September 2005
IMF Country Report No. 05/322

Burundi: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burundi

In the context of the second review under the three-year arrangement under the Poverty Reduction and Growth Facility with Burundi, the following documents have been released and are included in this package:

- the staff report for the Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on May 26, 2005, 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 July 8, 2005. 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 July 27, 2005 updating information on recent developments.

- a Press Release summarizing the views of the Executive Board as expressed during its July 27, 2005 discussion of the staff report that completed the review.

- a statement by the Executive Director for Burundi.

The documents listed below have been or will be separately released.

Joint Staff Advisory Note on the Poverty Reduction Strategy Paper Preparation Status Report
Letter of Intent sent to the IMF by the authorities of Burundi*
Memorandum of Economic and Financial Policies by the authorities of Burundi*
Poverty Reduction Strategy Paper Preparation Status Report
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.

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Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

BURUNDI

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Jean A.P. Clément and Martin Fetherston

July 8, 2005

Arrangement: A three-year PRGF arrangement for SDR 69.3 million (90 percent of quota) was approved on January 23, 2004. As of April 30, 2005, total Fund loans outstanding to Burundi amounted to SDR 33.6 million (43.6 percent of quota).

Program discussions: Discussions for the second review under the PRGF and the HIPC decision point were held in Bujumbura in March and May 2005. The missions comprised Messrs. Mathieu (head), Lopes, Schulte (all AFR), Dicks-Mireaux (PDR), and Engström (Resident Representative for Rwanda and Burundi). Mr. Nintunze, Advisor to the Executive Director, participated in the discussions. The missions met with the President and Vice President, the Minister of Finance, the Governor of the Central Bank, the Minister of State for Privatization and Good Governance, the Ministers of Agriculture, Commerce, Planning, and National Defense, other senior government and central bank officials, donors, members of the diplomatic and business communities, and representatives of NGOs and small coffee producers.

In the attached letter dated June 30, 2005 (Appendix I), the authorities request completion of the second review under the PRGF, disbursement of the third loan for SDR 7.15 million (9.3 percent of quota), and access to external debt relief under the enhanced HIPC Initiative. They indicate that all quantitative performance criteria at end-December 2004 were met. The indicative quantitative targets for March 2005 were also observed, except for a slight overrun on bank credit to government. The structural performance criterion and the two structural benchmarks were observed. All prior actions for the second review have been implemented.

The memorandum of economic and financial policies (MEFP) attached to the letter, reviews Burundi's performance under the PRGF arrangement during 2004 and early 2005 and sets the program targets through end-December 2005. **A HIPC Initiative decision point document** and the authorities' **PRSP preparation status report and a JSAN** accompany the request.

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EXECUTIVE SUMMARY

The Burundian authorities have made good progress with macroeconomic policy and structural reforms despite a complex political environment, a full legislative agenda, and exogenous shocks. Macroeconomic developments through early 2005 have been broadly in line with program objectives, although inflation has not been reduced as programmed.

The political transition process has advanced significantly in 2005, and further progress has been made in securing peace. Following the successful referendum on the new constitution in February 2005, local elections were held in June, parliamentary elections are scheduled for early July, and the new president will be chosen by parliament in August. An ethnically balanced army and national police are being created and the integration and demobilization of former combatants is proceeding.

Program implementation was broadly satisfactory in 2004. Fiscal performance was in line with the program in 2004. The quantitative performance criteria at end-December 2004 were met, as were the indicative targets for March 2005, with the exception of net bank credit to the government, which was missed by a small margin. Monetary and credit developments have been mixed as the authorities faced some difficulty dealing with lumpy external assistance inflows. More recently, monetary policy reforms have strengthened the central bank's liquidity management capacity. Important progress has been made in the liberalization of the exchange regime.

The program for 2005 contains important structural measures, including prior actions, to strengthen public financial management and to support the revival of private sector investment and activity needed to achieve sustainable strong growth. In particular, the program envisages the start of privatization in the productive sectors.

The preparation of the full PRSP, under a broad consultative process, is proceeding with completion projected for late 2005. Burundi faces enormous challenges to achieve progress toward the MDGs and will need to raise the level and improve the efficiency of social spending. Structural reforms will need to be deepened to spur growth. Burundi will require significant technical and financial support on very concessional terms from the international community for many years to come.

Burundi's external debt is unsustainable even after the full use of traditional debt relief mechanisms. Burundi will thus require substantial debt relief under the enhanced HIPC Initiative as described in the decision point document.

Possible setbacks in the political and security situation could complicate the implementation of the program. However, given the significant progress achieved to date, with the support of the international community, and the authorities' demonstrated commitment to the program's objectives, staff recommends completion of the second review under the PRGF arrangement.

I. INTRODUCTION

1. In a letter to the Managing Director dated June 30, 2005 (Appendix I), the authorities request completion of the second review under the PRGF arrangement, disbursement of the third loan for SDR 7.15 million (9.3 percent of quota), and access to external debt relief under the enhanced HIPC Initiative.

2. On the occasion of the first review under the PRGF arrangement,[1] Directors commended the authorities for making a good start in implementing their reform program, but noted that overall performance under the program was mixed. They supported the authorities' proposed policy mix for 2005, underscoring the importance of the coffee sector reform, the start up of the audit court, and the importance of strengthening implementation capacity and the management of public finances. Directors noted that Burundi's external debt was unsustainable, after traditional debt relief, and that it was likely to qualify for HIPC assistance. Directors considered that Burundi could reach its HIPC decision point by mid-2005, provided that its macroeconomic program supported by the PRGF arrangement remained on track, as evidenced by completion of the second program review.

3. Recent economic developments and performance under the program are presented in Section II; the discussion of the program for 2005 is found in Section III; the medium-term outlook is presented in Section IV; program monitoring, safeguards, and risks are discussed in Section V; and the staff appraisal is provided in Section VI.

II. RECENT ECONOMIC DEVELOPMENTS

A. The Peace Process

4. **The political transition envisaged under the Arusha Peace Agreement of August 2000 is drawing to a close** (Box 1). In February 2005, a national referendum overwhelmingly approved a new constitution, and on June 3 elections took place for communal councils, which will in turn elect the Senate. Parliamentary elections are scheduled for July 4, with the new parliament electing a new President by late August 2005.[2]

5. **Hostilities in most of the country have ceased, and demobilization, disarmament, and reintegration (DDR) operations began in December 2004**. Peace talks with the remaining small holdout rebel group, the FNL-Palipehutu, led to a ceasefire agreement in May 2005. However, small-scale incidents in the periphery of Bujumbura continue. The DDR project is supported by the World Bank's Multi-Country Demobilization and

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[1] See Country Report No. 05/55.

[2] For more details on the Arusha Agreements see Country Report No. 05/55.

Box 1. Key Elements of the New Constitution and Elections

The new constitution includes the following provisions:

- Direct universal suffrage for election of the President, except for the first term, when parliament will elect the new President.
- The President will appoint two vice-presidents representing the two main ethnic groups.
- Members of the national assembly and council of ministers will consist of 60 percent Hutu and 40 percent Tutsi.
- Representation in the Senate will be split equally between Hutus and Tutsis.

The 2005 election calendar envisages:

- June 3, elections for communal councils.
- July 4, elections for the lower house of Parliament.
- July 29, elections for the Senate (upper house of Parliament) by the communal councils.
- August 19, new President elected by Parliament.
- August 26, President sworn into office.
- September 23, local (collines) elections.

Reinsertion Program (MDRP) for the Great Lakes region, the United Nations in Burundi (ONUB), and bilateral donors. As of end-May 2005, almost 10,000 persons had been demobilized. ONUB and bilateral donors are also assisting with the associated **security sector reform (SSR)** project, aimed at creating a new national police force (Box 2).

Box 2. Military Integration and the DDR and SSR Projects

The creation of an integrated National Defense Force (NDF) and a national police, are essential for political stability, security, and a reduction in the share of military expenditure in the budget. The first step in the process is the integration of Hutu rebel movements with the predominantly Tutsi-led army in an ethnically balanced (50 percent Hutu and 50 percent Tutsi) force.

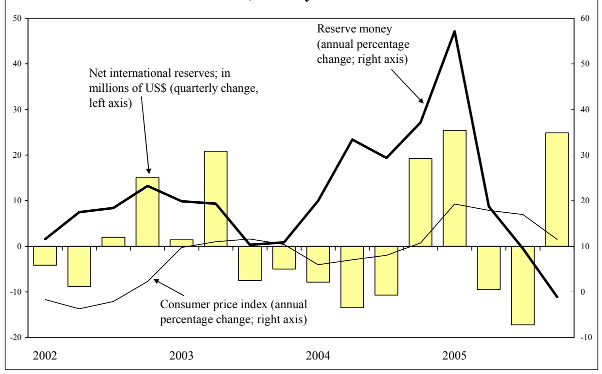
A new national police force has been created (consisting of 65 percent Hutu and 35 percent Tutsi) unifying the existing police forces and the army's gendarmerie and strengthening their number from 10,500 to about 17,000 initially, through the integration of ex-rebel groups. The project is being supported by Belgium, France, the Netherlands, and the UK, in collaboration with ONUB.

The DDR project provides a framework to reduce the NDF from an initially estimated 80,000 men (45,000 army and 35,000 ex-rebels) to 25,000 men by 2007 and support direct demobilization of 20,000 government militiamen (*Guardiens de la paix*) and another 10,000 militant combatants (*combattants militants*). The actual number of army and rebel personnel is much lower than expected (about 65,200: 41,900 army and 23,300 ex-rebels). In this light, the anticipated reduction in military expenditures could be achieved more quickly than originally envisaged (see Country Report No. 05/55 for details).

B. Performance Under the Program

6. **Despite exogenous shocks, macroeconomic performance was broadly satisfactory in 2004, although inflation has been higher than expected** (Table 2). Real growth rebounded in 2004, supported by a bumper coffee harvest, but was slightly below target, owing to a severe drought and crop disease in the north (the granary of the country). Inflation increased somewhat to 11.8 percent at year-end and further to 12.6 percent at end-May 2005 (Figure 1).[3] In 2004, the higher inflation owed mainly to the impact of the drought on food prices, the surge in imported petroleum prices, and the pressure on prices of nontradables from the increasing international presence (notably the ONUB).[4] Since early 2005, inflation has been driven by rapid monetary growth, reflecting a much-stronger-than-programmed buildup in net foreign assets (NFA). Despite the increase in inflation, interest rates in the banking system have remained broadly unchanged. Gross official reserves increased to 5 months of imports at end-2004 and to 5½ months at end-March 2005. The Burundi franc was broadly stable against the U.S. dollar in 2004, depreciated some 5 percent through March 2005, but had recovered by late May. The real effective exchange rate depreciated 7.8 percent over the year ending April 2005 (Figure 2).

Reserves, Money and Inflation



7. **Performance relative to the program targets was good, and the quantitative performance criteria at end-2004 were observed** (Appendix I, Tables 1 and 2). The indicative target on the government's wage bill was met, while the target for the primary fiscal balance was exceeded slightly. The indicative targets for March 2005 were all observed, except for a slight overrun on bank credit to government. The structural performance criterion on the abolition of the remaining foreign exchange surrender requirement was observed, as were the two structural benchmarks for issuing a decree liberalizing market entry and commercialization in the coffee sector and for initiating the audit of the 2004 government accounts by the audit court. All prior actions for the second review have been implemented.

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[3] As measured by the CPI, which covers Bujumbura only and may not accurately reflect price developments for the country as a whole.

[4] Administered retail prices for gas, diesel, and paraffin were raised several times between December 2003 and November 2004 resulting in prices increasing by 31 percent, 39 percent, and 36 percent, respectively. The price of gasoline in Burundi is currently US$3.77 per gallon.

8. **Fiscal performance was broadly in line with the program in 2004** (Table 3). However, the primary deficit was 0.3 percent of GDP higher than programmed, owing to higher domestic counterpart outlays for project spending that was only partially offset by a lower-than-expected wage bill. Overall, revenues exceeded the program target (by 0.7 percent of GDP) reflecting strengthened tax administration. Social sector spending rose to 6.7 percent of GDP. The overall fiscal deficit, on a commitment basis and before grants, was lower than programmed because of lower-than-expected interest payments and spending on special projects (elections and DDR). However, because of a shortfall in foreign program financing, net credit to government from the banking system (NCG) was higher than programmed.

9. **Fiscal performance in the first quarter of 2005 was well within program targets.** Revenues, after taking account of a delay in the payment of the BRB dividend, were some 10 percent higher than programmed, reflecting tax collection efforts and underlying tax buoyancy. Spending was lower than programmed, reflecting the pace of integration of ex-rebels into the army and the new police force, as well as a lower wage bill. Following strikes by teachers (about 60 percent of the civil service), an agreement was reached to unfreeze their merit increases and promotions retroactively to 2002 (equivalent to 0.6 percent of GDP for 2005). Taking into account foreign disbursements, NCG was in line with the adjusted target at end-March 2005.

10. **In May 2005, the authorities completed an inventory of domestic payments arrears**. Documented arrears amount to almost 5 percent of GDP, with an additional 1½ percent of GDP in claims not yet fully documented. An independent external audit is to begin soon and upon conclusion a payment schedule will be defined.

11. **Money and credit developments have been mixed**. With the delay in the disbursement of external assistance, NCG exceeded the program target (before adjustment) in 2004. Credit to the economy and NFA were much lower than expected, the latter owing to delays in foreign assistance. As a result, broad money growth was lower than programmed at 15.7 percent (Table 4). However, reflecting the increase in NCG from the central bank, reserve money growth accelerated at end-2004 and further by end-March 2005 (to 57 percent, year-over-year), under the impulse of large foreign assistance inflows and the central bank's reluctance to sell foreign exchange. As a result, broad money growth accelerated sharply in early 2005, and the banking system accumulated sizable excess reserves, in the face of continued weak credit demand. From late March, the monetary authorities increased foreign exchange sales, and in April introduced liquidity deposit auctions, with the result that reserve money growth was cut and excess liquidity absorbed.[5]

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[5] As of early June, the BRB had mopped-up 11 percent of the end-March reserve money stock through its liquidity deposit auctions and reserve money growth had been reduced to about 28 percent (year over year).

12. **The BRB has made good progress since late 2004 in strengthening its monetary policy capacity and in liberalizing the foreign exchange regime** (Box 3). As part of the BRB's efforts to improve its governance, the first external audit of its operations was completed in June 2005 and the BRB has developed an action plan to implement the auditor's recommendations.

Box 3. Reforms of Monetary and Exchange System Policies

The reforms aim to transform the monetary and exchange regimes from a restrictive, direct-control orientation to more efficient, liberal, and market-based practices.

Monetary policy	Exchange regime
Status in mid-2003	
The BRB relied on direct individual ceilings for credit to financial institutions. Penalties for exceeding refinancing limits were insufficient. Separate credit ceilings were extended for the coffee, tea, and rice sectors, backed by a state guarantee. Interest rates were adjusted infrequently and reserve requirements were not strictly enforced. There was no instrument for active liquidity management. Prudential regulation and supervision were inadequate. Liquidity and foreign exchange reserves management were uncoordinated.	The exchange regime was highly controlled, with numerous restrictions on current international transactions. A 70 percent surrender requirement for export receipts was applied for the traditional export sectors. A differential of about 20 percent persisted between official and parallel market exchange rates. The official exchange rate was fixed at the weekly BRB foreign exchange auction, and was binding for all official and commercial transactions.
Reforms implemented through mid-2005	
Reserve requirements were lowered, tightened, and enforced in mid-2004. A marginal refinancing window at a penalty rate was introduced in mid-2004 and a new rediscount facility introduced in early 2005. The individual and sectoral credit ceilings were unified at end-2004 and abolished with the introduction of the liquidity auctions in April 2005. A liquidity forecasting capacity has been developed and the management of liquidity and foreign exchange reserves brought together. Minimum capital requirements, prudential norms, and banking supervision have been strengthened and the BRB has moved forcefully to close noncompliant banks. The BRB is implementing reforms of its accounting, internal audit, and management systems following the first external audit and safeguards assessment.	Foreign exchange bureaus were licensed in spring 2004. Foreign exchange limits on invisibles and reporting thresholds for imports were raised. In late 2004, the mandatory nature of the BRB's weekly foreign exchange auction reference price was abolished and the official exchange rate became the daily weighted average of banking system transactions. The surrender requirement for export receipts was eliminated in early 2005 Since March 2005, the BRB foreign exchange auctions have been held twice a week with greater bidding margins. The differential between the official and parallel market exchange rates has narrowed to around 3 percent
Further reforms envisaged for 2005-06	
Treasury bills and bonds will be standardized and made tradable. Ongoing strengthening of liquidity forecasting and internal reforms at the BRB.	Customs pre-import inspection was delinked from remaining exchange control requirements, thereby allowing further exchange regime liberalization. Remaining foreign exchange limits on invisibles will be raised, and restrictions and reporting requirements will be further reduced. A unified exchange regulation will be produced consistent with the objective of full convertibility for current international transactions by end-2005.

13. **The external current account deficit (7.2 percent of GDP) in 2004 was significantly smaller than expected** (Table 5). Exports rose by 28 percent on account of a large coffee harvest and a strong recovery in world prices, while imports rose less than projected, owing to lower-than-expected humanitarian assistance. The overall balance of payments surplus was smaller than expected, reflecting delays in disbursement of external program financial assistance. During the first quarter of 2005, coffee exports continued to benefit from higher world prices, which were however offset by higher prices for fuel imports.

14. **The present value of external debt-to-exports ratio (after full use of traditional debt relief mechanisms) far exceeds the HIPC threshold for debt relief**. Burundi remains current on its nonreschedulable external debt obligations.[6] Discussions are ongoing to secure at least comparable treatment from non-Paris Club creditors. Agreements were reached in 2004 to clear all multilateral arrears. Debt-service payments (after rescheduling and excluding repayment of outstanding IMF postconflict assistance) remained very high in 2004, equivalent to 60 percent of exports of goods and services.

15. **The implementation of structural reforms has accelerated** (Table 6 and Box 4; MEFP, paragraphs 13-15). Following considerable delays, the audit court (*Cours de Comptes*) began operations in late 2004, and the inspection of the 2004 government accounts in April 2005. The implementation of the coffee sector reform strategy approved in October 2004 is proceeding well. A national conference on the reform was held in March 2005, which won broad support from sector participants. The coffee production tax (*loyer verger*) was abolished in April 2005 and a ministerial order issued in June 2005 has freed coffee sales outside the state marketing board (OCIBU). The government's crop credit guarantee has been abolished. The sector posted a substantial operating surplus for the 2004/05 crop year (nearly 2 percent of GDP)—the first since 1998/99—of which a substantial portion was returned to farmers. Restrictions on sugar sector trade and prices were removed in May 2005 (structural benchmark for September 2005).

[6] See Country Report No. 05/55 and www.imf.org, for further details on the 2004 Paris Club agreement and clearance of multilateral arrears. All bilateral agreements have been signed, except with Austria which is waiting to sign a write-off with an elected government.

Box 4. Structural Conditionality

Coverage of structural conditionality under the PRGF-supported program

Structural conditionality in 2004 aimed at further liberalization of the exchange and trade system, the initiation of a fundamental reform of the coffee sector, the introduction of more efficient monetary policy instruments, and the establishment of an audit court for public finances.

Status of structural conditionality under the 2005 program (Appendix I, Table 2)

For 2005, structural conditionality focuses on the pursuit of exchange liberalization, notably the abolition of the remaining export surrender requirement (50 percent of export proceeds on coffee, tea, and cotton) (March), which was met on January 10, 2005, and the strengthening of expenditure monitoring and control (October). Benchmarks have focused on good governance, reform of the productive sectors, and domestic arrears.

Structural areas covered by World Bank lending and conditionality

Under an Economic Recovery Credit (ERC), the World Bank has focused on the preparation of a strategic privatization plan, as well as an action plan for improving public finances and the operations and audit of the treasury. Conditionality for the third and final tranche in December 2004, focused on the adoption of a reform strategy for the coffee and tea sectors, an action plan to eliminate gender disparities, a plan to reform public procurement, and the submission to parliament of legislation establishing an Office of Auditor General responsible for auditing the financial operations of public agencies. Conditionality for an upcoming second ERC operation will focus on export promotion, private sector development, and public finance reform.

III. Discussions and the Program for 2005

A. Macroeconomic Objectives

16. **The authorities remain committed to the objectives of the 2005 program, to sustain economic recovery, secure financial stability, and deepen structural reforms**. Discussions focused on the conduct of monetary policy, the impact of DDR/SSR operations and civil service wage pressures on the budget, progress with structural reforms, and closing the residual financing gap. Discussions, in collaboration with World Bank staff, addressed the requirements for reaching the HIPC decision point.

17. **Growth is projected at 5 percent,** supported by continued vigor in the service sectors but tempered by a lower coffee crop and uncertainties concerning food production. The authorities are tightening monetary management and maintaining budgetary discipline to reverse the acceleration of inflation that built up in late 2004 and early 2005. They are committed to reducing inflation to 10 percent by year-end, somewhat higher than originally programmed. The external current account deficit is expected to remain broadly unchanged in percent of GDP, reflecting strong grant-financed import growth. Gross international reserves are projected to increase further to about 6½ months of import cover by end-2005.

