development in Africa (BADEA) and the OPEC Fund.

projection of FBu 1½ billion. The financial program nevertheless remained on track, as the larger budget subsidy to cover these losses was offset by lower-than-expected spending out of the ERC.[7] As a result of recurrent poor weather during the first half of the year, green coffee production is projected to drop to a record low of 6,000 tons in 2003/04, compared with 36,000 in 2002/03.[8]

14. **The implementation of structural reforms continued to focus on setting up the transition institutions envisaged in the Arusha agreement**. Following its establishment in early 2003, the CNRS moved to set up its sub-committee on land and to prepare a detailed work program. In March, the government submitted to Parliament draft legislation for an auditing court (*Cour des comptes*), which was approved in November after substantial revisions; the authorities plan to set up the court in the first quarter of 2004. Reforms of the civil service, the coffee sector, and the BRB's monetary policy instruments are still in their initial stages. While the 2003 program envisaged the adoption of a formal mechanism to revise coffee prices periodically, the authorities decided to defer this measure until agreement was reached on a comprehensive reform of the sector. In addition, the BRB did not introduce new liquidity management techniques as earlier expected because of delays in the provision of the required technical assistance. (Plans for stepping up structural reforms are described below, para. 36.)

III. Report on the Discussions

15. **The discussions with the authorities focused on Article IV-related issues and the elements of a program that could be supported by a PRGF arrangement**. Given the country's difficult economic and financial situation, the Burundi representatives emphasized the overriding importance of securing external financial assistance to help ensure a lasting return to peace and stability and improve the living conditions for the population. They readily recognized that the country's economy was still a long way from a viable, self-sustaining growth path and that the current difficulties called for strengthened economic management to ensure an efficient and equitable allocation of resources.

16. While Burundi's economic performance was severely affected by the civil war and trade embargo in the 1990s, **the authorities have generally maintained prudent financial policies**. Consumer price inflation averaged about 15 percent in the 1990s, with a peak of 35 percent in 1997–98, and it has slowed to about 10 percent since mid-2001. Since Fund staff resumed close involvement in 2001, the policy dialogue has been very positive and constructive, and the authorities have been highly receptive to Fund advice, both in the context of surveillance exercises and under the programs supported by the post-conflict emergency assistance policy.

[7] An amount of FBu 5½ billion was used from ERC counterpart funds in June 2003 to reduce government debt vis-à-vis the banking system corresponding to past deficits of the coffee sector.

[8] The small 2003/04 crop also reflected a downturn from the exceptionally large crop in the previous year, as well as delays in the application of treatment against diseases.

A. Article IV Consultation Issues

17. **The consultation discussions focused on the major challenges facing Burundi in the short run** (Box 2). In line with the diagnosis made as part of the I-PRSP, the authorities identified the restoration of peaceful conditions and the achievement of political stability as their chief priority. Progress in implementing the peace process would clear the way for a rapid return of refugees and the resettlement of internally displaced persons. This could prove difficult to handle, however, given the administration's limited capacity and tight budget constraints.

Box 2. Major Challenges Facing Burundi in the Short Run

Burundi is facing a wide range of challenges to generate sustained and equitable economic growth, improve social conditions, and achieve some measure of external viability. The most pressing such challenges are to:

- Restore normal peaceful conditions—full implementation of Arusha Peace and Reconciliation Agreement, completion of transition period in late 2004, and establishment of a stable political regime.
- Implement wide-ranging programs to assist the repatriation and resettlement of refugees, rebuild and develop infrastructures, and improve access to health and education services.
- Identify impediments to accelerating economic growth—improve efficiency in traditional export sectors (coffee and tea), facilitate resumption of regional trade, and remove bottlenecks to the development of new exports (e.g., fruits, vegetables, and cut flowers).
- Strengthen monetary and exchange rate management—ensure stable financial system and low inflation, and enhance external competitiveness through structural reforms.
- Address the heavy external debt burden and implement fiscal policies and structural reforms aimed at moving toward a sustainable debt path.
- Adapt fiscal and trade policies to the reforms under way in the context of the Common Market for Eastern and Southern Africa (COMESA).

18. **The economic policy discussions centered on exchange rate management and the government budget**. Notwithstanding the progress made in liberalizing the exchange system, the authorities were concerned with risks of a loss of control over international reserves and the exchange rate, given the limited availability of foreign exchange for sale on the auction market. Nevertheless, they also recognized that the persistent differential between the official and parallel market exchange rates constituted a serious distortion that needed to be addressed. As regards budget operations, the authorities underscored their commitment to maintain fiscal discipline through continued efforts to raise government revenue and ensure strict expenditure control. However, they noted that their room for maneuver was limited by the vast needs of a destitute population, the urgency of assisting returnees and war victims, the imperative of servicing debt to multilateral institutions, and the still high level of military spending. Although the costs of unifying the armed forces reduced the scope for a peace dividend in the short run, the government underscored its commitment to poverty reduction by raising the allocation for the social sectors in the 2004 budget.

19. **The staff noted the progress made in streamlining the exchange system**. The discussions concluded that Burundi's exchange system as of November 2003 was free of

restrictions on payments relating to current transactions (Box 3). As all bona fide foreign exchange operations can now be conducted through the banking system, the parallel market differential no longer reflects the presence of restrictions on current transactions. However, its persistence in a 10–15 percent range suggests a preference for informal dealings, and the authorities agreed on the need for further progress in improving the functioning of the exchange market and strengthening controls at customs.[9] In view of the progress in liberalizing the exchange system, the authorities indicated their intention to accept the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement as early as possible.[10]

Box 3. Main Features of Burundi's Exchange and Trade System (As of December 2003)

Category	Status
Imports of goods, freight and insurance	Allowed subject to proper documentation (there is no licensing system, but there is a ban on the import of cotton yarn). Simplified procedures are in place for imports valued at US$5,000 or less.
Travel allowances	Limits are routinely waived in justified cases. Standard annual allowances are US$200 per day, for up to ten days, for tourism; and US$300 per day, for four trips of up to ten days each, for business travel.
Education	Quarterly allowances of € 1,800 or more on presentation of school invoice.
Health care	An up-front provision of US$3,000 can be secured upon presentation of a physician's statement; actual payments are covered, based on hospital invoice.
Dividend payments	Allowed subject to clearance from tax directorate.
Interest and amortization	Allowed based on contractual obligations of registered companies.
Other services	Allowed on submission of proper documentation (e.g., subscription invoice).
Capital movements	Disallowed, except with special dispensation from the BRB (e.g., for repatriation of foreign direct investment).

Note: All exchange restrictions on current account transactions and amortization payments were lifted through a BRB circular issued on September 8, 2003. The BRB initially implemented a system of a priori controls, in which all transactions (except merchandise trade) were subject to prior authorization, which were granted routinely. Exchange controls were delegated to commercial banks in December.

20. Burundi's exchange system is a managed float, whereby the central bank supplies foreign exchange to commercial banks through weekly auctions with the aim of achieving the reserve target while smoothing out exchange rate fluctuations. **The staff agreed with the authorities that the managed float was an appropriate exchange regime for Burundi,** given the dependence on commodity export receipts and, above all, on balance

[9] The parallel market is illegal but, in practice, tolerated by the authorities. In addition to an unknown risk premium and the convenience of informal arrangements, the exchange rate differential reflects in part efforts by some operators to evade customs duties and domestic taxes, as well as to make illegitimate capital transfers.

[10] Burundi does not maintain any restriction subject to Article XIV.

of payments assistance, but it argued in favor of greater exchange rate flexibility. In recent years, the Burundi franc has depreciated substantially in real effective terms, which has largely offset the decline in the terms of trade (Figures 1 and 2). The authorities acknowledged that, while they viewed the exchange rate level as broadly appropriate in terms of competitiveness, phasing out the exchange rate differential would likely involve some further exchange rate depreciation. The staff also recommended to retain the U.S. dollar as intervention currency, in view of its importance in commodity markets, as well as its predominance in Burundi's parallel market.[11]

21. **The authorities are liberalizing trade and pricing policies**. Burundi's trade restrictiveness index is at 4 (on the standard 1–10 scale, with 10 being the most restrictive) based on a relatively restrictive unweighted-average tariff rate (22 percent, inclusive of a 6 percent service charge) and virtually no nontariff barriers (only cotton yarn imports are prohibited; the ban on sugar imports was lifted in April 2003). Burundi has already eliminated customs duties on goods originating from the Common Market for Eastern and Southern Africa (COMESA) free trade area ahead of the January 2004 deadline, and the authorities intend to reduce tariffs further to a maximum rate of 30 percent (compared with 40 percent at present—excluding the 6 percent service charge), beginning January 1, 2005. Domestic prices are freely determined, with the exception of petroleum products and utilities, for which prices are subject to periodic adjustments to ensure cost recovery.

B. Medium-Term Outlook and Strategies

22. **Burundi's I-PRSP lays out the government's main antipoverty strategies for the medium term**. The document was developed in 2001, presented to donors in draft form in April 2002, and revised in 2003. Burundi's immediate priorities are the restoration of peace, the demobilization of combatants, and the repatriation of refugees, as well as the promotion of strong economic growth and poverty alleviation (Box 4). As in the earlier Arusha agreement (Protocol IV), the I-PRSP contains the government's firm commitment to pursue sound economic and financial policies and achieve the Millennium Development Goals (MDGs). In the short run, the focus is on increasing agriculture productivity and access to microfinance, both of which should help raise rural incomes. In the medium run, the country's growth potential will depend largely on improvements in the performance of traditional exports and progress in export diversification. Nevertheless, even with significantly higher growth and sustained increases in external aid, Burundi is unlikely to meet the MDGs within the prescribed target date of 2015.

---

[11] Discussions with European Union and Belgian representatives suggested that some earlier issues regarding the currency denomination and timing of sales on the auction market had been resolved. Thus, the BRB continues using the U.S. dollar as its reference currency, and it has full authority to set the amounts sold weekly on the market.

Box 4. Priorities Under Burundi's I-PRSP

Priorities	Policies
Promote peace and good governance	Restore peace and security Promote sound economic management Promote decentralization and participation
Reform the macroeconomic framework and promote high-quality economic growth	Strengthen macroeconomic stability Develop the rural economy by reviving farming and livestock activities Rationalize the management of natural resources and protect the environment Foster private sector development and gradually disengage the state from the productive sector
Develop human capital	Improve availability and quality of education services Improve availability and quality of health services Improve availability of drinking water, hygiene, and sanitation Promote employment and social security Provide decent housing for all Reaffirm the national culture and improve educational opportunities for youth
Reintegrate conflict victims and disadvantaged groups into the economy	Rehabilitate war victims Assist and reintegrate disadvantaged and vulnerable groups into the economy
Combat HIV/AIDS and sexually transmitted diseases	Strengthen prevention programs Promote care and support self-help initiatives for HIV and AIDS patients Strengthen institutional capacities for combating HIV/AIDS
Advance the role of women in development	Promote women's access to education and decision making Promote health access for expectant mothers and children Promote women's access to the factors of production

23. **The authorities expect economic growth to pick up from 2004 onward.** Under the baseline scenario (as revised in the context of the envisaged PRGF-supported program), real GDP growth is projected to increase to about 5 percent per annum, while annual inflation would slow to 4–5 percent (Table 2).[12] This projection is predicated on a return to normal conditions, including the end of conflict-related disruptions to economic activity, but it also reflects in large part an expected rebound in food crop output following favorable weather in the early part of the 2003/04 season. The external current account deficit would widen to some 10 percent of GDP over the medium term, mainly reflecting national reconstruction needs as aggregate investment increases to 13 percent of GDP. Gradual fiscal consolidation is envisaged through 2006 as the primary budget balance would strengthen by 1 percentage point of GDP and the overall balance (excluding grants) by 1 ½ percentage points, driven by expenditure reduction. Under conservative external support assumptions, a reallocation of expenditure would boost social spending from 7 percent of GDP in 2004 to 10 percent in 2006.

[12] Sources of growth are discussed in the MEFP (para. 15) and in the forthcoming selected issues paper.

24. **In view of the heavy external debt burden, the authorities intend to seek debt relief under the enhanced HIPC Initiative as soon as conditions permit**. Based on highly preliminary estimates, the net present value of Burundi's external debt was estimated at about 1,500 percent of export earnings at end-2002, which is among the highest for HIPCs.[13]

25. **Structural reform priorities will remain those addressing national reconciliation and reconstruction** (Table 6). The authorities agreed that progress with poverty reduction was key to achieving those objectives, and that such progress will entail a sustained improvement in the employment situation and the consolidation of the macroeconomic framework. To address this challenge, the authorities are committed to implementing policies conducive to private sector development and have undertaken to revise the investment code and the legal and regulatory framework.

C. The 2004 Program

26. **The authorities' program for 2004 aims at consolidating the peace process and stabilizing the macroeconomic situation** (MEFP, paras. 19-21). The immediate objective is to ensure appropriate conditions for a strong resumption of real economic growth in 2004 while continuing to lower inflation. The authorities attach a high importance to the normalization of relations with external creditors, the attainment of which is expected to facilitate a rapid expansion in development projects and thus speed up reconstruction.

27. **Economic activity is set to pick up in 2004**. Real GDP growth is projected to reach 5 percent, mainly on account of an assumed return to normal weather following the poor rainfall in 2003 which led to a contraction of 1 percent. With conservative assumptions regarding the return of refugees, the authorities expect food crops to increase by 4 percent in 2004, while the 2004/05 coffee crop would return to the long-term average level of about 25,000 tons (up from 6,000 tons in 2003/04). Inflation would decline further to 5½ percent at end-2004, from the 9 percent currently projected for end-2003, reflecting lower food prices, broadly stable oil import prices, and the continued implementation of a prudent monetary policy.

Fiscal policy

28. **The budget for 2004, which was submitted to parliament in November 2003 and is due to be promulgated by end-December, aims at achieving the government's spending priorities while maintaining macroeconomic stability.** The draft finance law was submitted to Parliament in November 2003 and was due to be promulgated by end-December. The main budget aggregates are nearly unchanged from 2003, with both revenue and total expenditure declining slightly relative to GDP (to 20 percent and 29½ percent of

[13] Historically, Burundi followed prudent debt policies and remained current on its external debt obligations until the late 1990s—the country never required a rescheduling of its debt by Paris Club creditors. However, its capacity to pay weakened as a result of many years of civil war, the collapse of coffee prices on the international market in 1997, and a debilitating trade embargo from July 1996 to January 1999.

GDP, respectively—Tables 2–3). The primary budget balance (excluding foreign-financed investment) is projected to shift from a deficit of 0.3 percent of GDP in 2003 to a balanced position in 2004. The overall deficit, on a commitment basis, before grants, is programmed to be unchanged at 10 percent of GDP, while the deficit after grants would decline by 5 percentage points of GDP (taking into account program grants that are expected as gap financing).

29. **The authorities' revenue projections for 2004 are conservative in that the revenue to GDP ratio is being kept at about the same level as in 2003**. However, additional revenues could be generated by ongoing measures to improve efficiency and reduce distortions. In particular, steps are being taken to strengthen the large-taxpayers unit, introduce a single taxpayer identification numbering system, extend the transaction tax to all domestic transactions (in preparation for the introduction of a value-added tax in 2005), and reform customs procedures, notably as regards valuation and rules of origin. The losses from the elimination of customs duties on imports from the COMESA free trade area are expected to be minimal.

30. **Tight resource constraints limit the scope for redirecting budget expenditures**. To raise spending on social sectors from 6 percent of GDP in 2003 to 7 percent in 2004, the authorities limited the increases in the wage bill and in military outlays in the 2004 budget below the growth rate of nominal GDP. With the return to normal conditions throughout the country, the authorities expect to step up project implementation, notably in the areas of social and civil infrastructure. A budgetary "peace dividend" is not expected, in view of the necessary costs of expanding the national armed forces to integrate former rebel combatants. The projections do not incorporate the costs of DDR operations due to be launched soon, or of other actions needed to sustain the peace process, which are expected to be covered by external grants. In addition to military demobilization and reintegration, such costs would include the relocation of refugees and internally displaced persons. Despite the lack of prospects for a significant improvement in world coffee prices in 2004, a much-reduced crop is expected to result in smaller losses for the sector and the related subsidies in the 2004 budget are expected to fall to about 0.2 percent of GDP (down from 1 percent in 2003).

31. **The authorities intend to maintain prudent budget financing policies, in line with their objective of lowering inflation further**. Net domestic financing of the government deficit is to be limited to 2 percent of GDP, corresponding to the use of counterpart funds accumulated in 2003, mostly under the World Bank's ERC. (External financing under the program is discussed in para. 39 below; see also Table 7.)

Monetary and financial sector issues

32. **The monetary program is geared at the authorities' main policy objective of ensuring price stability**, defined as a relatively low level of inflation of about 5 percent or below. Money demand is expected to remain broadly stable in 2004 (Table 5), although the pickup observed during the last two years may continue as security conditions improve and the economy recovers. The projections are based on cautious assumptions, in particular as regards the high level of international reserves that accumulated in the latter part of 2003, in

parallel with the buildup of project-related counterpart funds. The BRB intends to reduce its role in financing the economy, especially as regards the coffee sector, which will no longer benefit from preferential interest rates. The authorities expect their policies to yield broadly stable consumer prices and nominal exchange rate, with a further narrowing of the exchange rate differential.

33. **The BRB is committed to keeping liquidity conditions tight and it plans to adopt indirect instruments of monetary control in mid-2004.** Despite the recent lowering, by 1 percentage point, its base interest rate remains positive (by about 4½ percent) in real terms (Table 2). Moreover, the BRB's room for maneuver has improved as the amount of coffee crop credits, which benefit from automatic central bank refinancing, has shrunk considerably. By mid-2004, the BRB plans to eliminate bank-by-bank refinancing ceilings and to hold weekly liquidity auctions, as part of a switch to indirect instruments of monetary control. This switch will also involve discontinuing the automatic refinancing of coffee crop credits. Preparatory work to this end is under way with technical assistance from the Fund. Furthermore, taking into account the comfortable level of foreign exchange reserves at end-2003 and the prospective foreign exchange cash flow situation, the BRB will be making every effort to coordinate its foreign exchange sales in the official market with its liquidity objectives.

34. **Burundi's banking system as a whole remains financially sound, as indicators of compliance are above minimum levels.** However, two commercial banks have been facing difficulties and their operations are being closely monitored by the BRB, which has taken steps to strengthen its bank supervision capacity and enforce its prudential requirements more rigorously (MEFP, para. 31). Some of Burundi's banks remain highly concentrated in coffee sector lending, which will make them vulnerable to adverse developments in the sector once automatic central bank refinancing has been discontinued, as envisaged under the 2004 program.

Exchange liberalization

35. **Further progress is expected in narrowing the differential between the official and parallel market exchange rates**. Following the recent lifting of restrictions on current account transactions (see Box 3 above), the exchange rate differential has narrowed to about 12 percent and it is expected to narrow further with the prospective opening of foreign exchange bureaus and the reduction in the surrender requirement on traditional exports (coffee, tea, and cotton) from 70 percent to 50 percent at end-December 2003.[14] These measures are being complemented by steps to improve the functioning of the weekly auctions of foreign exchange, which serve as a reference to the banking system. The

[14] The surrender requirement was eliminated in 1999 for nontraditional exports and reduced from 100 percent to 70 percent at end-2002 for traditional exports (in practice, the surrender requirement no longer applies on cotton, which is consumed locally). The BRB is evaluating applications for the opening of foreign exchange bureaus, with a view to redirecting the small-scale, informal cash transactions of the parallel market.

authorities' objective is to achieve greater exchange rate flexibility and thus ensure a better response to changes in supply-and-demand conditions.

Structural reforms and other issues

36. **The authorities have prepared ambitious plans for structural reforms** (Table 6). The immediate focus remains to set up and develop the institutions envisaged in the Arusha agreement, but increasing attention is being paid to economic issues, such as improving the environment for private enterprise and privatizing public enterprises. Structural conditionality under the proposed PRGF arrangement supports these objectives, including through the setting up of a new auditing court, a reform of monetary policy mechanisms, improvements in domestic taxation, and measures to ensure the soundness of the banking system (Appendix I, Table 2). Additional measures would be specified at the time of the first PRGF review (MEFP, para. 41).

37. **Measures to address the difficulties faced by the coffee sector are under way** (Box 5). In the short run, the authorities are focusing on the means to improve financial control and ensure accountability at the coffee parastatal (OCIBU) and the autonomous processing plants (SOGESTALs). Over the medium and long run, the state intends to withdraw gradually from the sector and to promote competitive marketing mechanisms. As world coffee prices are unlikely to rebound in the short or medium run, the government plans to help farmers switch to more profitable crops (MEFP, para. 33). A similar approach is planned for the tea sector—which is currently profitable—beginning with the breakup of Burundi's tea board (OTB) into several autonomous entities.

Box 5. Coffee Sector Reforms

The coffee sector used to be the mainstay of Burundi's economy, accounting on average for 90 percent of export receipts in the 1990s. Although its importance has diminished, it remains a major source of foreign exchange and of cash income in rural areas. Since the collapse of coffee prices in the late 1990s, the sector has registered large losses, which have been covered through the exercise of government guarantees on coffee crop credits. The option of privatizing the coffee sector has been endorsed in the Arusha agreement and the I-PRSP, but actual changes have remained limited so far.

