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BURUNDI

September 2014

2014 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRETOR FOR BURUNDI

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV Consultation, fifth review under the three-year arrangement under the Extended Credit Facility; and request for modification of performance criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 25, 2014, following discussions that ended on June 13, 2014, 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 23, 2014
- An **Informational Annex** prepared by the IMF.
- A **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its August 25, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director** for Burundi.

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

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

*Also 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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BURUNDI

July 23, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

KEY ISSUES

Context: Since the last Article IV Consultation in 2012, notable progress has been achieved to enhance macroeconomic stability, underpinned by the Fund-supported program. However, continued progress could be tested as the country faces a more challenging environment, due to increasing social and political tensions and frequent strikes in the run-up to the 2015 elections. Moreover, recent political developments reinforce uncertainties surrounding external budget support.

Program: The Executive Board approved the three-year arrangement under the Extended Credit Facility (ECF) on January 27, 2012, with a total access of SDR 30 million. The first, second, third, and fourth reviews were completed on July 27, 2012, February 14, 2013, September 6, 2013, and February 28, 2014, respectively. For the fifth review, all end-March performance criteria were observed, but fiscal revenues underperformed in the first quarter of 2014 requiring corrective fiscal measures (about 1 percent of GDP on an annual basis). Satisfactory progress has been made on structural reforms, albeit with some delays.

Outlook and risks: The medium-term macroeconomic outlook is challenging. The principal near-term risk is an intensification of election-related uncertainty, economic disruptions and violence, which would affect investment and growth. Governance issues or delays in making measurable progress in public financial management (PFM) reforms, and heightening of political tensions could curtail donor support. Reintegrating repatriated refugees is likely to add to unemployment pressures, increase demand for public services, and exacerbate social conflict over access to land.

Staff Views: The staff recommends the completion of the fifth review under the ECF arrangement, setting of revised performance criteria and indicative targets for September–December 2014, and disbursement of SDR 5 million. The authorities have consented to the publication of this report following the completion of the review.

Approved By
Roger Nord and Dhaneshwar Ghura

A staff team comprising Messrs O. Williams (Head), F. Boutin-Dufresne, J. Dridi (all AFR), and Ms. P. Toffano (FAD) visited Burundi during June 2–13, 2014. The mission was assisted by P. Youm, the IMF Resident Representative in Burundi. The mission met with His Excellency Second-Vice President Gervais Rufyikiri, Senate President Gabriel Ntsizerana, Minister of Finance Tabu Manirakiza, Central Bank Governor Jean Ciza, other senior government officials, parliamentarians, the private sector and civil society, and the donor community.

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RECENT DEVELOPMENTS AND PROGRAM IMPLEMENTATION

MEFP ¶ 2

1. **The social and political situation is punctuated by uncertainty,** in part owing to the pending determination of whether the President will run for a third term. On the social front, unions are pressuring the government for wage increases ahead of the May 2015 presidential elections.

2. **The pace of economic recovery picked up, but with increased risks to the outlook (Tables 1–5).**

- **Growth and inflation.** Real GDP growth is projected to improve slightly to 4.7 percent in 2014 supported by agriculture, particularly a rebound in coffee production and construction of major infrastructure projects. Headline inflation decelerated to 3.5 percent (y-o-y) in May and the outlook remains favorable owing to lower projected international food and fuel prices. Preliminary trade data through end-May indicate buoyant growth of export and imports in volume terms.

- **Fiscal performance in the first quarter of 2014 was challenging.** This in part reflected the non-disbursement of one tranche of budget support in late 2013 that led to outstanding obligations (0.4 percent of GDP), but which were subsequently paid in early 2014. In addition, the combined effects of the alignment of corporate income tax rates with those of the East African Community (EAC) and the elimination of the one percent minimum tax in the event of corporate losses, led to revenue shortfalls of about one percent of GDP on an annual basis.[1] A number of large tax payers (about a third, or 70 companies) reported losses.