B. Fiscal Policy

18. **2005 is a transition year for fiscal policy**. The security sector projects (military integration and national police), vital to securing a durable peace, will raise the share of military and security spending in the short term. However, this shift in the composition of expenditure will be gradually reversed with the demobilization of soldiers from mid-2005 onward (MEFP, paragraphs 18 and 19).[7] The overall deficit, commitment basis before grants, is expected to increase by 1 percent of GDP reflecting the DDR/SSR operations, but after grants is expected to narrow to close to zero, and bank financing would be reduced.

19. **The primary fiscal deficit would be contained at 3.5 percent of GDP**, somewhat below the original program indicative target (MEFP, paragraph 18).[8] Revenues are conservatively projected to increase by at least 10 percent, although they would decline in terms of GDP, reflecting the impact of the lowering of import duties. Primary expenditure is projected to remain constant in percent of GDP. While the authorities and staff recognize that civil servant wages are still relatively low, any increase in the wage bill would be offset by expenditure savings and/or higher revenues, to be implemented through a supplementary budget in consultation with staff at the time of the third review.

20. **The DDR and SSR projects are central to a successful political transition, public security, and for poverty reduction by generating a "peace dividend"** (MEFP, paragraph 19). Assuming that the current pace of demobilization will be maintained, the smaller number of soldiers and ex-combatants (than originally assumed) implies an earlier-than-expected completion and greater budgetary savings from late 2005.

21. **Measures are being implemented to reinforce revenue performance and to improve expenditure management and the transparency of public finances** (MEFP, paragraphs 20-22). On revenue, a single taxpayer identification number was introduced. The income tax code is beginning to be applied to resident Burundians employed by international agencies. Customs procedures have been modified to cut the link between the import pre-shipment inspection regime and the exchange control regulations. This measure will protect fiscal revenue as exchange liberalization is pursued. On expenditure, the extrabudgetary funds (except the road fund) will be closed and integrated into the budget with effect from the 2006 budget.[9] Civil service payroll management is being reinforced. A computerized financial management system linked to the BRB, designed to strengthen the monitoring of budget execution and the production of timely financial statements will be installed this year

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[7] The share of social expenditures may be somewhat higher by year-end taking account of the possible use of HIPC debt relief and the payment of wage adjustments to teachers for previous years.

[8] The operating cost of the new police force (2.2 percent of GDP), previously included with the DDR project, has now been included in primary expenditure.

[9] The continuation of the road fund is a part of a World Bank infrastructure improvement program.

within the Ministry of Finance (structural performance criterion). The government's accounts at the BRB will also be rationalized.

C. Monetary and Financial Sector Issues

22. **For the remainder of 2005, the authorities aim to reverse the rapid expansion in reserve money to permit a reduction in broad money growth and inflation** (MEFP, paragraph 24). Broad money is expected to grow by less than nominal GDP. A reduction in NCG, the elimination of direct BRB credit to the coffee sector, and tightened monetary policy is expected to lead to a decline in reserve money from end-March 2005. Credit to the private sector would grow less than nominal GDP, owing in large measure to a much smaller coffee harvest and the coffee credit reforms.

23. **In 2005, the BRB intends to further reinforce its monetary policy to support the program's inflation objective, in particular by smoothing the liquidity impact of the lumpy phasing of foreign assistance** (MEFP, paragraph 25). The efficiency and effectiveness of liquidity management is being strengthened. Burundi's financial sector is concentrated, with the major financial institutions generally sound. The prudential situation of some smaller banks has been strengthened through the injection of new capital and improvements in management.

24. **The authorities are committed to further liberalization of the exchange system** (MEFP, paragraph 27).[10] The delinking of import pre-inspection from the exchange control regime is needed for further exchange regime liberalization and to support exchange market integration. The BRB will limit its intervention in the foreign exchange market to achieving the NIR targets while preventing short-term volatility.

D. Structural Reforms

25. **The authorities' structural reform agenda is focused on promoting private-sector-led growth and reducing poverty**, with the support of the World Bank and other donors (MEFP, paragraphs 28-34). Key components of the strategy, involve pursuing the fundamental reform of the coffee sector, implementing the privatization strategy, and improving governance.

26. **The reform of the coffee sector is essential for poverty reduction, particularly in the rural sector**. The privatization of washing stations will begin by end-June 2005 with the progressive launching of sales offers. An action plan will be adopted by end-November 2005 (structural benchmark) defining the new roles of coffee sector institutions (including OCIBU) to be in place for the start of the 2006 crop season (April 2006), consistent with the coffee sector reform strategy.

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[10] On June 16, 2005, the ceilings on invisibles and on reporting for imports were further raised.

27. **The authorities recognize that liberalization of the economy will not produce real economic growth without being accompanied by privatization in a broad range of sectors, including the financial sector, agricultural processing industries, and other services**. The authorities are committed to initiating the process before end-2005.

28. **Important measures to improve governance and transparency are being implemented.** The audit court (*Cour de Comptes*) is expected to complete the audit of the government's 2004 financial statements by September 2005 and publish its report. The authorities are making further efforts to publicize decisions, decrees, laws, and data in the financial and economic sectors, as well as the MEFP, including on official websites. New anti-money laundering and bankruptcy laws are under consideration and are expected to be passed by parliament by late 2005.

E. HIPC and the Poverty Reduction Strategy

29. **Bank and Fund staff held discussions with the authorities on the requirements for reaching the HIPC decision and completion points**. In particular, understandings were reached on the floating triggers for the completion point, as well as the use and monitoring of budget savings from debt relief. The authorities issued a PRSP preparation status report in April 2005, with a targeted PRSP completion date of end-August 2005. However, the PRSP is now expected to be finalized in late 2005 primarily because of technical reasons and the risk of delays during the election period. The report elaborates on the comprehensive consultations being undertaken, as well as measures being taken to better monitor the incidence and causes of poverty. Despite the post-conflict improvement in social conditions, Burundi is a long way from achieving the MDGs and some deterioration has occurred (Appendix V). The adverse effects of the decade-long conflict will continue to be felt in social indicators for at least another generation, while sporadic fighting continues to disrupt access to health and education services. In addition, the still expanding HIV/AIDS pandemic that affects an estimated one of nine sexually active Burundians will inevitably continue to reduce life expectancy and worsen social conditions. A discussion of the incidence of poverty in Burundi and of actions being taken to make progress toward the MDGs is included in the enhanced HIPC Initiative decision point document.

F. Statistical Issues and Technical Assistance Needs

30. **Burundi has extensive technical assistance needs**, and the authorities will continue to work closely with multilateral and bilateral partners to rebuild administrative capacity in priority areas. Since February 2005, the authorities have been participating in the General Data Dissemination Standards (GDDS) initiative of the Fund, and expect to have their metadata ready by late 2005. While statistical systems are weak and output needs to be improved, especially in the real sector, data have been generally adequate to enable monitoring of the program. Efforts will be undertaken to improve the national statistical base with external support.

IV. Medium-Term Outlook

31. **Burundi's medium-term prospects depend critically on the pursuit of macroeconomically sound policies and an accelerated pace of structural reform**. The medium-term macroeconomic outlook shows real GDP growth averaging 5 percent, led by initially buoyant export growth as the quality of coffee exports improve and with further development of nontraditional exports. Domestic revenue mobilization would remain at the current level of 18-20 percent of GDP and inflation would stabilize at 4 percent. The external current account deficit (excluding official grants) is expected to be high in the short term, reflecting an initial hump in reconstruction activity, but thereafter is expected to follow a high but declining path to about 18½ percent of GDP by 2010 (Table 7). It is expected that financing needs would be met by external grants and loans on highly concessional terms, and enhanced HIPC Initiative debt relief. However, to the extent that a high level of grants was maintained over an extended period—in the context of scaled up grant assistance to support progress toward the MDGs—the reduction in the current account deficit, before grants, would be less. The medium-term external position is vulnerable to fluctuations in the terms of trade, especially with respect to coffee export prices and non-oil import prices, as shown in the sensitivity scenarios.[11] At the same time, a stronger improvement in coffee quality and marketing under the coffee sector reform program than that incorporated in the baseline could translate into higher coffee export prices.

32. **The program financing needs for 2005 is expected to be covered through additional commitments from the EU, the World Bank, and bilaterals, as well as enhanced HIPC Initiative debt relief** (Table 8, and MEFP, paragraph 35). The Burundi authorities are committed to servicing their obligations to the Fund in a timely fashion. Notwithstanding the debt relief obtained from the Paris Club in March 2004, Burundi's debt burden remains unsustainably high.

V. Program Monitoring, Safeguards, and Risks

33. **The program's prior actions, quantitative performance criteria, quantitative indicators, and structural performance criteria are listed in Tables 1 and 2 of the MEFP**. The definitions of the program's performance targets, external assistance adjustors, and underlying assumptions, as well as Burundi's reporting requirements, remain as set out in the updated technical memorandum of understanding (TMU) (annexed to the MEFP). The opening of a Fund resident representative office, and part-time resident representative, will also help support the monitoring of the program.

34. **The third review under the PRGF arrangement is scheduled to be completed by December 2005** (Table 9). Completion will be conditional upon the observance of quantitative performance criteria at end-June 2005, and the structural performance criterion on the introduction of a computerized expenditure-tracking system at the ministry of finance

[11] A sensitivity analysis can also be found in the HIPC decision point document.

(October 2005). The third review will focus on coffee sector reform, progress in privatizing state assets, public financial management, and the liquidation of domestic arrears.

35. **The BRB is implementing the recommendations of the first stage of the Fund's safeguards assessment to improve its governance** (MEFP, paragraph 38).[12] The second stage, which is expected in the second half of 2005, will evaluate the BRB's legal framework and internal audit mechanism. The BRB is now actively addressing the recommendations of its first external audit and on the adoption of International Financial Reporting Standards (IFRS) and improvements in BRB operations, including the strengthening of its internal control systems.

36. **The main risks to the program include regional tensions and setbacks in the political and security situation that could greatly complicate program implementation**. Overall, these risks appear contained given Burundi's track record so far and the international community's commitment to support the transition and peace process. Emerging pressures, especially for higher wages, also pose risks to the budget and financial stability. However, the authorities are committed to containing such pressures in the context of a viable and sustainable budget.

VI. Staff Appraisal

37. **The Burundi authorities have made good progress in strengthening macroeconomic policy performance and deepening the structural reform agenda, despite exogenous shocks**. This progress is noteworthy given the complex political environment and full legislative agenda on priorities needed to bring the transition to a democratically elected government to a close.

38. **Encouraging progress has been made in securing peace and in the transition to a democratically elected government**. A new constitution was approved by a large majority of the population in early 2005 and the election process is under way. With the support of the international community, an ethnically balanced army and national police are being created and the demobilization and reinsertion of former combatants into civil society is proceeding. Continued attention to this key area is needed to ensure that peace is sustained and expenditure can be redirected to the priority social sectors.

39. **Burundi's performance under the program was broadly satisfactory although inflation was higher than programmed**. Fiscal policy has been broadly on track, supported by strong revenue performance. Monetary policy reforms have been introduced and liquidity is being tightened to bring monetary aggregates back in line with the program profile. The

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[12] In light of the limited administrative and technical capacity of the BRB, a two-step approach was adopted. The first stage, which was completed in 2004, focused on areas considered critical for preventing the misuse of IMF resources and of data misreporting, in particular the BRB's external audit, financial reporting mechanisms, and internal control systems.

pace of structural reform has intensified since late 2004, in some important instances well ahead of schedule, notably with respect to the monetary and exchange regimes and the coffee and sugar sectors.

40. **Fiscal policy has been prudent and strong pressures to quickly redress very low civil service wages have been contained**. Revenue performance through early 2005 has been strong and supported by important revenue-enhancing measures. Stronger revenues, possible savings on security spending, and strengthened expenditure management could provide scope to increase gradually civil service wages and begin the payment of domestic arrears later in the year. However, staff notes the importance of securing these resources before contemplating any additional wage increases and ensuring that they are compatible with the program's objectives.

41. **Staff welcomes the significant progress made in reforming and strengthening monetary policy, financial sector supervision, and the BRB's operations**. The replacement of the BRB's individual credit ceilings for financial institutions with a liquidity auction system is an important step in strengthening liquidity management. The recapitalization of some smaller banks and the progressive move toward international prudential standards are also encouraging. The completion of the BRB's first external audit represents significant progress toward bringing its operations in line with international best practices. The staff encourages the authorities to pursue tighter liquidity management in support of the inflation objective, and pursue further reforms to improve the efficiency of monetary policy.

42. **The authorities are to be commended for the major liberalization of the exchange regime since late 2004**. The staff encourages the authorities to pursue this effort toward full and formal convertibility for current international transactions by end-2005 and continue with a flexible exchange rate policy. The staff agrees with the authorities that the BRB should limit its intervention in the foreign exchange market to achieving the NIR targets while preventing short-term volatility.

43. **The staff welcomes the deepening of structural reform, which is key to achieving broad-based growth.** In this context, the staff encourages the authorities to proceed with the privatization of state assets in the productive sectors, especially in the coffee and financial sectors.

44. **Burundi's external debt is unsustainable, even after the full use of traditional debt relief mechanisms**. Burundi's continued commitment to steadfastly implement its PRGF-supported program would be essential to secure debt relief under the enhanced HIPC Initiative. Burundi is encouraged to continue to seek financial assistance on very concessional terms and to strengthen its external debt management capacity. The staff strongly encourages the authorities to reach agreement with non-Paris Club creditors that have not yet provided debt relief on comparable terms

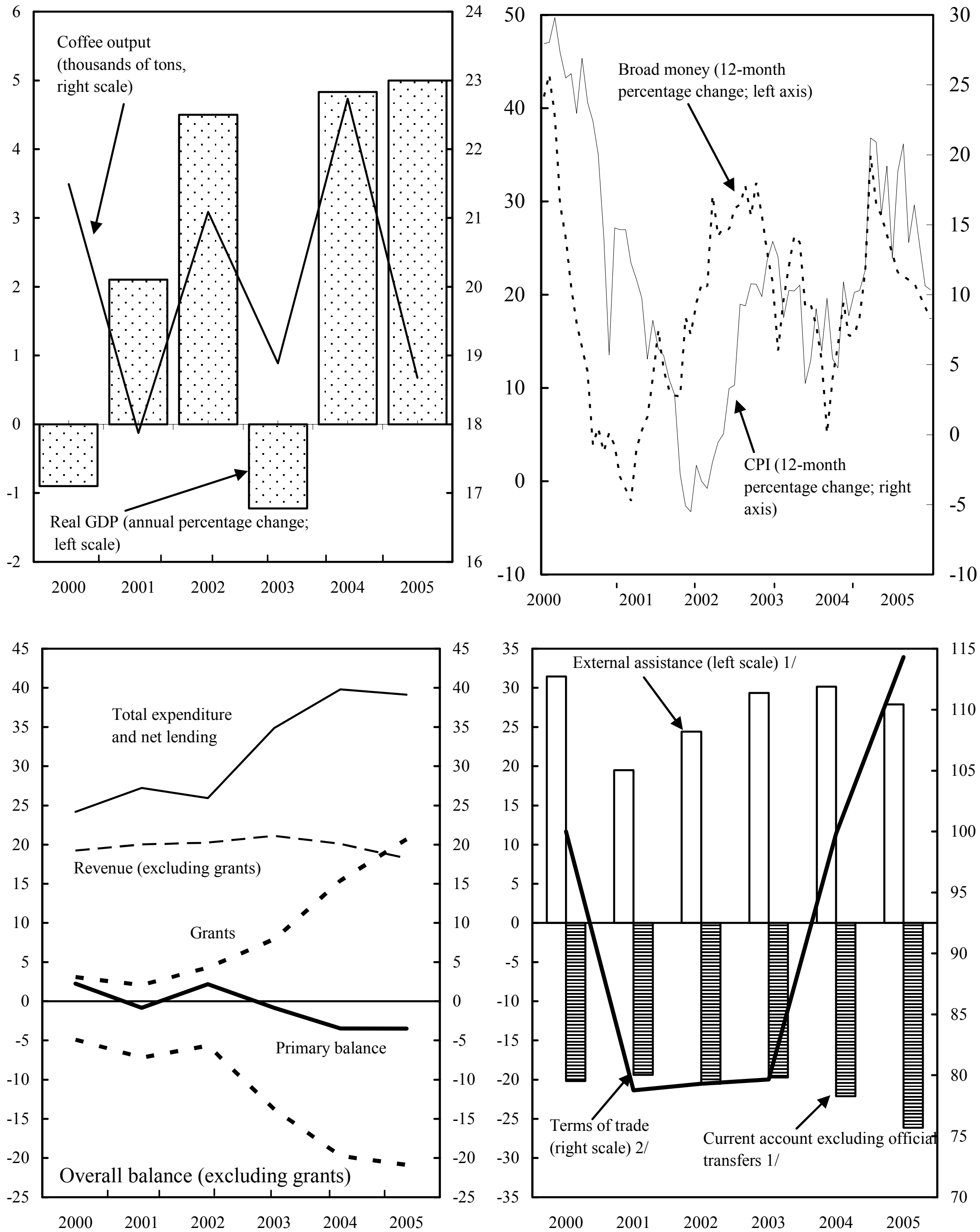
45. **Staff welcomes the progress made in the broad consultative process for the full PRSP** and the objective of completing this work by late 2005. Staff encourages the authorities to set up the expenditure-tracking mechanism and begin the costing of priority policies as quickly as possible.

46. **Burundi faces enormous challenges to achieve progress toward the MDGs**. The authorities' efforts to raise and improve the efficiency of social spending and deepen structural reforms to spur growth will require significant support from the international community in terms of technical assistance and financial aid for many years to come.

47. **The staff commends the BRB for the progress made in addressing the weaknesses identified in the first stage of the safeguards assessment**, notably through the completion of the first external audit and plans to undertake the second stage in 2005, and encourages the authorities to continue to address swiftly these weaknesses.

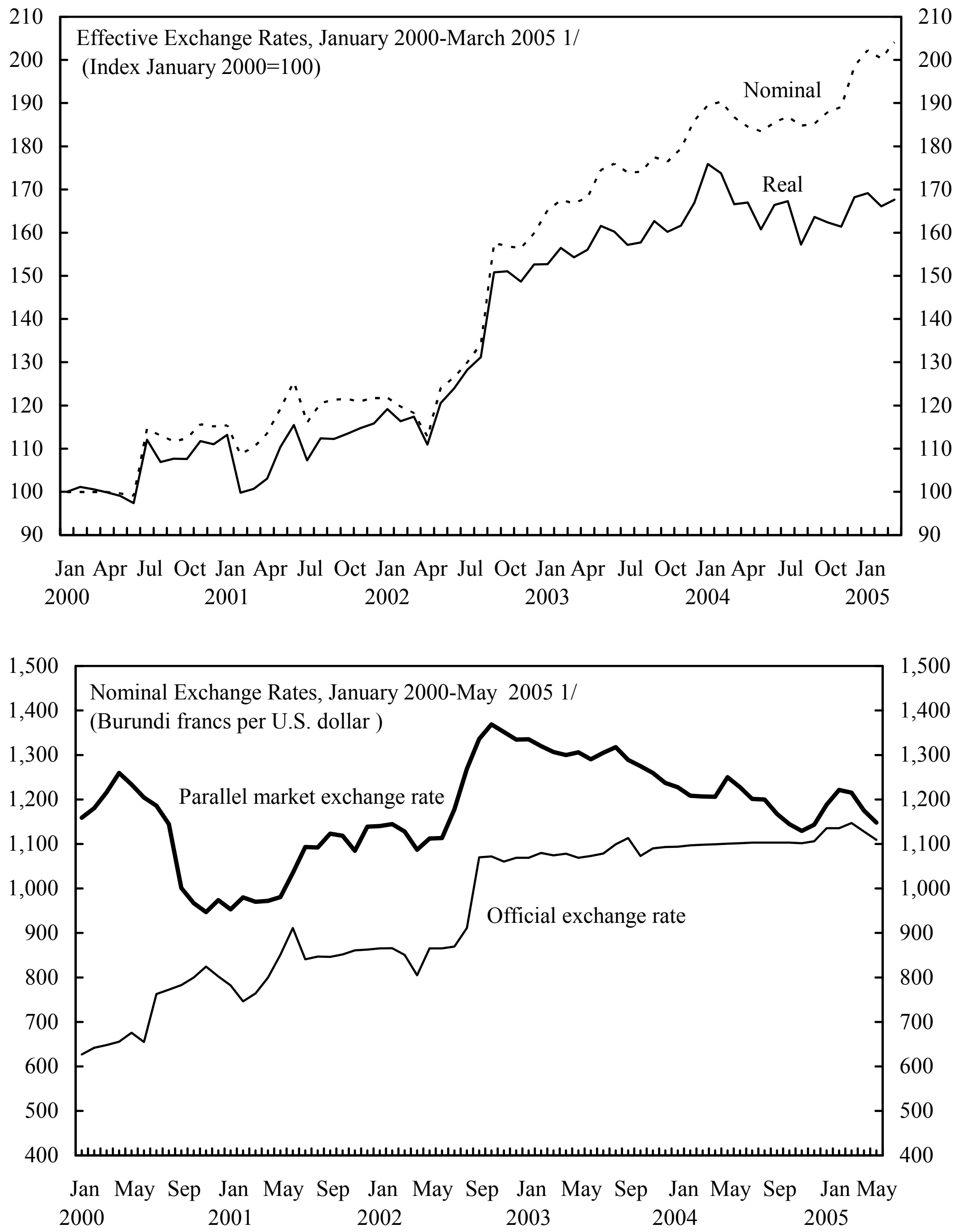
48. **On the risks to the program**, the staff notes that setbacks in the political and security situation could complicate the implementation of the program. However, given the significant progress made on the economic and political fronts, with the help of the international community, and the authorities' demonstrated commitment to the program's objectives, **the staff recommends completion of the second review under the PRGF arrangement**.