The authorities' strategy to reform the coffee sector is still under preparation but two key points have already been agreed upon:

- Tighter financial oversight of the sector is needed. In the short run, the Ministry of Finance has launched an examination of OCIBU's accounts through its internal audit division (Inspection des Finances) and technical assistance in this area has been requested from the World Bank, the European Union, and the United Nations Development Program.
- The government should gradually withdraw from the sector. Comprehensive reform plans have been drawn up with assistance from the European Union, in which OCIBU would become a regulatory agency (rather than a processing and marketing agent) and the state would no longer provide guarantees for crop credits.

The implementation of coffee sector reforms will be supported technically and financially by the World Bank and the European Union.

38. **A new auditing court is to be established in early 2004.** Following approval of the law by Parliament in November 2003, the government plans to appoint the president of the

court in December, and other magistrates members of the court are to be selected in the first quarter of 2004. The court will begin reviewing the execution of the 2003 central government budget during 2004–05, with technical assistance from bilateral sources.

Program financing

39. **The external financing requirement under the program is estimated at US$196 million, or 30 percent of GDP** in 2004 (Tables 5 and 7). Of this amount, US$117 million corresponds to expected debt rescheduling from Paris Club and other bilateral creditors, mainly reflecting the accumulated stock of arrears at end-2003 (Table 8).[15] Thus, the cash financing requirement is estimated at US$80 million. The latter is expected to be covered by new disbursements of already committed program grants and loans from the European Union, the World Bank (with the third tranche of the ERC), and bilateral donors—including through the World Bank-managed multidonor trust fund for debt service.

40. Ahead of finalizing their PRGF request, **the authorities have begun normalizing relations with multilateral creditors**. Arrangements were reached in 2003 to defer or reschedule arrears owed to the African Development Bank (AfDB), the Arab Bank for Economic Development in Africa (BADEA), and the OPEC Fund.[16] Consistent with the general approach for post-conflict countries, the authorities hope that new aid disbursements will materialize soon from these creditors so as to avoid a situation of negative transfers (MEFP, para. 35).

D. Medium-Term Scenario

41. **The baseline medium-term scenario suggests that Burundi will continue to need substantial external assistance for a number of years** (Table 9). As noted above, the external current account deficit is projected to remain in the vicinity of 10 percent of GDP, which, in the staff's view, could be financed by external grants and loans on highly concessional terms. The medium-term external position will continue to be vulnerable to fluctuations in the terms of trade, especially with respect to coffee export prices. At the same time, there is a potential for a stronger pickup in economic growth than currently projected, in which case the country's external outlook could improve substantially relative to the baseline.

---

[15] Financing assurances from Paris Club creditors have been provided in December 2003. Burundi is expected to be invited at the Paris Club in March 2004 for treatment of its external debt on the basis of Naples terms. The remaining small amount of arrears to private creditors is going to be repaid by the authorities in accordance with the agreements already concluded.

[16] In the fourth quarter of 2003, the BADEA agreed to reschedule all of Burundi's arrears; and the OPEC Fund agreed to reschedule most of the arrears, with the remaining to be treated in 2004. The AfDB staff and the government reached understandings in June 2003, which envisage the stabilization of the level of arrears in 2003 and their gradual reduction beginning in 2004, with a view to reactivating AfDB lending to the country as early as possible.

42. **Burundi's external debt situation is clearly unsustainable and needs to be addressed as soon as possible** (Tables 8–9). At present, the medium-term scenario incorporates traditional debt rescheduling (on Naples terms), but not the additional debt relief that could be secured under the enhanced HIPC Initiative. Based on highly preliminary estimates at end-2002, debt relief under this Initiative could represent some US$270 million in net present value terms. The staff expects to prepare a complete debt sustainability analysis in the context of the first review under the PRGF arrangement, at which time a preliminary HIPC Initiative document would be issued.

E. Program Monitoring, Statistical Issues, and Technical Assistance

43. The program's **performance criteria, benchmarks and indicative targets** are listed as part of the authorities' memorandum of economic and financial policies and described in detail in the technical memorandum of understanding (Appendix I, Attachment I, Tables 2–3; and Appendix I, Attachment II). The phasing of disbursements under the PRGF provides for seven semiannual installments (Appendix I, Attachment I, Table 4). Completion of the first PRGF review, by September 2004, would be conditional upon the observance of performance criteria at end-June 2004. Review discussions would focus on fiscal and exchange rate policies, as well on the definition of reforms for the coffee and tea sectors (MEFP, para. 41).

44. **Burundi's statistical apparatus is weak and needs to be strengthened**. The authorities have initiated reforms to improve the compilation of budget data on a cash basis, which will be key for the effective operation of the auditing court. Efforts are also under way to improve monetary data, based on the recommendations of a Fund technical assistance mission in 2000. Following a request by the authorities, it is expected that the Fund's Statistical Department will conduct a review of the statistical system through a multitopic mission in the course of 2004.

45. **The Burundi authorities are very receptive to technical assistance recommendations and they hope that such support will increase rapidly**. The delivery of technical assistance has been slowed in the past by precarious security conditions in Bujumbura. With the normalization of the situation, it is expected that multilateral and bilateral donors will step up support in many areas (Table 6). The Fund is already providing assistance in monetary policy implementation and reforms through a resident advisor (who also covers Rwanda).

F. Safeguards, Access, Capacity to Repay the Fund, and Program Risks

46. **The Fund's Finance Department has initiated the safeguards assessment of the BRB**. A mission to this complete this assessment is planning to visit Bujumbura in 2004. The management of the BRB has already expressed its intention to improve auditing and control mechanisms.

47. As mentioned in par. 3 above, **access under the proposed PRGF arrangement would be in an amount equivalent to 90 percent of quota, to be fully drawn by 2007**. This envisaged access level is justified by Burundi's external financing needs and to allow

the early repurchase of the outstanding drawings under the post-conflict emergency assistance policy. The early repurchase will be fully effected at the time of the first PRGF disbursement.

48. **The Burundi authorities are committed to servicing their obligations to the Fund in a timely manner**. Fund credit outstanding is projected to peak at SDR 69.3 million in 2007, representing about 57 percent of exports of goods and services, with annual debt-servicing payments of SDR 0.35 million (Table 10). The authorities' track record of performance in discharging its obligations has been generally good, especially considering the inordinate difficulties faced by the country in the 1990s. Although Burundi will continue to need substantial external financial assistance for a number of years, its external position is set to improve over time with the provision of appropriate debt relief and is expected to allow the authorities to meet their repayment obligations to the Fund.

49. **The program faces a number of risks, especially with respect to the political and security situation**. In particular, (i) a setback in the peace process cannot be ruled out, considering Burundi's troubled history since independence, in which case the return to peaceful conditions and the nascent economic recovery would be jeopardized; (ii) there could be shortfalls or delays in the provision of the external financial aid required to demobilize or integrate former rebels into the armed forces and to relocate refugees and internally displaced persons, in which case fiscal and monetary consolidation could come under pressure; and (iii) there could be slippages in program implementation, such as expenditure overruns or revenue shortfalls, for which explicit contingency measures cannot be identified at this stage. Overall, these risks appear well contained in view of the strong involvement of Burundi's foreign partners in Africa and elsewhere, the commitment of the international community to assist and help monitor the peace process, and the demonstrated commitment of the authorities.

IV. Staff Appraisal

50. **Burundi has made much progress since the signing of the Arusha Peace and Reconciliation Agreement** in August 2000. Following the inception of a transition government in November 2001, the Fund moved to support the government's efforts to improve economic policies and launch the reconstruction of the country. There were two drawings under the post-conflict emergency assistance policy, in October 2002 and May 2003, as part of a program designed to strengthen the public finances and improve monetary and exchange rate management. The program largely achieved its aim of lowering inflation and raising the international reserves of the Bank of the Republic of Burundi (BRB) to levels sufficiently high to resume unimpeded imports of goods and services. The successful implementation of the program helped Burundi to secure additional financial support from other multilateral and bilateral sources.

51. **The authorities' handling of the economy has been highly competent considering the inordinate difficulties faced by Burundi in recent years**. In particular, tight control has been maintained over budget operations, thereby ensuring good revenue collection and strict expenditure management. While acknowledging the authorities' determination to address

most economic management issues raised in the context of the policy dialogue, the staff regrets that in 2003 military expenditure has continued to absorb a large share of current spending, and that the deficit of the coffee sector has exceeded projections substantially and without timely notice.

52. **Notwithstanding the progress made during the last two years, the challenges facing Burundi remain numerous and daunting**. The peace process is still fragile, especially considering that a small rebel group has so far refused to enter into negotiations with the government. The economy remains weak, a large proportion of the population is destitute, and there are nearly 1 million refugees and internally displaced persons. The authorities' I-PRSP rightly emphasizes the restoration of peaceful conditions and political stability as the country's overriding priority.

53. **In the staff's view, the 2004 program is adequate to begin addressing the deep-seated problems facing the economy**. In this regard, the progress achieved recently in negotiating a comprehensive peace settlement provides a unique opportunity. The immediate objective is to ensure appropriate conditions for a strong resumption of real economic growth in 2004 while continuing to lower inflation. A further strengthening of economic and financial policies would help ensure stability and form a basis for mobilizing much-needed external support.

54. **The staff welcomes the priorities set under the 2004 government budget**. The draft finance law, which is due to be promulgated by end-December 2003, aims at bringing primary expenditures (excluding foreign-financed projects) in line with government revenue. Given the limited room for maneuver on the expenditure side, the authorities must be commended for having raised budget allocations for the social sectors, while maintaining most other categories broadly constant in real terms. Looking ahead, it will be important to continue monitoring closely government expenditure, in particular since (i) no peace dividend is expected until the integration of rebel and government forces is achieved, and (ii) larger-than-budgeted losses in the coffee sector could be expected if world prices turn out weaker than forecast.

55. **The BRB continues to make progress in the implementation of monetary policies and in the conduct of bank supervision**. It has adhered to the monetary program in 2003 and is gearing up to reform its monetary policy instruments in 2004. Already, greater flexibility is being introduced in setting interest rates and refinancing ceilings. The staff urges the BRB to pursue a more proactive liquidity management policy by coordinating foreign exchange sales in the official market with its liquidity objectives. The staff notes that steps are under way to ensure full compliance with prudential requirements and urges the BRB to exercise its supervision of commercial banks in a rigorous manner.

56. **The authorities have made much progress in liberalizing the exchange system**. Current account transactions are now free of restrictions, and the differential between the official and parallel market exchange rates has narrowed significantly. The staff notes the authorities' commitment to phase out the exchange rate differential, which is a prerequisite for the efficient allocation of resources. The BRB should continue monitoring parallel market

developments closely and stand ready to ensure that the auction market rate remains adequately flexible.

57. **The performance of the coffee sector has been disappointing in 2003, and prospects for 2004 remain grim**. The authorities are taking steps to improve the monitoring and control of the coffee companies' financial operations, with assistance from the United Nations Development Program, the World Bank, and the European Union. Beyond these urgent and critical steps, it is essential to finalize rapidly and begin implementing reforms of the sector in order to ensure the sector's long-term viability and reduce fiscal risks. Progress in transparency, accountability, and with reform of the coffee sector will constitute a key issue in the discussions for the first PRGF review.

58. **Progress in implementing structural reforms has been satisfactory overall**. In November 2003, the parliament approved a law for a new auditing court, which is expected to be set up shortly. While the authorities have drawn up plans for further wide-ranging reforms, progress in some areas—such as public enterprise privatization—is likely to remain slow until the overall situation normalizes.

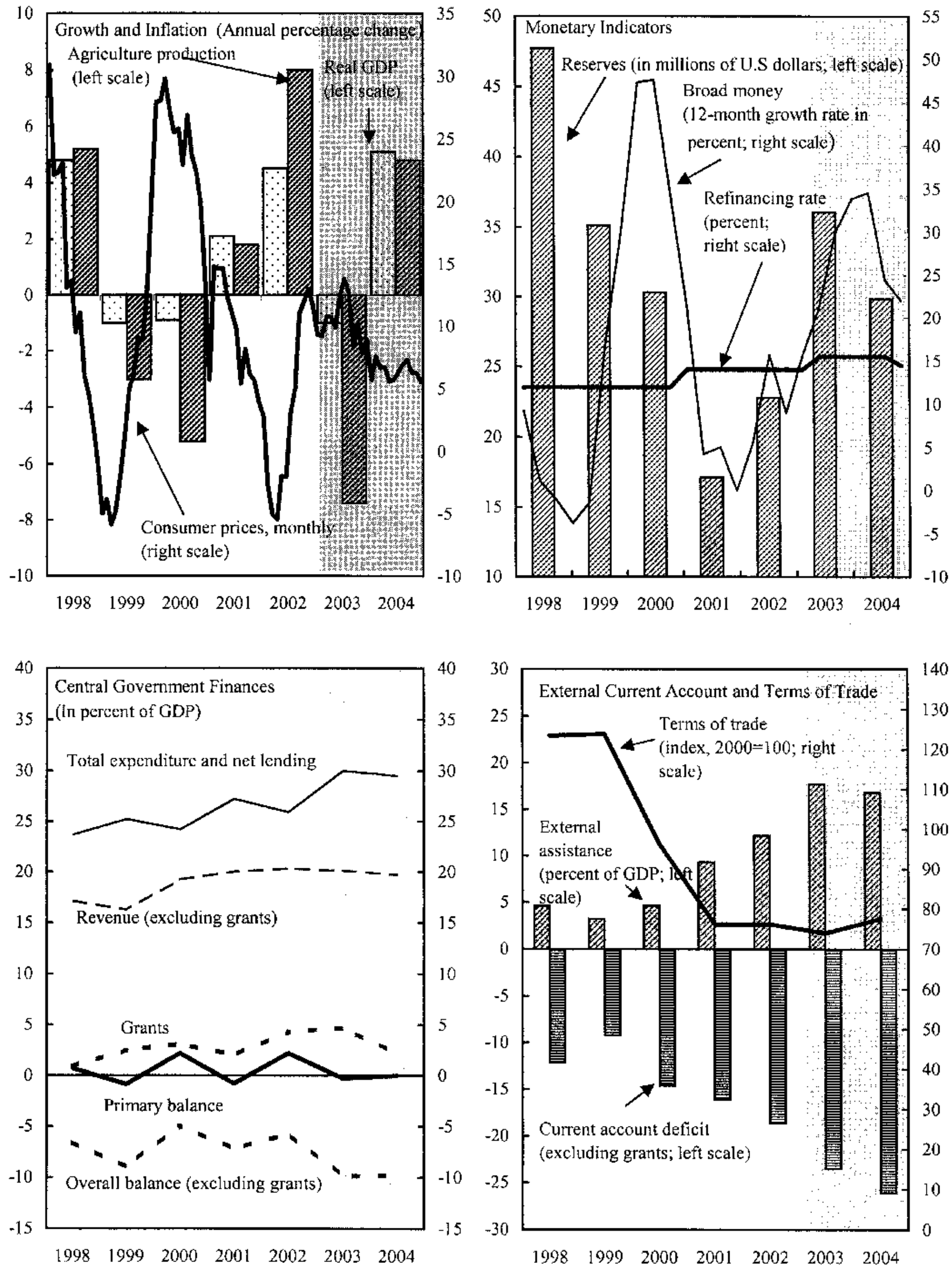
59. **The financing requirement under Burundi's 2004 program is expected to be covered by grants and loans from the European Union, the World Bank, and bilateral donors** (including through the World Bank-managed multidonor trust fund for debt service), **as well as by debt relief from Paris Club and other bilateral creditors**. The staff welcomes the steps already taken by the authorities to begin normalizing relations with multilateral creditors. The staff hopes that the authorities' efforts will be rewarded soon with a resumption of operations by these creditors, so that Burundi can benefit from a positive net transfer of resources.

60. **Burundi continues to face unsustainably heavy debt-service obligations and needs debt relief under the enhanced HIPC Initiative**. It is expected that a full-fledged debt sustainability analysis will be prepared at the time of the first PRGF review. Subject to steadfast program implementation, the HIPC decision point could be reached by the time of the second review.

61. **The authorities are gradually rebuilding their administrative capacity, which has been eroded by many years of civil strife**. The administration has expressed its need for technical support in many areas, including program monitoring, policy implementation, and statistics. In the short run, Fund technical assistance will focus on monetary policy, tax administration, and the compilation of statistics. With the return of normal conditions in Bujumbura, the staff expects that the delivery of technical assistance will increase rapidly, thereby enhancing the chances for the success of the program.

62. In light of the good performance under the 2003 program, the measures taken, and the policies adopted under the 2004 program, **the staff recommends approval of the authorities' request for a PRGF arrangement**. The staff also recommends that the next Article IV consultation with Burundi be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

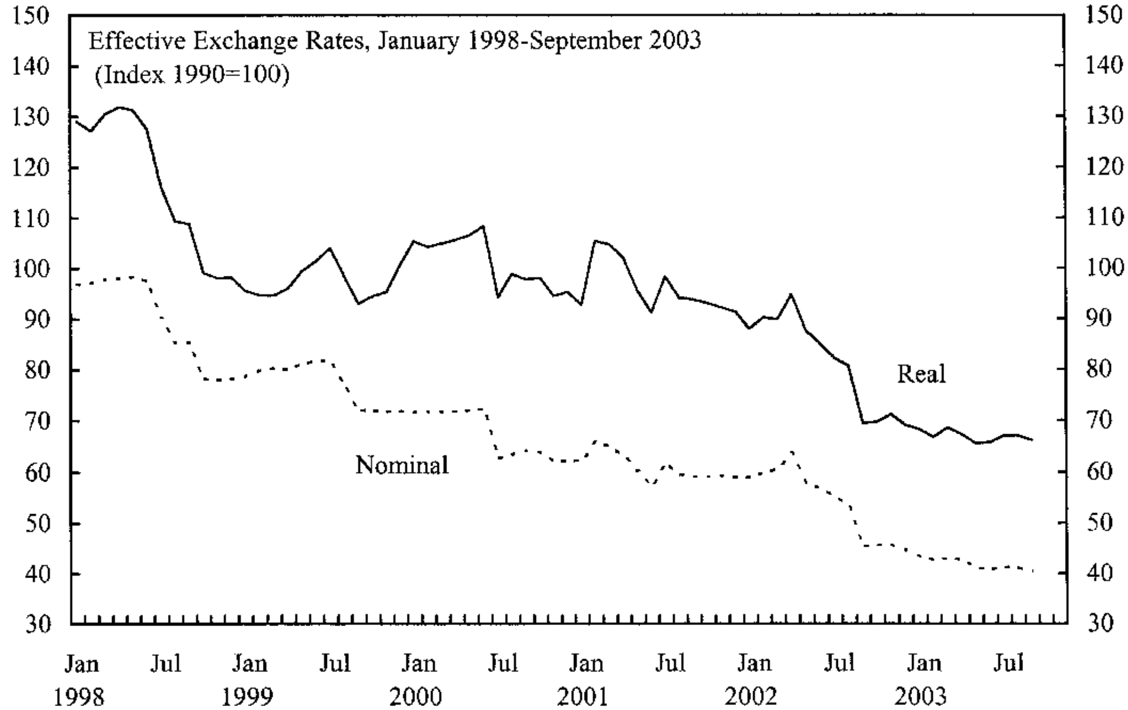
Figure 1. Burundi: Economic and Financial Indicators, 1998-2004 1/

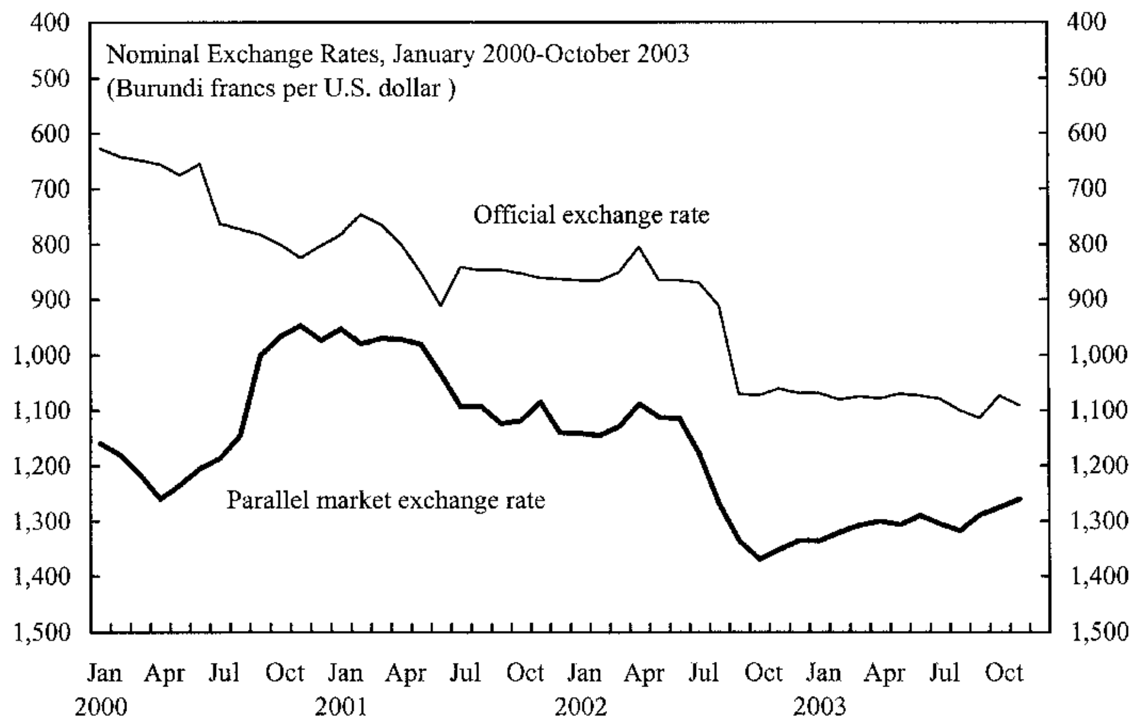


Sources: Burundi authorities; and Fund staff estimates and projections.