- **Monetary conditions remain stable.** With the improvement in liquidity conditions, the central bank reduced its policy rate by about 200 basis points since December 2013 to 10.5 percent in March 2014. Declining inflation contributed to driving real interest rates into positive territory. Growth in broad money decelerated to 9.2 percent (y-o-y) at end-March 2014, while growth in credit to the private sector remained subdued but is projected to grow at about 11 percent in the year. The banking sector remains adequately capitalized and profitable although non-performing loans (NPLs) have picked up (Table 8).

- **Greater exchange rate flexibility helped the economy adjust to external shocks**. The Burundi franc depreciated by a cumulative 22 percent against the US dollar since 2011 but has remained broadly stable since early 2013. Gross international reserves stood at 3.5 months of imports at end-2013. The real effective exchange rate (REER) appreciated by about 8 percent in the first quarter of 2014 relative to the first quarter of 2013.

[1] The law reduced the corporate tax rate (from 35 percent to 30 percent), eliminated the previously levied 1 percent minimum tax on companies' sales revenues in the event of losses, and the withholding tax on imports (4 percent).

3. **The response to past IMF advice has been broadly satisfactory**. Under the authorities' program, Burundi has maintained macroeconomic stability. Fiscal adjustment in the face of declining budget support and tighter monetary policy in response to the food and fuel shocks have reduced inflation to single digits and stabilized the exchange rate. Macrocritical reforms in the coffee and electricity sectors have progressed, while improvements in the business climate have been noteworthy. However, weaknesses in revenue mobilization persist and warrant a redoubling of efforts. The Fund continues to support the authorities' reform efforts through policy advice and technical assistance.

MEFP Tables I.1 and I.2

4. **Program implementation has been challenging.** Most end-December indicative targets were met except domestic assets of the central bank, domestic financing of the government, and reserve money. At end-March, all performance criteria and indicative targets were observed, except the indicative targets on fiscal revenues and that on reserve money. The latter was missed on account of the bunching of donor disbursements in the first quarter of the year, which led to higher-than-programmed net foreign assets of the central bank. Fiscal revenue underperformed relative to the program due to the impact of the 2013 income law (¶2). Satisfactory progress was made in the implementation of structural reforms albeit with delays based on technical reasons (Text Table 1). The structural benchmark related to the debt law was rescheduled owing to delays in identifying a consultant, who has prepared a draft law for the authorities' consideration in early June. The benchmark related to the audit of arrears on extra-budgetary spending proved to be more resource-intensive than anticipated; additional resources have been allocated to the Audit Court to complete it by end-November.

Text Table 1. Structural Measures: Fifth Review Under the ECF

Measures	Status	Date	Review	Rationale
Public Financial Management				
Prepare an audit of arrears on extra-budgetary expenditures (not committed and without payment order) in prior years (to be performed by an independent auditor, for example the Audit Office or IGE [State Inspectorate General]); and adopt a payment plan.	Delayed and rescheduling proposed to end-November. The Audit Court has assigned a team of magistrates to process files dating back to 2004. Budget to cover audit in place.	30-Mar-14	5th	Identify and verify the amounts actually due and disputed invoices.
Put in place a rationalized spending chain with pilots in the ministries of agriculture, education, and health, and nominate 10 expenditure controllers in 10 ministries.	Met	30-Jun-14	5th	Ensure timely and accurate reconciliation between government accounts and the accuracy of revenues collected.
Debt Management				
Submit a new law on debt management to parliament.	Rescheduling proposed to end-September. Delays related to recruiting legal consultant. Draft law presented to the authorities in early June.	30-Mar-14	5th	Establish a legal framework governing public debt.

Sources: Burundi authorities; and IMF staff.