Figure 1. Burundi: Economic and Financial Indicators, 2000-2005



Sources: Burundi authorities; and Fund staff estimates and projections.
1/ In percent of GDP.
2/ Index 2000=100.

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



Sources: Burundi authorities; and IMF, Information Notice System.
1/ A rise in the index indicates a depreciation.

Table 1. Burundi: Projected Payments Obligations to the Fund and Indicators of Fund Credit, 2005-08

(In millions of SDRs, except where indicated otherwise)

	2005			2005	2006	2007	2008	Total
	Jan.-Jun. Act.	Jul.-Sep. Proj.	Oct.-Dec. Proj.	Projected				2005-08
Projected payments under existing PRGF disbursements and SDR charges	0.24	0.08	0.17	0.49	0.50	0.51	0.50	2.01
PRGF principal repayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest/charges	0.24	0.08	0.17	0.49	0.50	0.51	0.50	2.01
SDR periodic charges	0.16	0.08	0.08	0.33	0.34	0.34	0.34	1.34
PRGF interest repayments	0.08	0.00	0.08	0.16	0.17	0.17	0.17	0.67
Projected payments under prospective PRGF disbursements		0.00	0.02	0.02	0.09	0.16	0.18	0.45
Principal		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest/charges		0.00	0.02	0.02	0.09	0.16	0.18	0.45
Total projected payments								
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest/charges	0.24	0.08	0.19	0.51	0.59	0.67	0.68	2.46
SDR periodic charges	0.16	0.08	0.08	0.33	0.34	0.34	0.34	1.34
PRGF	0.08	0.00	0.10	0.18	0.26	0.33	0.35	1.12
Total projected payments								
In millions of SDRs	0.24	0.08	0.19	0.51	0.59	0.67	0.68	2.46
In percent of exports of goods and service credits	0.45	0.16	0.36	0.96	1.09	1.02	0.96	...
In percent of gross international reserves	0.29	0.10	0.23	0.63	0.78	0.86	0.84	...
Outstanding IMF credit (end of period)								
In millions of SDRs	33.55	40.70	47.85	47.85	62.15	69.30	69.30	...
In millions of U.S.dollars	41.00	62.68	73.69	73.69	95.09	106.03	106.03	...
In percent of quota	43.57	52.86	62.14	62.14	80.71	90.00	90.00	...
In percent of exports of goods and service credits	50.23	76.80	90.29	90.29	114.43	105.56	97.66	...
In percent of gross international reserves	32.72	50.02	58.81	58.81	81.89	88.59	85.24	...
Memorandum items:								
Repayments of GRA resources (drawn as emergency post-conflict assistance)								
Actual/Projected PRGF disbursements	7.15	7.15	7.15	14.30	14.30	7.15	0.00	35.75
Exports of goods and services credits (in millions of U.S. dollars)	81.62	81.62	81.62	81.62	83.10	100.45	108.57	...
Gross official reserves (in millions of U.S. dollars)	125.30	125.30	125.30	125.30	116.11	119.68	124.39	...

Source: IMF, Finance Department.

Table 1. Burundi: Selected Economic and Financial Indicators, 2003-08

	2003	2004		2005		2006	2007	2008
		Prog. 1/ CR No. 05/55	Act.	Prog. 1/ CR No. 05/55	Rev. prog.	Projections		
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
Real GDP growth	-1.2	5.5	4.8	5.0	5.0	5.0	5.0	5.0
GDP deflator	11.6	8.0	8.3	6.7	15.3	8.4	5.5	5.4
Consumer prices (period average)	10.7	7.5	8.0	6.6	16.3	7.8	5.1	5.0
Consumer prices (end of period)	10.7	8.5	11.8	5.5	10.3	5.2	5.0	5.0
External sector								
Exports, f.o.b. (in U.S. dollars)	21.0	9.4	27.5	39.1	44.4	0.1	20.8	8.0
Imports, f.o.b. (in U.S. dollars)	17.5	44.9	13.4	6.2	42.2	-1.6	3.1	3.9
Export volume	28.8	-18.2	-10.9	39.2	17.1	-0.3	23.0	5.4
Import volume	25.6	30.9	-0.7	6.5	32.1	-3.0	2.8	3.2
Terms of trade (deterioration -)	0.4	20.9	25.3	0.1	14.5	-1.1	-2.0	1.8
Real effective exchange rate (annual average; depreciation -) 2/	-18.6	...	-4.1	...	-1.1	...	...	...
Central government								
Revenue	14.9	4.9	8.0	9.7	9.9	16.2	12.2	11.8
Total expenditure and net lending (commitment basis)	48.4	36.4	29.6	15.0	18.9	0.5	0.7	8.7
Noninterest current expenditure (excl. demobilization and elections) 3/	15.9	22.7	18.6	19.7	18.2	11.5	11.6	11.0
	(Change in percent of beginning-of-period M2, unless otherwise indicated)							
Money and credit								
Net foreign assets	19.0	-7.7	-11.1	2.8	11.0	0.0	1.1	1.2
Domestic credit	14.0	30.6	34.1	11.6	6.1	9.2	9.0	8.6
Government	9.6	18.9	32.8	-4.9	-13.3	-2.5	0.0	0.0
Private sector	5.5	13.8	1.7	16.4	21.2	12.2	9.3	8.9
Money and quasi money (M2)	23.1	18.6	15.7	14.9	17.4	16.5	15.0	10.7
Income velocity (ratio of GDP to M2; end of period)	3.7	3.6	3.6	3.5	3.7	3.7	3.5	3.5
Reserve money (12-month growth rate)	10.9	26.9	37.2	7.7	-1.1	2.7	13.3	10.7
Central bank refinancing rate (in percent; end of period) 4/	14.5	14.5	14.5	...	14.5	...	...	...
Commercial bank lending rate (in percent; medium term; period average)	20.7	20.5	20.5	...	...	...	...	...
	(In percent of GDP)							
Central government								
Revenue (excluding grants)	21.1	19.4	20.1	19.0	18.2	18.6	18.8	19.0
Total expenditure and net lending	34.9	42.2	39.8	43.4	39.1	34.5	31.4	30.8
Primary budget balance (excluding foreign-financed projects) 3/	-0.8	-3.2	-3.5	-4.3	-3.5	-2.5	-2.2	-1.9
Overall balance (commitment basis)								
Excluding grants	-13.8	-22.8	-19.7	-24.3	-20.9	-15.9	-12.5	-11.8
Including grants	-5.9	0.3	-4.3	-3.6	-0.2	0.9	-0.2	0.8
Savings-investment balances 5/								
Current account balance	-4.8	-9.5	-7.2	-15.5	-7.1	-10.5	-9.9	-8.6
Gross investment	10.4	12.4	13.7	12.8	11.9	11.5	11.8	11.7
Public	8.3	9.4	10.7	9.4	8.6	7.5	7.5	7.1
Private	2.1	3.0	3.0	3.3	3.3	4.0	4.3	4.6
Gross national savings	5.5	3.0	6.5	-2.7	4.8	1.0	1.9	3.2
Public	1.1	4.4	5.6	3.1	6.2	3.6	4.8	5.5
Private	4.4	-1.4	0.9	-5.8	-1.5	-2.6	-3.0	-2.4
	(In millions of U.S. dollars, unless otherwise indicated)							
External sector								
Current account 5/	-28.8	-63.2	-47.7	-120.7	-56.8	-94.9	-96.0	-89.2
Overall balance of payments	-15.4	25.4	13.2	-27.0	0.4	-49.8	-38.8	-39.5
Gross official reserves (end of period)	68.9	81.7	69.5	115.0	125.3	116.1	119.7	124.4
Gross official reserves (in months of imports, c.i.f.)	5.6	4.3	5.0	5.8	6.4	6.0	6.0	6.0
Net official reserves (in months of imports, c.i.f.)	2.7	1.7	1.4	1.6	2.2	2.0	2.0	2.0
Debt-service ratio (scheduled; in percent of export and service receipts)	92.6	146.0	117.9	62.4	62.2	64.0	51.3	47.9
Stock of debt	1,336.4	1,221.2	1,382.3	1,434.4	1,532.9	1,536.0	1,537.6	1,519.2
External payments arrears	184.7	...	78.6	...	0.0	0.0	0.0	0.0
Memorandum item:								
GDP at current market prices (in billions of Burundi francs)	644.2	734.3	731.2	822.5	885.0	1,007.8	1,117.2	1,237.2

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

1/ The program column for 2005 has been revised to reflect a reclassification of fiscal spending on the police force and of external program grants.
2/ Data through April 2005.
3/ The program and revised program columns for 2005 have been adjusted to reflect a reclassification of fiscal spending on the new police force from projects to recurrent spending
4/ Data through June 15, 2005.
5/ The program columns for 2004 and 2005 reflect a reclassification of program grants from the capital account to official transfers.

Table 3. Burundi: Central Government Operations, 2003-05

	2003	2004		2005							
		Prog.	Prel.	Jan.-Mar.		Jan.-Jun.		Jan.-Sep.		Jan.-Dec.	
				Prog. 1/ CR No. 05/55	Prel.	Prog. 1/ CR No. 05/55	Proj.	Prog. 1/ CR No. 05/55	Rev. Prog.	Prog. 1/ CR No. 05/55	Rev. Prog.
	(In billions of Burundi francs)										
Revenue	136.0	142.6	146.9	43.3	41.2	81.0	83.3	118.0	121.2	156.4	161.4
Tax revenue	120.5	128.9	133.6	35.5	39.5	71.0	73.3	106.5	109.7	142.0	147.0
Income tax	32.4	32.0	35.7	8.7	11.5	17.5	19.0	26.2	28.2	35.0	38.0
Taxes on goods and services	58.4	65.3	67.6	18.4	19.6	36.7	37.5	55.1	56.3	73.5	75.5
Taxes on international trade	29.5	31.0	30.0	8.2	8.1	16.4	16.4	24.7	24.7	32.9	32.9
Other tax revenue	0.3	0.6	0.3	0.2	0.2	0.3	0.3	0.5	0.5	0.7	0.7
Nontax revenue	15.5	13.7	13.4	7.8	1.7	10.0	10.0	11.5	11.5	14.4	14.4
Expenditure and net lending	224.8	310.1	291.2	91.8	68.3	180.9	163.5	269.3	259.8	356.6	346.3
Current expenditure 2/	141.8	175.1	163.2	49.3	43.0	98.1	99.8	148.0	150.8	196.6	197.7
Salaries 2/	53.8	61.8	58.6	19.0	14.7	38.2	38.2	56.9	56.9	75.5	75.5
Civilian	30.8	36.5	34.8	10.0	8.1	20.1	20.1	30.1	30.1	40.1	40.1
Military	23.0	25.3	23.8	6.3	6.0	12.5	12.5	18.8	18.8	25.1	25.1
New police force (SSR program) 2/				2.7	0.7	5.6	5.6	8.0	8.0	10.3	10.3
Goods and services	47.3	54.7	53.6	15.6	12.3	31.2	31.2	48.0	48.0	64.0	64.0
Civilian	23.4	29.7	28.1	7.0	6.9	14.0	14.0	20.9	20.9	27.9	27.9
Military	24.0	25.0	25.5	6.7	4.4	13.4	13.4	20.0	20.0	26.7	26.7
New police force (SSR program) 2/				1.9	1.0	3.9	3.9	7.0	7.0	9.4	9.4
Transfers and subsidies	15.8	27.0	26.4	6.6	6.8	13.3	13.3	19.9	19.9	26.5	24.5
Of which : to coffee sector	5.4	7.6	7.6	0.0	0.0	0.0	0.0	0.0	0.0	4.0	0.0
Interest payments (due)	24.9	31.7	24.5	8.2	9.2	15.4	17.1	23.3	26.1	30.6	33.7
Domestic	13.3	17.6	14.0	4.9	4.8	9.8	9.8	14.6	14.6	19.5	19.5
Foreign	11.5	14.1	10.5	3.3	4.4	5.7	7.4	8.7	11.5	11.1	14.2
DDR project		17.6	3.3	7.4	1.5	17.5	9.0	27.0	17.0	35.3	24.1
Elections		9.3	3.3	10.0	8.0	16.1	11.3	16.1	18.3	16.1	18.3
Project expenditure	85.0	110.1	124.0	25.5	15.8	50.3	44.4	79.6	75.2	110.6	108.2
Domestic resources 3/	26.5	25.0	36.2	6.9	5.5	13.8	15.3	20.6	22.9	27.5	30.5
External resources	58.4	85.1	87.8	18.7	10.4	36.5	29.2	59.0	52.4	83.1	77.7
Net lending	-2.0	-2.0	-2.6	-0.5	0.0	-1.0	-1.0	-1.5	-1.5	-2.0	-2.0
Overall balance (commitment basis)	-88.7	-167.4	-144.3	-48.5	-27.1	-99.9	-80.2	-151.3	-138.6	-200.2	-184.8
(after grants)	-37.9	2.4	-31.7	-17.9	-5.2	-9.6	-19.9	-35.0	-30.9	-29.4	3.8
Of which: primary balance 2/	-5.4	-23.8	-25.4	-4.2	1.9	-14.4	-13.6	-25.8	-24.9	-35.0	-31.0
Change in arrears (reduction -)	-2.2	-61.4	-58.6	-9.2	-6.4	-10.2	-7.1	-11.2	-8.1	-23.2	-38.0
External (interest)	4.2	-49.5	-49.1	-8.2	-5.1	-8.2	-5.1	-8.2	-5.1	-8.2	-21.0
Domestic	-6.4	-11.9	-9.5	-1.0	-1.3	-2.0	-2.0	-3.0	-3.0	-15.0	-17.0
Overall balance (cash basis)	-90.9	-228.8	-202.8	-57.6	-33.5	-110.1	-87.4	-162.4	-146.8	-223.3	-222.8
(after grants)	-40.1	-59.1	-90.2	-27.1	-11.7	-19.8	-27.0	-46.1	-39.0	-52.6	-34.2
Financing (identified)	90.9	228.9	204.7	57.5	37.2	100.4	81.8	151.3	141.2	193.5	217.3
External grants	50.8	169.8	112.6	30.5	25.5	80.6	54.8	105.1	102.2	140.9	183.0
Program support	15.1	80.1	65.0	4.5	14.2	22.0	19.3	22.0	38.8	28.8	92.7
Project grants	35.8	62.8	40.9	8.6	1.8	21.2	15.1	33.8	28.1	52.7	47.9
Special programs		26.9	6.6	17.4	9.5	37.4	20.3	49.3	35.3	59.5	42.4
DDR 4/		17.6	3.3	7.4	1.5	21.3	9.0	33.2	17.0	43.4	24.1
Elections		9.3	3.3	10.0	8.0	16.1	11.3	16.1	18.3	16.1	18.3
External borrowing	22.4	20.3	28.9	22.1	24.1	10.8	33.4	29.1	33.4	53.5	58.0
Program loans	22.4	16.3	0.0	10.8	18.7	10.8	29.9	26.6	29.9	53.3	41.4
Project loans	22.7	22.2	46.8	10.1	8.5	15.3	14.1	25.2	24.3	30.5	29.8
Amortization (due)	-43.2	-37.7	-40.5	-8.2	-9.0	-17.9	-19.7	-27.7	-30.6	-38.2	-42.2
Change in amortization arrears	-9.0	-89.2	-65.4	-36.8	-10.6	-46.5	-10.6	-46.5	-10.6	-46.5	-66.1
Debt relief (rescheduling; cancellation)	29.4	108.6	88.0	46.1	16.5	49.0	19.7	51.5	20.4	54.4	95.1
Privatization proceeds					0.0	2.0	0.0	4.0	2.0	5.0	3.0
Domestic	17.7	38.8	63.2	5.0	-12.5	7.0	-6.4	13.0	3.6	-6.0	-26.8
Banking sector	15.2	32.9	57.0	4.0	-8.8	5.0	-6.4	10.0	3.6	-10.0	-26.8
Nonbank sector	2.5	5.9	6.2	1.0	-3.7	2.0	0.0	3.0	0.0	4.0	0.0
Financing gap/errors and omissions	0.0	0.0	-1.9	0.1	-3.6	9.7	5.6	11.2	5.5	29.8	5.6

Table 3. Burundi: Central Government Operations, 2004-05 (concluded)

	2003	2004		2005							
		Prog.	Prel.	Jan-March		Jan-June		Jan-Sept.		Jan-Dec.	
				Prog. 1/ CR No. 05/55	Prel.	Prog. 1/ CR No. 05/55	Proj.	Prog. 1/ CR No. 05/55	Rev. Prog.	Prog. 1/ CR No. 05/55	Rev. Prog.
				(In percent of GDP, unless otherwise indicated)							
Memorandum items:											
Revenue	21.1	19.4	20.1	5.3	4.7	9.8	9.4	14.3	13.7	19.0	18.2
Total expenditure and net lending	34.9	42.2	39.8	11.2	7.7	22.0	18.5	32.7	29.4	43.4	39.1
Of which: current expenditure 2/	22.0	23.8	22.3	6.0	4.9	11.9	11.3	18.0	17.0	23.9	22.3
project expenditure 3/	13.2	15.0	17.0	3.1	1.8	6.1	5.0	9.7	8.5	13.5	12.2
Primary expenditure (prog. definition) 2/ 3/	22.0	23.9	24.0	7.0	5.3	13.6	12.2	19.4	18.6	25.2	23.8
Military and security expenditure 2/ 5/	7.3	6.9	6.8	2.1	1.4	4.3	4.0	6.5	6.1	8.7	8.1
Social expenditure	6.5	6.7	6.7	...	...	...	...	...	...	6.9	6.4
Health	1.0	1.0	1.0	...	...	...	...	...	...	1.2	1.1
Education	5.0	5.1	5.2	...	...	...	...		...	5.1	4.7
Other (youth, women, and refugees)	0.6	0.6	0.5	...	...	...	...	...	...	0.6	0.6
DDR project		2.4	0.5	0.9	0.2	2.1	1.0	3.3	1.9	4.3	2.7
Primary balance 2/ 3/	-0.8	-3.2	-3.5	-0.5	0.2	-1.7	-1.5	-3.1	-2.8	-4.3	-3.5
Overall balance											
Commitment basis, before grants	-13.8	-22.8	-19.7	-5.9	-3.1	-12.1	-9.1	-18.4	-15.7	-24.3	-20.9
Commitment basis, after grants	-5.9	0.3	-4.3	-2.2	-0.6	-1.2	-2.2	-4.3	-3.5	-3.6	0.4
Cash basis, before grants	-14.1	-31.2	-27.7	-7.0	-3.8	-13.4	-9.9	-19.7	-16.6	-27.2	-25.2
Cash basis, after grants	-6.2	-8.0	-12.3	-3.3	-1.3	-2.4	-3.1	-5.6	-4.4	-6.4	-3.9
Financing (net)	14.1	31.2	28.0	7.0	4.2	12.2	9.2	18.4	16.0	23.5	24.5
External	7.9	23.1	15.4	3.7	2.9	9.8	6.2	12.8	11.6	17.1	20.7
Domestic	2.7	5.3	8.6	0.6	-1.4	0.9	-0.7	1.6	0.4	-0.7	-3.0
Of which: banking sector	2.4	4.5	7.8	0.5	-1.0	0.6	-0.7	1.2	0.4	-1.2	-3.0
Financing gap				0.0	-0.4	1.2	0.6	1.4	0.6	3.6	0.6
GDP at current market prices (in billions of Burundi francs)	644.2	734.3	731.2	822.5	885.0	822.5	885.0	822.5	885.0	822.5	885.0

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

1/ The program column for 2005 has been revised to reflect a reclassification of fiscal spending on the police force from DDR and SSR project to recurrent spending.
2/ The program targets for primary spending and the wage bill have been adjusted to reflect a reclassification of SSR (new police force) spending from special projects to current spending (2.4 percent of GDP).
3/ Includes counterpart funds from earmarked World Bank credits.
4/ The original program projections for June, September and December 2005 include partial SSR donor support, which is not included in the revised program projections.
5/ Does not include spending under the DDR project.