1/ Shaded area indicates program projections.

Figure 2. Burundi: Exchange Rate Developments
(Monthly averages)





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

Table 1. Burundi: Projected Payments Obligations to the Fund, 2003-07

(In millions of SDRs, except where indicated otherwise)

	2003		2003	2004				2004	2005	2006	2007	Total
	Through end-Sep.	Oct.-Dec.		Jan.-Mar.	Apr.-June	July-Sep.	Oct.-Dec.					2003-07
Projected payments under existing drawings	0.45	0.15	0.60	19.35	0.00	0.00	0.00	19.32	0.00	0.00	0.00	19.92
Principal	--	--	--	19.30	0.00	0.00	0.00	19.30	0.00	0.00	0.00	19.30
General Resources Account (GRA) repurchases	--	--	--	19.30	0.00	0.00	0.00	19.30	0.00	0.00	0.00	19.30
Interest/charges 1/	0.45	0.15	0.60	0.05	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.62
GRA periodic charges	0.22	0.10	0.32	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.32
Other charges	0.23	0.05	0.28	0.02	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.30
Projected payments under prospective Poverty Reduction and Growth Facility (PRGF) disbursements	--	--	--	0.03	0.03	0.04	0.04	0.17	0.24	0.31	0.35	1.06
Principal	--	--	--	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest/charges 1/	--	--	--	0.03	0.03	0.04	0.04	0.17	0.24	0.31	0.35	1.06
Cumulative projected payments	0.45	0.15	0.60	19.38	0.03	0.04	0.04	19.50	0.24	0.31	0.35	20.99
Principal	--	--	--	19.30	0.00	0.00	0.00	19.30	0.00	0.00	0.00	19.30
GRA repurchases	--	--	--	19.30	0.00	0.00	0.00	19.30	0.00	0.00	0.00	19.30
PRGF repayments	--	--	--	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest/charges 1/	0.45	0.15	0.60	0.08	0.03	0.04	0.04	0.20	0.24	0.31	0.35	1.69
GRA periodic charges	0.22	0.10	0.32	0.03	0.00	0.00	0.00	0.03	0.00	0.00	0.00	0.35
PRGF	--	--	0.00	0.03	0.03	0.04	0.04	0.15	0.24	0.31	0.35	1.05
Other charges	0.23	0.05	0.28	0.02	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.30
Memorandum items:												
Projected PRGF disbursements	--	--	--	26.45	0.00	7.15	0.00	33.60	14.30	14.30	7.15	69.35
Outstanding IMF credit (end of period)	19.25	19.25	19.25	26.40	26.40	33.55	33.55	33.55	47.85	62.15	69.30	...
(in percent of quota)	25.0	25.0	25.0	34.3	34.3	43.6	43.6	43.6	62.1	80.7	90.0	...

Source: IMF, Finance Department.

1/ Before subsidization.

Table 2. Burundi: Selected Economic and Financial Indicators, 2000-06

	2000	2001	2002	2003 Prog.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP growth	-0.9	2.1	4.5	1.1	-1.0	5.1	5.3	4.5
GDP deflator	13.2	5.5	1.7	10.4	11.3	6.7	5.4	5.2
Consumer prices (period average)	24.3	9.3	-1.3	9.9	10.3	6.4	5.2	4.7
Consumer prices (end of period)	14.1	3.9	3.5	7.5	9.0	5.5	4.8	4.5
External sector								
Exports, f.o.b. (in U.S. dollars)	-10.7	-20.2	-20.3	63.1	49.8	-30.1	36.9	2.3
Imports, f.o.b. (in U.S. dollars)	10.8	0.5	-4.2	12.5	22.8	9.9	4.4	5.2
Export volume	5.5	4.9	-19.8	55.7	40.2	-33.8	33.0	-1.0
Import volume	1.7	4.3	-3.4	5.3	11.6	9.1	4.9	4.4
Terms of trade (deterioration -)	-22.2	-21.0	0.1	-1.9	-2.9	4.8	3.4	2.4
Real effective exchange rate (annual average; depreciation -)	4.0	-4.9	-15.1	...	-17.7 1/	...	...	...
Central government								
Revenue	32.9	12.0	7.5	6.0	9.4	9.8	10.8	11.3
Total expenditure and net lending (commitment basis)	7.5	21.3	1.2	28.8	27.4	10.3	7.6	9.3
Noninterest current expenditure	12.1	22.5	0.8	12.9	17.6	3.8	5.5	9.5
	(Change in percent of beginning-of-period M2, unless otherwise indicated)							
Money and credit								
Net foreign assets	1.3	-17.0	9.5	-4.1	17.2	-1.9	1.1	2.8
Domestic credit	15.7	39.1	24.5	36.9	-5.6	20.8	6.8	5.8
Government	-19.2	24.7	-9.9	17.2	-0.1	9.2	-2.5	-2.7
Private sector	35.8	13.2	33.2	15.2	-4.0	15.3	9.6	8.7
Money and quasi money (M2)	1.9	16.3	30.3	14.0	15.7	18.3	11.0	9.9
Income velocity (ratio of GDP to M2; end of period)	5.3	4.9	4.0	4.0	3.8	3.6	3.6	3.6
Central bank refinancing rate (in percent; end of period)	14.0	14.0	15.5	15.5	14.5 2/	...	...	...
Lending rate (in percent; medium term; period average)	15.8	16.8	20.6	19.6	20.7 2/	...	...	...
	(In percent of GDP)							
Central government								
Revenue (excluding grants)	19.2	20.0	20.3	19.4	20.1	19.7	19.7	19.9
Total expenditure and net lending	24.2	27.2	25.9	29.5	30.0	29.5	28.6	28.4
Primary budget balance (excluding foreign-financed projects)	2.2	-0.8	2.2	-1.5	-0.3	0.0	0.6	0.9
Overall balance (commitment basis)								
Excluding grants	-4.9	-7.2	-5.7	-10.1	-9.9	-9.8	-8.9	-8.5
Including grants	-1.8	-5.2	-1.4	-7.3	-5.2	...	...	...
Savings-investment balances								
Current account balance (excluding capital grants)	-10.0	-6.8	-6.5	-8.1	-5.9	-9.3	-10.3	-10.1
Gross investment	6.0	7.5	9.0	11.7	10.1	11.7	12.5	12.6
Public	6.4	5.6	7.4	8.7	8.0	8.7	9.2	9.4
Private	-0.4	1.9	1.6	3.0	2.1	3.0	3.2	3.2
Gross national savings	-4.0	0.7	2.5	3.6	4.2	2.4	2.2	2.5
Public	0.5	-1.5	-0.2	-1.8	-2.2	-1.4	0.1	0.7
Private	-4.5	2.3	2.8	5.3	6.4	3.7	2.1	1.9
	(In millions of U.S. dollars, unless otherwise indicated)							
External sector								
Current account	-70.9	-44.9	-40.7	-48.3	-35.0	-60.1	-70.9	-74.1
Overall balance of payments	-29.0	-41.3	-27.1	-63.2	26.7	-57.1	-60.5	-61.6
Gross official reserves (end of period)	43.3	23.8	60.1	52.9	72.8	87.9	88.8	93.3
Gross official reserves (in months of imports, c.i.f.)	4.1	2.3	5.9	4.6	5.9	6.5	6.3	6.3
Net official reserves (in months of imports, c.i.f.)	2.9	1.6	2.2	3.1	2.9	2.2	2.1	2.3
Debt-service ratio (scheduled; in percent of export and service receipts)	83.1	93.0	157.4	96.8	87.1	193.9	84.6	86.0
Stock of debt	1,099	1,079	1,141	...	1,217	1,177	1,220	1,246
External payments arrears	92.6	148.3	181.1	...	167.5	...	...	...
Memorandum items:								
Exchange rate (Burundi francs per U.S. dollar; average)	720.7	830.4	931	1,074	1,074 2/	...	...	...
GDP at current market prices (in billions of Burundi francs)	511.0	550.0	584.6	647.4	644.2	722.5	801.6	881.2

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

1/ Data through September 2003.
2/ Data through December 15, 2003.

Table 3. Burundi: Central Government Operations, 2001-04

	2001	2002	2003				2004			
			Jan.-June		Jan.-December		Jan.-	Jan.-	Jan.-	Jan.-
			Prog.	Est.	Prog.	Proj.	Mar.	June	Sep.	Dec.
							Program			
	(In billions of Burundi francs)									
Revenue	110.2	118.4	66.4	67.4	125.6	129.6	39.9	73.3	113.6	142.4
Tax revenue	103.1	104.8	54.1	56.4	111.6	115.6	30.3	62.5	99.9	128.6
Income tax	28.5	29.4	13.9	15.4	28.8	31.3	6.6	14.3	20.8	29.1
Taxes on goods and services	48.7	51.9	25.3	27.8	52.0	56.8	15.4	31.2	49.4	63.9
Taxes on international trade	21.7	23.2	14.8	12.9	30.4	27.1	8.2	16.9	29.6	35.4
Other tax revenue	4.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.1
Property tax	0.3	0.3	0.1	0.3	0.3	0.3	0.1	0.1	0.1	0.1
Nontax revenue	7.0	13.6	12.3	11.0	14.0	14.0	9.6	10.8	13.6	13.7
Expenditure and net lending	149.8	151.6	91.1	91.5	191.1	193.2	49.9	96.0	144.8	213.1
Current expenditure	118.6	119.7	67.1	72.6	137.1	144.0	38.1	75.9	111.2	152.2
Salaries	40.1	45.9	27.0	26.9	55.4	54.9	14.8	28.6	42.0	58.4
Civilian	21.6	23.6	15.3	15.0	31.4	30.9	8.2	16.0	23.7	33.1
Military	18.5	22.3	11.7	11.9	24.0	24.0	6.6	12.5	18.4	25.3
Goods and services	44.2	38.6	20.9	24.5	42.8	43.0	13.2	26.0	37.3	45.8
Civilian	18.4	19.2	10.4	11.7	21.3	21.5	6.7	12.8	17.8	23.4
Military	25.7	19.5	10.5	12.7	21.5	21.6	6.5	13.2	19.5	22.4
Transfers and subsidies	15.9	16.4	7.7	8.3	15.8	20.8	4.0	7.6	10.7	19.1
Of which: to coffee sector	...	...	...	...	...	6.0	...	...	...	1.5
Demobilization (DDR) project 1/							...	...	...	...
Interest payments (due)	18.5	18.7	11.5	13.0	23.2	25.3	6.2	13.7	21.2	29.0
Domestic	9.6	7.7	5.7	7.0	11.6	12.7	3.3	7.8	11.0	14.3
Foreign	8.9	11.0	5.8	6.0	11.5	12.5	2.9	5.9	10.1	14.8
Capital expenditure	35.1	33.4	25.2	19.4	56.4	51.6	11.9	20.6	34.8	62.9
Domestic resources 2/	18.5	6.4	11.5	5.6	23.6	15.2	1.7	7.7	15.3	21.0
External resources	16.6	27.0	13.7	13.9	32.8	36.4	10.3	12.9	19.5	41.9
Net lending	-3.9	-1.4	-1.2	-0.5	-2.4	-2.4	-0.2	-0.4	-1.2	-2.0
Overall balance (commitment basis)	-39.6	-33.2	-24.7	-24.2	-65.5	-63.6	-10.0	-22.7	-31.2	-70.7
Of which: primary balance 3/	-4.6	12.6	0.5	2.7	-9.5	-1.9	6.5	3.9	9.4	0.1
Change in arrears (reduction -)	7.7	9.4	-1.2	3.3	-43.6	1.9	-4.5	-37.3	-37.3	-37.3
External (interest)	4.9	6.6	0.0	1.9	-41.2	0.4	0.0	-32.8	-32.8	-32.8
Domestic	2.8	2.8	-1.2	1.4	-2.4	1.5	-4.5	-4.5	-4.5	-4.5
Overall balance (cash basis)	-31.9	-23.8	-25.9	-20.9	-109.0	-61.7	-14.5	-60.0	-68.5	-108.0
Financing (identified)	31.9	23.8	5.3	20.9	-103.2	61.7	-20.2	-129.1	-124.4	-109.9
External	17.9	41.3	-9.7	33.8	-133.4	58.9	-21.7	-134.4	-135.7	-124.9
Program loans	5.3	21.3	0.0	22.4	0.0	22.4	0.0	0.0	0.0	0.0
Program grants	5.4	12.0	2.2	9.0	2.2	20.7	0.0	0.0	0.0	0.0
Project loans	10.7	13.9	6.0	11.0	17.0	26.7	6.4	12.9	19.5	26.1
Project grants	5.9	13.1	7.7	2.9	15.8	9.7	3.8	0.0	0.0	15.7
Amortization (due)	-27.8	-42.8	-25.6	-18.9	-44.7	-35.7	-7.6	-18.5	-26.4	-38.0
Change in amortization arrears	18.5	23.7	0.0	-0.4	-123.6	-14.2	-24.4	-128.7	-128.7	-128.7
Debt relief (resch.; cancellation)	0.0	0.0	0.0	7.7	0.0	29.3	0.0	0.0	0.0	0.0
DDR support 1/							...	...	...	...
Domestic	14.0	-17.5	15.0	-12.9	30.2	2.8	1.5	5.3	11.3	15.0
Banking sector	23.7	-11.0	12.2	-7.5	24.4	0.3	1.5	5.3	11.3	15.0
Nonbank sector	-9.7	-6.5	2.8	-5.3	5.8	2.5	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	20.6	0.0	212.3	0.0	34.7	189.1	192.9	217.9

Table 3. Burundi: Central Government Operations, 2001-04 (concluded)

	2001	2002	2003				2004			
			Jan.-June		Jan.-December		Jan.-Mar.	Jan.-June	Jan.-Sep.	Jan.-Dec.
			Prog.	Est.	Prog.	Proj.	Program			
	(In percent of GDP, unless otherwise indicated)									
Memorandum items:										
Revenue	20.0	20.3	10.3	10.5	19.4	20.1	5.5	10.1	15.7	19.7
Total expenditure and net lending	27.2	25.9	14.1	14.2	29.5	30.0	6.9	13.3	20.0	29.5
Of which: current expenditure	21.6	20.5	10.4	11.3	21.2	22.4	5.3	10.5	15.4	21.1
capital expenditure 2/	6.4	5.7	3.9	3.0	8.7	8.0	1.6	2.8	4.8	8.7
Primary exp. (program definition)	20.9	18.1	10.2	10.0	20.9	20.4	4.6	9.6	14.4	19.7
Military and security expenditure	8.0	7.1	3.4	3.8	7.0	7.1	1.8	3.6	5.2	6.6
Social expenditure	4.3	5.2	...	...	5.3	6.2	...	...	...	7.1
Health	...	0.7	...	...	...	0.7	...	...	...	1.2
Education	...	3.8	...	...	...	4.6	...	...	...	4.9
Other (youth, women, and refugees)	...	0.7	...	...	...	0.9	...	...	...	1.0
Overall balance (commitment basis, excluding grants)	-7.2	-5.7	-3.8	-3.8	-10.1	-9.9	-1.4	-3.1	-4.3	-9.8
Of which: primary balance 3/	-0.8	2.2	0.1	0.4	-1.5	-0.3	0.9	0.5	1.3	0.0
Overall balance (commitment basis, including grants)	-5.2	-1.4	-2.3	-1.9	-7.3	-5.2	-0.9	-3.1	-4.3	-7.6
Overall balance (cash basis)	-5.8	-4.1	-4.0	-3.2	-16.8	-9.6	-2.0	-8.3	-9.5	-15.0
Financing (net)	5.8	4.1	0.8	3.2	-15.9	9.6	-2.8	-17.9	-17.2	-15.2
External	3.3	7.1	-1.5	5.2	-20.6	9.1	-3.0	-18.6	-18.8	-17.3
Domestic	2.5	-3.0	2.3	-2.0	4.7	0.4	0.2	0.7	1.6	2.1
Financing gap	...	...	3.2	0.0	32.8	0.0	4.8	26.2	26.7	30.2
Govt. financing (2002-03 prog. definition)	14.2	-4.9	5.2	-3.5	21.2	-14.7	...	...	...	...
Cash payments on debt service (in billions of Burundi francs)	13.3	23.5	31.4	15.6	221.0	32.8	34.9	185.9	198.1	214.3
GDP at current market prices (in billions of Burundi francs)	550.0	584.6	647.4	644.2	647.4	644.2	722.5	722.5	722.5	722.5
Average exchange rate (Burundi francs per U.S. dollar)	830	931	1,075	1,074	1,074	1,080	...	...	...	...

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

1/ The envisageddisarmament, demobilization, and restructuring (DDR) programs will be of such a large scale that they can only go ahead if external support is secured. Such support is expected in 2004, but it is not yet known how much or for which progr

2/ Includes counterpart funds from earmarked World Bank credits.

3/ Revenue minus noninterest current expenditure, domestically financed capital expenditure, and net lending.

Table 4. Burundi: Monetary Survey and Central Bank Accounts, 2002-04 1/

	2002	2003						2004			
	Dec.	June		September		December		March	June	Sep.	Dec.
		Prog.	Actual	Prog.	Actual	Prog.	Proj.		Program		
						(In billions of Burundi francs)					
Monetary survey											
Net foreign assets	21.1	25.0	49.3	22.2	46.0	19.8	46.8	38.7	42.2	34.7	38.3
Central bank	24.4	20.4	48.5	19.8	41.2	16.8	39.3	32.0	36.5	29.9	34.3
Deposit money banks	-3.3	1.9	0.8	2.4	4.8	3.0	7.5	6.6	5.8	4.9	4.0
Net domestic assets	124.0	125.7	116.6	135.1	121.8	141.5	130.2	144.1	146.2	159.5	161.7
Domestic credit	199.7	208.5	184.7	228.2	191.6	235.2	198.0	202.9	210.0	219.4	226.6
Net claims on the government	40.9	41.5	32.6	47.6	39.8	53.7	34.5	35.9	39.6	45.5	49.2
Central government	41.7	48.5	34.1	54.6	41.6	60.7	42.0	43.5	47.2	53.2	57.0
Other government	-0.8	-6.9	-1.5	-6.9	-1.8	-6.9	-7.5	-7.6	-7.7	-7.7	-7.8
Credit to the economy	158.8	166.9	152.1	180.6	151.8	181.4	163.5	167.0	170.5	174.0	177.4
Claims on public enterprises	5.3	6.2	4.1	6.1	4.1	6.0	4.2	4.2	4.1	4.1	4.0
Claims on private sector	153.5	160.7	148.0	174.4	147.7	175.4	159.3	162.9	166.4	169.9	173.4
Other items, net (assets +)	-75.7	-82.8	-68.2	-93.1	-69.8	-93.7	-67.8	-58.8	-63.8	-59.9	-64.9
Money and quasi money	145.1	150.7	165.9	157.3	167.8	161.3	177.0	182.7	188.5	194.2	200.0
Money	96.3	107.8	110.7	112.6	106.4	114.8	116.5	120.3	124.1	127.9	131.7
Currency in circulation	43.0	46.5	43.3	49.0	41.3	49.0	51.5	53.2	54.8	56.5	58.2
Demand deposits	53.3	61.3	67.4	63.6	65.1	65.8	65.0	67.2	69.3	71.4	73.5
Quasi money	48.8	42.9	55.2	44.7	61.4	46.5	60.4	62.4	64.4	66.3	68.3
Central bank											
Net foreign assets	24.4	20.4	48.5	19.8	41.2	16.8	39.3	32.0	36.5	29.9	34.3
Foreign assets	64.4	61.9	100.6	61.3	84.3	59.2	79.3	84.8	90.2	95.7	101.1
Foreign liabilities	40.0	41.5	52.1	41.6	43.1	42.4	40.0	52.7	53.7	65.8	66.8
Of which: use of Fund resources	14.0	14.1	29.2	28.4	30.0	29.2	29.3	42.0	42.0	55.1	55.1
Net domestic assets	25.4	30.6	4.9	36.8	12.4	40.0	23.4	32.6	30.8	40.0	37.4
Domestic credit	68.9	71.8	44.2	79.8	57.8	85.7	62.9	65.6	68.6	72.0	72.6
Government (net)	32.2	36.9	23.9	45.7	33.0	54.5	32.2	35.9	39.6	43.3	46.9
Central government	33.7	38.7	26.0	47.6	33.0	56.4	34.0	37.8	41.5	45.3	49.0
Other government	-1.5	0.0	-2.1	-1.9	0.0	-1.9	-1.8	-1.9	-1.9	-2.0	-2.1
Nongovernment credit	36.7	34.9	20.3	34.0	24.8	31.2	30.7	29.7	29.0	28.7	25.7
Private sector	1.4	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Commercial banks	26.1	25.5	16.2	25.5	21.0	23.5	23.5	22.5	21.3	20.0	18.0
Nonbank financial institutions	9.2	7.6	2.3	6.8	2.1	6.0	5.5	5.5	6.0	7.0	6.0
Other items, net (including revaluation)	-43.5	-41.2	-39.3	-43.0	-45.5	-45.7	-39.5	-33.0	-37.8	-32.0	-35.2
Reserve money	49.8	53.8	53.4	56.5	53.6	56.8	62.7	64.6	67.2	69.8	71.7
Currency in circulation	43.0	46.5	43.3	49.0	41.3	49.0	51.5	53.2	54.8	56.5	58.2
Commercial bank reserves	6.4	6.9	9.2	7.1	11.6	7.4	10.7	10.8	11.7	12.6	12.7
Other nonbank deposits	0.4	0.4	0.9	0.4	0.7	0.4	0.5	0.6	0.7	0.7	0.8
Program monitoring comparators						(Units as indicated)					
Memorandum items:											
Central bank net foreign assets (US$ millions)											
Current definition (as per IFS classifications)	22.8	...	45.1	...	37.0	...	36.1	29.0	32.6	26.3	29.8
Previous definition (as used in 2002-03 program)	27.3	21.3	49.6	18.1	41.5	15.0	40.6	...	...	...	...
Central bank net domestic assets as defined under 2002-03 program (in Burundi franks billions)	20.5	30.6	0.0	36.8	7.4	40.0	18.5	...	...	...	...
M2 growth (12-month percent change)	30.3	25.9	33.2	19.0	24.4	14.0	22.0	22.6	13.6	15.7	13.0
Credit to the economy (12-month percent change)	31.1	18.0	8.5	13.8	4.4	13.0	15.0	7.1	12.1	14.6	8.5
Reserve money (12-month percent change)	23.2	20.2	19.3	16.4	15.9	14.1	25.9	38.0	26.0	30.3	14.3
Money multiplier (M2/reserve money)	2.9	2.8	3.1	2.8	3.1	2.8	2.8	2.8	2.8	2.8	2.8
Velocity (GDP/M2; period average)	4.7	...	...	...	...	4.3	4.1	...	...	...	3.9
Gross reserves (in months of imports and service debits)	4.9	...	6.0	...	4.9	...	4.7	4.6	4.9	5.1	5.3
Exchange rate (Burundi francs per U.S. dollar)	1,071	...	1,076	...	1,115	...	1,090	1,105	1,120	1,135	1,150

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

1/ Revised data consistent with International Financial Statistics (IFS) classifications. For program-monitoring purposes, the staff will continue calculating the central bank net domestic assets and net foreign assets according to the earlier definitions.