OUTLOOK AND RISKS

5. **The macroeconomic outlook remains difficult.** Real GDP growth is expected to improve over the medium term on the back of solid agricultural and construction activity, including the implementation of large hydroelectric projects. Further integration with the EAC is expected to spur investment in the tourism, wholesale and retail sectors, as well as in finance and telecommunications. Headline inflation is expected to decline to around 7 percent by end-2014 and should stabilize over the medium term in line with lower projected international food and fuel prices. Major floods that occurred earlier in the year and which damaged major transport routes, could contribute to an uptick in inflation in the months ahead. The fiscal position is expected to improve but remains subject to downside risks. The current account is expected to narrow to about 17 percent of GDP in 2014 as coffee exports rebound and would improve over the medium-term reflecting higher exports and moderate growth in imports following earlier surges associated with humanitarian efforts (Text Table 2).

Text Table 2. Medium-Term Macroeconomic Framework

	Prel.	Proj.			
	2013	2014	2015	2016	2017
	(Percentage change)				
Real GDP	4.5	4.7	4.8	5.0	5.2
CPI Inflation (period average)	7.9	7.0	6.1	5.6	5.4
	(Percent of GDP)				
Overall fiscal balance	-1.7	-2.5	-1.8	-1.7	-1.6
Current account balance	-20.5	-17.2	-17.6	-17.9	-16.8

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

6. **Risks to the outlook remain elevated.** A deterioration of the political and security situation, a further decline in donor support, a worsening in the terms of trade, or a protracted period of slower growth in advanced and emerging economies could cause a slowdown in growth, reform implementation, and social unrest. While multilateral donors continue to provide budget support, albeit with stronger conditionality, bilateral donors continue to engage through project grants and performance-based sectoral budget support (Annex I).[2] The authorities agreed with staff's views on the outlook and noted that should these risks materialize, there would be limited fiscal space for countercyclical policies. However, they noted that greater exchange rate flexibility would be essential to respond to external shocks.

MEFP ¶ 3

POLICY DISCUSSIONS

Policy discussions focused on a mix of near term program issues, and critical medium-term challenges. In the near term, sustaining revenue mobilization is critical to keep the program on track and to respond to contingencies in the run-up to the May 2015 elections. Over the medium term, policy advice concentrated on measures to enhance more inclusive growth, including through decisive policy actions to create fiscal space to mitigate risks. Additional efforts are needed to improve productivity, foster financial inclusion, and strengthen public institutions.

[2] The EU has now linked budget support to political governance, encompassing progress in the areas of rule of law and human rights.

A. Expanding Fiscal Space and Mitigating Risks

7. **The authorities adopted swift corrective measures to address revenue shortfalls that emerged during the first quarter (¶2)**. These measures were geared towards offsetting revenue losses associated with the alignment of corporate tax rates in the EAC and to bolster the medium-term fiscal framework in light of the erosion of the revenue base. The measures comprised dividends, the reintroduction of the one percent minimum turnover tax, tax on telecoms and withholding taxes on imports, petroleum products and beverages, and eliminating exemptions of VAT on imports. Staff encouraged the authorities to build additional fiscal space through the recovery of arrears from large taxpayers, additional telecoms licenses, and better control of exemptions.[3] While one-off telecoms receipts have helped mitigate some of the shortfalls, fiscal revenues remain structurally weak over the medium term. The authorities underscored that the measures would help them respond to contingences going forward and that Fund TA on the excise tax law will help harmonize tax policies within the EAC. A comprehensive excise tax law is envisaged later this year (end-December benchmark) in addition to measures to enhance the reconciliation of revenues (end-December benchmark).[4]

Text Table 3. Fiscal Slippages and Corrective Measures, 2014

	BIF billion	Percent of GDP
Fiscal slippages	**45.0**	**0.9**
Corporate Tax	39.0	0.8
Minimum Tax	6.0	0.1
Revenue Measures	**45.0**	**0.9**
Elimination of VAT exemption on imports	11.5	0.2
Dividends	10.5	0.2
Witholding, Telecoms, and other taxes	23.0	0.5

Sources: Burundi authorities; and IMF Staff estimates.