Table 4. Burundi: Monetary Survey and Central Bank Accounts, 2003-05

	2004		2005								
	December		March			June		September		December	
	Prog. CR No. 05/55	Act.	Prog. CR No. 05/55	At Progr. Exch. Rate	Prel.	Prog. CR No. 05/55	Proj.	Prog. CR No. 05/55	Rev. Prog.	Prog. CR No. 05/55	Rev. Prog.
	(In billions of Burundi francs)										
Monetary survey											
Net foreign assets	31.8	25.9	27.5	57.2	62.4	18.9	41.7	17.3	23.1	37.6	51.2
Central bank	35.1	21.9	24.7	47.5	51.8	15.9	38.7	14.0	19.9	34.1	47.7
Deposit money banks	-3.3	4.0	2.8	9.8	10.7	3.0	3.0	3.3	3.3	3.5	3.5
Net domestic assets	174.3	175.1	173.1	170.4	165.3	189.0	178.0	195.8	200.9	199.1	184.9
Domestic credit	267.7	274.1	258.2	261.5	261.5	276.3	265.2	285.4	289.9	291.4	277.1
Net claims on the government	78.1	102.2	82.2	93.5	93.5	81.3	101.5	88.5	111.4	68.6	80.8
Central government	89.3	113.4	93.3	104.6	104.6	94.3	112.6	99.3	122.6	79.3	92.2
Other government (deposits)	-11.2	-11.2	-11.1	-11.1	-11.1	-11.0	-11.1	-10.8	-11.2	-10.7	-11.4
Credit to the economy	189.6	171.9	175.9	168.0	168.0	195.0	163.7	196.9	178.5	222.8	196.3
Claims on public enterprises	4.0	6.9	3.9	6.8	6.8	3.7	6.0	3.6	5.1	3.4	3.4
Claims on private sector	185.6	165.0	172.1	161.2	161.2	191.3	157.7	193.4	173.4	219.4	192.9
Other items, net (assets +)	-93.4	-98.9	-85.1	-91.1	-96.3	-87.3	-87.2	-89.6	-89.0	-92.3	-92.3
Money and quasi money	206.0	201.0	200.6	227.7	227.7	207.9	219.7	213.1	224.0	236.7	236.1
Money	153.1	149.0	148.3	169.4	169.4	155.6	164.8	157.6	166.3	174.6	175.2
Currency in circulation	58.0	57.2	54.3	55.3	55.3	61.7	57.2	57.7	53.2	62.8	56.1
Total deposits	148.1	143.9	146.2	172.4	172.4	146.3	162.6	155.4	170.8	173.8	180.0
Demand deposits	95.2	91.8	94.0	114.1	114.1	94.0	107.6	99.8	113.1	111.7	119.1
Quasi money	52.9	52.1	52.3	58.3	58.3	52.3	55.0	55.5	57.7	62.1	60.8
Central bank											
Net foreign assets	35.1	21.9	24.7	47.5	51.8	15.9	38.7	14.0	19.9	34.1	47.7
Foreign assets	89.9	77.1	88.9	109.7	119.7	91.3	103.6	89.4	96.3	120.8	137.8
Foreign liabilities	54.8	55.2	64.1	62.2	67.9	75.4	64.8	75.4	76.4	86.7	90.1
Of which: use of Fund resources	42.7	45.3	52.0	52.0	58.0	63.3	54.9	63.3	66.5	74.6	80.2
Net domestic assets	35.0	53.8	43.7	40.8	36.5	57.6	45.8	57.5	56.1	41.4	27.3
Domestic credit	90.7	112.8	91.0	92.9	92.9	107.2	95.2	109.4	107.4	95.5	81.3
Government (net)	80.0	106.2	84.1	90.1	90.1	85.3	98.1	90.5	107.5	80.5	77.1
Central government	84.0	109.5	88.0	93.0	93.0	89.0	101.0	94.0	111.0	84.0	80.6
Other government	-4.0	-3.3	-3.9	-2.9	-2.9	-3.8	-3.0	-3.5	-3.5	-3.5	-3.5
Nongovernment credit	10.7	6.6	6.9	2.8	2.8	21.9	-2.9	18.8	-0.2	15.0	4.1
Private sector	1.7	1.8	1.8	2.2	2.2	1.8	3.0	1.9	4.0	1.9	7.0
Commercial banks	6.5	3.3	6.2	0.0	0.0	22.8	-8.0	20.6	-10.0	18.7	-8.0
Nonbank financial institutions	2.5	1.5	-1.1	0.6	0.6	-2.7	2.1	-3.6	5.8	-5.6	5.1
Other items, net (including revaluation)	-55.7	-59.0	-47.3	-52.1	-56.4	-49.6	-49.4	-51.8	-51.3	-54.1	-54.0
Reserve money	70.1	75.8	68.4	88.3	88.3	73.5	84.5	71.5	75.9	75.5	74.9
Currency in circulation	58.0	57.2	54.3	55.3	55.3	61.7	57.2	57.7	53.2	62.8	56.1
Commercial bank reserves (including cash in vault)	10.2	17.4	12.2	31.4	31.4	10.0	25.7	11.9	21.1	10.8	17.2
Other nonbank deposits	1.9	1.2	1.9	1.6	1.6	1.9	1.6	1.9	1.6	1.9	1.6
Memorandum items:	(Units as indicated)										
Gross international reserves											
in millions of U.S. dollars	81.7	67.6	84.6	100.8	101.1	87.0	95.5	85.1	89.5	115.0	125.3
in months of imports c.i.f.	4.0	5.0	4.2	5.3	5.3	4.4	4.9	4.3	4.6	5.8	6.4
M2 growth (12-month percent change)	18.6	15.7	18.9	34.9	34.9	15.8	22.4	15.3	21.2	14.9	17.4
Credit to the economy (12-month percent change)	12.2	1.8	2.5	-2.3	-2.3	9.8	-8.0	8.1	-2.1	17.5	14.2
Reserve money (12-month percent change)	26.9	37.2	21.8	46.3	46.3	3.3	10.0	3.2	9.5	7.7	-1.1
Money multiplier (M2/reserve money)	2.9	2.7	2.9	2.6	2.6	2.8	2.6	3.0	3.0	3.1	3.2
Velocity (GDP/M2; end period)	3.6	3.6	...	...	...	...	...	...	...	3.5	3.7
Exchange rate (Burundi francs per U.S. dollar)	1,150	1,110	1,050	1,050	1,145	...	...	...	...	...	...

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

Table 5. Burundi: Balance of Payments, 2003-08

	2003	2004		2005		2006	2007	2008
		Prog. 1/ CR No. 05/55	Actual	Prog. 1/ CR No. 05/55	Rev. Prog.	Projections		
	(In millions of U.S. dollars)							
Current account	-28.8	-63.2	-47.7	-120.7	-56.8	-94.9	-96.0	-89.2
(excluding official transfers)	-127.0	-259.4	-161.8	-251.9	-231.4	-228.6	-214.6	-214.9
Trade balance	-88.4	-150.2	-94.9	-145.2	-134.0	-130.8	-122.5	-123.9
Exports, f.o.b.	37.5	43.9	47.9	61.1	69.1	69.2	83.6	90.3
Of which: coffee	22.9	26.2	29.4	42.8	48.5	46.2	58.7	63.4
Imports, f.o.b.	-125.9	-194.1	-142.8	-206.3	-203.1	-199.9	-206.1	-214.2
Of which: petroleum products	-22.0	-58.7	-26.5	-60.5	-40.0	-43.2	-43.0	-44.0
Services (net)	-27.7	-94.7	-51.3	-93.4	-77.4	-79.8	-75.8	-76.0
Credits	17.5	7.2	11.1	11.4	12.5	13.9	16.9	18.3
Debits	-45.2	-101.8	-62.4	-104.8	-89.9	-93.7	-92.6	-94.2
Income (net)	-17.9	-21.9	-27.3	-21.6	-32.5	-32.2	-32.1	-32.5
Of which: interest on public debt (including IMF charges)	-11.1	-10.8	-9.9	-10.9	-12.6	-12.9	-12.9	-12.9
Current transfers (net) 2/	105.2	203.6	125.9	139.5	187.1	147.9	134.4	143.1
Private (net)	7.0	7.4	11.8	8.2	12.5	14.2	15.8	17.5
Official (net)	98.2	196.3	114.1	131.3	174.6	133.6	118.6	125.6
Of which: program grants	14.0	72.5	59.0	27.3	84.1	85.0	75.0	85.0
Capital account 1/	33.0	73.1	49.0	50.0	43.6	42.0	44.1	45.6
Financial account	-12.4	11.3	16.6	43.7	13.5	3.1	13.1	4.1
Direct investment	0.0	0.0	0.0	5.0	1.5	10.0	11.0	11.3
Medium- and long-term official loans (net)	2.0	-0.5	11.5	45.1	27.7	-6.7	2.3	-7.0
Disbursements	41.9	35.0	42.5	79.4	65.8	33.6	40.9	32.1
Project loans	21.0	20.2	42.5	28.8	28.8	23.0	23.4	23.9
Program loans	20.9	14.8	0.0	50.6	37.0	10.6	17.5	8.2
Amortization (excluding IMF)	-39.9	-35.5	-31.0	-34.4	-38.2	-40.3	-38.6	-39.1
Other capital	-14.4	11.7	5.2	-6.3	-15.6	-0.2	-0.2	-0.3
Errors and omissions	-7.3	4.2	-4.8	0.0	0.0	0.0	0.0	0.0
Overall balance	-15.4	25.4	13.2	-27.0	0.4	-49.8	-38.8	-39.5
Financing (- increase in assets)	15.4	-25.4	-13.2	-0.9	-16.4	14.1	-1.2	-1.6
Change in central bank net foreign reserves (- increase)	-9.8	0.7	12.8	-0.6	-23.6	4.6	-1.2	-1.6
IMF, net	-13.5	-10.4	-10.6	-32.2	-22.0	-22.0	-11.0	0.0
Other reserves, net	3.7	11.1	23.4	31.6	-1.6	26.7	9.8	-1.6
Change in arrears (+ increase)	-1.9	-125.0	-106.1	-51.2	-78.7	0.0	0.0	0.0
Exceptional financing 3/	27.1	99.0	80.1	50.9	85.9	9.5	0.0	0.0
Cancellation	0.0	33.3	41.0	0.0	0.0	0.0	0.0	0.0
Rescheduling of debt service and arrears	27.1	65.7	39.1	50.9	85.9	9.5	0.0	0.0
Financing gap		0.0	0.0	27.8	16.0	35.7	40.0	41.1
Potential HIPC relief					16.0	35.7	40.0	41.1
	(In percent of GDP, unless otherwise indicated)							
Memorandum items:								
Trade balance	-14.9	-22.5	-14.3	-18.6	-16.7	-14.5	-12.6	-11.9
Current account	-4.8	-9.5	-7.2	-15.5	-7.1	-10.5	-9.9	-8.6
Of which: excluding current official transfers	-21.3	-38.9	-24.4	-32.3	-28.9	-25.4	-22.1	-20.6
Gross official reserves								
In million of U.S. dollars	68.9	81.7	69.5	115.0	125.3	116.1	119.7	124.4
In months of imports, c.i.f.	5.6	4.3	5.0	5.8	6.4	6.0	6.0	6.0
Debt-service ratio (in percent of exports of goods and services)								
Scheduled current maturities (including IMF)	92.6	146.0	117.9	62.4	62.2	64.0	51.3	47.9
Actual debt service (including IMF; after recheduling)	46.8	87.5	67.2	50.1	53.3	52.5	51.3	47.9
Exchange rate (Burundi francs per U.S. dollar; period average)	1082.6	1100.5	1100.9	1053.3	1105.6	1117.9	1152.5	1186.1
Nominal GDP (in millions of U.S. dollars)	595.0	667.2	664.1	780.9	800.4	901.6	969.3	1043.0

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

1/ Program figures were adjusted in line with a reclassification of grants, as explained below.
2/ Program grants have been reclassified from the capital account to current transfers.
3/ Including the March 2004 Paris Club rescheduling at Naples terms, and assuming rescheduling of current debt service and arrears to non-Paris Club creditors at comparable terms.

Table 6. Burundi: Structural Reform in 2004 and 2005

Measures	Status
Poverty Reduction and Social	
• Preparation of full-PRSP.	Expected late-2005 (Originally May 2005). Work in process based on national consultations.
• Implementation of tracking mechanism for poverty-related expenditure.	October 2005. A computerized financial management system (IFMIS) will be introduced in the Ministry of Finance.
• Raising of public social expenditure on social sectors.	From 6.5 percent of GDP in 2003; 6.7 percent in 2004; 6.4 percent in 2005 budget, before consideration of HIPC relief spending and payment of retroactive wage adjustments for teachers.
Fiscal Management and Transparency	
• Extension of the transactions tax to domestically produced goods and services.	Implemented in January 2004.
• Introduction of single taxpayer identification number.	July 2005 (originally 2004).
• Adoption of a new budget and government accounts code.	December 2004. Applied with the 2005 budget.
• Reinforcement of key administrative capacity in the Ministry of Finance.	By end-2005, skilled advisors and experts to be hired with the support of the World Bank PAGE project.
• Creation of an internal audit service in the Ministry of Finance.	2005.
• Completion of audited inventory of domestic arrears.	Implemented in June 2005.
• Completion of civil service census and cleaning up of payrolls accordingly.	September 2005.
• Strengthening of payroll management	In June, the Ministry of Finance posted two budget control officers at the ministry of the civil service to monitor wage bill commitments and payments.
• Parliamentary approval of anti-money laundering law (AML)	Late 2005
Money and Exchange Regime	
• Enforcement of commercial bank compliance with prudential regulations.	Bank-by-bank assessment completed in March 2004. Minimum capital requirements raised substantially. Two noncompliant banks subsequently closed and being liquidated.
• Adoption of enhanced monetary management tools.	Structure of BRB refinancing rate revised and tighter criteria for commercial bank reserves eligibility introduced in June 2004.
• Introduction of market based liquidity auctions.	Implemented in April 2005 (originally June 2004).
• Elimination of parallel market exchange differential.	Differential reduced to around 3 percent (from 30 percent in 2002).
• Liberalization of foreign exchange transactions.	Since 2004, five foreign exchange bureaus have been established and admitted to central bank foreign exchange auctions.
	Reporting and administrative requirements on current account transactions will be eased further in 2005.

Table 6. Burundi: Structural Reform in 2004 and 2005

Measures	Status
• Mandatory nature of BRB auction reference rate for commercial bank transactions to be abolished.	Implemented in December 2004. Official rate based on weighted average of market rates.
• BRB to unify its multiple bank-by-bank credit ceilings.	January 2005.
• Elimination of remaining export surrender requirements.	Done ahead of schedule in January 2005.
Sectoral Policies	
Coffee	
• Financial audit of coffee marketing parastatal (OCIBU).	Audit completed in July 2004. Accumulated losses (of FBu 20 billion) found to be higher than previously reported.
• Coffee sector liberalization.	Strategy approved October 28, 2004. Reform of OCIBU auction procedures implemented in December 2004. A decree liberalizing private entry and investment in the sector and operations at all levels of the supply change was issued on January 14, 2005. A ministerial order of June 16, 2005 liberalized sales and marketing further.
• Launching tenders for sale of state-owned coffee processing assets.	June 2005. Initially tenders will be launched for individual washing stations not covered by the STABEX-financed washing station rehabilitation project.
• Abolish government guarantee for coffee sector crop credit.	Implemented from 2005-06 crop year.
• Adopt an action plan defining the new roles of coffee sector institutions to be in place for the start of the 2006 crop season.	November 2005.
Other	
• Reduction of number of tariff bands and their levels.	Implemented with 2005 budget. Number of bands reduced from four to three (10, 15, and 30 percent) with highest rate down from 40 percent.
• Establishment of the audit court *(Cour des Comptes)*.	April 2005 (originally June 2004). Audit of 2004 government accounts began in April 2005. Audits of the defense and civil service ministries planned before end-2005.
• Introduction of new bankruptcy code.	New bankruptcy code with Parliament. Passage expected in late 2005.
• Begin privatization of government assets in the financial sector.	2005.
• Preparation of metadata for GDDS participation.	End-2005.
• Lift trade restrictions and price controls in sugar sector.	Done May 2005.
• Set up one-stop office for setting up new enterprises.	November 2005.
• Introduce new investment code.	December 2005.

Table 7. Burundi: Balance of Payments, Medium-Term Scenario, and Sensitivity Analysis, 2004-24

	2004	2005	2006	2007	2008	2009	2010	2015	2020	2024
	Prel.	Projections								
	(In millions of U.S.dollars)									
Current account 1/	-47.7	-56.8	-94.9	-96.0	-89.2	-94.7	-96.0	-98.7	-105.1	-116.5
(excluding official transfers)	-161.8	-231.4	-228.6	-214.6	-214.9	-220.5	-223.1	-248.8	-282.9	-320.6
Trade balance	-94.9	-134.0	-130.8	-122.5	-123.9	-129.7	-134.8	-158.3	-178.0	-202.2
Exports, f.o.b.	47.9	69.1	69.2	83.6	90.3	96.3	104.8	163.7	259.8	345.8
Of which: coffee	29.4	48.5	46.2	58.7	63.4	67.7	73.9	105.1	139.5	171.0
Imports, f.o.b.	-142.8	-203.1	-199.9	-206.1	-214.2	-226.1	-239.6	-322.1	-437.8	-548.0
Of which: non-oil	-116.3	-163.1	-156.8	-163.1	-170.2	-180.9	-192.7	-259.2	-353.4	-443.4
Services (net)	-51.3	-77.4	-79.8	-75.8	-76.0	-77.4	-75.1	-78.9	-93.9	-107.7
Income (net)	-27.3	-32.5	-32.2	-32.1	-32.5	-32.7	-33.5	-37.4	-44.0	-50.8
Of which: interest on public debt (including IMF charges)	-9.9	-12.6	-12.9	-12.9	-12.9	-12.6	-12.4	-10.5	-9.6	-9.1
Current transfers (net) 1/	125.9	187.1	147.9	134.4	143.1	145.2	147.4	176.0	210.9	244.2
Private (net)	11.8	12.5	14.2	15.8	17.5	19.3	20.3	25.9	33.0	40.1
Official (net)	114.1	174.6	133.6	118.6	125.6	125.9	127.1	150.2	177.8	204.0
Capital account 1/	49.0	43.6	42.0	44.1	45.6	47.2	48.9	55.3	64.4	73.2
Financial account	16.6	13.5	3.1	13.1	4.1	3.1	0.0	-0.7	1.8	2.9
Of which: Medium- and long-term official loans (net)	11.5	27.7	-6.7	2.3	-7.0	-8.4	-10.6	-17.5	-15.8	-18.9
Disbursements	42.5	65.8	33.6	40.9	32.1	30.6	26.5	30.8	30.6	33.2
Amortization (excluding IMF)	-31.0	-38.2	-40.3	-38.6	-39.1	-39.0	-37.1	-48.3	-46.4	-52.0
Errors and omissions	-4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	13.2	0.4	-49.8	-38.8	-39.5	-44.3	-47.1	-44.0	-38.8	-40.4
Financing (increase in assets -)	-13.2	-16.4	14.1	-1.2	-1.6	-2.3	-2.6	-3.4	-5.0	-5.7
Change in central bank net foreign reserves (increase -)	12.8	-23.6	4.6	-1.2	-1.6	-2.3	-2.6	-3.4	-5.0	-5.7
IMF, net	-10.6	-22.0	-22.0	-11.0	0.0	4.1	10.3	8.9	0.0	0.0
Other reserves, net	23.4	-1.6	26.7	9.8	-1.6	-6.4	-13.0	-12.3	-5.0	-5.7
Change in arrears (increase +)	-106.1	-78.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 2/	80.1	85.9	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cancellation	41.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling of debt service and arrears	39.1	85.9	9.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	16.0	35.7	40.0	41.1	46.6	49.7	47.4	43.8	46.1
Potential HIPC relief	...	16.0	35.7	40.0	41.1	46.6	49.7	47.4	43.8	46.1
	(In percent of GDP, unless otherwise indicated)									
Memorandum items:										
Trade balance	-14.3	-16.7	-14.5	-12.6	-11.9	-11.6	-11.1	-9.0	-7.2	-6.2
Current account	-7.2	-7.1	-10.5	-9.9	-8.6	-8.4	-7.9	-5.6	-4.3	-3.6
(excluding official transfers)	-24.4	-28.9	-25.4	-22.1	-20.6	-19.6	-18.4	-14.2	-11.5	-9.9
Gross official reserves										
In millions of U.S. dollars	69.5	125.3	116.1	119.7	124.4	131.3	139.1	187.0	254.2	318.3
In months of imports, c.i.f.	5.0	6.4	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Financing gap (in percent of GDP)	0.0	2.0	4.0	4.1	3.9	4.2	4.1	2.7	1.8	1.4
Nominal GDP (in U.S. dollars)	664.1	800.4	901.6	969.3	1,043.0	1,122.9	1,211.8	1,751.4	2,466.2	3,239.8
Real GDP growth rate	4.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inflation rate (period average; in percent)	8.0	16.3	7.8	5.1	5.0	4.8	4.3	4.0	4.0	4.0
Exports to GDP ratio (in percent)	7.2	8.6	7.7	8.6	8.7	8.6	8.6	9.3	10.5	10.7
Imports to GDP ratio (in percent)	-21.5	-25.4	-22.2	-21.3	-20.5	-20.1	-19.8	-18.4	-17.8	-16.9
Sensitivity scenarios	(In units indicated)									
Higher coffee prices 3/										
Current account (excl. official transfers)										
In millions of U.S. dollars	-154.4	-219.3	-217.0	-199.9	-199.0	-203.6	-204.6	-222.5	-248.0	-277.8
In percent of GDP	-23.2	-27.4	-24.1	-20.6	-19.1	-18.1	-16.9	-12.7	-10.1	-8.6
Financing gap (in millions of U.S. dollars)	-12.2	3.9	24.1	25.3	25.2	29.7	31.2	21.1	8.9	3.4
In percent of GDP	-1.8	0.5	2.7	2.6	2.4	2.6	2.6	1.2	0.4	0.1
Higher non-oil import prices 4/										
Current account (excl. official transfers)										
In millions of U.S. dollars	-167.6	-239.5	-244.6	-238.8	-247.5	-262.2	-264.8	-290.5	-324.6	-362.3
In percent of GDP	-25.2	-29.9	-27.1	-24.6	-23.7	-23.4	-21.9	-16.6	-13.2	-11.2
Financing gap (in millions of U.S. dollars)	5.8	24.2	51.7	64.1	73.7	88.3	91.4	89.1	85.5	87.8
In percent of GDP	0.9	3.0	5.7	6.6	7.1	7.9	7.5	5.1	3.5	2.7

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

1/ Program grants have been reclassified from the capital account to current transfers.