Table 5. Burundi: Balance of Payments, 2000-06

	2000	2001	2002	2003		2004	2005	2006
				Prog.	Prel.	Prog.	Proj.	Proj.
				(In millions of U.S. dollars)				
Current account	-70.9	-44.9	-40.7	-48.3	-35.0	-60.1	-70.9	-74.1
Trade balance	-58.7	-69.2	-72.7	-70.4	-80.8	-107.5	-101.6	-108.3
Exports, f.o.b.	49.1	39.2	31.2	48.7	46.8	32.7	44.8	45.8
Of which: coffee	33.9	19.7	16.7	34.5	31.9	15.3	26.2	25.5
Imports, f.o.b.	-107.8	-108.4	-103.9	-119.1	-127.5	-140.2	-146.4	-154.1
Of which: petroleum products	-18.6	-16.4	-15.9	-18.6	-20.1	-21.3	-20.0	-20.1
Services (net)	-36.7	-31.0	-35.7	-39.4	-52.7	-53.1	-43.2	-45.7
Credits	6.1	6.9	7.7	5.6	5.2	5.8	7.9	8.1
Debits	-42.8	-37.9	-43.3	-45.0	-57.9	-58.9	-51.0	-53.7
Income (net)	-12.8	-12.8	-14.1	-14.2	-15.1	-16.9	-14.7	-14.6
Of which: interest on public debt (including IMF charges)	-11.0	-10.2	-12.1	-11.5	-12.2	-13.8	-11.4	-11.2
Current transfers (net)	37.3	68.1	81.8	75.7	113.5	117.5	88.5	94.5
Private (net)	4.6	6.5	5.5	4.3	8.0	9.0	10.0	11.0
Official (net)	32.7	61.6	76.3	71.4	105.5	108.5	78.5	83.5
Capital account	22.0	13.6	26.2	16.5	28.2	14.0	16.5	18.0
Project grants	22.0	7.1	14.1	14.5	9.0	14.0	16.5	18.0
Program grants	0.0	6.5	12.1	2.0	19.2	0.0	0.0	0.0
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	22.7	-4.0	-13.8	-31.3	29.7	-11.0	-6.1	-5.5
Direct investment	11.7	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Medium- and long-term official loans (net)	9.4	-13.1	-12.0	-25.6	12.5	-10.5	-7.5	-7.0
Disbursements	39.8	15.2	34.6	15.5	45.6	23.3	25.6	28.2
Project loans	8.9	8.8	14.6	15.5	24.7	23.3	25.6	28.2
Program loans	30.9	6.4	20.0	0.0	20.9	0.0	0.0	0.0
Amortization (excluding IMF)	-30.4	-28.3	-46.6	-41.1	-33.1	-33.8	-33.2	-35.1
Rescheduling of debt service and arrears	0.0	0.0	0.0	0.0	27.1	0.0	0.0	0.0
Other capital	1.5	9.1	-1.8	-5.8	-10.0	-0.5	-0.5	-0.6
Errors and omissions	-2.8	-6.0	1.2	0.0	3.8	0.0	0.0	0.0
Overall balance	-29.0	-41.3	-27.1	-63.2	26.7	-57.1	-60.5	-61.6
Financing (- increase in assets)	29.0	41.3	27.1	-136.5	-26.7	-138.9	-2.8	16.1
Change in central bank net foreign reserves (- increase)	4.8	13.2	-5.7	12.0	-13.3	6.2	19.5	16.1
IMF, net	-4.5	-4.4	10.0	13.1	12.5	20.0	20.4	20.5
Other reserves, net	9.3	17.6	-15.7	-1.1	-25.7	-13.7	-0.9	-4.4
Change in arrears (+ increase)	24.2	28.2	32.7	-148.5	-13.4	-145.1	-22.4	0.0
Financing gap	0.0	0.0	0.0	199.7	0.0	196.0	63.3	45.6
				(In percent of GDP, unless otherwise indicated)				
Memorandum items:								
Trade balance	-8.3	-10.4	-11.6	-11.9	-13.5	-16.7	-14.8	-14.7
Current account	-10.0	-6.8	-6.5	-8.1	-5.9	-9.3	-10.3	-10.1
Of which: excluding current official transfers	-14.6	-16.1	-18.6	-20.2	-23.5	-26.1	-21.7	-21.4
Gross official reserves								
In million of U.S. dollars	43.3	23.8	60.1	52.9	72.8	87.9	88.8	93.3
In months of imports, c.i.f.	4.1	2.3	5.9	4.6	5.9	6.5	6.3	6.3
Net reserves (in months of imports, c.i.f.)	2.9	1.6	2.2	3.1	2.9	2.2	2.1	2.3
Debt-service ratio (in percent of exports of goods and services)								
Scheduled debt service (including IMF)	83.1	93.0	157.4	96.7	87.1	193.9	84.6	86.0
Actual debt service (including IMF)	39.2	31.9	73.2	...	...	571.3	127.1	86.0
Nominal GDP (in millions of U.S. dollars)	709.1	662.3	628.1	593.9	596.7	645.0	687.3	736.0

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

Table 6. Burundi: Main Structural Measures and Reforms, 2003–06 [1]

	Area	Partners	Timetable
1.	Demobilization and provision of assistance to war victims		
	Start cantonment of combatants and launch disarmament, demobilization, and reintegration (DDR) program	UA, UN, EU, WB, bilateral	As soon as possible (2003–04)
	Issue an executive order regarding the institutional organization and controls of the national commission to assist war victims (CNRS)	...	August 2003
	Encourage and assist the return of refugees and internally displaced persons	UN, EU, bilateral	2003–04
	Prepare, through the CNRS, an inventory of lands available to receive refugees	EU, bilateral	First half of 2004
2.	Poverty reduction		
	Finalize the interim poverty reduction strategy paper (PRSP), including presentation of a medium-term macroeconomic framework and indications on 2002 developments	UNDP, WB, EU, IMF	November 2003
	Implement the emergency social program	Multilateral and bilateral	2003–04
	Launch studies to assess the resources needed to pursue the Millennium Development Goals (MDGs)	WB, UNDP, EU	2003–04
	Prepare the full PRSP	Multilateral and bilateral	2004
	Conduct studies to analyze poverty and social conditions	WB, EU, UNDP	2004–05
	Raise social expenditure in the government budget	...	In percent of GDP: 5½ in 2003, 6 in 2004, 7 by 2006
3.	Government finance		
	Establish an expenditure-tracking mechanism for poverty reduction	WB	2003
	Establish the audit office	Bilateral	December 2003
	Implement a single taxpayer identification numbering system	IMF	2003–04
	Rationalize the domestic indirect tax system	IMF	From 2004
	Strengthen monitoring of exemptions and reexamine tax and customs aspects of projects, nongovernmental organizations, and operations under the Vienna Convention	...	2003–04
	Reform treasury accounting procedures and produce treasury cash balances (*reddition des comptes*) on a regular basis	IMF, bilateral	2003
	Present an audit report on 2003 government accounts (*Cour des comptes*)	...	By end-2004
	Introduce a value-added tax (VAT)	IMF, bilateral	By January 1, 2005
4.	Money and credit		
	Adjust the central bank interest rate more actively and more frequently	IMF	From end-2003 onward
	Reform monetary policy instruments (introduce indirect mechanisms)	IMF	2003–04
	Strengthen bank supervision (on-site inspections)	...	From 2003 onward
	Restore the creditworthiness of all financial institutions	...	By March 2004
	Adopt stricter criteria with regard to prudential rules (Basel criteria)	...	2003–06
	Strengthen control and monitoring of insurance companies and of the National Social Security Institute (INSS)		2004–06
	Support development of savings and loan cooperatives	WB, bilateral	2004–06

Table 6. Burundi: Main Structural Measures and Reforms, 2003–06 [1]

	Area	Partners	Timetable
5.	Exchange arrangement		
	Simplify regulations for setting up foreign exchange bureaus	...	March 2003
	Abolish all exchange restrictions on current transactions and legitimate debt payments	IMF	September 2003
	Ease procedures for purchasing foreign currency for imports in amounts below US$5,000	...	October 2003
	Lower the foreign exchange surrender requirement on traditional exports (coffee, tea, and cotton) from 70 percent to 50 percent	...	December 2003
	Adopt strict regulations aimed at combating money laundering and the financing of international terrorism	IMF, UN	2004
	Pursue policies aimed at eliminating the exchange rate differential	IMF	2003–04
	Adopt the obligations under Article VIII of the IMF Articles of Agreement	IMF	As soon as possible
6.	Private sector development		
	Simplify the procedures and establish a one-stop office for setting up new enterprises	WB, UNDP	2004–05
	Create a unit to promote micro-and small enterprises	UNIDO	2004
	Strengthen support for private investment project research	UNIDO	2004–06
	Promote export diversification (in particular in the food processing, textile and clothing, and hide and leather industries)	WB, UNIDO, UNDP	2003–06
7.	Trade		
	Develop and implement an integrated framework for international trade promotion	WB, UNCTAD, IMF, WTO, UNDP	2003–06
	Abolish customs duties on goods originating in the COMESA free trade area (COMESA-FTA)	COMESA	January 1, 2004
	Adopt the COMESA common external tariff, thereby lowering import duties	COMESA	January 1, 2005
	Reform the rules of origin and improve transit procedures	COMESA, WTO	2003–04
8.	Tea and coffee sectors		
	Deregulate producer prices for washed (i.e., not fully washed) coffee	EU	From the start of the 2003/04 crop year
	Finalize the strategy for reforming the coffee and tea sectors	WB, EU	Beginning of 2004
	Strengthen financial control and appoint technical assistance advisors at the coffee parastatal (OCIBU)	WB, EU	2003–04
9.	Civil service		
	Conduct a census of civil servants	WB, EU	2003
	Carry out a reform of the civil service (in line with the census results), including adoption of new civil service regulations	WB, EU, UNDP, bilateral	2004–06

Table 6. Burundi: Main Structural Measures and Reforms, 2003–06 [1]

Area	Partners	Timetable
		(Indicative program)
10. Restructuring and privatization of public enterprises		
Strengthen the public enterprise directorate	WB	2003–06
Revise the legislative and regulatory framework governing public enterprise management and privatization	WB	2004
Place the water distribution authority (REGIDESO) under private management	...	2004
Sell part of the capital of the national pharmaceutical office (ONAPHA)	...	2004
Partially privatize the national telecommunications office (ONATEL)	...	2004
Transform the Bujumbura textile company (COTEBU) into a mixed company	...	2006
Set up independent companies to replace the Burundi Tea Board (OTB)	...	2003–04
Partially privatize the Moso sugar company (SOSUMO)	...	2004
Privatize the animal feed company (ALCOVIT)	...	2003
Convert the Burundi Coffee Board (OCIBU) into a regulation agency	...	2004–05
Sell government holdings in the coffee hulling and processing company (SODECO)	...	2004
Sell government shares in the coffee washing station management companies (SOGESTALs)	...	2004
Sell government shares in the Burundi breweries (Brarudi)	...	2004
Sell government shares in the Banque de Crédit de Bujumbura (BCB)	...	2004
Sell government holdings in the insurance and reinsurance company (UCAR)	...	2004
Partially privatize the public real estate company (SIP)	...	2004
Sell government shares in the Bujumbura port operations company (EPB)	...	2004
Sell government shares in the Burundi insurance company (SOCABU)	...	2005
11. Reform of the legal and regulatory framework		
Introduce a new investment code consistent with subregional common market agreements	COMESA, IMF	2004
Issue implementation decree for the labor code	...	2004
Issue implementation decree for the commerce code	...	2004
Submit to the National Assembly draft legislation governing court-ordered bankruptcies and liquidations	WB	2004
Adopt a new statistical law	...	2004

[1] The abbreviations used are as follows: COMESA, Common Market for Eastern and Southern Africa; EU, European Union; IMF, International Monetary Fund; UN, United Nations; UNDP, United Nations Development Program; UNIDO, United Nations Industrial Development Organization; WB, World Bank; and WTO, World Trade Organization.

Table 7. Burundi: External Financing Requirements and Sources, 2000-06

(In millions of U.S. dollars)

	2000	2001	2002	2003		2004	2005	2006
				Prog.	Prel.	Prog.	Proj.	Proj.
External resources (identified)	168.7	153.9	180.5	158.8	232.0	195.5	187.6	199.0
Exports of goods and services	55.2	46.1	38.9	54.3	52.0	38.5	52.7	53.9
Other private services	1.1	1.9	0.9	2.6	2.6	2.7	2.9	3.0
Private transfers (net)	4.6	6.5	5.5	4.3	8.0	9.0	10.0	11.0
Current official transfers (net)	32.7	61.6	76.3	71.4	105.5	108.5	78.5	83.5
Capital official transfers (net)	22.0	13.6	26.2	16.5	28.2	14.0	16.5	18.0
Foreign direct investment	11.7	0.0	0.0	0.0	0.0	0.0	2.0	2.0
Medium-and long-term official loans	39.8	15.2	34.6	15.5	45.6	23.3	25.6	28.2
Other capital	1.5	9.1	-1.8	-5.8	-10.0	-0.5	-0.5	-0.6
Use of resources	-165.9	-148.0	-181.7	-358.5	-235.8	-391.4	-199.8	-190.7
Imports of goods and services	-150.6	-146.3	-147.2	-164.1	-185.5	-199.1	-146.4	-154.1
Other private services	-2.9	-4.5	-2.8	-5.4	-5.5	-5.9	-6.0	-6.3
Debt-service payments (including IMF charges)	-17.1	-10.3	-26.0	-201.1	-31.6	-192.7	-66.9	-46.3
Of which: net accumulation of arrears (+)	24.2	28.2	32.7	-148.5	-13.4	-145.1	-22.4	0.0
Net change in reserves, including IMF (- increase)	4.8	13.2	-5.7	12.0	-13.3	6.2	19.5	16.1
Errors and omissions	-2.8	-6.0	1.2	0.0	3.8	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	199.7	0.0	196.0	63.3	45.6
Program loans and grants	0.0	0.0	0.0	52.3	0.0	79.5	...	...
Debt relief (under existing mechanisms)	0.0	0.0	0.0	97.4	0.0	116.5	...	...
Residual financing need	0.0	0.0	0.0	50.0	0.0	0.0	...	...

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

Table 8. Burundi: External Public Debt, Arrears, and Scheduled Debt Service, 2001-07

	2001	2002	2003		2004	2005	2006	2007
			June	December	Projections			
				Prog.				
	(In millions of U.S. dollars)							
Total medium-and long-term debt outstanding, including principal arrears 1/	1,067.7	1,140.8	1,245.1	1,216.8	1,176.6	1,220.0	1,245.5	1,256.3
Existing medium-and long-term debt outstanding, including principal arrears	1,067.7	1,140.8	1,245.1	1,216.8	1,133.3	1,099.8	1,064.5	1,023.4
Multilateral	893.2	966.6	1,075.9	...	...	...	...	...
Of which: IMF	2.4	13.1	26.9	...	...	...	...	...
Bilateral	155.1	163.2	159.1	...	...	...	...	...
Paris Club	102.3	110.5	106.3	...	...	...	...	...
Non-Paris Club	52.8	52.7	52.8	...	...	...	...	...
Other	19.4	10.9	10.1	...	...	...	...	...
External arrears outstanding	148.3	181.1	182.3	...	...	...	...	...
Multilateral	66.0	76.4	80.2	...	...	...	...	...
Of which: IMF	0.0	0.0	0.0	...	...	...	...	...
Bilateral	81.0	95.4	99.2	...	...	...	...	...
Paris Club	53.5	59.9	62.8	...	...	...	...	...
Non-Paris Club	27.5	35.6	36.3	...	...	...	...	...
Other	1.3	9.3	2.9	...	...	...	...	...
Scheduled debt service 1/								
Interest	10.2	12.1	...	12.2	13.8	11.4	11.2	10.5
Multilateral	7.8	8.7	...	9.7	11.1	8.1	8.2	7.7
Of which: IMF	0.5	0.4	...	0.8	0.3	0.3	0.4	--
Bilateral	2.4	3.4	...	2.5	2.2	3.1	3.0	2.7
Paris Club	2.3	2.3	...	1.6	1.7	2.9	2.8	2.6
Non-Paris Club	0.1	1.1	...	1.0	0.5	0.2	0.2	0.1
Other	0.0	0.0	...	0.0	0.5	0.2	0.0	0.0
Principal	37.8	49.1	...	33.1	60.8	33.2	35.1	41.1
Multilateral	23.5	21.3	...	19.9	50.0	23.0	24.8	34.4
Of which: IMF	4.4	2.5	...	0.0	26.9	0.0	--	6.9
Bilateral	9.2	11.1	...	7.7	7.2	7.0	6.9	6.7
Paris Club	4.4	4.0	...	4.4	4.3	4.2	4.3	4.3
Non-Paris Club	4.8	7.1	...	3.3	2.9	2.8	2.6	2.4
Other	5.1	16.7	...	5.5	3.6	3.1	3.4	0.0
Memorandum items:	(In units indicated)							
Scheduled debt service (in percent of exports of goods and services)	104.2	157.4	...	87.1	193.9	84.6	86.0	90.4
Actual debt service (in percent of exports of goods and services)	14.7	28.5	...	58.8	219.7	66.9	46.3	51.6
External debt outstanding (in percent of GDP)	161.2	181.6	...	203.9	175.7	160.0	144.6	129.9

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

1/ New and existing debt.

Table 9. Burundi: Balance of Payments, Medium-Term Scenario and Sensitivity Analysis, 2003-07

	2003	2004	2005	2006	2007
	Est.	Projections			
	(In millions of U.S. dollars)				
Current account	-35.0	-60.1	-70.9	-74.1	-75.5
Trade balance	-80.8	-107.5	-101.6	-108.3	-114.2
Exports, f.o.b.	46.8	32.7	44.8	45.8	48.5
Of which: coffee	31.9	15.3	26.2	25.5	27.3
Imports, f.o.b.	-127.5	-140.2	-146.4	-154.1	-162.8
Services (net)	-52.7	-53.1	-43.2	-45.7	-48.7
Income (net)	-15.1	-16.9	-14.7	-14.6	-13.1
Current transfers (net)	113.5	117.5	88.5	94.5	100.5
Private (net)	8.0	9.0	10.0	11.0	12.0
Official (net)	105.5	108.5	78.5	83.5	88.5
Current account excluding official transfers	-140.5	-168.6	-149.4	-157.6	-164.0
Capital account	28.2	14.0	16.5	18.0	20.0
Financial account	29.7	-11.0	-6.1	-5.5	-1.8
Errors and omissions	3.8	0.0	0.0	0.0	0.0
Overall balance	26.7	-57.1	-60.5	-61.6	-57.3
Financing (- increase in assets)	-26.7	-138.9	-2.8	16.1	0.3
Financing gap	0.0	196.0	63.3	45.6	57.0
	(In percent of GDP, unless otherwise indicated)				
Memorandum items:					
Trade balance	-13.5	-16.7	-14.8	-14.7	-14.5
Current account (incl. official transfers)	-5.9	-9.3	-10.3	-10.1	-9.6
Current account (excl. official transfers)	-23.5	-26.1	-21.7	-21.4	-20.8
Gross official reserves					
In U.S. dollars	72.8	87.9	88.8	93.3	97.9
In months of imports, c.i.f.	5.9	6.5	6.3	6.3	6.2
Nominal GDP (in U.S. dollars)	596.7	645.0	687.3	736.0	787.8
Real GDP growth rate	-1.0	5.1	5.3	4.5	4.5
Inflation rate (period average; in percent)	10.3	6.4	5.2	4.7	4.3
Sensitivity to coffee prices					
Low coffee prices 1/					
Current account (excl. official transfers)					
In millions of U.S. dollars	-140.5	-172.4	-156.0	-164.0	-170.8
In percent of GDP	-23.5	-26.7	-22.7	-22.3	-21.7
Financing gap (in millions of U.S. dollars)	0.0	199.8	69.9	51.9	63.8
In percent of GDP	0.0	31.0	10.2	7.1	8.1
High coffee prices 2/					
Current account (excl. official transfers)					
In millions of U.S. dollars	-140.5	-166.2	-145.3	-153.6	-159.8
In percent of GDP	-23.5	-25.8	-21.1	-20.9	-20.3
Financing gap (in millions of U.S. dollars)	0.0	193.6	59.2	41.6	52.8
In percent of GDP	0.0	30.0	8.6	5.6	6.7

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

1/ Prices are assumed to be 75 percent of the World Economic Outlook (WEO) baseline projection.