8. **The adoption of measures required a rethinking of the authorities' "Doing Business" strategy**. Tensions have emerged in balancing the medium-term objectives of growth and employment through providing incentives to the private sector with those of revenue mobilization. The exemption of VAT on imports, poor follow-up on firms to whom incentives were accorded, and the misuse of certificates granted through the investment regime to procure goods and services locally without paying VAT, have eroded the tax base (Country Report 13/288). Staff underscored that while simplifying Doing Business procedures were necessary to attract investors, a recent survey by the International Finance Corporation on EAC countries, highlighted that investors ranked, rule of law, reliable electricity supply, access to credit and to markets more highly than exemptions.

MEFP ¶20, ¶25

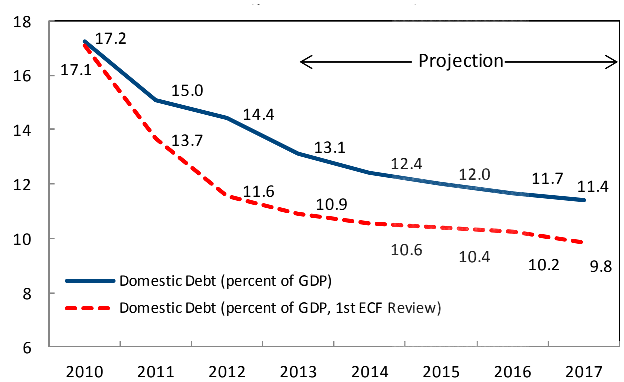
9. **Preserving medium-term fiscal and debt sustainability remain key objectives under the program.** To this end, the fiscal anchor comprises a zero limit on non concessional external public borrowing and a gradually declining path for the domestic-debt-to-GDP ratio. An update of the debt sustainability analysis (DSA) in January 2014 shows some improvements, but confirms that Burundi remains at high risk of

[3] Recoverable arrears amount to 0.5 percent of GDP and three telecoms licenses are pending renewal. The authorities received $10 million from renewal of one during the first quarter.

[4] A LEG TA mission on an excise tax law is planned for mid-July, 2014. Excises will be raised in the context of the 2015 budget.

debt distress.[5] The DSA suggests that Burundi has limited borrowing space, and that loans should continue to be highly concessional given its narrow export base.[6] Moreover, the heavy reliance on donor support (50 percent of the budget), aid volatility, reduced fiscal space resulting from a declining tax-to-GDP ratio and demographic pressures are key sources of fiscal risks (Box 1). Risks arising from the wage bill appear to be moderate and further measures are envisaged to strengthen controls (September benchmark). The recent repatriation of refugees (48,000) from neighboring countries in addition to a rapid population growth of 3 percent per annum continue to place sizable pressures on the delivery of public services. The authorities shared the staff's assessment, committed to ensure that the revenue authority is adequately resourced, and have undertaken a number of reforms to ensure that the health care program is better targeted and funded. Staff reiterated the importance of developing an overarching legal framework dovetailed with enhanced technical capacity before resorting to PPPs to address infrastructure gaps. Spending is projected to be higher than programmed, reflecting increasing transfers to hospitals to mitigate the emergence of payment arrears, reconstruction and relief efforts in the wake of the floods, and additional transfers to the revenue authority. Staff welcomed additional pledges by donors to assist with the reconstruction efforts in the wake of the early 2014 flood damages (¶5).

Text Figure 1. Burundi: Domestic Debt (percent of GDP)



Sources: Burundi authorities, and IMF staff estimates

10. **Sound public financial management (PFM) remains a cornerstone of the program that aims to improve financial accountability, transparency, and the efficient delivery of public services**. Significant progress has been achieved in implementing the PFM roadmap with a view to strengthen institutional capacity through technical assistance (TA) and the reorganization of administrative functions (end-December benchmark). Main progress areas include: (i) the nomination of expenditure commitment controllers for key ministries representing nearly 80 percent of government expenditures; (ii) the timely production of the monthly and annual aggregate balance of accounts, with quality improving progressively; (iii) strengthening the institutional framework of cash management and the treasury single account at the central bank; and (iv) the training of more than 15 trainers and 175 staff in the main areas of PFM. Nevertheless, further TA will address remaining weaknesses in migration to the new system of delegating payment orders to the ministry level, strengthening the capacity of staff in accounting, and improving the functioning of the information system (September benchmark). The

MEFP ¶22, ¶23, ¶32

[5] Burundi: Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility—Debt Sustainability Analysis Update, January 2014.