2/ Including the March 2004 Paris Club rescheduling at Naples terms, and assuming rescheduling of current debt service and arrears to non-Paris Club.

3/ International prices are assumed to be 25 percent higher than the World Economic Outlook (WEO) baseline projection throughout the projection period.

4/ Non-fuel import prices are assumed to be 5 percent higher than the WEO projection baseline projection for 2005-09.

Table 8. Burundi: External Financing Requirements and Sources, 2004-05
(In millions of U.S. dollars)

	2004		2005	
	Prog. 1/ CR No. 05/55	Rev. Prog.	Prog. 1/ CR No. 05/55	Rev. Prog.
External resources (identified)	195.5	223.8	263.6	244.3
Exports of goods and services	38.5	58.9	72.5	81.6
Other private services	2.7	1.3	1.4	1.4
Private transfers (net)	9.0	11.8	8.2	12.5
Current official transfers (net)	108.5	55.0	104.0	90.5
Capital transfers (net)	14.0	49.0	50.0	43.6
Foreign direct investment	0.0	0.0	5.0	1.5
Medium-and long-term official loans	23.3	42.5	28.8	28.8
Other capital	-0.5	5.2	-6.3	-15.6
Use of resources	-391.5	-397.2	-452.3	-489.3
Imports of goods and services	-199.1	-205.2	-311.1	-293.0
Other private services	-5.9	-18.7	-12.1	-21.3
Debt-service payments (including IMF charges)	-192.7	-147.0	-96.4	-129.4
Of which: net accumulation of arrears (+)	-145.1	-106.1	-51.2	-78.7
Net change in reserves, excluding IMF (- increase)	6.2	-26.3	-32.7	-45.6
Errors and omissions	0.0	-4.8	0.0	0.0
Financing need	196.0	178.2	188.7	245.0
Program loans and grants	79.5	98.2	110.1	143.1
Of which: IMF PRGF disbursements	45.4	39.1	32.2	22.0
Debt relief (under existing mechanisms)	116.5	80.1	50.9	85.9
Of which: on current maturities	6.0	6.0	8.9	7.2
Residual financing need	0.0	0.0	27.7	16.0
Potential HIPC relief	...	...	...	16.0

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

1/ Reflects reclassification of program grants from the external capital account to the current official transfers account.

Table 9. Burundi: Schedule of PRGF Disbursements and Reviews, 2004–07

Date	Disbursement (In millions of SDRs)	Conditions
Executive Board consideration, January 23, 2004	26.40 [1]	Executive Board approval. Disbursed
January 2005	7.15	Completion of first review, based on observance of performance criteria at end-June 2004
July 2005	7.15	Completion of second review, based on observance of performance criteria at end-December 2004
December 2005	7.15	Completion of third review, based on observance of performance criteria at end-June 2005
June 2006	7.15	Completion of fourth review, based on observance of performance criteria at end-December 2005
December 2006	7.15	Completion of fifth review, based on observance of performance criteria at end-June 2006
June 2007 [2]	7.15	Completion of sixth review, based on observance of performance criteria at end-December 2006

[1] Of which, SDR 19.25 million was for the early repayment of outstanding drawings under the postconflict emergency assistance policy.

[2] An extension of the PRGF arrangement (which expires in January 2007) will be needed (in due course) to allow for this disbursement.

Bujumbura, June 30, 2005

NREF: ___/___/04

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato,

1. On behalf of the Burundi authorities, we hereby transmit the attached memorandum of economic and financial policies (MEFP) that sets out the objectives and policies under the program that the authorities intend to implement for the remainder of 2005. The attached technical memorandum of understanding (TMU) defines the terms and conditions of the program.

2. Burundi continues to make progress with national reconciliation and economic recovery aided by the Fund's advice and support under the Poverty Reduction and Growth Facility (PRGF) put in place in January 2004.

3. The program's quantitative performance criteria at end-December 2004 were all observed, as were the indicative targets at end-March 2005, except for a slight overrun on bank credit to government (Table 1). The program's structural performance criterion on the lifting of the remaining foreign exchange export surrender requirement (March 2005) was met on January 10, 2005 (Table 2). The structural benchmarks on the liberalization of marketing and trade at all levels of the coffee sector (March 2005) and the initiation of the audit of the 2004 government accounts by the audit court (May 2005) were observed.

4. In support of our macroeconomic and financial objectives and policies for the remainder of 2005, we hereby request completion of the second review under the PRGF and disbursement of SDR 7.15 million (9.3 percent of quota).

5. The objectives and policies in the updated MEFP remain consistent with Burundi's Interim Poverty Reduction Strategy Paper (I-PRSP—*Cadre stratégique intérimaire de croissance économique et de lutte contre la pauvreté*). Preparation of the full-PRSP is well under way with the aim of completion by end-2005.

6. We are requesting access to external debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and have provided all the necessary information to the staff in support of their request for a decision by the IMF and World Bank for Burundi to qualify for enhanced HIPC assistance.

7. The Burundi authorities will provide the Managing Director with all the information he may request as necessary to monitor developments and achieve the objectives of the PRGF-supported program in a timely manner.

8. The authorities believe that the economic and financial policies set forth in the attached MEFP are adequate to achieve the objectives of the 2005 program, supported by the PRGF, but will take any further measures that may become appropriate for this purpose. Burundi will consult with the Managing Director 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 consultations.

9. The quantitative performance criteria for end-June and end-December 2005 and the indicative targets for September are set out in Table 1 of the MEFP. The structural performance criteria and structural benchmarks for 2005 are shown in Table 2 of the MEFP. The third review of the three-year PRGF arrangement with the Fund will be based on end-June 2005 targets, as set at the time of the first PRGF review.

10. The Burundi authorities are keen to make this letter and the attached MEFP and TMU, as well as the staff report on the second review under the PRGF arrangement, available to the public in Burundi and elsewhere, and hereby authorize their publication and 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

Attachments: Memorandum of Economic and Financial Policies for 2005
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies for 2005 of the Republic of Burundi

I. Introduction

1. This memorandum summarizes progress under the program at end-2004 and through the first quarter of 2005, and sets out economic and financial policies through end-2005. On the basis of these policies, the authorities request Fund support in the form of a third disbursement under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The policies and objectives of the new program are consistent with the Interim Poverty Reduction Strategy Paper (I-PRSP).

II. Background

A. Political Transition and the Peace Process

2. Burundi crossed a historical threshold on February 28, 2005, when voters overwhelmingly approved the new constitution. In late April, the electoral and communal codes were promulgated. Communal elections were held on June 3 and parliamentary elections are scheduled for July 4, 2005. The political transition period, which began with the Arusha Agreement of August 2000, will end in August 2005 with the election of a new President of the Republic by the newly elected parliament.

3. Armed hostilities have all but ceased and negotiations with the last holdout rebel group, the FNL, resulted in a ceasefire agreement in mid-May. United Nations (ONUB) peacekeeping troops are in place in Burundi. The disarmament, demobilization, and reintegration (DDR) of former combatants and the armed forces is well under way, supported by the World Bank-led Multi-Country Demobilization and Reinsertion Program (MDRP) for the Great Lakes region. Operations began in December 2004 and, as of end-May 2005, have resulted in the demobilization of 9,960 personnel. ONUB and bilateral donors are also supporting the associated security sector reform (SSR) involving the creation, training, and equipping of a new national police force.

B. Recent Economic Developments

4. Macroeconomic developments in 2004 and early 2005 have fallen somewhat short of program objectives. Real economic growth in 2004 was somewhat below target at 4.8 percent, reflecting a severe drought and crop disease in two northern provinces, which reduced agricultural output. Real GDP growth in 2005 is projected at about 5 percent, reflecting a much smaller coffee harvest, tempered by continued strong recovery in the service sectors. CPI inflation was not reduced as planned in 2004, reflecting the drought in two northern provinces considered the granary of the country, the surge in imported petroleum prices, and pressures on rents and prices from the increased presence of the international community, notably of ONUB. Consumer prices rose 11.8 percent and further in the first quarter of 2005 to 15.6 percent at end-March 2005. Broad money growth was

somewhat below projection in 2004 at 15.7 percent, despite much higher-than-programmed reserve money growth of 37 percent.

5. Preliminary data suggest that the external current account deficit in 2004 was much smaller than expected at about 7 percent of GDP, as exports rose 28 percent and imports expanded at a much less-than-expected rate. The lower import growth was accounted for by delays in humanitarian assistance compared to program projections. The export performance was based on the strength of a recovery in coffee prices and the bumper coffee harvest of some 38,000 tons. Coffee exports during the first quarter of 2005 fetched the highest prices in the last five years, however, this was offset by the impact of record world prices for imported fuel. The Burundi franc was broadly stable against the U.S. dollar in 2004, depreciated about 5 percent in early 2005, but has since recovered. In real effective terms, the franc depreciated 4.1 percent in 2004. The differential between the parallel and the official exchange rates has remained at about 3-4 percent.

C. Performance Under the Program

6. **Performance relative to program targets at end-2004 was good**. All end-December 2004 quantitative performance criteria, as adjusted under the program, were observed (Table 1). Program implementation in early 2005 was broadly on track. The indicative targets for March 2005 were observed, except for a slight overrun on bank credit to government. The program's structural performance criterion on the lifting of the remaining surrender requirement on the foreign exchange from exports (March 2005) was met on January 10, 2005 (Table 2). All prior actions have been implemented. The structural benchmarks regarding the decree for the liberalization of establishment and trade at all levels of the coffee sector (March 2005) and on the initiation of the audit of the 2004 government accounts by the audit court (May) were observed.

7. The government registered a **primary fiscal deficit** of 3.5 percent of GDP in 2004, compared to the program indicative target of 3.2 percent, owing entirely to much higher-than-anticipated counterpart outlays to foreign-financed project spending. This overrun was offset in part by a smaller-than-anticipated wage bill and buoyant revenues. Overall revenue performance (20.1 percent of GDP) exceeded the program target by 0.7 percent of GDP, reflecting strong tax recovery efforts in the final quarter and the impact of steps to strengthen revenue administration. Overall, spending and net lending was contained at close-to-program levels as domestic interest payments, and transfers and subsidies were less than expected. The wage bill was lower than the program indicative target reflecting delays in filling new teaching positions and the nonpayment of merit increases. Social spending increased slightly from 6.5 percent to 6.7 percent of GDP. The overall fiscal deficit, on a commitment basis, before grants, was below target at 19.7 percent of GDP. Domestic arrears on 2004 budget commitments, which had risen steadily through midyear, were sharply reduced to FBu 2.3 billion (0.3 percent of GDP) by end-December and other arrears were also cleared. The cash deficit was also below the program objective at 27.7 percent of GDP. Reflecting delays into early 2005 of disbursements of external budget support, bank financing of the government reached FBu 57 billion.

8. **Fiscal performance in the first quarter of 2005** has continued to be broadly satisfactory and in line with programmed targets. Revenue performance, adjusted for a delay in receiving the annual central bank (BRB) dividend, was stronger (by 10 percent) than programmed. Spending was somewhat lower than programmed, reflecting the pace of integration of ex-combatants into the army and police, and a lower wage bill owing to strikes. The residual domestic arrears at end-2004 were cleared in early 2005. The delayed disbursement of the EU and World Bank external assistance from late 2004 to early 2005 contributed to the decline in bank credit to government by FBu 8.8 billion in the quarter, somewhat better than the adjusted program target.

9. Strikes by civil service unions, most notably by teachers, to unfreeze advancements and promotions blocked since 2002, led to **a wage agreement (regularization) with the teachers** in January 2005, which has been costed at FBu 16.6 billion, of which FBu 5.4 billion is owed for 2005 salaries. In May 2005, the authorities completed an inventory of domestic payment arrears. The inventory found FBu 41.4 billion in verified unpaid bills dating back to 1979. An additional FBu 14.6 billion in claims was not yet fully documented. An external audit is to begin shortly.

10. **Monetary and banking developments** in 2004 were mixed, as the large bank financing of the budget (some 32 percent of beginning 2004 money stock), reflecting the delay in disbursement of external assistance drove liquidity expansion. Credit to the economy rose by only 2 percent, a decline in real terms, in part reflecting the repayment of outstanding 2003 coffee credit arrears. The high reserve money growth was not taken up by private sector borrowing and banks were left with excess liquidity.

11. Pressure on **reserve money** continued in early 2005 as the BRB was unable to contain the monetary impact of the sharp rise in external reserves (from the bunching of external assistance inflows in January 2005) until the second half of March, when it accelerated foreign exchange sales to reduce liquidity. Reflecting these operations, reserve money growth was halted at end-March 2005, although year-on-year it rose 57 percent. Gross official international reserves stood at US$101 million (5½ months of imports) at end-March. Reflecting reserve money creation in late 2004, broad money growth accelerated sharply in the first quarter of 2005 to 34.8 percent at end-March. The BRB's ceilings on credit to the financial institutions were simplified in late 2004 and abolished in March 2005, preceding the introduction of the weekly liquidity auctions in mid-April 2005. The liquidity auctions have significantly reinforced the BRB's ability to manage domestic liquidity.

12. The BRB has energetically pursued its objective of **liberalizing the exchange regime**. In mid-December 2004, the BRB abolished the mandatory nature of its foreign exchange auction reference price and changed the determination of the official exchange rate from the weekly auction rate to the daily weighted average of transactions in the banking system. On January 10, 2005, the BRB abolished the remaining foreign exchange surrender requirement on export earnings (50 percent on coffee, tea, and cotton exports). The limit on the turnover of foreign exchange bureaus, introduced in late December 2004, was rescinded

in February 2005, and the frequency of the BRB foreign exchange auctions was doubled to twice a week.

13. The implementation of **structural reforms** also moved ahead despite the complex political environment and limited administrative capacity. The audit court began operations in late 2004 and one of its first activities was to review the 2005 budget submission to parliament. The court's plan of activities for 2005 was approved by parliament in February 2005. The examination of the 2004 public finances began in April 2005 and specific audits of the ministries of defense and civil service are planned. The law on the statute of the magistrates of the audit court was signed into law on May 12, 2005

14. Following the approval of a **coffee sector reform** strategy by the council of ministers on October 28, 2004 and the reform of OCIBU's auction committee, a decree liberalizing private entry and investment in the sector and operations at all levels of the supply chain was issued on January 14, 2005 (structural benchmark for March 2005). A national conference on coffee sector reform, supported by the World Bank, and bringing together international coffee experts and domestic operators was held on March 22-24, 2005 in Bujumbura. A ministerial order was issued on June 16, freeing direct sales in the coffee sector. With the strong recovery of coffee prices in world markets, the sector turned an operating surplus for the 2004/05 crop year, estimated at FBu 15.6 billion, for the first time since 1998/99.

15. Through the ministerial order of May 6, 2005, the government has lifted the restrictions on **the sugar sector** (structural benchmark for September) by eliminating minimum import valuations, lifting export restrictions, and liberalizing domestic prices. These measures are expected to result in lower sugar prices for consumers, stimulate investment in the sector, and increase production and exports.

16. Burundi has completed bilateral rescheduling agreements on its **external debt** with its Paris Club creditors and remains current on its nonreschedulable external debt obligations. Discussions are ongoing to secure at least comparable treatment from other bilateral creditors. Agreements to clear multilateral arrears were reached in 2004.

III. THE 2005 PROGRAM

A. Macroeconomic Objectives

17. The strategy for the remainder of 2005 is to reduce macroeconomic and financial imbalances, reduce inflation and deepen needed financial and structural reforms to support sustained growth. Developments in late 2004 and early 2005 on inflation and growth were less favorable than expected but the authorities are committed to achieving the program's macroeconomic objectives for 2005 of 5 percent real growth and reducing inflation to about 10 percent. With cumulative inflation of 5.7 percent in the first three months, achieving the inflation objective in 2005 will require tightened monetary management together with firm budgetary discipline as described below. The external current account deficit is expected to remain at about 7 percent of GDP in 2005.

B. Fiscal Policy

18. **Fiscal policy in 2005 will be in transition.** The security sector projects (military integration and national police), vital to securing a durable peace, will raise the share of security spending in the short term, while the demobilization effort will progressively effect a shift, from mid-2005 onwards, from military spending to increasing social outlays. The 2005 fiscal program also aims at supporting the inflation reduction objective by reducing financing from the banking system. Revenues are conservatively projected to rise by at least 10 percent but would decline somewhat to about 18¼ percent of GDP, reflecting the impact of inflation. Expenditure increases involve primarily outlays for the security sector reforms. Primary expenditure will be maintained at about 24 percent of GDP, through the elimination of transfers for coffee sector losses and by containing the **wage bill** (net of the new police force) and expenditures on goods and services. Any increase in the wage bill (including from regularizations) will need to be matched by budget savings and/or higher tax revenue, which would be confirmed in a revised 2005 budget in consultation with Fund staff in the context of discussions for the third review under the PRGF program. The overall deficit, on a commitment basis and after grants, is expected to decline to about 0.2 percent of GDP, in part reflecting an increased share of grants in external financial support. Project expenditure (FBu 108 billion, 12¼ percent of GDP) will continue to be financed mostly from external aid disbursements and will give priority to rehabilitating and rebuilding the social and economic infrastructure. Aggregate poverty-related expenditure (as defined in the I-PRSP) would ease from 28 percent of primary expenditure in 2004 to 27 percent in 2005 or 6.4 percent of GDP, before HIPC debt relief spending (paragraph 23) and payment of retroactive wage adjustments for teachers.

19. The **DDR and SSR programs** are vital not only for a successful political transition and public security, but also for poverty reduction by generating a substantial "peace dividend." In this respect, the government is committed to achieving budgetary savings as described in its Policy Letter to the World Bank of February 2004 on Demobilization, Reinsertion and Reintegration, through the reduction in the size of the army to its targeted level. As the numbers of ex-combatants and soldiers to be demobilized is much smaller than initially estimated, it will be possible to reach the final army size more quickly by maintaining the rate of demobilization. The expenditure limits in the 2005 budget are sufficient to cover the cost of the security sector reforms (police and army) and some savings on the budgeted amounts for police and army costs are possible. The authorities are committed to implementing these projects so as to obtain the potential savings, which could be redirected toward social outlays in the context of a revised 2005 budget. The authorities are also committed to ensuring that no amounts additional to the agreed severance payments under the MDRP-supported program will be paid. The authorities intend to seek the assistance of the ONUB in assessing the appropriate ultimate size and composition of the new police and defense forces, taking into account budget constraints. In the interim, recruitments to the police force will be strictly limited.

20. As regards **tax policy**, a number of measures have been taken to reinforce revenue performance. A single taxpayer identification number will be introduced effective July 1,

2005 in all revenue services (prior action) and cooperation between the tax and customs administrations will be reinforced. The authorities have begun the full application of the income tax legislation to Burundians employed by international agencies operating in Burundi (prior action). As regards **customs**, a modification in procedures has been made to close loopholes to avoid the import pre-inspection regime and to de-link this requirement from the exchange control regulations by introducing a generalized pre-import declaration requirement (prior action).