2/ Prices are assumed to be 125 percent of the WEO projection baseline projection.

Table 10. Burundi: Indicators of Fund Credit, 2003-07 1/
(In millions of SDRs, unless otherwise indicated)

	2003		2004	2005	2006	2007
	Sep.	Dec. Prog.	Projections			
Fund credit outstanding (end of period) 1/						
In millions of SDRs	19.3	19.3	33.6	47.9	62.2	69.3
In millions of U.S. dollars	26.8	26.2	47.9	68.5	89.1	99.5
In percent of quota	25.0	25.0	43.6	62.1	80.7	90.0
Fund obligations	0.4	0.2	19.5	0.2	0.3	0.3
Fund total charges and interests	0.4	0.2	0.2	0.2	0.3	0.3
Existing drawings	0.4	0.2	0.0	0.0	0.0	0.0
Prospective drawings 2/	0.0	0.0	0.2	0.2	0.3	0.3
Fund total repayments/repurchases	0.0	0.0	19.3	0.0	0.0	0.0
Existing drawings	0.0	0.0	19.3	0.0	0.0	0.0
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0
Fund credit outstanding in percent of:						
Exports of goods and nonfactor services	68.6	50.3	124.7	130.0	165.5	174.4
Gross official reserves	44.5	36.0	54.5	77.1	95.6	101.6
Fund obligations in percent of:						
Exports of goods and nonfactor services	1.1	0.3	50.7	0.5	0.6	0.6
Gross international reserves	0.7	0.2	22.2	0.3	0.3	0.4
Memorandum items:						
Exports of goods and nonfactor services (in millions of U.S. dollars)	39.0	52.0	38.5	52.7	53.9	57.1
Gross official reserves (in millions of U.S. dollars)	60.1	72.8	87.9	88.8	93.3	97.9

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

1/ Includes the prospective disbursements under the Poverty Reduction and Growth Facility arrangement for a total of SDR 69.3m (90 percent o the repurchase of the outstanding General Resources Account drawings under the emergency post-conflict assistance.
2/ Before the subsidization of charges.

Bujumbura,
December 31, 2003

NREF: 540/2203/03

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

Dear Mr. Köhler,

1. Burundi has made substantial progress in the implementation of its program, which was supported by two drawings under the Fund's post-conflict emergency assistance policy, in October 2002 and May 2003. Our medium-term strategy for 2004–06 is described in the attached memorandum of economic and financial policies (MEFP). The objectives and policies in the MEFP are drawn in large part from the government's interim poverty reduction strategy paper (I-PRSP—*Cadre stratégique intérimaire de croissance économique et de lutte contre la pauvreté*), which was separately sent to you and the President of the World Bank on November 7, 2003. In support of this program, we are requesting a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in the amount of SDR 69.3 million (90 percent of quota). Of this total, an amount equivalent to 25 percent of quota would be used to repay outstanding drawings under the post-conflict emergency assistance policy.

2. The government will provide the Fund with all information necessary to monitor developments and achieve the objectives of the PRGF-supported program in a timely manner. It will conduct the first review of the three-year PRGF arrangement with the Fund no later than September 30, 2004.

3. The government believes that the economic and financial policies set forth in the attached memorandum are adequate to achieve the objectives of the program, but it will take any further measures that may become appropriate for this purpose. Burundi will consult with the Fund on the adoption of these measures in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

4. We are keen on making the contents of this letter and those of the attached MEFP and technical memorandum of understanding (TMU), as well as the staff report on the request for the three-year PRGF arrangement, available to the public and hereby authorize their posting on the Fund's website subsequent to Executive Board consideration.

Sincerely yours,

/ s /	/ s /
Athanase Gahungu Minister of Finance	Salvator Toyi Governor, Bank of the Republic of Burundi

Annexes: Memorandum of economic and financial policies for 2004
Technical memorandum of understanding

Memorandum of Economic and Financial Policies of the Government of Burundi for 2004

I. Introduction

1. This memorandum summarizes recent developments, outlines the government's medium-term objectives and policy framework, and sets out the economic and financial policies under the 2004 program for which the government is requesting Fund support under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The policies and objectives of the program are drawn in large part from the interim poverty reduction strategy paper (I-PRSP), consistent with the orientations laid out under the Peace and Reconciliation Agreement concluded in Arusha (Tanzania) in August 2000.

II. Background

A. Political Transition and the Peace Process

2. As envisaged under the Arusha agreement, there have been further advances with the political transition and the peace process during the last few months. In particular, a peace agreement was signed with most rebel forces in late 2002, and the midterm presidential rotation took place as scheduled on April 30, 2003. An African peacekeeping force and military observers have been deployed throughout the country under a mandate from the African Union, and cantonment centers have been set up as part of the launch of the disarmament, demobilization, and reintegration (DDR) of combatants. In spite of the refusal so far of one extremist rebel faction to enter into negotiations, the government continues to hope that a global settlement can be reached soon and that the transition period will conclude as scheduled in October 2004, following the organization of national elections.

3. The government has begun addressing the plight of refugees and internally displaced persons, who number nearly 1 million (including an estimated 550,000 refugees in Tanzania). To step up action and improve coordination in this area, a national commission to assist war victims (CNRS—*Commission Nationale de Réhabilitation des Sinistrés*) was set up in February 2003, and it has already started its work. The CNRS will be an important instrument to support national reconciliation, notably by promoting the return of displaced populations and refugees, and it should serve as a vehicle to channel donor support.

B. Recent Economic Developments

4. Reflecting improved security conditions in various parts of the country and favorable weather, real economic growth reached an estimated 4½ percent in 2002. However, poor rainfalls early this year compromised agricultural output, and, despite a continued recovery in the secondary and tertiary sectors, it is estimated that real GDP has fallen by 1 percent in 2003. Inflation has been deeply influenced by volatile food prices, which caused the 12-month rate to increase slightly in 2002 (to 3½ percent in December) and to rise again in 2003 (to 8 percent as of September). Underscoring an improvement in the external position

in 2002–03, the Bank of the Republic of Burundi (BRB) strengthened its net international reserves from the equivalent of 2 weeks of import cover in June 2002 to 3½ months in September 2003 (although only two-thirds of the total was readily usable, as the timing of disbursements must be agreed upon with donors).

5. The financial program is broadly on track, reflecting the maintenance of a prudent fiscal stance during 2002–03 and support from the donor community. Government revenue collection is expected to reach 20 percent of GDP in 2003, or about the same level as in 2002. Progress has been recorded with the administration of domestic taxes, following the setting up of a large taxpayers' unit at the tax directorate, effective January 1, 2003. The impact of the lowering of customs duties for goods originating from other countries in the Common Market for Eastern and Southern Africa (COMESA) has been limited. Meanwhile, control over expenditure has been tight, thanks in part to the setting of monthly ceilings on departments' commitments. In addition, the wage bill has been somewhat below the initial allocation as a result of controls on the civil service roster. The primary budget deficit (excluding foreign-financed projects) is projected at 0.3 percent of GDP in 2003, which represents an improvement of 1 percentage point relative to the original budget; this compares with a surplus of 2 percent of GDP in 2002. The small deficit in 2003 reflects in part spending out of the World Bank's Economic Rehabilitation Credit (ERC).

6. Monetary developments have reflected the tightening of liquidity conditions since late 2002. At end-September 2003, broad money growth had slowed to 24½ percent, compared with 30 percent at end-December 2002. The growth of domestic credit also slowed, mainly as a result of a contraction in loans extended to the coffee sector (the harvest in 2003/04 is much smaller than in 2002/03). The improved foreign reserve position was the result of large aid disbursements, including the second tranche of the ERC, as well as substantial export receipts from the 2002/03 coffee crop. In view of the recent slowdown in inflation and improved overall conditions, the BRB lowered its base refinancing rate by 1 percentage point to 14.5 percent in early December 2003. As a result of delays in the provision of the required technical assistance, the central bank has not yet been in a position to switch to indirect instruments of monetary control, as planned under the program.

7. The exchange rate differential between the official and parallel markets has declined from 30 percent in mid-2002 to less than 15 percent (in foreign currency terms) in recent months. The measures implemented so far by the BRB to improve the functioning of the foreign exchange auction market—including the adoption of a modified Dutch auction system, the lowering of the surrender requirement on traditional exports (coffee, tea, and cotton), and the lifting of restrictions on the payment of dividends—have not been sufficient to narrow the differential further. Additional measures have been implemented recently in this area (see para. 28 below). The government believes that the current level of the exchange rate is broadly appropriate, provided that coffee prices remain at least at their current level (about US$0.65 per pound) on the international market and that the differential continues to narrow.

8. Reflecting concerns over the availability of foreign exchange for import payments, the government was not able to effect in full its nonreschedulable debt-service payments during the first half of 2003. Nevertheless, payments have recently increased, reflecting in particular the activation of the World Bank-managed trust fund for multilateral debts. In particular, the debt service due to the African Development Bank in 2003 has been paid in full. The resumption of payments to all multilateral creditors is an essential prerequisite for the normalization of relations with those creditors—which in due time should open the way for new project and program aid.

9. The implementation of structural reforms has continued to focus on setting up the transition institutions envisaged under the Arusha agreement. Accordingly, the CNRS was established in early 2003 and a law to set up an auditing court of public accounts (*Cour des Comptes*) was approved by Parliament in November. Other important actions included the completion of the census of civil service employees in June 2003, preparations for a new civil service statute, and the privatization of two state enterprises.

10. As planned under the program, albeit with some delay, the government set in June 2003 the producer prices for fully washed coffee for the 2003/04 crop year. However, no formal price mechanism was adopted, pending the finalization of a comprehensive strategy to reform the sector (see below, para. 33). The deficit of the coffee sector in 2002/03 turned out substantially larger than earlier projected (FBu 6 billion, compared with an allocation of FBu 1.5 billion in the 2003 revised budget law), mainly reflecting persistently weak prices on the international market and a sizable qualitative discount for Burundi coffee.

11. The performance under the program supported by the Fund's post-conflict emergency assistance policy is summarized in Table 1 of this annex. All quantitative indicators at end-March, end-June, and end-September 2003 were met. The structural indicator relating to the price mechanism for the producer price of coffee was not implemented, and the indicator relating to the changes in the BRB's monetary policy operations could not be met because of delays in the provision of the required technical assistance.

III. Medium-Term Framework and Policies

12. The main orientation of the government's medium-term policies are drawn from the principles laid out in the Arusha agreement of August 2000 and the priorities set in the I-PRSP. The latter was issued in April 2002 and subsequently revised in November 2003. The I-PRSP, which underscores the launching of an unprecedented medium-term effort to fight poverty in Burundi, was prepared in the context of extensive consultations with private and public stakeholders and supported by the donor community. Such a broad participatory process, including with the civil society, and the consensus on its importance to address difficult social issues make the I-PRSP an invaluable instrument for promoting national unity and economic development.

A. Main Objectives and Medium-Term Strategy

13. In order to reduce poverty substantially over the medium to long run, it is essential to promote strong, lasting, diversified, and equitable economic growth. To this end, the I-PRSP is articulated around the following themes: (a) promoting peace and good governance; (b) reforming the macroeconomic framework and promoting high-quality economic growth; (c) developing human capital; (d) reintegrating and resettling conflict victims and disadvantaged groups into the economy; (e) combating HIV/AIDS and sexually transmitted diseases; and (f) advancing the role of women in development.

14. The growth and social objectives pursued under the I-PRSP are underpinned by a comprehensive macroeconomic framework that aims at improving key indicators over the medium term. In particular, the government intends to (a) increase real growth to about 5 percent per year; (b) raise public spending on the social sectors from 6 percent of GDP in 2003 to 7 percent in 2004 and 10 percent by 2006; (c) lower inflation to about 4–5 percent annually; (d) maintain gross official foreign reserves at six months of imports of goods and services; (e) limit the deficit of the external current account to levels that can be financed by grants and loans on highly concessional terms; and (f) reduce the debt stock and debt-servicing ratios substantially.

B. Sources of Economic Growth

15. The progress of the peace process should result in substantial improvement in the overall conditions for economic growth. The government has identified several sources for growth in the short and medium run, which will be exploited as far as possible as part of the poverty reduction strategy. In the short run, the government will foremost endeavor to increase productivity in the agriculture sector, which still accounts for about 50 percent of GDP in 2002–03. This aim is related to the broader objective of developing the rural economy. Strong potential also exist in the mining sector, services, and tourism. In the medium and long run, modernizing and diversifying exports, as well as developing manufacturing and other activities in the small and medium-sized enterprise sector, are important potential sources of growth.

C. Poverty Reduction Policies

16. The above-mentioned objectives are underscored by the many specific aspirations expressed by the Burundi population during the I-PRSP consultations. In particular, these include: (a) increasing employment; (b) improving agricultural productivity and reducing pressure on land use; (c) diversifying the economy; (d) reducing dependency on foreign aid; (e) containing the HIV/AIDS pandemic; (f) advancing the role of women in society; (g) resolving all conflict-related issues, which implies notably the reintegration of refugees and the resettlement of internally displaced persons; and (h) promoting peace, security, and good governance.

17. The I-PRSP emphasizes transparency and accountability in the management of public affairs, as well as greater decentralization in decision making. Accordingly, structural

measures will cover the institutional reforms necessary to achieve those objectives, including the setting up of an auditing court to review public sector accounts. Other structural reforms will focus on the diversification of Burundi's production and export resource base away from the distressed coffee sector—a move that will be essential for sustained growth. Improving the performance of Burundi's parastatal sector will entail privatizing public enterprises and implementing more efficient management and cost recovery mechanisms.

18. Determined support from the international community in the provision of humanitarian and financial aid will be crucial to achieve the objectives of the I-PRSP. Considering the high ratio of the net present value of external debt to export earnings (about 700 percent at end-2002), the government expects to secure debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative), which will help increase the resources available for implementing the antipoverty programs contained in the I-PRSP. The government also hopes that progress in the PRSP process and successful implementation of the PRGF-supported program will serve as catalysts for foreign assistance on a large scale.

IV. The 2004 Program

A. Macroeconomic Objectives

19. The strategy for 2004 builds on achievements to date under the post-conflict program. It focuses on the implementation of the I-PRSP to consolidate progress with the peace process and macroeconomic stabilization. The immediate challenge is to ensure appropriate conditions for a strong resumption of real economic growth in 2004 and thus make up for the contraction expected in 2003 owing to the poor weather. With the expectation of a return to normal agricultural production next year, the government projects real economic growth of 5 percent in 2004 and will aim at lowering the 12-month rate of inflation to 5½ percent by year's end.

20. The short-term outlook remains dependent on the ongoing regional and domestic political tensions, which impose caution in projecting economic growth for the years ahead. However, as the situation normalizes and peace takes hold fully throughout the country, enabling refugees and internally displaced persons to return to productive activity, the potential for output growth is high, as Burundi's GDP remains some 30 percent below its pre-conflict level. In addition, an eventual recovery in world coffee prices could significantly improve domestic production and incomes well in excess of current projections.

21. The external current account deficit is projected to hover at 9-10 percent of GDP in 2004 and beyond, mainly reflecting the large needs for reconstruction and development. The government will aim at raising its savings gradually, although the scope for such improvement will remain limited. In particular, the primary budget balance (excluding foreign-financed projects) is to remain about nil in 2004. With the expected increase in external aid disbursements, mainly for project implementation, the government deficit, on a

commitment basis and excluding grants, is projected to remain on the order of 10 percent of GDP in 2004. Private sector savings are projected conservatively at 3–4 percent of GDP in 2004, assuming a substantial improvement in the terms of trade.

B. Fiscal Policy

22. The fiscal program for 2004 aims to provide for essential outlays for the consolidation of peace and improved social conditions, while maintaining the cautious fiscal stance of the last two years. This implies striving for overall deficits that can be financed with available concessional assistance and a primary budget close to balance in 2004. The priority attached to social spending will require continued control over the government wage bill and other current expenditures, including subsidies and transfers.

23. The fiscal objectives under the program are reflected in the budget law for 2004 which is expected to be approved by Parliament in December 2003 (a prior action under the program). The current projections do not take into account the costs of DDR operations that will be launched shortly. Financing for such operations is expected to be provided through donor assistance, including the World Bank-managed Multi-Country Demobilization and Reintegration Program.

24. At about 20 percent, the ratio of government revenue to GDP is high by regional standards. The government is working to rationalize the tax system, with technical assistance from the Fund and bilateral sources, especially to improve the efficiency of revenue collection and strengthen control over exemptions. The top rate for corporate and personal income tax has been lowered from 40 percent to 35 percent in the context of the 2004 budget. In addition, the transactions tax will be gradually extended to cover all domestically produced goods and services from January 1, 2004 onward. These endeavors will lead to a widening of the tax base and are expected to make up for a small loss of revenue in 2004 from the inception of the COMESA free trade area. The government intends to introduce a value-added tax system in 2005, at the same time it adopts the common external tariff of COMESA, which will lower the tariff rates and rationalize the structure of customs duties.

25. Noninterest expenditure is projected to increase by about 8 percent in 2004, compared with 24 percent in 2003. The government's wage bill is set to increase by 6½ percent in 2004, compared with 20 percent in 2003 (this latter reflects the hiring of new teachers and the granting of long-delayed seniority raises). To underscore its commitment to a prudent wage policy, the government has set quarterly ceilings on the wage bill, which will be a quantitative indicator under the PRGF-supported program. In the short run, the costs associated with the constitution of a unified national army will limit the extent of reductions in military outlays from the winding down of hostilities.

26. Capital expenditure will continue to be financed mostly from external aid disbursements. The public investment program continues to place priority on labor-intensive projects to rehabilitate and rebuild the social and economic infrastructure, and emphasizes rural development and poverty alleviation. Aggregate poverty-related expenditure (as defined

in the I-PRSP) is set to increase from 38 percent of primary expenditure in the 2003 revised budget to 44 percent in 2004. The latter amount does not take into account possible debt relief under the enhanced HIPC Initiative, from which the government hopes to benefit by early 2005.

27. As a preamble to the normalization of relations with external creditors, the government has stepped up payments on multilateral debt service. Throughout the program period, it will settle all nonreschedulable debt service due in a timely manner. To this end, the ceiling on the stock of external debt payments arrears will be a performance criterion under the PRGF-supported program.

C. Exchange Rate and Monetary Policies

28. The government gives a high priority to eliminating the persistent exchange rate differential between the official and parallel markets, which constitutes a serious obstacle to an efficient allocation of foreign exchange. In the short run, the BRB will intensify its efforts to improve the functioning of the foreign exchange system. To this end, measures have been implemented since March 2003 to facilitate the opening of foreign exchange bureaus, and all remaining restrictions on current account transactions have been eliminated effective September 8, 2003 (a prior action under the program). As a result, there only remain reasonable limits on allowances for education, travel, and health care, which are waived in justified cases. In addition, the BRB has simplified procedures for the acquisition of foreign exchange for small-scale imports, which should help promote reexport trade.

29. The BRB is committed to a floating exchange rate system, which should allow for movement in the exchange rate in line with developments in the supply and demand for foreign exchange. Nevertheless, it will continue taking a proactive approach in its management of the foreign exchange auction market by refusing excessively low bids that could suggest the possibility of collusion among commercial banks. To facilitate the operations of commercial banks, the foreign exchange surrender requirements on traditional exports will be lowered further from 70 percent to 50 percent by end-December 2003.

30. The BRB plans to maintain a tight monetary stance to support the low inflation objective. The main instrument for achieving this aim is the targeting of reserve money growth through the imposition of refinance ceilings (moreover, coffee crop credits no longer benefit from a preferential interest rate). By June 2004, subject to the provision of timely technical assistance, the BRB will introduce indirect instruments of monetary control, which would provide more flexibility and improve monetary policy response (a performance criterion). In the meantime, the refinancing interest rate will be adjusted periodically in line with changes in the trend for the underlying rate of inflation, and the BRB will continue enforcing strictly its refinance ceilings through the imposition of penalties on overdrafts. In addition, the system of mandatory reserve requirements has already been modified to allow banks to maintain reserves in the form of deposits with the BRB (rather than exclusively in cash, as in the past).

31. Burundi's financial sector remains generally sound, and most banks meet the prudential requirements in terms of liquidity, solvency, and the term structure of assets and liabilities. However, following the tightening of provisioning requirements in March 2003, two commercial banks have seen their capital seriously eroded and need to be recapitalized urgently. The BRB has taken appropriate measures so that these banks meet all prudential requirements by March 2004 at the latest (a structural indicator regarding the minimum capital). Continued efforts will be made to strengthen bank supervision, and the existing prudential requirements will be tightened gradually to meet international standards.