[6] Coffee and tea account for about 80 percent of exports.

authorities also reiterated their commitment to preserve pro-poor spending and to ensure the continued success of key safety-net programs (Box 4).

B. Improving the Transmission of Monetary Policy and Allowing Greater Exchange Rate Flexibility

MEFP ¶26

11. **The authorities agreed to continue to gear monetary policy toward stabilizing inflation expectations.** Monetary policy has gradually eased with inflation falling to single digits. Inflation declined significantly since its peak in March 2012 and in line with regional trends, as the food and fuel shock dissipated. Core inflation also appears to be declining, suggesting that the second round effects from previous inflationary episodes are broadly contained. The projected decline in international food and fuel prices should contribute to an easing of inflationary pressures. However, policy slippages and recourse to central bank financing may reverse recent gains. Staff also emphasized the importance of enhancing the monetary transmission mechanism, which calls for the faster implementation of ongoing reforms tied to improving liquidity management and forecasting, deepening financial markets, and strengthening market-based instruments in line with Fund TA advice.

Box 1. Fiscal Risks in Burundi

Fiscal risks refer to the possibility that unexpected events adversely impact an already established fiscal framework. Among others, categories of fiscal risks encompass macroeconomic volatility, foreign aid uncertainty, debt sustainability, state guarantees, Public Private Partnerships (PPPs), policy slippages and natural disasters. Staff is strengthening its analysis on the sources, magnitude, and reporting of fiscal risks in Burundi.

Burundi faces a number of risks given its limited fiscal space. Total revenues decreased from 15.3 percent of GDP in 2011 to 13.3 percent of GDP in 2013 in part because of external shocks and policy-induced slippages. Budget support, the most fungible component of aid flows, fell from 5 percent of GDP in 2010 to 2 percent of GDP at end 2013. The economy is also vulnerable to external shocks given its narrow export base and to natural disasters which have picked up in frequency. A rapidly increasing population and the massive influx of refugees place pressure on public services. Although fiscal policy remained prudent in past electoral cycles, unions are clamoring for wage increases in the run-up to the 2015 presidential elections. To date, fiscal risks arising from the wage bill have been contained as recruitment has been limited to the health and education sectors and to replacing retirees.

In the absence of better targeting, unfunded social mandates are a source of fiscal risks. While the abolition of fees for health services for children under 5 years and pregnant women substantially improved social inclusion (Box 4), the Medical Assistance Program (CAM) is not fully funded and could become unsustainable as the government would increasingly be unable to reimburse hospitals for services provided.

Contingent liabilities have emerged owing to weakness in PFM. These include BIF 90 billion (1.9 percent of GDP) in extra budgetary spending from previous years. Others include liabilities arising from the Medical Assistance Program. The deployment of expenditure controllers in line ministries is expected to strengthen controls, while modifications to the health care program and adequate transfers (MEFP ¶22) should mitigate these risks.

PPPs and state-owned enterprises (SOEs) entail moderate risks which are not fully accounted for in the budget. Recent reforms at REGIDESO, the state-owned electricity company have improved its finances and helped mitigate fiscal risks (Box 3). The national telecommunications company ONATEL is on a more sustainable footing due to the recently implemented fiber optic project. Given the large infrastructure gap, the authorities are increasingly looking to PPPs to address development needs. The World Bank is currently helping the authorities design an overarching legal framework to manage PPPs, in particular with respect to the electricity and mining sectors.