21. The authorities are committed to pursuing efforts to improve the **management of public finances.** We are also committed to budgetary transparency and have begun preparations to close the extra-budgetary funds (except for the road fund) and fold their operations into the budget with effect from the 2006 budget. To enhance civil service payroll management, in June the Ministry of Finance posted a budget control unit at the ministry of the civil service to monitor wage bill commitments and payments (prior action). The Ministry of Finance will also undertake a rationalization of its accounts annexed to the general treasury account at the BRB in 2005. Building on the new accounts system, a computerized financial management system (IFMIS), with a direct link to the central bank, will be put in place in the Ministry of Finance by October 2005 (structural performance criterion). This system is designed to reinforce the monitoring of budget execution, including social outlays and the production of timely financial operations reports. In respect of this effort, the authorities have requested additional technical assistance from the IMF.

22. The government is committed to normalizing the government's financial relations with suppliers and establishing the nature and extent of its **domestic arrears**, which weigh heavily on the private sector, including the banking system. The government is committed to developing a macroeconomically viable repayment schedule on all domestic arrears with Fund staff in the context of the third review of the program.

23. External debt-service relief under the **enhanced HIPC Initiative** would allow an increase in pro-poor budgetary spending. The additional expenditures would be identified in consultation with World Bank and IMF staff and will be in line with the priorities identified in the I-PRSP and the full PRSP, which is expected to be completed later this year. The main sectors to be covered would be health, education, infrastructure, agriculture, refugee and displaced persons resettlement, the reintegration of victims of civil strife, and judicial reform. The additional expenditures would be incorporated in the 2006 budget (or a supplementary budget for 2005). A special treasury sub-account will be established in the central bank where the budgetary savings from the debt relief will be deposited. An Independent Oversight Committee will monitor these expenditures. It will include national and local representatives, as well as members of the international donor community. The use of enhanced HIPC Initiative assistance would be subject to independent technical and financial audits to ensure the effective use of resources for poverty reduction. All such audits would be made publicly available. Several measures are near completion that will strengthen the monitoring and tracking of poverty-reducing expenditures. A new budget nomenclature is in place, to be supported by the new IFMIS system (see above), to track resources allocated by activity and region.

C. Monetary and Exchange Policies

24. Monetary policy for 2005 aims at a large slowdown in liquidity growth, supported by the liberalized exchange system, to effect a reduction in inflation to about 10 percent. A sustained reduction in the level of credit to government from the banking system from the end-2004 level, combined with the elimination of direct central bank credit to the coffee sector, is expected to lead to a sharp decline in reserve money growth in the second half of 2005. The increased efficiency of the financial system, resulting from the various reform efforts, would lead to a significant increase in the money multiplier and broad money growth of about 17 percent in 2005, assuming broadly stable velocity. Credit to the private sector would grow by about 14 percent, somewhat below nominal GDP growth. Assuming the external financing gap is closed, gross international reserves of the BRB would increase further to US$125 million or about 6½ months of imports by end-2005.

25. The BRB will continue to **reinforce monetary policy** in 2005 in support of the program's inflation objective. Critical to this effort are the measures taken under the program to enhance the efficiency and effectiveness of liquidity management. The BRB, supported by IMF technical assistance, has enhanced its liquidity forecasting capability with the cooperation of the Ministry of Finance, and introduced weekly liquidity auctions and a new rediscount facility in April 2005. The BRB and the Ministry of Finance will also work to reform the treasury bills and bonds securities to make them tradable by end-2005. This will enable better liquidity management in the banking system and support a more active monetary policy. Following the completion of its first external audit, the BRB has developed an action plan to respond to the auditors' recommendations. In particular, it intends to strengthen the management of its foreign exchange operations, internal audit procedures, and computerized accounting systems. The BRB is also committed to improving its own governance and transparency, including by publishing the 2004 external audit and other decisions on its website.

26. Burundi's **financial sector** is relatively concentrated, with the major financial institutions generally sound. Some of the smaller banks have experienced difficulties and are in process of recovery notably through increasing their capital and improving their management in consultation with the BRB. Banking supervision is being strengthened and the BRB is rigorously enforcing prudential requirements, which will be strengthened further toward international standards in 2005.

27. The BRB is committed to pursuing **further exchange system liberalization** and the lightening of exchange control mechanisms, in line with the important changes introduced in late 2004 and early 2005. The BRB will limit its intervention in the foreign exchange market to achieving the NIR targets and preventing short-term volatility. The restrictions and reporting requirements on foreign exchange transactions will be further reduced in 2005. The BRB is preparing a unified set of exchange regulations, supported by IMF technical assistance, reflecting the objective of reaching full convertibility in 2005 for current international transactions. The BRB is also actively supporting efforts to de-link the customs pre-import inspection procedures from the remaining exchange control requirements.

D. Structural Reforms

28. Building on the progress achieved in 2004, the authorities are committed to pressing ahead with the implementation of structural reforms needed to support the economic recovery, ensure its sustainability, and reduce poverty. Key steps for 2005 include the liberalization of key productive sectors, the initiation of the privatization of state assets in the financial, coffee, and other sectors, and further progress in governance and transparency.

29. The implementation of **the reform strategy for the coffee sector,** supported by the World Bank and the EU, remains vital to poverty reduction in Burundi, in particular among the approximately 800,000 small rural producers. In late March, a national colloquium on coffee sector reform won broad support from participants in the sector for the liberalization and privatization strategy. The privatization will begin by end-June with the launching of tenders for an initial lot of individual washing stations not covered by the STABEX-financed washing station rehabilitation project. As the rehabilitation of individual washing stations under the STABEX project is completed, individual stations will be offered for sale without delay. The authorities have also begun distribution of part of the 2004/05 operating surplus to producers through a second payment of FBu 30 per kg (FBu 6.1 billion). The remaining portion of the surplus is to be used to finance the new crop (FBu 6.7 billion), and the purchase of phyto-sanitary products and fertilizers for sale to producers (FBu 2.7 billion). The ministry of finance will monitor closely the use by OCIBU of the funds for the financing of the crop, notably through the use of a business plan. The government guarantee of crop credit has been abolished.

30. Conscious of the need to give a clear signal to producers of the government's commitment to liberalize the sector, on April 8, 2005, the rental tax on orchards ("loyer verger") of FBu 30 per kg of coffee beans was abolished (prior action). The government, with the assistance of the World Bank, will adopt an action plan defining the new roles of coffee sector institutions (including OCIBU) to be in place for the start of the 2006 crop season (April 2006), consistent with the coffee sector reform strategy by November 2005 (structural benchmark). Further reforms will be pursued to complete the transition to a liberal private sector so as to attract much needed private investment and financing, improve product quality, bolster incomes of small producers, and eliminate the large losses accruing to the budget.

31. The **privatization program**, significantly delayed by security concerns, will be launched before end-December 2005 with the initiation of tenders for state assets in the financial, industrial, and other sectors. The government intends in this way to jump-start private sector activity, which will be the engine of economic growth. The objective is to progressively and completely disengage the state from the productive and financial sectors of the economy.

32. **The audit court** officially received the 2004 government financial statements in April 2005 and has initiated its audit. The audit is expected to be completed by September 2005 and the report will be published (structural benchmark). Specific inspections of the

defense and civil service ministries are also planned for 2005. In an effort to improve **transparency** and public knowledge of, and support for, economic reform, further efforts will be made by the government and the BRB to publicize decisions, decrees, and laws in the area of economic reform, including through the internet. The government, in cooperation with the BRB, intends to expand and update on a timely basis its website with key government decisions, decrees, and economic reform strategies, including its memoranda of economic and financial policies transmitted to the Managing Director of the Fund.

33. A draft **anti-money laundering** (AML) law has been prepared and was presented to the council of ministers in June. The law will be submitted to the new parliament for approval before end-2005. It has benefited from comments from the IMF and other agencies. The authorities intend to request further technical assistance from the IMF/World Bank to ensure the consistency of the legal framework and with best international practice. The new bankruptcy law was approved by the council of ministers and submitted to parliament in February 2005. Passage by the new parliament is expected in late 2005.

34. As regards the need to restore Burundi's **national economic statistics capacity**, in February 2005, the authorities officially communicated their intention to participate in the General Data Dissemination Standards (GDDS) initiative of the IMF. The authorities are working to prepare their metadata, which they expect to have ready by the fourth quarter of 2005, supported by additional IMF technical assistance.

E. Program Financing and External Debt Management

35. For 2005, the external nonproject financing need is estimated at US$245 million. This external financing requirement is expected to be covered by disbursements under the IMF's PRGF (US$22 million), World Bank (US$51 million, including a US$35 million first tranche of a second ERC operation totaling US$50 million); AfDB program grants and loans from FAD of US$25 million; the EU (FED program of US$35 million); bilateral creditors (US$11 million); and traditional debt relief (US$86 million), including on current maturities (US$7 million); and HIPC debt relief (US$16 million). The above amounts include commitments of additional support from the original program assumptions from the EU (US$10 million), the World Bank (US$5 million), and bilateral donors (US$2 million). Funding for the national elections (a total of about US$23 million). It is expected that Burundi will be in a position to meet its external nonreschedulable debt-service payments and the authorities are determined to pursue prudent debt management policies and to strive to reach a sustainable external debt position.

36. The authorities believe that successful implementation of the PRGF-supported program will serve as a catalyst for a further increase in foreign assistance and **debt relief** under the enhanced HIPC Initiative. Notwithstanding the debt relief already obtained from the Paris Club in March 2004, Burundi's debt burden remains unsustainably high. A debt sustainability analysis prepared jointly by IMF and World Bank staff in consultation with the authorities, indicates an external debt-to-exports ratio, on a present value basis, of about 1,772 percent (after the full use of traditional debt relief mechanisms) at end-2004.

Substantial relief will thus be needed to bring Burundi's debt burden down to sustainable levels and free resources for much needed social and poverty reduction spending.

F. The PRSP Process

37. The authorities have prepared a PRSP Preparation Status Report on the progress achieved in preparation of a full PRSP, which has taken longer than expected. The participatory process for the preparation of the full PRSP is continuing. Consultations with public and private stakeholders at the local level have been concluded and will be followed by sectoral consultations at the national level that are expected to continue until mid-August. The full PRSP is scheduled to be completed in late-2005. We intend to initiate the costing of the priorities identified in the PRSP in 2005.

G. Safeguards, Statistical Issues, and Technical Assistance

38. The BRB is committed to improving its operations consistent with the principles of good governance included in **the IMF's safeguards guidelines**. In view of constrained administrative and technical capacity, a two-step approach to the safeguards assessment was adopted. The first stage, which has been completed, involved an assessment of the areas considered critical to preventing the possibility of misreporting and safeguarding Fund resources, namely, the BRB's external audit, financial reporting mechanisms, and system of internal controls. The second stage, which is expected in the second half of 2005, will evaluate the BRB's legal framework and internal audit mechanism. In line with the staff recommendations under the first stage, the BRB is acting to improve financial reporting mechanisms and strengthen its system of internal controls. The audit firm of Ernst and Young conducted the first external audit that was completed in June 2005. The external auditor has made recommendations on the adoption of International Financial Reporting Standards (IFRS) and improvements in BRB operations, which the BRB is actively addressing.

39. Burundi has extensive **technical assistance needs**, and the authorities will continue to work closely with multilateral and bilateral partners to rebuild administrative capacity in priority areas. IMF technical assistance has been provided in 2004-05 in the areas of tax administration, public expenditure management, monetary and exchange rate policy, banking supervision, and on national economic statistics. Follow-up work will be needed, notably as regards the national accounts, the balance of payments, and social/poverty indicators. The authorities recognize that **the statistical base** has been seriously eroded and are seeking additional technical and financial assistance from the international community in this area. The authorities are committed to implementing the recommendations of the IMF multi-sector statistics missions.

IV. Program Monitoring

40. Table 1 summarizes the quantitative **performance criteria** (end-December 2004, end-June and end-December 2005) and quantitative indicators for March and September 2005 for program monitoring purposes. The prior actions, structural performance criteria, and

benchmarks under the program for 2005 are presented in Table 2. The definitions of the program's performance targets, external assistance adjustors, and underlying assumptions, as well as Burundi's reporting requirements, are discussed in the attached TMU. Burundi will avoid incurring overdue financial obligations to the Fund, as well as introducing new exchange restrictions, multiple currency practices, bilateral payments agreements inconsistent with Article VIII of the Fund's Articles of Agreement, and import restrictions for balance of payments purposes. In addition, the authorities stand ready to adopt any new financial or structural measures, in consultation with Fund staff, which may become appropriate to ensure program success.

41. **The third review** under the PRGF arrangement is scheduled to be completed by December 2005 and will be conditional upon the observance of quantitative performance criteria at end-June 2005, and the structural performance criterion on the introduction of a computerized system at the Ministry of Finance designed to track spending (IFMIS) at end-October 2005. The third review will focus on the coffee sector reform, progress in privatization of state assets, the strengthening of public financial management, and a plan for domestic arrears liquidation.

Table 1. Burundi: Performance Criteria and Indicative Targets for 2004-05
(In billions of Burundi francs, unless otherwise indicated)

	2004			2005											
	Dec.			Mar. 2/			June			Sep. 2/			Dec. 2/		
	Prog. 1/	Prog. Adjusted	Act.	Prog. 1/	Prog. Adjusted	Act.	Prog. 1/	Prog. Adjusted	Proj.	Prog. 1/	Prog. Adjusted	Rev. Prog.	Prog. 1/	Prog. Adjusted	Rev. Prog.
Performance criteria for end-December 2004 and end-June 2005 (indicative targets otherwise)															
Net foreign assets of the BRB (floor; in millions of U.S. dollars) 3/	31.9	3.8	19.9	23.5	12.1	45.2	15.2	-7.7	36.9	13.3	-17.9	18.1	32.5	18.3	43.4
Net domestic assets of the BRB (ceiling) 3/	35.0	66.0	53.8	43.7	56.7	40.8	57.6	81.6	45.8	57.5	82.1	56.1	41.4	56.3	27.3
Net credit from the banking system to the government (ceiling) 3/ 4/	78.1	106.7	102.2	82.2	93.1	93.5	81.3	102.9	101.5	88.5	110.7	111.4	68.6	83.1	80.8
External payments arrears of the government (ceiling; in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; in millions of U.S. dollars) 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; cumulative; in millions of U.S. dollars) 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets															
Primary balance of the government (ceiling; cumulative from beginning of calendar year) 7/	-23.8	...	-25.4	-4.2	...	1.9	-4.9	...	-13.6	-25.8	...	-24.9	-35.0	...	-31.0
Government's wage bill (ceiling; cumulative from beginning of calendar year)	61.8	...	58.6	16.3	...	14.7	32.6	...	38.2	48.9	...	56.9	65.2	...	75.5
Adjustors															
External nonproject financial assistance (cumulative from end 2003; in millions of U.S. dollars) 7/ 8/	93.2	...	65.1	106.3	...	94.8	135.3	...	112.4	154.3	...	130.9	207.6	...	193.4
Net accumulation of fiscal arrears (cumulative from end-2003)	-11.9	...	-9.5	-12.9	...	-10.8	-13.9	...	-11.5	-14.9	...	-12.5	-26.9	...	-26.5

1/ As per Country Report No. 05/55.
2/ Indicative targets. December 2005 target to be set in the context of the second review.
3/ The ceiling or the floor will be adjusted to accommodate 100 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 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.
4/ The ceiling on net credit to the government from the banking system will be adjusted downward for any accumulation of domestic arrears as defined in the Technical Memorandum of Understanding.
5/ Excluding short-term, import-related trade credits.
6/ With a grant element of less than 35 percent.
7/ As defined in the TMU and revised to reflect a reclassification of spending on the new police force from projects to recurrent expenditures.
8/ Nonproject assistance includes debt relief on current maturities and net cash payments to clear arrears.

Table 2. Burundi: Prior Actions for the Second Review Under the PRGF and Structural Performance Criteria and Benchmarks for 2005

Measure	Timetable (End-month deadline)	Status
Prior actions		
• Abolish the "loyer verger" on coffee sector producers.		Done. OCIBU Board decision of April 8, 2005
• Publish ministerial order on the freedom of direct sales in the coffee sector.		Done. June 16, 2005
• Finalize preparations for the introduction of a single taxpayer identification number for all government revenue services on July 1, 2005.		Done. Preparations in final stage for July 1, 2005 introduction.
• Reinforce civil service wage bill management through the posting of a budget control unit at the ministry of the civil service to monitor wage bill commitments and payments.		Done. Budget control unit created on June 22, 2005
• Begin implementation of provisions for effective assessment and collection of income tax on Burundians working in local offices of all international agencies and institutions established in Burundi.		Done
• Modify import pre-inspection regime: (i) abolish levy for private sector development fund; (ii) modify the 10 percent fine for non-pre-inspection to a graduated rate and apply it; and (iii) ministerial order instituting a generalized pre-import declaration obligation at customs thereby delinking it from the exchange regulation regime.		(i) done by BRB June 8, 2005. (ii) done June 20, 2005. (iii) done by ministerial letter, June 24, 2005.
• Passage by parliament of a law on the status of magistrates of the audit court.		Done. Signed into Law on May 12, 2005
Structural performance criteria		
• Abolish remaining export surrender requirement (50 percent of coffee, tea, and cotton exports).	March 2005	Completed January 10, 2005
• Install a computerized financial management information system (IFMIS) of moderate size in the Ministry of Finance, with a link to the BRB, designed to monitor budget implementation (notably social spending), and produce summary fiscal tables.	October 2005	

Table 2. Burundi: Prior Actions for the Second Review Under the PRGF and Structural Performance Criteria and Benchmarks for 2005 (concluded)

Measure	Timetable (End-month deadline)	Status
Structural benchmarks		
• Issue decree for the liberalization of coffee sector marketing and trade at all levels of the production chain.	March 2005	Done. Decree 100/012 of January 14, 2005 established the liberty of investment and operation at all levels of the sector.
• Begin privatizing coffee sector assets by launching tenders for Sogestals, washing stations, and the state share in SODECO.	June 2005	
• Initiate audit, by the audit court, of the 2004 government accounts.	May 2005	Done. Audit initiated April 2005
• Complete audited inventory of domestic arrears.	June 2005	Inventory completed May 20, 2005. Tender for the external audit launched in June.
• Lift trade restrictions and price controls on sugar.	September 2005	Done. Export restrictions, minimum import prices, and domestic price controls abolished by ministerial decree May 6, 2005.
• Publication of the audit court's audit report of the 2004 government accounts.	September 2005	
• Adopt an action plan defining the new roles of coffee sector institutions (including OCIBU) to be in place for the start of the 2006 crop season (April 2006), consistent with coffee sector reform strategy.	November 2005	
• Begin privatization program (with launch of tenders) of state shares in enterprises in the financial, industrial, and other sectors.	December 2005	

Burundi: Technical Memorandum of Understanding
June 30, 2005

1. This technical memorandum of understanding sets out the definitions of program variables to monitor the implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines (i) the quantitative performance criteria and indicative targets and the applicable adjuster; and (iii) the key assumptions used in formulating the economic program for 2005 set out in the memorandum of economic and financial policies (MEFP) of the government of Burundi annexed to the letter of June 30, 2005 from the Minister of Finance and the Governor of the BRB to the Managing Director of the International Monetary Fund.

2. The prior actions, the structural performance criteria and the structural indicators are listed in Table 2 of MEFP.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

3. Quantitative performance criteria under the program are set on the end-June and end-December 2005 stocks as set out in Table 1 of the MEFP, as follows:

- Net foreign assets of the BRB (floor);
- Net domestic assets of the BRB (ceiling);
- Net credit from the banking system to the government (ceiling);
- Central government's external payments arrears (ceiling);
- The outstanding stock of short-term external debt (maturity of less than one year) of the central government and the BRB (ceiling); and
- New nonconcessional medium- and long-term external debt contracted or guaranteed by the government or the BRB (ceiling).

The quarterly targets on the above variables for September 2005 are indicative.

4. Quantitative indicative targets under the program as set out in Table 1 of the MEFP, are as follows:

- Primary budget balance, excluding externally financed projects (floor); and
- The government's wage bill (ceiling).

Definitions and computation

5. 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-March 2005 exchange rate. The net foreign assets of the BRB totaled FBu 51.8 billion, equivalent to US$45.2 million, at end-March 2005, broken down as follows:

	In billions of FBu	In millions of U.S. dollars
Net foreign assets of the BRB	51.8	45.2
Foreign assets	119.7	104.5
Deposits with correspondents (excluding IMF)	114.2	99.7
SDR holdings	0.2	0.2
Reserve position with the IMF	0.6	0.5
Gold holdings	0.5	0.4
Cash on hand	4.2	3.7
Foreign liabilities	67.9	59.3
Liabilities vis-à-vis correspondents (excluding IMF)	8.3	7.3
Counterpart of the use of IMF resources	58.0	50.6
Other liabilities	1.6	1.4

6. The **gross official reserves of the BRB** are defined as those foreign assets that are liquid and freely available to the central bank. At end-March 2005, gross official reserves stood at US$101.1 million.