D. Structural Reforms

32. The government will endeavor to step up implementation of its structural reform agenda, especially with a view to fostering an enabling environment for private sector activity. The program laid out in the I-PRSP and discussed in detail with Fund staff provides for a series of measures to improve governance, including the setting up of an auditing court by March 2004 (a structural performance criterion), facilitate private sector development, and strengthen the monitoring and accounting of public finances. The government also expects to initiate a reform of the civil service in 2004, accelerate the privatization of public enterprises, and submit to Parliament a draft law on bankruptcy. Most of the structural reforms will be monitored with the help of World Bank staff as part of its Transitional Support Strategy.

33. A comprehensive strategy to address the weaknesses of the coffee sector is being developed with the support of the World Bank and the European Union. While several options are being considered, the main orientation is to liberalize the sector and in due course to transform the coffee parastatal (OCIBU) into a regulatory agency and privatize processing plants. The main measures with respect to the liberalization of the coffee and tea sectors will be a topic for discussion with Fund staff in the context of the first review under the PRGF arrangement. In the meantime, in view of the difficulties faced by this sector, the government is committed to taking appropriate measures to improve its financial situation. To this end, an auditing team from the Ministry of Finance (*Inspection générale des finances*) has been dispatched to assess the operations account of the sector. Moreover, the government has requested technical assistance from the World Bank in order to benefit from long- term accounting and financial expertise.

E. Program Financing and External Debt Management

34. On the basis of program projections for 2004, gross external financing needs are estimated at US$391 million, while available resources are US$196 million. The uses of resources take into account the clearance of external arrears for an amount estimated at US$145 million. Thus, there remains a financing gap of US$196 million (30 percent of GDP) in 2004. This external financing requirement is expected to be covered as follows: US$117 million in debt relief from official creditors, which the government expects to secure on standard concessional terms; and US$80 million in program grants and loans already

committed from bilateral and multilateral donors (including the European Union, the World Bank, Belgium, and France, as well as the trust fund for multilateral debts managed by the World Bank).

35. Closing the financing gap requires substantial efforts on the part of the government and the BRB to mobilize the resources needed to meet essential debt-servicing obligations. The government expects that adequate arrangements will be found rapidly with all creditors, including the African Development Bank, to secure new program aid disbursements that would result in positive net transfers from 2004 onward, especially considering Burundi's post-conflict situation. It is expected that Burundi will be in a position to meet its essential debt-service payments, provided that the trust fund for multilateral debts is well funded and that projected balance of payments support is secured in a timely manner.

36. The government is determined to pursue prudent debt-management policies and to strive to reach a sustainable external debt position. Given the heavy external debt burden and the contraction in export earnings since the late 1990s, Burundi intends to seek debt relief under the enhanced HIPC Initiative as early as conditions permit.

F. Safeguards, Statistical Issues, and Technical Assistance

37. The BRB is committed to maintaining its financial soundness, along the principles of good governance and best practice as encapsulated in the Fund's safeguards guidelines. In this regard, the BRB will provide the Fund with all the required documentation for the PRGF arrangement. In addition, it will strengthen its existing financial supervision apparatus to fight money laundering and the financing of international terrorist organizations.

38. 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. These include, in particular, tax administration, civil service reform, monetary and exchange rate policy, and bank supervision. Assistance will also continue to be needed to improve economic statistics, notably as regards the national accounts, balance of payments, and social indicators. The BRB has begun implementing some of the recommendations of the November 2002 Fund technical assistance mission on liquidity management and foreign exchange operations. However, further substantial technical assistance will be essential for implementing the planned monetary policy reforms.

V. Prior Actions, Program Monitoring, and Contingencies

39. The prior actions, performance criteria, and structural benchmarks under the 2004 program are presented in Table 2 of this annex. Table 3 summarizes the quantitative performance indicators for program-monitoring purposes. The definitions of these performance indicators are provided in the attached technical memorandum of understanding. The standard clauses on overdue financial obligations to the Fund, new

exchange restrictions, multiple currency practices, bilateral agreements inconsistent with Article VIII of the Fund's Articles of Agreement, and import restrictions for balance of payments purposes are also applicable as performance criteria.

40. Burundi's three-year program is ambitious and faces numerous challenges. To provide for contingencies, the monitoring framework includes an adjustment mechanism (described in detail in the technical memorandum of understanding, para. 17) relating to deviations in nonproject external assistance from program projections. In addition, the government stands ready to adopt new measures in the fiscal or monetary areas, in consultation with Fund staff, were this to prove necessary.

41. The government is aware that the first review under the PRGF arrangement scheduled to be completed by September 2004 would be conditional upon the observance of performance criteria at end-June 2004 (Table 4 of this annex). The review would focus on fiscal and exchange rate developments, and on the definition of reform programs for the coffee and tea sectors. Drawing on such programs, structural conditionality may be set at the time of the review.

Table 1. Burundi: Quantitative and Structural Indicators Under the 2002–03 Post-Conflict Program

	2002	2003									
	Dec.	March			June			September			December
	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Act.	Prog.	Adj.	Est.	Prog. 1/
Quantitative indicators											
Ceiling on central government financing, including program assistance (cumulative from beginning of calendar year) 2/	-4.9	-4.1	...	-10.3	8.6	...	-3.5	14.2	...	-5.1	21.2
Ceiling on stock of net domestic assets of the central bank 2/											
2002-03 Program definition (EBS/03/50; 4/14/03)	20.5	24.0	24.0	15.5	30.6	27.0	0.0	36.8	38.0	7.4	40.0
New program definition (consistent with *IFS* classification)	25.4	...	...	20.4	...	...	4.9	...	...	12.4	...
Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars)	181.1	...	...	179.0	...	...	182.3	0.0	...	186.6	0.0
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
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/	0.7	1.0	...	0.0	1.0	...	0.0	1.0	...	0.0	1.0
Floor on the stock of net foreign assets of the central bank (in millions of U.S. dollars; including IMF drawings) 2/											
2002-03 program definition (EBS/03/50; 4/14/03)	27.3	24.4	24.4	28.7	21.3	25.2	49.6	18.1	16.8	41.5	15.0
New program definition (consistent with *IFS* classification)	22.8	...	...	24.2	...	...	45.1	...	...	37.0	...
Memorandum items for adjuster calculations:											
External nonproject financial assistance (cumulative from beginning of calendar year; in millions of U.S. dollars) 6/	34.6	2.1	...	2.1	24.1	...	29.3	32.3	...	30.5	199.6
Quarterly average exchange rate (Bur. francs per U.S. dollar)	1,067	...	...	1,074	...	...	1,073	...	...	1,091	...

Structural indicators	Timetable	Status
Holding of regular weekly foreign exchange auctions at the Bank of the Republic of Burundi (BRB)	From September 2002 onward	Implemented
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	Not implemented
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	Not implemented

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 75 percent 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, Structural Performance Criteria, and Structural Benchmarks Under the 2004 Program

Measures	Timetable (End-month deadline)	Status
Prior actions		
• Elimination of all remaining exchange restrictions on current account transactions and bona fide amortization payments	September 2003	Implemented[1]
• Adoption by Parliament of a budget law for 2004 in line with program objectives	December 2003	
Structural performance criteria		
• Establishment of new auditing court (*Cour des comptes*)	March 2004	
• 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 only in the form of deposits with the BRB	June 2004	
Structural benchmarks		
• Extension of the transactions tax to domestically produced goods and services	January 2004	
• Assessment that all banks in operation meet the minimum capital requirement	March 2004	

[1] The circular issued by the Bank of the Republic of Burundi (BRB) on October 8, 2003 lifted all restrictions on current account transactions and legitimate amortization payments. The system of a priori controls was discontinued in November 2003.

Table 3. Burundi: Quantitative Performance Criteria and Indicators Under the 2004 Program

	2003	2004			
	Dec.	Mar.	June	Sep. 1/	Dec. 1/
		Program			
Performance criteria for end-June 2004 (indicative targets otherwise)					
Floor on the stock of net foreign assets of the central bank (in millions of U.S. dollars; including IMF assistance drawings) 2/	36.1	29.0	32.6	26.3	29.8
Ceiling on stock of net domestic assets of the central bank 2/	23.4	32.6	30.8	40.0	37.4
Ceiling on the stock of net credit from the banking system to the government 2/	34.5	35.9	39.6	45.5	49.2
Ceiling on central government's outstanding external payments arrears (in millions of U.S. dollars)	167.5	145.3	59.0	22.4 3/	22.4 3/
Ceiling on central government's outstanding stock of short-term 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
Ceiling on new nonconcessional external debt contracted or guaranteed by the central government or the central bank (cumulative from beginning of calendar year; in millions of U.S. dollars) 5/ 6/	0.0	0.5	0.5	1.0	1.0
Indicative targets					
Floor on the primary balance of the government budget, excluding externally financed projects (cumulative from beginning of calendar year) 2/	-1.9	6.5	3.9	9.4	0.1
Ceiling on the government's wage bill (cumulative from beginning of calendar year)	54.9	14.8	28.6	43.5	58.4
Memorandum items for adjuster calculations:					
External nonproject financial assistance (cumulative from beginning of calendar year; in millions of U.S. dollars) 7/	40.1	36.2	72.0	72.0	79.5
Quarterly average exchange rate (Burundi francs per U.S. dollar)	...	...	...	...	...

1/ Tentative projections to be revised in the context of next program review.
2/ The ceiling or the floor was or will be adjusted to accommodate 75 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the memorandum item. In case of, respectively, a financing excess (shortfall), the floors on the stock of net foreign assets of the central bank and on the primary balance of the government budget will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward). External financing will be converted in terms of Burundi francs on a quarterly basis, using the average official exchange rate.
3/ Projection corresponds to outstanding arrears to the African Development Bank Group (AfDB) that have been deferred in line with understandings reached with AfDB staff in June 2003.
4/ Excluding short-term, import-related trade credits.
5/ With a grant element of less than 35 percent.
6/ A small nominal amount is allowed under the program on account of working credits from embassy suppliers that at times may show positive net values.
7/ Nonproject assistance includes debt relief on current maturities.

Table 4. Burundi: Schedule of PRGF Disbursements and Reviews, 2004–07

Date	Disbursement (In millions of SDRs)	Conditions
Executive Board consideration, January 2004	26.40 [1]	Executive Board approval
September 2004	7.15	Completion of first review, based on observance of performance criteria at end-June 2004
March 2005	7.15	Completion of second review, based on observance of performance criteria at end-December 2004
September 2005	7.15	Completion of third review, based on observance of performance criteria at end-June 2005
March 2006	7.15	Completion of fourth review, based on observance of performance criteria at end-December 2005
September 2006	7.15	Completion of fifth review, based on observance of performance criteria at end-June 2006
March 2007	7.15	Completion of sixth review, based on observance of performance criteria at end-December 2006

[1] Of which SDR 19.25 million for the early repayment of outstanding drawings under the post-conflict emergency assistance policy.

BURUNDI

Technical Memorandum of Understanding

December 31, 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 (i) the prior actions and structural performance criteria and indicators; (ii) the quantitative performance criteria and indicative targets and the applicable adjuster; and (iii) the key assumptions used in formulating the economic program for 2004 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi annexed to the letter of December 31, 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 criteria and indicators.

A. Prior Actions, Structural Performance Criteria, and Indicators

3. The prior actions implemented in September–December 2003 listed in Table 2 of Appendix I, Attachment I, Annex I are the following:

- elimination of all remaining exchange restrictions on current account transactions, as well as on bona fide amortization payments, through issuance of a BRB circular;[1] and
- adoption by Parliament and promulgation of a budget law for 2004 in line with program objectives.

4. The structural performance criteria listed in Table 2 of Appendix I, Attachment I, Annex I are the following:

- setting up of the new auditing court (*Cour des comptes*), through approval of an executive order appointing the magistrate members of the court; and
- adoption of weekly liquidity auctions and introduction of a marginal refinancing window at a penalty rate; and reform of the system of mandatory reserve

[1] As of July 2003, the remaining exchange restrictions on current account transactions related to the following: shipping insurance on imports and on coffee exports, transfers of rental income, fees for services providers, and allowances for travel, medical expenses, and studies abroad. The new system retains reasonable limits on travel and education allowances, which are waived in justified cases.

requirements, with reserves to be held in the form of deposits with the BRB through issuance of relevant central bank regulations.

5. The structural indicators listed in Table 2 of Appendix I, Attachment I, Annex I are the following:

- extension of the transactions tax to domestically produced goods and services though the approval of a appropriate legal provision by Parliament and issuance of a regulatory order by the government; and
- assessment to ensure that all banks in operation meet the minimum capital requirement, that is, at least FBu 1.5 billion net of provisions as required by the BRB.

B. Indicative Targets and Adjuster

Quantitative performance criteria and indicators

6. Quantitative performance criteria and indicative targets under the program are set on the basis of cumulative flows from January 1 of each calendar year or on the basis of end-of-period stocks, and are set out in Table 3, Appendix I, Attachment I, Annex I, as follows:

- a floor on the end-period stock of net external assets of the BRB;
- a ceiling on the end-period stock of net domestic assets of the BRB;
- a ceiling on the end-period stock of net credit from the banking system to the government;
- a ceiling on the end-period stock of central government's external payments arrears;
- a ceiling on the outstanding stock of short-term external debt (maturity of less than one year) of the central government and the BRB; and
- a ceiling on the new nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB.

7. The program includes an adjuster for the first four quantitative indicators, as specified in footnote 2 of Table 3, of Appendix I, Attachment I, Annex I, and explained in paragraph 18 below.

8. Quantitative indicative targets under the program as set out in Table 3, of Appendix I, Attachment I, Annex I, are as follows:

- a floor on the primary budget balance, excluding externally financed projects; and
- a ceiling on the government's wage bill.

Definition and computation

9. The **net foreign assets of the BRB** are defined as the difference between (i) foreign exchange assets and gold holdings (valued at market prices), and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, but excluding the counterpart of SDR allocations). These amounts are valued in terms of U.S. dollars based on end-of-period exchange rates. The net external assets of the BRB totaled FBu 41.2 billion, equivalent to US$ 37.0 million, at end-September 2003, broken down as follows:

	In billions of FBu	In millions of U.S. dollars
Net foreign assets of the BRB	41.2	37.0
External assets	84.3	75.6
Deposits with correspondents (excluding IMF)	81.7	73.3
SDR holdings	0.2	0.2
Reserve position with the IMF	0.6	0.5
Gold holdings	0.4	0.4
Cash on hand	1.3	1.2
External liabilities	43.1	38.7
Liabilities vis-à-vis correspondents (excluding IMF)	10.6	9.5
Counterpart of the use of IMF resources	30.0	26.9
Other liabilities	2.5	2.2

10. The **net domestic assets of the BRB** are defined as the difference between (i) the amount of reserve money, comprising currency in circulation, reserves of commercial banks and other deposits held at the BRB, and (ii) 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 12.4 billion at end-September 2003, broken down as follows:

Net domestic assets of the BRB	12.4
Reserve money	53.6
Currency in circulation	41.3
Reserves of commercial banks	11.6
Other nonbank deposits	0.7
Minus: net foreign assets of the BRB	41.2

11. **Net credit from the banking system to the government** is defined as the difference between (i) loans, advances, and other government credits from the BRB or any of Burundi's commercial banks, and (ii) government deposits held at those institutions. The relevant scope of government is defined as central government and any other special funds or operations that are part of the budgetary process or have implications in terms of the government's fiscal stance. Net credit from the banking system to the government totaled FBu 39.8 billion at end-September 2003, broken down as follows:

Net credit from the banking system to the government	39.8
Central government	41.6
Loans, advances, and other credits	77.4
BRB	68.7
Commercial banks	8.7
Deposits	35.8
BRB	35.7
Commercial banks	0.1
Other government (net)	-1.8

12. 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 payments arrears were estimated at US$187 million at end-September 2003, broken down as follows:

External payments arrears	186.6
Multilateral	83.0
African Development Bank	14.8
African Development Fund	16.8
International Fund for Agricultural Development	0.7
Arab Bank for Economic Development in Africa	15.0
Arab League	0.3
European Investment Bank	13.1
European Union	9.8
International Development Association	3.0
OPEC Fund	9.6
Bilateral	100.4
French Cooperation Agency (AFD)	31.3
Japan (FCEOM)	10.4
Russia	21.6
Abu Dhabi Fund	2.0
Kuwait Fund	16.2
Saudi Arabia Fund	14.8
Libyan Bank	4.3
Other creditors	3.1
AD Consultants	1.7
Kreditanstalt für Wiedesaufban AMSAR	1.4

13. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB. The ceiling is meant to preclude the contracting of any such debt. However, in view of the fact that the treasury is responsible for working credits to Burundi's embassies abroad, the program allows for a small nominal amount on account of the fact that at times such credits may show positive net values.

14. The **stock of short-term external debt**, with a maturity of up to one year (one year included), owed by the central government is to remain at zero under the program. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of more than one year are considered medium term and long term. This performance criterion applies not only to debt, as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received (including leasing). Excluded from this performance criterion are rescheduling arrangements and borrowing from the Fund. The concessional nature of debt will be ascertained on the basis of the commercial interest reference rates (CIRRs), as laid out by the Organization for Economic Cooperation and Development (OECD). A debt is said to be 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 65 percent (equivalent to a grant element of at least 35 percent). As of end-September 2003, the stock of short-term debt outstanding was nil, as was nonconcessional medium- and long-term debt contracted during the first half of the year.

15. A **transfer of dividends from the BRB to the central government** is projected to take place in March 2004, in the amount of FBu 9.0 billion. Any transfer from the BRB in excess of the set amount in 2004 will be treated as central bank financing (rather than government revenue) and counted against the program's ceilings.

16. The government's **primary budget balance** is defined as the difference between total government revenue, excluding grants, on the one hand, and noninterest current government expenditure and domestically financed capital expenditure (including through the use of counterpart funds), on the other hand. The primary budget balance for the first nine months of 2003 was estimated at FBu -1.8 billion, broken down as follows:

Primary budget balance	-1.8
Total revenue	97.0
Minus:	
Noninterest current expenditure	89.1
Domestically financed capital expenditure	11.1
Net lending	-1.5

17. The **government's wage bill** is defined as total labor remunerations on a commitments basis for civil servants, contractual employees, and military personnel of the central government, including all allowances and bonuses. The government's wage bill for the first nine months of 2003 totaled FBu 39.5 billion, broken down as follows:

Government wage bill	39.5
Civilian personnel	22.1
Permanent staff	19.1
Contractual employees	3.0
Military personnel	17.4

Adjuster

18. The program provides for a symmetrical adjuster (upward and downward) that applies to quantitative targets on the net foreign assets and the net domestic assets of the BRB, net bank credit to the government, and outstanding external payments arrears. Adjustments are 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 3 of Appendix I, Attachment I, Annex I)[2] and external debt relief (inclusive of both debt rescheduling and debt cancellation). The ceilings on (i) the stock of net domestic assets of the central bank, (ii) stock of net credit from the banking system to the government, and the floors on (iii) the stock of net foreign assets of the central bank, and (iv) primary balance of the government budget excluding externally financed projects will be adjusted to accommodate 75 percent of any deviation from the projected disbursements of external nonproject financial assistance shown in the memorandum item of Table 3 of Appendix I, Attachment I, Annex I. In case of, respectively, a financing excess (shortfall) the floors on the stock of net foreign assets of the central bank and on the primary balance of the government budget will be adjusted upward (downward), and the ceilings on the stock of net domestic assets of the central bank and on the stock of net credit from the banking system to the government will be adjusted downward (upward).[3] External financing will be converted in terms of Burundi francs on a quarterly basis, using the average official exchange rate.

[2] 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 is spent with the concurrence of the budget directorate.

[3] To compute the amount of adjustment, debt relief includes only debt rescheduling and cancellation of debt service due during the period, except as concerns the stock of arrears for which debt relief includes only the rescheduling and cancellation of arrears.

C. Key Program Assumptions

19. The main program assumptions are as follows:

	2003	2004			
	Jan.-Dec.	Jan.-Mar.	Jan.-June	Jan.-Sep.	Jan.-Dec.
Average export prices					
Coffee (cents per pound)	49.9	...	...	...	55.6
Tea (dollars per kg.)	1.37	...	...	...	1.43
Dollar per SDR exchange rate					
Annual average	1.40	1.43	1.43	1.43	1.43
End of period	1.43	1.43	1.43	1.43	1.43
Dollars per euro exchange rate					
Annual average	1.12	1.16	1.16	1.16	1.16
End of period	1.15	1.14	1.14	1.14	1.14

D. Provision of Information to IMF Staff

20. 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:

- the monetary survey, the position of the central bank and of commercial banks;
- the financial position of the government vis-à-vis the banking system;
- a detailed breakdown of government revenue;
- a detailed breakdown of government expenditure on a commitment basis;
- a detailed breakdown of the government wage bill on a commitment basis;
- detailed information on government social spending, in particular on the health and education sectors;
- 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;
- a detailed breakdown of the stock of domestic payments arrears and cumulative flows from January 1, 2004; 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);

- 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);
- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors;
- 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;
- 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
- an update on the implementation of structural measures planned under the program, as summarized in Table 2 of Appendix I, Attachment I, Annex I.