C. Improving Competitiveness and Allowing Greater Exchange Rate Flexibility

MEFP ¶27

12. **The exchange rate remains an important tool that allows the economy to adjust to external shocks.** Ongoing fiscal adjustment, in line with more realistic available financing, has placed less pressure on the exchange rate. Staff underscored the importance of allowing the exchange rate to respond to underlying fundamentals and stressed the importance of greater flexibility to protect external stability. Burundi's external vulnerabilities have worsened over time due to its narrow export base and strong dependence on external donor support, despite improvements in its business environment.[7] The large current account deficits have been financed by project grants, concessional loans, and foreign direct investment. Moreover, productivity relative to trading partners has declined over time. The authorities broadly agreed with staff's assessment which points to some overvaluation and there is scope to improve Burundi's competitiveness including through greater exchange rate flexibility (Box 2).

13. **Burundi's economy remains highly vulnerable to shocks, due to its narrow export base and dependence on donors' support.** While reserve adequacy may be above the traditional indicator of 3 months of imports, the level of coverage has declined in the wake of the recent food and fuel shocks.[8] Staff underlined the importance for Burundi to maintain adequate reserves to address inevitable shocks.

D. Safeguarding Financial Sector Soundness

MEFP ¶10, ¶11, ¶28

14. **Further improvements in financial intermediation are needed to support the growth agenda**. At about 15 percent of GDP, credit to the private sector remains well below the average for LICs and Sub-Saharan Africa. This reflects a broad range of factors, including weaknesses in the legal and institutional framework, the fragile security situation, and limited competition among banks. Recent encouraging developments include, the increasing penetration of EAC banks, which augurs well for boosting competition, financial innovation, and access to finance, with positive effects on growth and poverty reduction. Staff encouraged the central bank to focus on creating an enabling infrastructure and environment for banks to lend. The authorities indicated that reforms such as the establishment of a credit bureau, collateral registry, enhancing the supervision of microfinance institutions, and implementing regulatory changes to facilitate leasing, should improve financial intermediation (Annex III).

15. **The banking sector remains stable, but NPLs have picked up in recent months** (Table 8). Banks are adequately capitalized, profitable, and liquid. The repatriation of coffee export revenues in 2013, donor inflows, and the entry of regional banks with access to cross-border financing,

[7] The current account widened by 4.5 percentage points to 23 percent of GDP in 2013.

[8] Using the Fund reserve adequacy framework, staff estimates the minimum level of adequate reserves for Burundi at the equivalent of 3.5–4 months of imports.

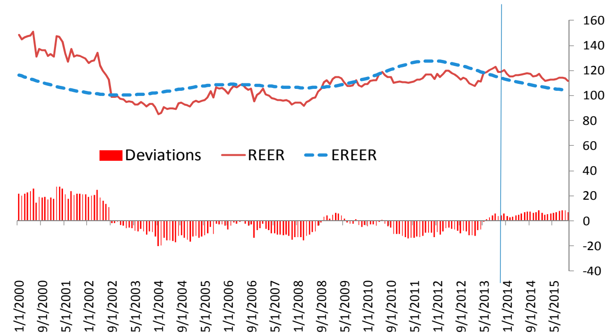
contributed to an improvement in liquidity conditions.[9] The pickup in NPLs in part reflects the harmonization of the definition of NPLs in line with international standards, extra-budgetary arrears that are currently being audited (end-November benchmark), and the inefficient recovery of collateral that is constrained by lengthy legal procedures and weak judicial enforcement of creditor rights. While banks appear to be relatively well-provisioned, the increase in NPLs has adversely affected both their profitability and their ability to extend credit. Staff underscored the importance of strictly monitoring capital and liquidity, and the need to intensify efforts to arrest the deterioration in asset quality. Staff also expressed the view that: (i) supervisors should be vigilant to ensure that banks continue to proactively recognize and provision against NPLs and ensure that capital and liquidity levels provide appropriate buffers; and (ii) concrete actions are needed to ease collateral execution, reduce delays in the legal process, and timely payment of suppliers are also essential. The authorities concurred with staff regarding the underlying causes of rising NPLs and the need to reduce their level. Notwithstanding, they stressed that the banking system was well capitalized but recognized the scope for more aggressive recovery of collateral despite social sensitivities associated with foreclosures.