7. The **net domestic assets of the BRB** are defined as the difference between (i) reserve money, comprising currency in circulation, reserves of commercial banks and other deposits held at the BRB, and (ii) net foreign assets of the BRB. Net domestic assets of the BRB totaled FBu 36.5 billion at end-March 2005, broken down as follows:

Net domestic assets of the BRB	36.5
Reserve money	88.3
Currency in circulation	55.3
Reserves of commercial banks	31.4
Other nonbank deposits	1.6
Minus: net foreign assets of the BRB	51.8

8. **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 and all 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 an impact on the government’s financial position. Net credit from the banking system to the government totaled FBu 93.5 billion at end-March 2005, broken down as follows:

Net credit from the banking system to the government	93.5
Central government	104.6
Loans, advances, and other credits	146.1
BRB	128.7
Commercial banks	17.4
Deposits	41.5
BRB	35.6
Commercial banks	5.8
Other government (net)	-11.1

9. The stock of **external payments arrears** for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. Arrears for which a clearance framework has been agreed with the creditor or which are subject to rescheduling or restructuring are not considered arrears for program monitoring purposes. Program arrears would include any debt service due under such agreements that have not been paid. The external payments arrears at end-December 2004 are broken down as follows, showing the actual stock under the heading "technical arrears":

External payments arrears	Program definition	Technical arrears
Total	0	78.6
Multilateral	0	21.3
International Development Association	0	0.0
AfDB Group	0	12.2
African Development Bank	0	5.9
African Development Fund	0	6.0
Nigeria Trust Fund	0	0.3
International Monetary Fund	0	0.0
European Union	0	0.0
International Fund for Agricultural Development	0	0.0
Arab Bank for Economic Development in Africa (BADEA)	0	0.0
OPEC Fund	0	8.4
Development Bank of the Great Lakes States (BDEGL)	0	0.7
Bilateral and commercial	0	57.3
Paris Club	0	13.8
French Cooperation Agency (AFD)	0	0.0
Japan (FCEOM)	0	13.8
Russia	0	0.0
Other official bilateral	0	42.9
Abu Dhabi Fund	0	2.5
Kuwait Fund	0	18.4
Saudi Arabia Fund	0	16.6
Libyan Bank	0	5.4
Commercial	0	0.5
AD Consultants	0	0.0
Kreditanstalt für Wiederaufbau AMSAR	0	0.5

10. The program includes a ceiling on **new nonconcessional external debts** contracted or guaranteed by the government and the BRB, which precludes the contracting of any such debt. This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the BRB of new nonconcessional external debt (as specified below) with original maturity of more than one year, including commitments contracted or guaranteed for which value has not been received. The term debt shall be understood as defined in the Executive Board Decision No. 12274-(00/85) adopted August 24, 2000. Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month averages, the following margins for differing repayment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15-19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources.

11. 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-March 2005, 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.

12. A **transfer of dividends from the BRB to the central government** took place in June 2005, in the amount of FBu 5.6 billion. Any transfer from the BRB in excess of this amount will be treated as central bank financing (rather than government revenue) and counted against the program's credit from the banking sector ceilings.

13. **Receipts from privatization** during 2005 are projected to reach FBu 3.0 billion (equivalent to 0.3 percent of GDP). Any privatization receipts over and above the projected amount will be used to reduce domestic debt.

14. 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 trimester of 2005 was estimated at FBu 1.9 billion, broken down as follows:

Primary budget balance	1.9
Total revenue	41.2
Minus:	
Noninterest current expenditure	33.8
Domestically financed capital expenditure	5.5
Net lending	0.0

15. 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 trimester of 2005 totaled FBu 14.7 billion, broken down as follows:

Government wage bill	14.7
Civilian personnel	8.1
New National Police Force (SSR Program)	0.7
Military personnel	6.0

External financial assistance adjustor

16. The program provides for a symmetrical adjustor for shortfalls or excesses in external financial assistance that is applied to quantitative targets on the net foreign assets and the net domestic assets of the BRB, and on net bank credit to the government.

17. External financial assistance (measured in terms of U.S. dollars) is defined to include the following: (i) nonproject loans and grants to the budget, (including payments made through the multi-donor trust fund managed by the World Bank for current debt service to multilaterals); (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Disbursements into blocked accounts by donors for the purpose of clearing arrears will not be included as foreign assistance for program monitoring purposes. The assumptions for 2004-05 are shown below.

18. The ceiling or the floor targets will be adjusted to accommodate 100 percent of any deviation from the projected cumulative external financial assistance. In case of, respectively, a financing excess (shortfall), the floor on the stock of net foreign assets of the central bank

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 financial assistance will be converted in terms of Burundi francs on a quarterly basis, using the average official exchange rate.

Burundi: Adjustment of Performance Criteria and Indicative Targets Under the 2004/05 Program
(In millions of U.S. dollars, unless otherwise indicated)

	2004		2005			
	Sep.	Dec.	Mar.	June	Sep.	Dec.
	Act.	Act.	Prog.	Prog.	Rev. Prog.	Rev. Prog.
External nonproject financial assistance (cumulative from January 2004)	49.1	65.1	106.3	135.3	130.9	193.4
Of which:						
EU	23.8	33.3	43.4	53.6	54.2	68.2
World Bank	0.0	0.0	14.8	14.8	16.4	51.4
AfDB	0.0	0.0	13.3	13.3	14.7	25.2
France	3.8	3.8	3.8	7.6	7.6	7.6
Belgium	5.7	8.3	8.3	10.9	12.1	12.1
Other (Gap)			0.0	9.7	0.0	0.0
Debt relief (current maturities)	3.8	6.0	7.1	9.8	10.2	14.9
Multidonor Trust Fund disbursements	12.0	13.7	15.6	15.6	15.6	15.6
Net accumulation of fiscal arrears (in Burundi francs; cumulative from end-2003)	...	-9.5	-12.9	-13.9	-12.5	-26.5

Sources: Burundi authorities and staff estimates.

Domestic payment arrears adjustor

19. The ceiling on net credit to the government from the banking system will also be adjusted to reflect 100 percent of any deviation from the projected net accumulation of fiscal arrears, as measured by the accumulation of nonexecuted payment orders older than 30 days. In case of, respectively, an increase (decline) in fiscal arrears, the ceiling on the stock of net credit from the banking system to the government will be adjusted downward (upward).

B. Key Program Assumptions

20. The main program assumptions are drawn from the WEO projections of June 2005 as follows:

	2004		2005			
	Jan.-June.	July-Dec	Jan.-Mar.	Jan.-June	Jan.-Sep.	Jan.-Dec.
Average export prices						
Coffee (cents per pound)	76.84	83.34	121.34	121.96	118.70	117.00
Tea (dollars per kg.)	190.64	205.66	245.43	222.75	214.28	211.50
Petroleum (US$ per barrel)	33.88	41.64	46.13	48.06	49.71	50.74
End of period						
Dollar per SDR exchange rate	1.50	1.50	1.50	1.50	1.50	1.50
Dollar per euro exchange rate	1.22	1.28	1.32	1.26	1.28	1.27
FBu per dollar exchange rate	1,120	1,150	1,050	1,050	1,075	1,100

C. Provision of Information to IMF Staff

21. 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 to the African Department of the IMF, by facsimile or electronic mail, the data required for program monitoring. These data will include, in particular; on a weekly basis the following:

- A monitoring table (tableau de bord) containing the most recent weekly and monthly data on the main financial indicators.
- A table on the foreign exchange cash flow.
- The balance sheet of the BRB (situation hebdomadaire).

The following data are to be provided on a monthly basis:

- the monetary survey, including breakdown 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 benchmarks and performance criterion planned under the program, as summarized in Table 2 of the MEFP.

22. 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 April 30, 2005)

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	76.64	99.53
Reserve position in Fund	0.36	0.47

III. SDR Department:

	SDR million	% Allocation
Net cumulative allocation	13.70	100.00
Holdings	0.15	1.10

IV. Outstanding Purchases and Loans:

	SDR million	% Quota
PRGF Arrangements	33.55	43.57

V. Latest Financial Arrangements:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
PRGF	1/23/04	1/22/07	69.30	33.55
PRGF	11/13/91	11/12/94	42.70	17.21
Structural Adjustment Facility (SAF)	8/8/86	8/7/89	29.89	29.89

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

			Forthcoming		
	2005	2006	2007	2008	2009
Principal					2.64
Charges/interest	0.41	0.51	0.51	0.51	0.50
Total	0.41	0.51	0.51	0.51	3.14

VII. Implementation of HIPC Initiative:

Not applicable

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the Banque de la République du Burundi (BRB) is subject to a full safeguards assessment with respect to the PRGF arrangement approved on January 23, 2004. However, in view of the constrained administrative and technical capacity in Burundi caused by prolonged civil conflict, a two-step approach to completing the safeguards assessment has been adopted. The first step, which was successfully completed on June 22, 2004, involved a targeted assessment of the areas considered critical to preventing the possibility of misreporting and safeguarding IMF resources, i.e., the BRB's external audit and financial reporting mechanisms and the system of internal controls. The second step, which will comprise a follow-up assessment after the most important safeguards recommendations are in place, will evaluate the BRB's legal framework and internal audit mechanism and, additionally, review the effectiveness of the measures implemented as a result of the first stage of the assessment.

IX. Exchange Arrangements

Burundi maintains a managed float exchange regime. On April 29, the exchange rate was FBu 1,113.75 to the US dollar. In July 2000, the authorities began reversing the heavy restrictions put in place during the 1993-96 civil hostilities and embargo period by introducing a system of weekly foreign exchange auctions. In 2002, in the context of a Fund-supported program, the central bank eliminated 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 and delegated authority to the commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered further to 50 percent and foreign exchange bureaus were licensed and admitted to the weekly auctions. In late 2004, the mandatory nature of the exchange rate determined in the central bank auction was abolished and the official rate was set on the basis of the daily average of transactions in the banking system. In early 2005, the remaining surrender requirement was abolished and the central bank auction was extended to twice a week. Burundi avails itself of the transitional arrangements of Article XIV.

X. Article IV Consultation

Burundi is on the 24-month cycle. The 2003 Article IV consultation discussions were conducted in Addis Ababa and Bujumbura during the period October 14-29, 2003. The staff report (Country Report No. 04/41) was discussed by the Executive Board on January 23, 2004, along with the consideration of the request for three-year arrangement under the

Poverty Reduction and Growth Facility (PRGF). On that occasion, Executive Directors welcomed the progress made in advancing the peace process since the Arusha Agreement in 2000 and commended the authorities for the strong implementation of their post-conflict economic program in 2003. They noted that Burundi still faced formidable challenges, particularly with regard to reducing the heavy external debt burden, absorbing a large number of refugees and internally displaced persons, and demobilizing combatants. They emphasized the critical importance of coffee sector reform. Directors considered that, provided there was continued satisfactory track record of policy implementation, Burundi's decision point under the Initiative for Heavily Indebted Poor Countries could be reached by the time of the second review under the PRGF.

XI. Technical Assistance

2005 (Jan.-May)	MFD Resident Monetary Advisor
2005 (Apr.)	FAD Revenue management mission
2005 (Mar.)	FAD Public expenditure management mission
2004–05	Extended visits by MFD expert on liquidity management
2004 (Nov.)	STA multisector mission
2004 (Nov.)	MFD multitopic mission
2004	FAD public accounting system, three visits by peripatetic adviser in March, June, and October
2003 (Nov.)	FAD Public expenditure management mission
2003 (Oct.)	Resident MFD consultant on monetary policy management (jointly with Rwanda)
2003 (Apr.)	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 a 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

XII. Resident Representative

A resident representative office is to be opened in mid-2005. The Resident Representative to Rwanda is expected to visit Burundi on a part-time basis.

Burundi: Relations with the World Bank Group[13]
(As of end-June 2005)

A. Partnership in Burundi's Development Strategy

1. As Burundi recovers from its long conflict, the transitional government is implementing its strategy for inclusive development. An Interim Poverty Reduction Strategy Paper (I-PRSP) has been completed through participatory methods and has become a core document in the national strategy. Based on a joint Bank-Fund staff assessment, the Executive Directors of the World Bank and the Fund discussed and endorsed the I-PRSP in January 2004 and, in January 2005 considered Burundi's potential eligibility for admission to the Enhanced Heavily Indebted Poor Country Initiative (HIPC) on the basis on the preliminary document prepared by the staff of the Bank and the Fund. An Interim Support Strategy (ISS) prepared on the basis of the I-PRSP for FY 2006-07 Bank support to Burundi was approved by the Bank Board on May 3, 2005. The Government is intensively using the full-PRSP preparation process to improve coordination of development efforts in the country, including donor-supported activities. Furthermore, the 2004 budget and the 2005 budget have been adopted in line with the I-PRSP.

2. The Fund is supporting this strategy through a PRGF, and IDA through a series of fast-disbursing and investment operations specifically on budget execution transparency and accountability, post-conflict rehabilitation and reintegration, education, health and social policy reforms, privatization, the environment for employment creation (particularly in rural areas), and sustainable infrastructure. In practice, there is close collaboration in many areas, particularly those related to growth and poverty reduction.

B. IMF-World Bank Collaboration in Specific Areas

3. Common objectives and the development of post-conflict instruments have led to increased collaboration between the Fund and the Bank in recent years. The Bank and Fund teams have been closely coordinating their assistance strategies and policy advice and assistance to the Government's implementation of the I-PRSP. There is also close coordination and good cooperation in the determination of structural conditionalities, in particular as regards crucial reforms for the coffee sector. The Bank is leading the policy dialogue on key structural aspects of the reform program. The Fund is leading the policy dialogue on macroeconomic and financial issues, in particular fiscal, monetary and exchange regime policies. Both institutions are providing significant technical assistance in their respective areas. The Fund and the 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. Collaboration in 2005 has been intensified in the context of the preparation of Burundi's full PRSP and participation in the enhanced HIPC Initiative, with the decision point expected to be reached by mid-July 2005

[13] Approved by the ROC on June 23, 2005.

C. World Bank Group Strategy

4. The Bank's Transitional Support Strategy (TSS) for 2002-04 supported the rehabilitation of Burundi's economy, 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 debt relief under the Enhanced HIPC Initiative. Support for affected populations during the progress towards sustainable peace, and improving the delivery of essential social services would enhance the reintegration of refugees into productive employment. This would eventually boost economic recovery and growth and help reduce the incidence of poverty.

5. The Bank's current FY 2006-07 Interim Support Strategy underscores I-PRSP challenges and provides support through two core strategic elements which are: (a) improved security, social stability and service delivery; and (b) debt relief, economic growth and diversification. Governance and institutional strengthening are cross-cutting issues that need to be addressed throughout the whole program in order to sustain progress. Preliminary estimates put the funding needs of the ISS at US$170 million for the two years in grant form. The planned operations are expected to be implemented throughout the country, with a focus on ensuring a distribution of benefits across all provinces. These include: (i) a Community Rehabilitation project; (ii) an Education/Health Sector project; (iii) a Supplemental project to the ongoing Public Works and Employment Creation project; (iv) Post Conflict Transitional Economic Rehabilitation Credit; and (v) Multi-Sector Infrastructure Rehabilitation project. It is expected that progress will be made during this period towards the preparation of a full PRSP, which will provide the basis for preparation of a Country Assistance Strategy.

6. As a key element in support of the consolidation of the peace process, the Government has established a national Demobilization, Reinsertion and Reintegration Program (DRRP) within the framework of the Multi-Country Demobilization and Reintegration Program (MDRP) for the greater Great Lakes region to support the demobilization and reintegration of ex-combatants in Burundi. The DRRP is supported with an IDA grant (US$33 million) and two grants from the Multidonor Trust Fund (MDTF) of the MDRP (US$45.5 million). To date, over 12,500 ex-combatants have been demobilized, and it is planned that another 6,000 will be demobilized by the end of 2005. It is expected that the DRRP will in the medium term lead to a reduction in force of the National Defense Force and associated budget, and facilitate a commensurate increase in investments in the social sectors.

7. 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, and a final floating tranche released in December 2004, is intended to support economic recovery through BOP support; and the counterpart funds generated from ERC foreign exchange auctions by the Central Bank (BRB) used to finance the government's specific development programs. The Bank also manages a trust fund for arrears clearance and debt service to multilateral development banks (particularly the African Development Bank (AfDB)). Besides the strong partnership with the Fund, the Bank is collaborating with a number of donors, including with the European Union. A new fast-disbursing grant—Post Conflict

Transitional Economic Rehabilitation Grant is currently under preparation, and will support further economic policy reforms.

8. Burundi has a relatively large but young active portfolio, ranging from infrastructure through public sector management to social sectors. The current IDA portfolio consists of 10 projects (see table below) for a total commitment of US$347 million and an undisbursed amount of about US$176 million, reflecting the Bank's re-engagement in Burundi after almost a decade of civil strife. The portfolio also includes a number of grants, which are not included in this table.

Active Portfolio in Burundi — IDA Financing
(As of end-June 2005)
(In millions of U.S. dollars, unless otherwise indicated)

Project Name	Approval Fiscal Year	Closing Date	Net Commit-ment	Of which: Grants	Un-disbursed	Disbursed in Fiscal Year
Health & Population II	1995	12/31/05	30.80	9.50	7.34	3.10
BURSAP II	2000	12/31/05	26.2	14.00	7.39	5.93
Regional Trade Facilitation	2001	06/30/11	15.0	0.00	6.98	2.20
Public Works and Employment Creation	2001	12/31/06	40.00	0.00	5.48	12.49
HIV/AIDS and Orphans	2002	12/31/06	36.00	0.00	17.35	9.11
ERC	2003	12/31/05	54.00	0.00	0.00	16.44
Economic Management Support	2004	07/31/09	26.00	0.00	24.46	0.68
Road Sector Development	2004	12/31/09	51.40	0.00	48.89	2.51
Demobilization and Reintegration	2004	12/31/08	33.00	33.00	26.86	6.14
Agriculture Rehabilitation and Sustainable Land Management	2005	10/31/10	35.00	35.00	30.75	4.25

Nonlending activities

9. Bank assistance also emphasizes ***nonlending activities and advisory services***, including those under ongoing operations, plus through trust funds and grants, to improve understanding of the socioeconomic context, rebuild the knowledge base to support the policy dialogue, and design effective poverty reduction strategies. Ongoing advisory services and economic and sector work include: strengthening public expenditure management; providing support to the PRSP process, specifically the consultation and participatory diagnostic processes and; a study on sources of growth; a post-conflict social sector and poverty assessment; and a debt sustainability analysis.

IFC

10. **The International Finance Corporation** holds a US$1 million equity portion in Verreries du Burundi, which is not sellable 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: Brendan Horton, Lead Economist at 473-5587; or Achille Toto Same, at 473-1911.

Burundi: Relations with the African Development Bank Group
(As of May 31, 2004)

Burundi has been a member of the AfDB Group since its foundation in 1964. The AfDB's grant and loan operations with the country were interrupted by the outbreak of civil strife in 1993. Total grants and loans disbursed before end-1993 amount to SDR 64.7 million.

Over the last decade, Burundi has accumulated arrears to the AfDB, totaling about US$31 million at end 2003. Payments on current debt service due were resumed during 2003. In June 2003, Burundi reached an understanding with the AfDB on the clearance of arrears and the government paid 20 percent of the outstanding total in the first quarter of 2004. On July 19, 2004, the AfDB Boards approved general policy guidelines to assist post-conflict countries to clear their arrears and created a facility, the PCCF, initially funded with about SDR 100 million in AfDB funds, to provide financial assistance to qualifying post-conflict countries. The policy guidelines call for a three-way burden sharing formula among the country, donors and the PCCF. On October 27, 2004, the AfDB Boards endorsed a specific arrears clearance proposal for Burundi whereby the balance of arrears will be settled with the help of donors and the PCCF before the decision point under the enhanced HIPC Initiative, expected in the first half of 2005. In Burundi's case, the residual arrears will be cleared in equal parts by the PCCF (SDR 8 million) and donors SDR 8 million (the EU; euro 7.6 million, and France euro 2 million), respectively.

The AfDB staff is prepared to resume lending operations (under its FAD 9 allocation) following the lifting of sanctions in October 2004. On July 7, 2004, the Bank Group approved a grant of SDR 2.13 million to finance training of civil servants and procurement of equipment for institutions in charge of economic management and the civil society. A structural adjustment credit totally SDR 6.72 million, in one tranche, accompanied by a further grant of SDR 1.5 million for institutional support, was approved by the Board on December 2004. A multi-sector project, totaling SDR 9.8 million, was also approved on December 2004. It is expected that Burundi and other post-conflict countries would see sizeable increases in their allocations from FAD 10.