21. 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 October 31, 2003)

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

II. General Resources Account:	SDR million	% Quota
Quota	77.00	100.00
Fund holdings of currency	95.89	124.53
Reserve position in Fund	0.36	0.47

III. SDR Department:	SDR million	% Allocation
Net cumulative allocation	13.70	100.00
Holdings	0.17	1.28

IV. Outstanding Purchases and Loans:	SDR million	% Quota
Post-conflict emergency assistance	19.25	25.00

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	17.21
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	19.30	0.00	0.00	0.00
Charges/interest	0.15	0.20	0.24	0.31	0.35
Total	0.15	19.50	0.24	0.31	.035

VII. Implementation of HIPC Initiative:
Not applicable

VII. Safeguards Assessments:

In accordance with the Fund's safeguards assessment policy, the Bank of the Republic of Burundi would be subject to a safeguards assessment under a PRGF-supported program. Staff has apprised the authorities of the requirements of this policy, and the assessment has been initiated. A mission from the Financial Department is scheduled to visit Bujumbura in 2004.

VIII. Exchange Rate Arrangement

The Burundi franc was pegged to the SDR until April 1, 1992. With the break out of hostilities in 1993 and the subsequent trade embargo, the central bank, which handles external assistance disbursements and most export receipts, resorted to exchange restrictions to manage dwindling foreign currency reserves. 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 limits 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 full surrender requirement for coffee, tea, and cotton exports to 70 percent. In 2003, the central bank lifted all remaining exchange restrictions on current transactions, except for some limits on travel and study allowances, and delegated authority to the commercial banks to approve standard transactions. Burundi has accumulated sizeable external payments arrears to various bilateral and multilateral creditors.

IX. Article IV Consultation

Burundi is on the 12-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 (Oct.)	Resident MFD consultant on monetary policy management (jointly with Rwanda)
2003 (April)	Two (of four) visits by MFD expert on monetary policy management
2003 (Feb.)	Visit by FAD expert on tax administration
2002 (Nov.)	MFD mission on liquidity management and foreign exchange operations
2002	Participation of MFD experts on Article IV/UFR mission
2001–02:	Three FAD visits by a tax administration expert, in preparation for setting up large taxpayers' unit
2000	STA mission on monetary and banking statistics
2000	FAD mission on tax and customs administration
1998	MFD mission on foreign exchange auctions
1993	MFD 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: Relations with the World Bank Group
(As of end-November 2003)

A. Partnership in Burundi's Development Strategy

1. As Burundi emerges from its long conflict the transitional government is developing its strategy for inclusive development. An I-PRSP has been completed through participatory methods and has become a core document in the national strategy. The Government intends to use the PRSP process to improve coordination of development efforts in the country, includeing donor supported activities. To that end the draft of the I-PRSP was presented to a donor round table in April 2002, and the 2003 and 2004 budgets are based on the I-PRSP. World Bank and Fund staffs have prepared a joint staff assessment of this I-PRSP in December 2003.

2. The Fund, which has been providing post-conflict emergency assistance, will negotiate its PRGF in support of this strategy as assessed, and will take the lead in policies addressing fiscal imbalances and shares with the Bank, the lead on structural issues relevant to macroeconomic stability and economic growth. The Bank leads the policy dialogue on post-conflict rehabilitation and reintegration, education, health and social policy reforms, privatization and the environment for employment creation particularly in rural areas, and sustainable infrastructure systems. The Bank and Fund are jointly assisting the government in its development of an integrated trade framework.

B. IMF-World Bank Collaboration in Specific Areas

3. Common objectives and the development of post-conflict instruments have increased collaboration between the Fund and Bank in recent years. The Bank and Fund teams are closely coordinating their policy advice. There is also close coordination in the determination of structural conditionality. In general, the Bank is leading the policy dialogue on key structural aspects of the reform program both through dialogue and technical assistance. The Fund is in the lead on policy dialogue on macroeconomic, particularly fiscal elements of the reform with the Bank providing technical assistance to enable the authorities to enhance the dialogue. The Fund and Bank have both contributed to the Diagnostic Study for the Integrated Trade Framework, a review of the policy, regulatory and institutional framework with the objective of promoting employment-generating trade. The two institutions are prepared to work together to assist Burundi on the steps for entry into the enhanced HIPC Initiative.

C. World Bank Group Strategy

4. The Bank's Transitional Support Strategy supports the rehabilitation program for the economy of Burundi, particularly through economic reforms for sustained economic recovery, growth and poverty reduction. This includes the improvement of public service delivery and basic social services, the deepening of institutional and structural reforms, and the establishment of a track record for early access to relief under the Enhanced HIPC

Initiative. Support for affected populations during the progress towards a sustainable peace, and improving the delivery of essential social services would enhance the reintegration of refugees and engagement into productive employment. This would eventually boost recovery and growth and help reduce the incidence of poverty.

5. An Economic Rehabilitation Credit (ERC) amounting to US$54 million, of which US$20 million was disbursed during 2002 and US$20 million in April 2003, is intended to support economic recovery by financing eligible private sector imports based on a negative list, and the counterpart funds from the imports finance specific programs in the national budget. The Bank also manages a trust fund for arrears stabilization and debt service to multilateral development banks (The World Bank, IFAD and AfDB). Besides the strong partnership with the Fund, the Bank is collaborating with a number of donors, including with the European Union.

6. The current IDA project portfolio (see table below) consists of 6 projects for a total commitment of US$180 million and an undisbursed amount of US$112 million. The portfolio includes also a number of grants, including a US$14.3 million IDA grant to supplement earlier financing for the BURSAP II, a US$7.5 million IDA grant earmarked for the Health and Population II project, one IDF grant for economic management and one Trust Fund for social services.

Active Portfolio in Burundi-IDA Credits, as of end-November 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	12/31/04	21.30	0.55	18.59
BURSAP II	1999	12/31/05	12.00	1.11	10.88
Road Sector Development	2000	12/31/03	0.30	0.08	0.21
Regional Trade Facilitation Project	2001	6/30/11	7.50	4.05	3.94
Public Works and Employment Creation	2001	12/31/06	40.00	28.87	15.47
ERC	2002	12/31/04	54.00	15.50	40.91
HIV/AIDS and Orphans	2002	12/31/06	36.00	37.36	4.77
Agri. Rehabilitation & Support	2003	5/22/04	0.69	0.38	0.30
Demobilization & Reintegration	2003	3/31/04	0.59	0.53	0.06

7. The IDA lending program for 2003 will comprise two new projects. An **Economic Management Support Project**, US$26 million, follows up two nonlending activities: a Public Expenditure Review, and studies, training and technical assistance financed by an Institutional Development Fund grant that also helped to provide tools and strengthen capacity of central ministries for analysis-based policy formulation and implementation. The

project objective is to increase the efficiency of the country's macroeconomic, financial and human resources management and to enhance participation and inclusion in public policy management. The **Burundi emergency demobilization and reintegration program**, US$60 million (including US$30 million IDA financing), will assist the Government in implementing the demobilization and reintegration components of its Arusha Peace Agreement. A **Roads Rehabilitation Project (US$40 million)** might also be presented to the Board.

Nonlending activities

8. IDA assistance also emphasizes ***nonlending activities and advisory services***, including through trust funds and grants, to improve the understanding of the socioeconomic context, rebuild the knowledge base to support policy dialogue and design effective poverty reduction strategies. Ongoing advisory services and economic and sector work initiated in FY03 include the public expenditure review, strengthening and public expenditure management, support to the PRSP process, especially the consultation and participatory diagnostic processes. For FY04, planned activities include a public expenditure review, a social sector assessment and a CFAA.

TSS update

9. IDA will begin preparation of a CAS in FY 04 in the event there is significant progress toward the preparation of a full PRSP.

IFC

10. **The International Finance Corporation** holds the US$1 million equity portion in Verreries du Burundi, which is not salable owing to the poor performance of this public enterprise.

MIGA

11. **The MIGA** portfolio in Burundi includes two active applications for a total investment of US$6.5 million.

Prepared by World Bank staff. Questions may be addressed to Mr. Emmanuel Mbi, Country Director at 473-4953; or Eric Nelson, Economist at 473-6699.

Burundi: Statistical Issues

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

Outstanding statistical issues

Real sector

Burundi reports annual national accounts data, to the Fund with about a three-month lag, but estimates are often compiled on the basis of limited information. In 2002 the national accounts estimates were revised from 1996, but no consistent revisions were made to previous years. There are no producer indices and data on employment are out of date.

Government finance

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

Monetary accounts

Following the technical assistance mission on monetary and financial statistics in September 2000, the timeliness of data reporting to the Fund has considerably improved and is now satisfactory. Data for the monetary authorities and the deposit money banks through September 2003 have been published in IFS. Progress in various areas of the action plan for the development of monetary and financial statistics has been made (the allocation of additional computer resources for monetary data compilation and electronic transmission of data to the Fund). Work in other areas is under way, including extension of the institutional coverage to all other financial intermediaries. However, some other important recommendations have not been undertaken to date or are behind schedule, mainly owing to staffing constraints.

Balance of payments

Balance of payments data are compiled on an annual basis, and are reported to the Fund in a timely fashion; however, compilation is often based on limited information. International trade data are reported to the Fund with a three-month lag. Annual data on the balance of payments and international investment position (1998-2002) have been compiled and sent to the Fund for publication in the 2003 *Balance of Payments Statistics Yearbook.*

Burundi: Core Statistical Indicators
(As of December 15, 2003)

	Exchange Rates	Interna-tional Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Export/ Imports	Current Account Balance	Overall Government Balance	External Debt/Debt Service	GDP/GNP
Date of latest observation	11/03	10/03	10/03	10/03	10/03	10/03	10/03	10/03	2002	9/03	9/03	2002
Date received	12/8/03	11/03	11/03	11/03	11/03	11/03	11/03	11/03	2/03	8/03	8/03	9/03
Frequency of data	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Quarterly	Monthly	Annual
Frequency of reporting	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Quarterly	Monthly	Annual
Source of update 1/	BRB	BRB	BRB	BRB	BRB	BRB	BRB	BRB	BRB	Ministry of Finance	Ministry of Finance	Ministry of Plan
Mode of reporting	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff	Staff
Confidentiality 2/	No	No	No	No	No	No	No	No	No	No	No	No
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Annual	Quarterly	Annual	Annual

1/ BRB = Bank of the Republic of Burundi.
2/ Actual data unrestricted; preliminary data for staff use only may be restricted.

Burundi: Social and Demographic Indicators 1/

Land area (sq. km.)	27, 834
Population	
Total (in millions; 2002)	7.1
Urban population (percent of total)	10.0
Rural population (percent of total)	90.0
Density (people per sq. km)	255.1
Growth rate (percent)	2.9
GNI per capita (U.S. dollar; 2002) 2/	100
Life expectancy at birth (years)	
Overall	42.4
Men	41.0
Women	43.8
Crude birth rate (per 1,000)	42.5
Crude death rate (per 1,000)	17.0
Infant mortality rate (per 1,000)	97.2
Education (1999)	
Gross primary enrollment rate (percent)	51.0
Gross secondary enrollment rate (percent)	7.0
Adult literacy rate (percent)	44.6
Health (1999)	
Physicians (in hospitals)	357
Hospitals	35
Population per physician	18,696
Population per nurse	5,214
Population per hospital/bed	1,657
Access to safe water (percent)	52.0
Immunization rate (percent)	63.0
Urban areas	92.0
Rural areas	33.9

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

1/ Most recent estimates available.
2/ *World Bank Atlas* method.

Statement by the IMF Staff Representative
January 23, 2004

The following information has become available since the issuance of the staff report on January 6, 2004. It does not change the thrust of the staff appraisal.

- Preliminary data indicate that the increase in consumer prices was 10½ percent in 2003, compared with an earlier projection of 9 percent (end-of-period basis), owing mainly to food price volatility. The official exchange rate of the Burundi franc has remained broadly stable against the U.S. dollar during December–January and the differential with the parallel market exchange rate (in foreign currency terms) has declined further to around 10–11 percent.

- The 2004 finance law was promulgated on December 30, 2003, consistent with the authorities' commitment under the program. Also in December, the Bank of the Republic of Burundi lowered the foreign exchange surrender requirement on traditional exports (coffee, tea, and cotton) from 70 percent to 50 percent, as envisaged in the MEFP.

- A donors' forum on Burundi was convened on January 13–14 in Brussels. The meeting, which was co-sponsored by Belgium, the UNDP, and the Burundi government, attracted a wide attendance and raised substantial resources for the government's programs. Donor representatives were unanimous in praising the major progress made by the authorities in 2003 in advancing the peace process and strengthening economic policies. Pledges totaled over US$1 billion for the 2004–06 period (up from US$0.9 billion at the previous donors' conference in November 2002). In addition, several bilateral donors announced their willingness to cancel ODA debts in the context of a forthcoming meeting of the Paris Club. Financing for the envisaged PRGF-supported program is well secured, but the authorities did not obtain the full amounts requested for the restructuring of armed forces and the resettlement of refugees and internally displaced persons. Under the circumstances, the authorities will be implementing these programs based on the availability of resources.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 04/7
FOR IMMEDIATE RELEASE
February 10, 2004

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Burundi

On January 23, 2004, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Burundi.[1]

Background

After nearly four decades of instability and civil strife, Burundi reached a turning point with the signing of a Peace and Reconciliation Agreement in Arusha (Tanzania) in August 2000, and a government of national unity was appointed in November 2001. Although sporadic hostilities continued thereafter, much progress was made during 2001–03 with the support of regional partners and the African Union. Negotiations with rebel factions started in 2002 and cease-fire agreements were signed with three rebel groups in late 2002, representing another milestone in the peace process. Implementation of the cease-fire progressed decisively in 2003 with the gradual deployment of peacekeeping troops under the mandate of the African Union and the signing of a power-sharing agreement in Pretoria (South Africa), in October 2003.

The Pretoria agreement broadens the political spectrum and spells out steps toward the initiation of disarmament, demobilization and restructuring (DDR) of military forces. The DDR operations are being monitored by peacekeeping troops under the aegis of the African Union; financing has been secured under a regional multi-donor project managed by the World Bank, which includes an envelope of US$80 million for its Burundi component. Former rebel groups have established political parties and some of their members have joined the national unity

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

government. Moreover, negotiations are under way to draft an election law, as a preamble to the organization of local, legislative, and presidential elections in the second half of 2004.

Widespread poverty continues to pose major humanitarian problems. An estimated two-thirds of Burundians live in absolute poverty and one out of eight adults is HIV positive.
The authorities and regional partners expect that the progress made toward resolving the conflict will prompt the return of Burundi's 350,000 refugees (mostly in camps in Tanzania) and 400,000 internally displaced persons. The government, together with the United Nations High Commission for Refugees (UN-HCR), has taken steps to promote the voluntary repatriation of refugees. A national commission to assist war victims (Commission Nationale de Réhabilitation des Sinistrés—CNRS) was set up in February 2002, but its work has been affected by a lack of funds.

The authorities began addressing economic and financial issues through the implementation of a staff-monitored program (SMP) in the second half of 2001. The program's main objectives were to stabilize the macroeconomic situation, facilitate the mobilization of external assistance, and lay the groundwork for growth and poverty reduction. While implementation of the SMP was hampered by continued instability and a consequent holding back of donor support, economic activity began to recover and inflation decelerated in 2001. Aided by a rebound in agricultural output and reconstruction activity, real GDP grew by an estimated 2.1 percent, and the 12-month of rate inflation fell to less than 4 percent in December 2001. These positive trends continued during the first half of 2002, although the low international coffee prices continued to pose major difficulties for Burundi.

Improving political and social conditions and significant steps toward restoring financial stability provided the basis for Fund support in 2002 under the post-conflict emergency assistance policy. Burundi made a first drawing equivalent to 12.5 percent of quota in October 2002 and a second drawing of the same amount in May 2003.

In 2003, Burundi's GDP contracted by an estimated 1 percent in real terms, owing to the impact of poor weather on the first crops of the season. Activity in nonfarm sectors, which had already underpinned Burundi's broad-based recovery in 2001–02, however, remained strong. Given the 20 percent depreciation of the exchange rate in the third quarter of 2002 and higher food prices resulting from lower agricultural output, inflation rose in mid-2003 from the exceptionally low levels seen in 2002 to 10–14 percent (end-of-period basis) in the third quarter of 2003, but has begun to recede more recently.

The program was broadly on track in 2003, with budget execution in line with projections during the first three quarters of the year. While debt-service payments fell short at end-September, they rose in the last quarter of the year following activation of the World Bank-managed multidonor trust fund for debt service. The strong growth in broad money of between 30 and 35 percent seen earlier slowed to 24 percent in September. Net international reserves were at comfortable levels equivalent to 3½ months of imports at the end of the third quarter of 2003. The Burundi franc was broadly stable vis-à-vis major currencies, and the exchange rate differential between official and parallel markets declined from 15–20 percent to below 15 percent in the last quarter of 2003. The external current account deficit narrowed to

5½ percent of GDP, compared to 6½ percent of GDP in 2002, mainly reflecting a surge in exports from an unusually large coffee crop in 2002/03. The financial performance of the coffee sector in 2003 was disappointing however, and the authorities took steps to improve monitoring and control of the coffee companies' financial operations.

The authorities' economic program for 2004 and the medium term was drawn up on the progress made during the last two years. It is part of a comprehensive approach to overcome the daunting challenges with regard to achieve political stability, sustainable economic growth, and poverty reduction. In their interim poverty reduction strategy paper (I-PRSP), the authorities have identified the country's specific needs and put together a comprehensive policy strategy combining a sound macroeconomic framework with priorities for structural reforms. The hope is that determined implementation of the authorities' economic and financial program will provide the appropriate conditions for a strong resumption of economic growth in 2004 and help mobilize additional external assistance, including budgetary support. In due course, this will open the way for debt relief under the enhanced Initiative for Heavily Indebted Poor Countries.

Executive Board Assessment

Executive Directors welcomed the considerable progress made by Burundi in advancing the peace process since the signing of the Arusha Peace and Reconciliation Agreement in August 2000, including the full deployment of peacekeeping troops under the aegis of the African Union in 2003, and the recent signing of a power-sharing arrangement with the major rebel group.

Directors commended the authorities for the strong implementation of their post-conflict economic program in 2003. They noted that the program had established conditions to resume economic growth and controlled inflation, and that it had succeeded in mobilizing financial support from other multilateral and bilateral sources to enable Burundi to begin rebuilding after prolonged civil conflict. Directors welcomed the authorities' tight control over the budget, prudent monetary policies, which had helped strengthen the international reserves position of the Bank of the Republic of Burundi (BRB), and progress in implementing structural reforms.

Notwithstanding the achievements in restoring order and economic functioning, Directors emphasized that Burundi still faces many formidable challenges. Foremost are reducing the heavy external debt burden, absorbing a vast number of refugees and internally displaced persons, and demobilizing combatants.

Directors commended the authorities on their Interim Poverty Reduction Strategy Paper (I-PRSP) and agreed with the thrust of the Joint Staff Assessment. They considered appropriate the emphasis placed by the government on restoring peaceful conditions as a precondition for improving economic prospects and reducing poverty. Directors emphasized the need for the authorities to develop further the policies described in the I-PRSP as part of a full PRSP to be completed in late 2004 and, in particular, to expand the consultative process and ensure more precision on priorities, scheduling of policy implementation, cost estimates, and tracking of poverty-related expenditures.

In view of the coffee sector's continued losses, Directors emphasized the critical importance of developing a well-considered strategy for improving performance in this sector and reducing budgetary support as well as diversifying the economy and exports away from coffee. They advocated the development of a social safety net for displaced coffee sector workers. Related to this, Directors encouraged a focus on raising agricultural productivity and improving the use of land.

Directors endorsed the 2004 budget's overall fiscal stance and spending priorities, which include raising budget allocations for the social sectors. They noted that lower military spending would allow an increase in social spending, as soon as circumstances permit. They underscored the importance of improving management and transparency of government expenditures, especially to ensure that aid funds are well spent. Directors supported measures intended to strengthen tax revenues through broadening the base of the sales tax and eventually adopting a value-added tax, and improving tax and customs administration. They endorsed Burundi's efforts to meet its obligations to the Common Market of Eastern and Southern Africa.

Directors welcomed the progress made by the BRB in the areas of monetary policy and bank supervision. They encouraged the authorities to adopt indirect monetary policy instruments in 2004, and to pursue a more proactive liquidity management policy by ensuring consistency between foreign exchange sales in the official market and the BRB liquidity objectives. Directors emphasized the importance of the BRB implementing measures to ensure that commercial banks fully comply with prudential requirements and are rigorously supervised.

Directors recognized the progress made in liberalizing the exchange system, noting that current account transactions were now free of restrictions and that the differential between the official and parallel market exchange rates had narrowed considerably. They supported continued liberalization of the exchange regime and the authorities' initiatives to move toward acceptance of Article VIII obligations.

Directors welcomed the steps already taken by the authorities to begin normalizing relations with multilateral creditors. They observed that Burundi faces unsustainably heavy debt-service obligations and would need debt relief under the enhanced HIPC Initiative.

Directors endorsed the authorities' request for technical assistance regarding program monitoring, policy implementation, and statistics. They observed that, in the short run, Fund technical assistance should focus on monetary policy, tax administration, and the compilation of statistics, and supported a rapid increase in the delivery of technical assistance, in light of improved security.