[9] In 2012 two of the East African Community's largest banks, Kenya Commercial Bank (KCB) and Tanzania's CRDB, opened their first branches in the capital, Bujumbura.

Box 2: Burundi External Competitiveness Assessment, 2013

Burundi gradually adjusted to the 2011-12 food and fuel shock. The nominal exchange rate depreciated by some 22 percent since 2011 to adjust to a cumulative 41 percent deterioration in the terms of trade. The current level of the exchange rate appears to be slightly overvalued by about 8 percent (Figure2.1).[1] An initial assessment of reserve adequacy showed that ideal coverage ranges between 3.5–4 months of imports but this is about one month's less coverage prior to the food and fuel shocks. Absent greater exchange rate flexibility, Burundi may need to raise reserve coverage given its risks to large external shocks.

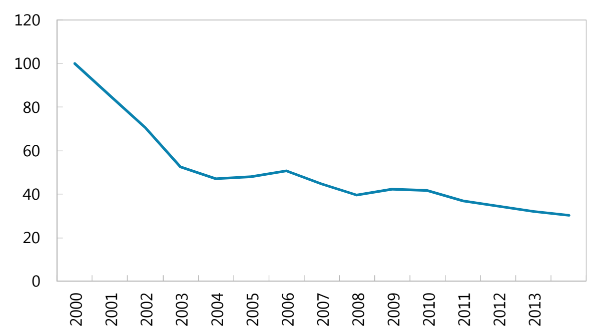
Figure 2.1 . Burundi : Real and Equilibrium Exchange Rate, 2000—15



Source : Burundi authorities; and IMF staff calculations and projections .

Productivity vis-à-vis trading partners fell sharply in the last decade. Burundi's relative productivity fell further by a cumulative 2.5 percent during 2011–13 (Figure 2.2). This in part reflects a trend decline in coffee production linked to poor husbandry, land fragmentation, high population density.

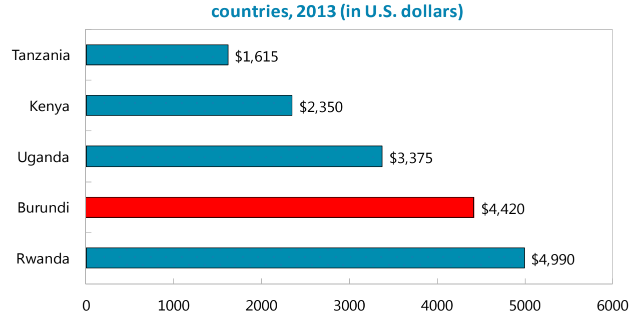
Figure 2.2 : Real per capita GDP relative to that of trading partners (2000=100)



Source: Burundi authorities; and IMF staff estimates.

The country steadily improved its business environment in recent years, but more needs to be done. High transport costs (Figure 2.3), poor access to electricity and financial services continue to impact the country's ability to compete in global markets. Increasing domestic revenue mobilization could also help reduce dependency on volatile donor assistance while the diversification of the country's narrow export base could help reduce the trade deficit.[1]

Figure 2.3: Cost to import (exc. shipping) 20 feet container in EAC countries, 2013 (in U.S. dollars)



Source : World Bank Doing Business indicators 2013.

[1] Assessment was done following the methodology used by Cashin et al (2004) "Keynes, Cocoa and Copper: In Search of Commodity Currencies" , IMF WP 02/223. Real coffee prices were computed using U.S. CPI as the deflator.