Table: AfDB Operations in Burundi

	Outstanding loans	Past-due obligations
	(In millions of SDRs)	
African Development Bank	2.9	5.5
African Development Fund	145.2	10.3
Nigerian Trust Fund	0.4	0.4
Total	148.5	16.0

Burundi: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1. Eradicate extreme poverty and hunger					
Target 1: Halve between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
1. Population below US$1 a day (percent)	...	...	[1/]58.4	...	...
2. Poverty gap ratio at US$1 a day (percent)	...	...	...	...	...
3. Share of income or consumption held by poorest 20 percent (percent)	[2/]7.9	...	[1/]5.1	...	...
Target 2: Halve, between 1990 and 2015, the proportion of people suffering hunger					
4. Prevalence of child malnutrition (percent of children under 5)	...	...	45.1	...	...
5. Population below minimum level of dietary energy consumption (percent)	49.0	64.0	70.0	...	24.5
Goal 2. Achieve universal primary education					
Target 3: Ensure that, by 2015, children will be able to complete a full course of primary schooling					
6. Net primary enrollment ratio (percent of relevant age group)	52.0	29.5	53.4	...	100.0
7. Percentage of cohort reaching grade 5	61.8	...	64.0	...	100.0
8. Youth literacy rate (percent age 15-24)	51.6	57.9	65.1	66.1	100.0
Goal 3. Promote gender equality and empower women					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education by 2015					
9. Ratio of girls to boys in primary and secondary education (percent)	82.0	...	79.4	...	...
10. Ratio of young literate females to males (percent ages 15-24)	76.7	86.0	95.6	96.9	...
11. Share of women employed in the nonagricultural sector (percent)	...	...	...	...	...
12. Proportion of seats held by women in the national parliament (percent)	...	11.3	14.4	19.6	...
Goal 4. Reduce child mortality					
Target 5: reduce by two-thirds between 1990 and 2015, the under-five mortality rate					
13. Under-five mortality rate (per 1,000)	184.0	194.0	204.0	208.0	61.3
14. Infant mortality rate (per 1,000 live births)	111.0	116.0	121.0	123.0	...
15. Immunization against measles (percent of children under 12-months)	74.0	80.0	75.0	75.0	...
Goal 5. Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.					
16. Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	1,000.0	...	...
17. Proportion of births attended by skilled health personnel (% of total)	...	...	25.2	...	...
Goal 6. Combat HIV/AIDS, malaria and other diseases					
Target 7: Halt by 2015, and begin to reverse, the spread of HIV/AIDS					
18. HIV prevalence among females (percent ages 15-24)	...	...	11.0	...	...
19. Contraceptive prevalence rate (percent of women ages 15-49)	...	...	...	...	...
20. Number of children orphaned by HIV/AIDS	...	...	240,000	...	...
				...	...
Target 8: Halt by 2015, and begin to reverse, the incidence of malaria and other major diseases					
21. Prevalence of death associated with malaria	...	...	...	...	...
22. Share of population in malaria risk areas using effective prevention and treatment	...	...	...	...	...
23. Incidence of tuberculosis (per 100,000 people)	...	...	406.2	...	...
24. Tuberculosis cases detected under DOTS (percent)	...	16.0	30.0	...	...

Burundi: Millennium Development Goals (concluded)

	1990	1995	2001	2002	2015 Target
Goal 7. Ensure environmental sustainability					
Target 9: Integrate the principles of sustainable development into policies and programs. Reverse the loss of environmental resources					
25. Forest area (percent of total land area)	9.4	...	3.7	...	...
26. Nationally protected areas (percent of total land area)	...	5.5	5.7	5.7	...
27. GDP per unit of energy use (PPP $ per kg oil equivalent)	...	...	...	...	...
28. CO2 emissions (metric tons per capita)	0.0	0.0	0.0	...	...
29. Proportion of population using solid fuels					
Target 10: Halve by 2015 proportion of people without access to safe drinking water					
30. Access to improved water source (percent of population)	69.0	...	78.0	...	84.5
Target 11: Achieve by 2020 significant improvement for at least 100 million slum dwellers worldwide					
31. Access to improved sanitation (percent of population)	87.0	...	88.0	...	...
32. Access to secure tenure (percent of population)	...	...	...	...	...
Goal 8. Develop a Global Partnership for Development 3/					
Target 16: Develop and implement strategies for productive work for youth.					
45. Unemployment rate of population ages 15-24 (total)	...	...	...	...	...
Female	...	...	...	...	...
Male	...	...	...	...	...
Target 17: Provide access to affordable essential drugs					
46. Proportion of population with access to affordable essential drugs	...	...	...	...	...
Target 18: Make available new technologies, especially information and communications					
47. Fixed line and mobile telephones (per 1,000 people)	1.5	2.9	7.4	10.6	...
48. Personal computers (per 1,000 people)	...	...	0.7	0.7	...

Sources: World Bank; and Fund staff estimates.

1/ Survey data for 1998
2/ Survey data for 1992
3/ Targets 12-15 and indicators 33-44 are excluded because they can not be measured on a country specific basis. These are related to official development assistance, market access, and the HIPC Initiative.

Statement by the IMF Staff Representative
July 27, 2005

The following is information received since the staff report was issued on political and macroeconomic developments. The thrust of the staff appraisal remains unchanged.

1. **The political transition**

- The political transition to an elected government is nearly complete. Elections for local councils in June and for parliament in early July were handily won by the former rebel movement CNDD-FDD, led by Mr. Pierre Nkurunziza (the Minister of State for Good Governance and Privatization in the transitional government). Mr. Nkurunziza is the sole candidate for the Presidency. Voter turnout has been high and the parliamentary elections took place without major incident.

- The demobilization program supported by the World Bank and bilateral donors continues to progress well. A significant benchmark was recently achieved with the completion of processing of the ex-rebel movements and the restart of demobilization of ex-army personnel. Altogether, through July 17, 2005, over 16,000 persons, including almost 3,000 children have been demobilized.

2. **Macroeconomic developments**

- The program remains on track at end-June 2005. Preliminary and partial information suggests that the end-June performance criteria will likely have been met with some margin.

- The reinforced monetary policy has been successful in reducing reserve money growth sharply at end-June to 13.0 percent year-over-year. Broad money growth also began to ease in the second quarter. However, commercial banks have been building their external asset positions while credit to the economy has been stagnant.

- CPI inflation has continued on the downward trend since peaking in February 2005 at 21 percent. In May, the rate had been reduced to12.6 percent year-over-year in line with the revised program target for the year of 10.3 percent.

- The nominal exchange rate has continued to appreciate modestly against the U.S. dollar. The spread with the parallel market has oscillated between 3 and 6 percent.

Press Release No. 05/175
FOR IMMEDIATE RELEASE
July 29, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under Burundi's PRGF Arrangement, Approves US$10.4 Million Disbursement and Agrees in Principle on Burundi Reaching its Decision Point Under the Enhanced HIPC Initiative

The Executive Board of the International Monetary Fund (IMF) has completed the second review of Burundi's economic performance under an SDR 69.30 million (about US$100.30 million) Poverty Reduction and Growth Facility (PRGF) arrangement (see Press Release No. 04/13), and approved the disbursement of an amount equivalent to SDR 7.15 million (about US$10.37 million), which will bring the total disbursements under the PRGF arrangement to SDR 40.70 million (about US$59.03 million).

Executive Directors also agreed, in principle, that Burundi has taken the steps necessary to reach its decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, and to provide Burundi with interim assistance. This decision on Burundi's decision point under the enhanced HIPC Initiative is contingent upon the Executive Board of the World Bank also deciding Burundi has reached the decision point under the enhanced HIPC Initiative. A press release will be issued jointly with the World Bank following the World Bank deliberations.

Following the Executive Board's discussion on July 27, 2005 on Burundi's economic performance, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, stated:

"Burundi has made good progress in strengthening macroeconomic policy performance and deepening the structural reform agenda. The authorities have taken important steps to solidify the peace and bring the political transition process to a successful conclusion. Continued peace and security are essential to form the basis for sustained growth and development.

"Burundi's performance under the PRGF-supported program has been broadly satisfactory. This was achieved notwithstanding exogenous shocks—a severe drought and crop disease in parts of the country as well as the surge in world oil prices. The higher-than-programmed inflation underscores the need to quell price pressures.

"In view of the large challenges Burundi still faces, in particular the widespread deep poverty, a continued commitment to sound economic policies will be essential to bring about the sustained strong growth necessary for poverty reduction and progress toward the

Millennium Development Goals (MDGs). Such an effort will also require significant technical and financial assistance from the international community for many years to come.

“The continued strong revenue performance and containment of spending pressures are commendable. Stronger revenues, possible savings on security spending, and strengthened expenditure management could provide room to begin paying domestic arrears and to permit a gradual increase in civil service wages. It will, however, be important to secure the necessary resources before additional expenditures, in line with the program’s objectives, can be contemplated.

“The Bank of the Republic of Burundi (BRB) has significantly strengthened its monetary policy instruments, financial sector supervision, and its own operations. The active use of the new instruments should help ensure a reduction in inflation toward the program’s objective and improved management of the liquidity impact of large and irregular inflows of external budgetary assistance.

“The deepening of structural reforms is key to achieving broad-based private sector-led growth. It will be important, in particular, to maintain the momentum of the coffee sector reform, given its significant potential to raise rural incomes and export earnings and to begin the privatization of state assets in the productive and financial sectors.

“The authorities have made progress in the broad consultative process undertaken toward completing the full PRSP, which is now expected to be completed in late 2005. Setting up an expenditure-tracking mechanism and costing priority policies soon will be important in this context.

“Burundi’s external debt situation will remain difficult even after HIPC debt relief, and strong economic policies, prudent debt management, and continued donor support on highly concessional terms will be needed to ensure a sustainable external debt in the medium term,” Mr. Carstens said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a PRSP. This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Statement by Peter Ngumbullu, Executive Director for Burundi
and Dieudonne Nintunze, Advisor to Executive Director
July 27, 2005

Introduction

1. We would like to convey the gratitude of the Burundian authorities to the Board, Management and Staff of the Fund for the continued involvement and support to Burundi. They find the report on the Review Under the PRGF arrangement as well balanced and welcome the constructive policy recommendations. They also appreciate the updated DSA developed through the Decision Point Document Under the Enhanced HIPC initiative, which indicates that Burundi's external debt is unsustainable, and highlights proposals for urgent debt relief. Progress in the peace process and national reconciliation is remarkable and the political transition has progressed successfully leading to the ongoing democratic elections. Implementation of the economic program is on track, and the authorities have reiterated their commitment to implement the reform measures agreed under the program.

2. Despite a difficult political and social environment, Burundi has considerably advanced the peace process and national reconciliation. The post-transition constitution was adopted following the national referendum in February 2005, Communal Councils and members of Parliament were elected in early June and July 2005, respectively. The Senate will be elected by Communal Councils at the end of July, while a new President will be elected by Parliament and sworn into office by late August 2005. In addition, remarkable progress has been achieved in implementing the reform of the defense and security sector (SSR), with support of the international community, including the UN, European Union, World Bank and bilateral donors. In this connection, the creation of an integrated national defense force and police, comprising the former rebel movements, the former army, gendarmes and police, has been recently completed. Moreover, the process of disarmament, demobilization and reinsertion (DDR) of ex-combatants into the civil society has accelerated. As of end-May 2005, around 10,000 ex-combatants had been demobilized.

Recent economic developments and performance under the program

3. The overall macroeconomic performance in 2004 and early 2005 was broadly on track with program objectives being met, despite exogenous shocks which have resulted in a higher than expected inflation. Real GDP growth, at 4.8 percent in 2004, was a little lower than the program target of 5 percent, due to a severe drought and crop failure in the northern region. The effect of these factors on GDP growth has been offset, in part, by recovery in the coffee sector production and services, as well as reconstruction activities. Consumer prices have increased since the last quarter of 2004, reflecting the sharp rise in price of petroleum products, and food prices resulting from the drought, as well as pressures on rents and other prices from increased demand.

4. Fiscal and monetary indicators have remained broadly in line with the program objectives. The currency (Burundi franc) has been stable vis-à-vis the US dollar. The exchange rate differential between the official and the parallel market narrowed to around 2-3 percent since the last quarter of 2004 from 15 percent in 2003, reflecting the authorities' policy effort, and a gradual increase in foreign exchange reserves. The external current account deficit has also narrowed as compared to 2004 program projections, reflecting largely gains from improved coffee prices in international markets.

5. Despite spending pressures from various post-conflict needs, fiscal management has been prudent, and performance was in line with the program. Due to good performance in implementation of development projects, much higher than estimated domestic counterpart outlays to foreign-financed project spending have resulted in a small margin of 0.3 percent of GDP in excess of the primary fiscal deficit target in 2004. Poverty related expenditure has increased to 6.7 percent of GDP. Revenue performance exceeded the program target by 0.7 percent of GDP, reflecting strong tax collection effort and impact of measures implemented to strengthen revenue administration, including the reinforcement of the large-taxpayers unit, broadening of sales tax to cover all domestic transactions, and improvements in customs operations.

6. The Bank of the Republic of Burundi (BRB) has made strong progress in strengthening its monetary policy capacity. Overall monetary indicators are in line with program objectives, even though a slight overrun on bank credit to government was observed, reflecting delays in disbursement of external aid. The BRB has recently implemented measures aimed at adopting market-based monetary instruments, including the adoption of the liquidity auctions in April 2005, and has strengthened prudential norms and banking supervision. In addition, the BRB is strongly committed to improving governance in its operations. An external audit carried out for the first time was completed in June 2005 and the authorities have started to implement the recommended measures, together with the safeguards assessment. In addition, liberalization of the exchange regime has been accelerated. All restrictions on international current account transactions have been abolished and new steps for improving the BRB foreign exchange auctions have been implemented since March 2005.

7. Notwithstanding the limited administrative capacity and a difficult political environment, the authorities have advanced considerably in the implementation of structural reforms aimed at improving public financial management and promoting development of the productive sector. In this connection, the newly established Auditing Court began auditing the 2004 government accounts in April 2005. The implementation of the coffee sector reform strategy has been accelerated, including liberalization of investment and marketing. There has been marked improvement in financial management and recovery in production, supported by increased world market prices. A substantial operating surplus estimated at more than 2 percent of GDP was realized in the 2004/05 crop year of which an important portion was redistributed to farmers. In addition, progress has been made in the liberalization of the sugar sector, including elimination of restrictions in import-export of sugar, as well as liberalization of domestic prices with a view to increasing local production and exports.

8. All quantitative performance criteria for end-2004 were observed, as was the structural performance criterion for March 2005, to abolish the remaining export surrender requirement of foreign exchange from exports (50 percent of coffee, tea, and cotton exports). The two structural benchmarks on liberalizing marketing and trade at all levels of the coffee sector, and the audit of the 2004 government accounts by the Auditing Court were met. In addition, all the seven prior actions for the second review of the PRGF supported program have been implemented.

Program for 2005 and medium-term outlook

9. Notwithstanding the remarkable track record of program implementation, our authorities are aware of the daunting challenges ahead, including tackling the enormous post-conflict reconstruction and rehabilitation needs, while consolidating macroeconomic stability. In addition, they are committed to taking advantage of the national consensus built under the PRSP formulation process to handle the widespread poverty in the country. They will improve the coverage and efficiency in the delivery of social services, increase productivity and promote development opportunities in rural sector. They will also improve the quality and coverage of the country's infrastructure and speed up implementation of structural reforms, to enhance diversification of sources of growth and promote private sector development with a view to paving the way for sustainable higher economic growth and making more progress towards achieving the MDGs. Appropriate technical assistance to improve administrative capacity and very concessional and timely financial support will be needed to complement the authorities' efforts.

10. The authorities project economic growth at 5 percent annually in 2005 and for the medium–term. They are determined to reduce inflation to 10 percent by end-December 2005 and to 4 percent in the medium term, and increase the level of international reserves. They will continue tightening monetary policy and reinforcing budgetary discipline to contain inflationary pressures.

Fiscal policy

11. The authorities are committed to achieving fiscal sustainability in the medium term by further strengthening revenue performance and improving public expenditure management. In addition to measures initiated since early 2005, tax policy measures aimed at reinforcing revenue performance will include the introduction of a single taxpayer identification number in all revenue services, extension of income tax legislation to all locally employed nationals. Measures to improve customs operations and to combat fraud have been initiated and will be strengthened with the introduction of a generalized pre-import declaration requirement, which will also allow separation of import pre-inspection regime from the exchange control regulations.

12. Progress made in improving public expenditure management and budgetary transparency will be consolidated. In this connection, the public accounting systems are being improved, with the introduction of a new accounting system and a more integrated financial management system. Moreover, the authorities have recently introduced measures to enhance management and control of the civil service payroll. The civil service wages are very low in Burundi and there are strong pressures to address the situation. The authorities are committed to maintaining a prudent fiscal stance, and wage increases would be made gradually possible by savings resulting from measures implemented to improve expenditure management. The authorities are also committed to improving the quality of public expenditure and will increase social spending, with a view to meeting the PRSP's objectives. This will be made possible with savings resulting in part from acceleration in the execution of SSR and DDR programs.

Monetary and exchange rate policies

13. The BRB will take advantage of the recent progress made in strengthening liquidity management to continue tightening of its monetary policy, to supporting inflation objectives. To this end, steps taken in enhancing liquidity forecasting capability and introducing liquidity auctions will be consolidated, to contain reserve money growth and absorb excess liquidity in the economy. To support a more active monetary policy, the authorities will also undertake reform of the treasury bills and bonds securities to make them tradable. The BRB is committed to continue improving its operations and governance. It has developed an action plan to address auditors' recommendations, including strengthening management of foreign exchange operations, internal audit procedures and computerized accounting systems. Actions will also be taken in strengthening the prudential compliance for financial sector. The BRB will further improve the current prudential requirements with a view to moving towards international standards.

14. The BRB will continue consolidating the progress made in liberalizing the exchange system. It has undertaken measures to separe import pre-inspection from the exchange control regime in support of exchange market integration. Moreover, the BRB intends to limit its intervention in the foreign exchange market to achieving the NIR targets, while preventing short-term volatility. The authorities will pursue a flexible exchange rate policy.

Structural reforms

15. The authorities are committed to further deepen and strengthen implementation of their structural reform agenda, to promote good governance and transparency, and further stimulate private sector investment. In this regard, the Auditing Court which is now operational is expected to contribute to improved public financial management. In addition, the steps taken to reform the key productive sectors will be strengthened, including completion of the coffee sector reform strategy and privatization of state owned enterprises.

Debt sustainability and the HIPC initiative

16. Burundi's debt burden remains extremely high. The debt-to-export ratio is estimated at 1772 percent at end-2004 in NPV terms, and the DSA indicates that Burundi's external debt will remain unsustainable, even after the full use of traditional debt relief mechanisms. Burundi, therefore, qualifies for assistance under the enhanced HIPC initiative, based on the debt-to-export criterion. Faster and deeper debt relief will release more resources for reconstruction and poverty reduction, allowing the country to make progress towards meeting the MDGs. In this regard, the authorities seek the consent of the Board to grant Burundi the decision point under the HIPC Initiative. The authorities recognize that the possible triggers selected for reaching the completion point under the HIPC Initiative are in line with their priority areas. They are aware of the need to strengthen external debt management capacity and measures are being taken to develop a national debt management strategy.

17. In addition, considering Burundi's financing requirements for post-conflict reconstruction and poverty reduction, the debt service to exports ratio for the interim period are too high (32.2 and 12.6 percent in 2005 and 2006, respectively) and set at well above the average of 8.2 percent for the post decision and completion points HIPCs. Given the unfavorable comparison of this debt service profile in the interim period as staff highlighted in para. 45 of the DP document, the authorities would welcome exceptional efforts by the international community to provide additional financial support, including by raising further interim relief, especially in the context of the very heavy reconstruction and social needs. This is particularly needed, given the high risks to the baseline projection as demonstrated by the staffs' sensitivity analysis.

18. Moreover, even after the full delivery of HIPC relief, Burundi's debt will still remain above the 150 percent HIPC threshold until 2013, according to the baseline scenario, given assumptions on exports growth. In this regard, Burundian authorities strongly welcome the recent G-8 initiative for debt cancellation, and seek for benefiting from its support, as soon as possible. Finally, in order to complement its efforts towards the attainment of the MDGs, Burundi will require more and sustained inflow of external support on very concessional terms and, in particular, 100 percent grants where ever possible.

PRSP preparation status

19. The authorities have ensured that the participatory process, as well as sectoral and thematic consultations are being implemented in a comprehensive manner. However, given the complex situation on the ground, there has been some delays in the formulation of the full PRSP, which is now scheduled to be completed by October 2005. The authorities are confident that the national consensus built upon the PRSP preparation process will help in consolidating national reconciliation and will facilitate implementation of the agreed policies and reforms.

Conclusion

20. It is evident that Burundi has made remarkable progress in accelerating implementation of the peace and national reconciliation agreement. The authorities have also significantly advanced implementation of the economic program. They are, however, aware of the daunting challenges ahead. More than half of the population live in extreme poverty conditions, and the MDGs may not be achieved if the economy is not diversified and economic growth accelerated. They are strongly committed to taking advantage of the progress achieved to consolidate macroeconomic stability and strengthen implementation of their structural reform agenda.

21. The authorities are looking forward for continued financial support and technical assistance from the international community, including the IMF, to enable them build a strong basis for the success of the ongoing socio-economic reforms. They strongly believe that this support will complement their effort to lead the economy to a higher rate of growth, poverty reduction, debt sustainability and reaching the MDGs.