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

Burundi: Selected Economic and Financial Indicators, 1999-2003

	1999	2000	2001	2002	2003 Proj.
	(Annual percentage change)				
Domestic economy					
GDP at constant market prices	-1.0	-0.9	2.1	4.5	-1.0
Consumer prices (period average)	3.4	24.3	9.3	-1.3	10.3
	(In millions of U.S. dollars) 1/				
External economy					
Exports, f.o.b.	55.0	49.1	39.2	31.2	46.8
Imports, f.o.b.	-97.3	-107.8	-108.4	-103.9	-127.5
Current account (excluding official transfers)	-75.6	-103.6	-106.5	-117.0	-140.5
(in percent of GDP)	-9.3	-14.6	-16.1	-18.6	-23.5
Overall balance	-37.1	-29.0	-41.3	-27.1	26.7
Gross official reserves	53.4	43.3	23.8	60.1	72.8
(in months of imports, c.i.f.)	5.8	4.1	2.3	5.9	5.9
Change in real effective exchange rate (in percent)	-17.0	4.0	-4.9	-15.1	...
	(In percent of GDP) 1/				
Financial variables					
Revenue (excluding grants)	16.2	19.2	20.0	20.3	20.1
Total expenditure and net lending	25.3	24.3	27.2	25.9	30.0
Primary budget balance 3/	-0.8	2.2	-0.8	2.2	-0.3
Overall fiscal balance 3/	-9.0	-4.9	-7.2	-5.7	-9.9
Change in broad money (in percent)	48.5	1.9	16.3	30.3	22.0
Interest rate (in percent) 4/	10.6	13.1	13.2	14.7	14.9

Sources: Burundi authorities; and IMF staff estimates.

1/ Unless otherwise indicated.
2/ Bilateral trade-weighted period averages; a negative sign signifies a depreciation.
3/ On a commitment basis and excluding grants.
4/ Twelve-month deposit rate.

Press Release No. 04/13
FOR IMMEDIATE RELEASE
January 23, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves a Three-Year US$104 Million Arrangement Under the Poverty Reduction and Growth Facility for Burundi

The Executive Board of the International Monetary Fund (IMF) today approved a three-year SDR 69.3 million (about US$104 million) arrangement under the Poverty Reduction and Growth Facility (PRGF) for Burundi to support the country's economic reform program through January 2007. This enables Burundi to draw an amount equivalent to SDR 26.40 million (about US$40 million) immediately under the PRGF arrangement. Of this total, SDR 19.25 million (US$29 million) will be used to repay early nonconcessional drawings outstanding under the post-conflict emergency assistance policy.

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

"Burundi has made considerable progress in advancing the peace process since the signing of the Arusha Peace and Reconciliation Agreement in August 2000. The authorities' strong implementation of the post-conflict program during 2002–03 contributed to improved economic conditions and achieved the objectives of controlling inflation and mobilizing financial support from other multilateral and bilateral sources. Moreover, the recent issuance of Burundi's Interim Poverty Reduction Strategy Paper (I-PRSP) represents a major step forward in the development of the government's economic strategy for the coming years.

"Looking ahead, Burundi faces the task of strengthening the peace process, resuming economic growth and reducing a heavy debt burden, reducing widespread poverty, resettling a vast number of refugees and internally displaced persons, and demobilizing combatants. The authorities are determined to address these challenges as part of a comprehensive economic and financial program supported by a three-year arrangement under the Poverty Reduction and Growth Facility.

"The immediate objectives of the 2004 program are to ensure appropriate conditions for a strong resumption of growth with low inflation through prudent fiscal and monetary policies, and to mobilize additional external support. The 2004 budget increases spending on the social sectors, although a further reallocation of spending to productive areas of the budget and careful management of expenditures are necessary. The authorities intend to take the necessary steps to make a newly established auditing court fully operational, and will broaden the base of taxes and improve tax and customs administration. The authorities intend to enhance monetary management through the adoption of indirect instruments of monetary control, and to continue liberalizing the foreign exchange system.

"The authorities aim to undertake measures to improve the performance of the coffee sector, with external assistance, and diversify the sources of economic growth, while ensuring that displaced workers are protected. Continued improvement in security is essential to facilitate the implementation of other important reforms, including privatization.

"The positive outcome of the donors' forum convened in Belgium in January 2004 has further improved the prospects for implementing various programs, including reconstruction, assistance to refugees and internally displaced persons, and institution building. The authorities intend to use this foreign aid to ensure adherence to the program's targets regarding the level of international reserves and reduction of external debt payment arrears.

"As part of their PRGF-supported program, the authorities will begin addressing their large external debt-servicing burden. It is expected that Burundi will qualify for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative," Mr. Carstens stated.

ANNEX

Recent Economic Developments

After nearly four decades of instability and civil strife, Burundi reached a turning point with the signing of a Peace and Reconciliation Agreement in Arusha, Tanzania in August 2000, and a government of national unity was appointed in November 2001. Although sporadic hostilities continued thereafter, much progress was made during 2001-03 with the support of regional partners and the African Union.

Improving political and social conditions and significant steps toward restoring financial stability provided the basis for Fund support in 2002 under the post-conflict emergency assistance policy. In 2003, Burundi's GDP contracted by an estimated 1 percent in real terms, owing to the impact of poor weather on the first crops of the season. Activity in nonfarm sectors, which had already underpinned Burundi's broad-based recovery in 2001-02, however, remained strong. Given the 20 percent depreciation of the exchange rate in the third quarter of 2002 and higher food prices resulting from lower agricultural output, inflation rose in mid-2003 from the exceptionally low levels seen in 2002 to 10-14 percent (end-of-period basis) in the third quarter of 2003, but has begun to recede more recently.

The program was broadly on track in 2003, with budget execution in line with projections during the first three quarters of the year. While debt-service payments fell short at end-September, they rose in the last quarter of the year following activation of the World Bank-managed multidonor trust fund for debt service. The strong growth in broad money of between 30 and 35 percent seen earlier slowed to 24 percent in September. Net international reserves were at comfortable levels equivalent to 3 months of imports at the end of the third quarter of 2003. The Burundi franc was broadly stable vis-vis major currencies, and the exchange rate differential between the official and parallel markets declined from 15-20 percent to below 15 percent in the last quarter of 2003. The external current account deficit narrowed to 5 percent of GDP, compared to 6 percent of GDP in 2002, mainly reflecting a surge in exports from an unusually large coffee crop in 2002/03. The financial performance of the coffee sector in 2003 was disappointing however, and the authorities took steps to improve monitoring and control of the coffee sector's financial operations.

Program Summary

The authorities' economic program for 2004 and for the medium term was drawn up on the progress made during the last two years. It is part of a comprehensive approach to overcome the daunting challenges with regard to achieving political stability, sustainable economic growth, and poverty reduction. In their Interim Poverty Reduction Strategy Paper, the authorities have identified the country's specific needs and put together a comprehensive policy strategy combining a sound macroeconomic framework with priorities for structural reforms. The hope is that determined implementation of the authorities' economic and financial program will provide the appropriate conditions for a strong resumption of economic growth in 2004 and help mobilize additional external assistance, including budgetary support. In due course, this will open the way for debt relief under the enhanced Initiative for Heavily Indebted Poor Countries.

In particular, the government intends to (a) increase real growth to about 5 percent per year; (b) raise public spending on the social sectors from 6 percent of GDP in 2003 to 7 percent in 2004 and 10 percent by 2006; (c) lower inflation to about 4-5 percent annually; (d) maintain gross official foreign reserves at six months of imports of goods and services; (e) limit the deficit of the external current account to levels that can be financed by grants and loans on highly concessional terms; and (f) reduce the debt stock and debt-servicing ratios substantially. The government will also endeavor to step up implementation of its structural reform agenda, especially with a view to fostering an enabling environment for private sector activity. This includes measures to improve governance, facilitate private sector development, and strengthen the monitoring and accounting of public finances.

Burundi: Selected Economic and Financial Indicators, 1999-2003

	1999	2000	2001	2002	2003 Proj.
	(Annual percentage change)				
Domestic economy					
GDP at constant market prices	-1.0	-0.9	2.1	4.5	-1.0
Consumer prices (period average)	3.4	24.3	9.3	-1.3	10.3
	(In millions of U.S. dollars) 1/				
External economy					
Exports, f.o.b.	55.0	49.1	39.2	31.2	46.8
Imports, f.o.b.	-97.3	-107.8	-108.4	-103.9	-127.5
Current account (excluding official transfers)	-75.6	-103.6	-106.5	-117.0	-140.5
(in percent of GDP)	-9.3	-14.6	-16.1	-18.6	-23.5
Overall balance	-37.1	-29.0	-41.3	-27.1	26.7
Gross official reserves	53.4	43.3	23.8	60.1	72.8
(in months of imports, c.i.f.)	5.8	4.1	2.3	5.9	5.9
Change in real effective exchange rate (in percent)	-17.0	4.0	-4.9	-15.1	...
	(In percent of GDP) 1/				
Financial variables					
Revenue (excluding grants)	16.2	19.2	20.0	20.3	20.1
Total expenditure and net lending	25.3	24.3	27.2	25.9	30.0
Primary budget balance 3/	-0.8	2.2	-0.8	2.2	-0.3
Overall fiscal balance 3/	-9.0	-4.9	-7.2	-5.7	-9.9
Change in broad money (in percent)	48.5	1.9	16.3	30.3	22.0
Interest rate (in percent) 4/	10.6	13.1	13.2	14.7	14.9

Sources: Burundi authorities; and IMF staff estimates.

1/ Unless otherwise indicated.

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

3/ On a commitment basis and excluding grants.

4/ Twelve-month deposit rate.

Statement by Peter J. Ngumbullu, Alternate Executive Director for Burundi
January 23, 2004

Introduction

1. On behalf of my Burundian authorities, I would like to express my gratitude to the Management and staff for their constructive engagement with Burundi, as well as for their work in the preparation of the Three-Year Arrangement Under the PRGF. The discussions between the authorities and staff provided yet another opportunity for a useful exchange of views, which my authorities regarded as very helpful in their efforts to consolidate peace and to address the challenges facing the economy, and to improve the social conditions of the people. Burundi has accomplished remarkable progress in the last two years in the peace process and national reconciliation. The implementation of the post-conflict economic program for FY03 was also largely on track. In addition, my authorities reaffirm their firm commitment to implement all the reforms and measures agreed under the new program.

2. After 10 years of a devastating internal armed conflict, the prospects for national reconciliation and lasting peace in Burundi are extremely encouraging. Indeed, significant progress has been achieved in laying the basis for normalcy since the conclusion of the Arusha Peace and Reconciliation Agreement in August 2000. Following the accomplishment in May 2003, of the most delicate step of the Agreement, when Mr. Domitien Ndayizeye, a Hutu, assumed the Presidency of Burundi, the government signed a protocol in October 2003 for the implementation of the cease-fire and power sharing with the main rebel group, and initiated, in January 17, 2004, peace talks with the last rebel group. A broadened national unity government was appointed in November 2003, and the process of disarmament, demobilization and restructuring (DDR) of the military forces is already underway. These important events assure that the peace process is genuinely on track and confirm that a new era of social and economic development for the people of Burundi is imminent.

3. In addition, preparation of the election law is underway. My authorities are fully committed to an ambitious political program to conduct elections at local, legislative and presidential levels in the second half of 2004, with a view of bringing to an end the transitional system, and establishing a sustainable political system. In brief, the political landscape in Burundi has in the last few years undergone a dramatic and significant change, which presents an opportunity for the Burundian authorities to plan and conduct policy in an environment devoid of conflict. The potential for a sustainable transformation is real and is being grasped and taken forward by the Burundian authorities, and deserves strong support by all Burundi's development partners, including the Fund.

Recent Economic Developments

4. Notwithstanding the enormous difficulties faced by Burundi in recent years, my authorities have accomplished substantial progress in the implementation of the post-conflict

economic program, and have established a strong track record, as highlighted on page 4 of the staff report. The main program objectives of keeping inflation low and ensuring a steady flow of foreign exchange were attained, and the authorities have begun normalizing their relations with creditors.

5. On the fiscal front, in FY03, the authorities maintained a tight control over budget operations and improved revenue collection significantly. In this connection, the setting up of a large taxpayers' unit in January 2003 contributed to strengthen the administration of domestic taxes. Notwithstanding the entry of Burundi into the Common Market for Eastern and Southern Africa (COMESA), the impact of the lowering of customs duties on goods originating from other member countries was limited. The new expenditure control mechanism included both the setting of monthly ceiling on departments' commitments, and controls on the civil service register to maintain the wage bill ceiling in line with the program. As a result, the primary budget deficit improved as compared to the original government budget. It should be noted also that, while the authorities maintained tight control on the overall primary expenditure, pro-poor spending increased, particularly in the areas of education, health, agriculture and rural development.

6. Substantial progress was also achieved in the monetary and exchange areas in FY03. Monetary policy was tightened and all program indicators were observed. The growth rate of broad money fell substantially. Also, as inflation was contained, the Bank of the Republic of Burundi (BRB) has cut down its refinancing rate in December 2003. As targeted by the program, net international reserves rose, while net domestic assets of the central bank fell. My authorities made also significant progress in liberalizing the exchange system. All bona fide foreign exchange operations are now conducted through the commercial banking system, as the central bank lifted in September 2003 all remaining restrictions on current account transactions. As a result, the spread between the official and parallel exchange rates declined deeply.

7. With regards to normalizing the relations with creditors, the authorities have recently increased payments of non-reschedulable debt-service, and paid in full the current debt-service due to the African Development Bank (AfDB). Nevertheless, Burundi continues to face unsustainable debt-service obligations, and my authorities hope that their efforts will be soon rewarded with the resumption of new financing by its creditors.

8. The implementation of structural reforms was on schedule. The main reforms undertaken focused on good governance as agreed in the Arusha Peace Agreement. After its establishment in early 2003, the National Commission to Assist War Victims (Commission Nationale pour la Réhabilitation des Sinistrés - CNRS) moved to set up its sub-committee on land and to prepare a detailed work program. Moreover, the draft legislation for the creation of an auditing court (Cour des Comptes) was approved by Parliament in November 2003. The authorities are committed to establish the court in the first quarter of 2004. The auditing court will work as an external and independent budget-auditing mechanism, and will report to Parliament on budgetary execution. It should be noted that, meanwhile, all public

accounts, including military expenditures, are annually audited by the Ministry of Finance's internal Audit Office (Inspection Générale des Finances).

9. Other important actions accomplished include, the completion of the census of civil service employees prior to the implementation of the new civil service regulations, and the privatization of two state enterprises. Two actions were, however, delayed. As scheduled under the program, the authorities set the producer prices for the 2003/04 coffee crop in June 2003. However, the adoption of a formal price mechanism has been deferred, pending the finalization of a comprehensive strategy to reform the sector. In addition, the BRB did not introduce new monetary policy instruments to manage liquidity, because of delays in the provision of technical assistance.

The 2004 Program and Mid-Term Policies

10. The positive developments of the peace process combined with the good performance in the implementation of the post-conflict economic program for FY02-03 represent a strong basis for the FY04 and mid-term program. However, my Burundian authorities are aware of the enormous challenges ahead to maintain macroeconomic discipline, bolster self-sustainable growth, reduce poverty and, in the long run, achieve the Millennium Development Goals (MDGs). They are committed to address these issues and implement the priorities set up in their Interim PRSP through the following : (i) promoting peace and good governance, (ii) strengthening macroeconomic stability and promoting a diversified and accelerated economic growth, (iii) developing human capital through the improvement of the availability and quality of all essential social services, (iv) reintegrating and resettling conflict victims and disadvantaged groups in the economy, (v) combating HIV/AIDS and sexually transmitted diseases; and (vi) advancing the role of women in the development process.

11. The authorities are committed to maintaining a conducive macroeconomic environment for the resumption of high growth in 2004. Real GDP is projected to grow at 5%, while inflation is targeted to be contained at 6%. Due to the large social and reconstruction needs, fiscal consolidation is envisaged to be gradual. The authorities are also committed to improve the fiscal primary balance, while increasing pro-poor spending. The monetary program will be guided by the main objective of ensuring price stability, and the authorities are committed to achieve greater exchange rate flexibility to ensure a better response to changes in supply-and-demand conditions.

Fiscal Policy

12. The Finance Act for FY04 promulgated in December 2003 aims at maintaining the same high level of the ratio of government revenue to GDP. To this end, and in view of improving the efficiency of revenue collection as well as to strengthen control over exemptions, the government intends to rationalize the tax system with the support of technical assistance from the Fund and bilateral sources. The top rate for corporate and

personal income tax has been lowered and the sales tax will be gradually extended to cover domestically produced goods and services. The government intends also to introduce a value-added tax system in 2005, and to adopt the common external tariff of COMESA, which will lower the tariff rates and rationalize the structure of customs duties. The primary expenditures will be contained in line with the government revenue. My authorities are committed to raise the budget allocations for the social sectors, while maintaining most other categories broadly constant in real terms. They will also continue to implement a prudent wage policy.

13. Due to the unsustainable debt-service, the Burundi government would like to express the urgency for getting debt relief from the Paris Club and other bilateral creditors, and to reach the HIPC decision point as soon as possible. It should be noted that Burundi has always serviced its obligations both to the Fund and the World Bank on time. It is now looking forward to benefit from debt relief.

Monetary and External Sector Policies

14. The BRB is committed to maintain a tight monetary stance to support the low inflation objective. To this end, the BRB plans to introduce indirect instruments of monetary control, as soon as the required technical assistance is provided. The BRB will also apply greater flexibility in setting interest rates and refinancing ceilings. The BRB will continue to strengthen bank supervision, and gradually tighten the existing prudential requirements to meet international standards. Moreover, the BRB is committed to maintain the principles of good governance and to bring its practices up in accordance with the Fund's safeguards guidelines.

15. As a result of the progress achieved in liberalizing the foreign exchange market, the current account transactions are now free of restrictions. The BRB is committed to maintain a floating exchange rate system and will stand ready to ensure that the auction market rate remains adequately flexible and free of collusion among commercial banks. As a next step, the authorities are considering the acceptance of the Fund's Article VIII obligations.

Structural Reforms

16. The Government of Burundi has prepared an ambitious reform agenda focused on maintaining good governance and fighting corruption, and in fostering an enabling environment for private sector activity. Good governance measures include the setting up of an auditing court by March 2004, strengthening the monitoring and accounting of public finances, as well as the reform of public procurement.

17. My Burundian authorities are aware that the extreme poverty situation facing more than half of Burundi's population will not be reversed and the Millennium Development Goals (MDGs) will not be achieved, if economic growth is not accelerated. The authorities are, therefore, committed to enhance private sector development, promote the diversification

of exports, facilitate resumption of regional trade, develop infrastructure, accelerate the privatization of public enterprises and encourage foreign direct investment (FDI).

18. In view of the heavy dependence of the economy on coffee exports, the Burundian authorities are aware of the need to diversify exports, which requires an improvement in the investment climate. To this end, they plan to finalize the studies of an integrated framework for mid-term and long run productivity increase (Cadre intégré pour le redéploiement commercial et industriel), which are underway with the support of a multi-donor project. The authorities are also committed to finalize the formulation of a comprehensive strategy for revamping the coffee and tea sectors.

Concluding Remarks

19. Emerging from a post-conflict situation, Burundi suffers from serious administrative, technical and institutional capacity weaknesses and constraints and it will take a long time and consistent efforts for the country to erase the economic and social imbalances following the war. Nevertheless, the authorities are fully committed to reconstructing the country, while continuing to promote democracy and peace, and determined to fight poverty, while fostering private-sector led growth.

20. The authorities believe that implementation of their program will contribute to the consolidation of the good progress that they have achieved in the last two years, both on the political and economic fronts. They are fully aware of the important challenges and risks facing the economy, as underscored in the staff report, and I would like to reassure the Executive Board that they are strongly committed to make further progress in mitigating the political risk, and implementing the economic program.

21. The Burundi government believes that the economic and financial policies included in the new program are adequate to address the difficulties faced by the country and, to support this endeavor, they are requesting a Three-Year Arrangement under the PRGF.

22. On January 13-14, 2004, the Burundian government held a Development Partners' Forum in Brussels, in view of mobilizing urgent bilateral and multilateral financial support, which was also attended by the Fund. The Forum focused on the following agenda: (i) budgetary aid and support to the balance of payments; (ii) support for the program of rehabilitation of people affected by the conflict; (iii) support of the program for the reform of the military forces; (iv) support for the national program of capacity-building for good governance. The participants commended the Burundi authorities for the impressive progress accomplished both in the implementation of the peace process and the economic post-conflict program. They stressed that the government program is adequate to address the enormous challenges that the Burundi people face, and encouraged the authorities to remain determined to pursue the required reforms. Burundi partners offered political and financial assurances and other support, and their pledges amounted to more than US$ 1billion for 2004-2006 as displayed in the table below.

Pledges made by Burundi development partners at the Brussels Forum, on January 13-14, 2004.

Country/Institution	**Amount in US$ million**
African Development Bank (AfDB)	39.3
Austria	21.8
Belgium	44.6
European Union	270.9
France	25.5
Germany	46.2
IMF	93.3
International Fund for Agricultural Development (IFAD)	12.0
Italy	8.2
Ireland	3.8
Netherlands	8.0
Norway	10.9
Sweden	21.8
UNDP	11.0
United Kingdom	60.0
USA	135.0
World Bank	140.0
Multidonor Project DDR managed by the World Bank (MDRP/DDR)	80.0
TOTAL	**1,032.32**

23. In light of all these positive developments my Burundian authorities hope they would continue to count on the understanding, goodwill and support of the Executive Board of the Fund and indeed the rest of the international community to help them to achieve their overall objectives.