MEFP ¶13

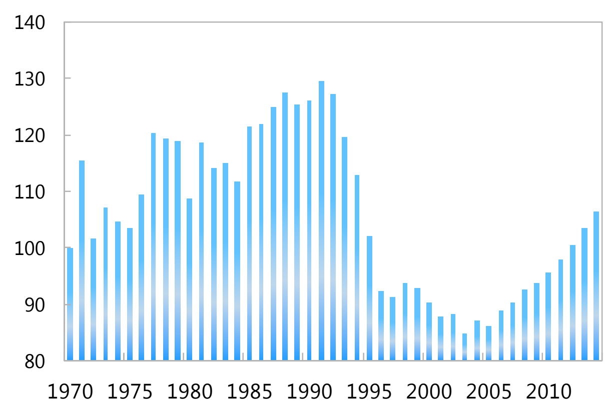
16. **The central bank took appropriate measures to safeguard the soundness of the financial system.** Based on recommendations from recent IMF technical assistance missions, the authorities took measures including: (i) more frequent reporting to the central bank on rolled-over loans ; (ii) the harmonization of the definition of NPLs in line with international standards; (iii) calculation of liquidity ratios based on local currency deposits (currently the ratio includes foreign deposits); and (iv) a change in the legal framework to allow the central bank to swiftly intervene in troubled banks to prevent and to contain emerging crises. The central bank has stepped up surveillance of pan-African banks through the conduct of joint inspections with home-country supervisors.

E. Other Structural Reforms: Achieving Inclusive Broad-Based Growth and Enhancing Competiveness

MEFP Table I.1, ¶32

17. **Despite respectable growth in recent years, progress on human development indicators and in reducing income poverty has been elusive**. After years of sluggish growth, higher and less volatile growth since 2000 led to a slight increase in the GDP per capita but fell short of meaningfully reducing pervasive poverty (Text Figure 2; Annex II). The factors constraining growth in Burundi range from low productivity in the agriculture sector, the backbone of the economy,[10] to physical factors including unfavorable geography. Other impediments comprise inadequate infrastructure, particularly electricity, the main constraint to growth (Box 3), and high production and transport costs, as well as policy and institutional constraints.[11] [12] The relaunch of a third round of bids to privatize the remaining coffee 77 washing stations is expected to further attract new investment, improve productivity, and the welfare of farmers.

Text Figure 2. Burundi: Real GDP Per Capita, (1970=100)



Sources: Authorities; and IMF staff estimates and projections.

18. **The authorities are moving forward with reforms to improve the business climate.** Improving the business environment has been a priority since 2011, when Burundi was ranked third from the bottom in the World Bank's Doing Business report. Burundi climbed 17 places to be ranked 140th out of 189 economies in the Doing Business report for 2014 through adopting a number of reforms that made it easier to establish businesses, acquiring construction permits, and property

[10] This is illustrated by the steep decline in the contribution of the primary sector to GDP without a decline in the share of the population dependent on primary sector activities, over 80 percent of the population.

[11] In 2009, the AfDB (2009) estimated that transport costs account for 30 percent of import prices and as much as 40 percent of export prices for agricultural products in Burundi.

[12] Only about 5 percent of the population has access to electricity.

registration.[13] Notwithstanding this progress, the authorities recognized the need to redouble efforts to improve governance and to safeguard creditor rights.

19. **The authorities reiterated their commitment to the EAC integration process.** This is proceeding on several fronts. It encompasses, the harmonization of laws, monetary and fiscal policies, ease of doing business, the elimination of non-tariff barriers, and the complimentarity of large infrastructure projects. Joint large infrastructure projects, which include the construction of hydroelectric dams with Rwanda and Tanzania in addition to improving the major road networks and implementing one-stop border posts. Benefits have accrued through cross-border investments in financial services and labor mobility in the tourism sector.

PROGRAM ISSUES

20. **The program is on track.** All end-March performance criteria were met. Two structural benchmarks were delayed for technical reasons. Two indicative targets on gross fiscal revenue and reserve money were missed. The auditing of extra budgetary spending was delayed owing to inadequately resourcing the Court of Auditors but this has now been addressed (Text Table 1). The benchmark on submitting the new law on debt management could not be met due to delays in recruiting a legal consultant and is rescheduled for end-September. The program also includes benchmarks in the areas of tax policy and public financial management (MEFP, Table I.2). Revised performance criteria and indicative targets for September–December 2014 are proposed for net foreign assets and net domestic assets of the central bank and net domestic financing of the government, with the existing adjusters to deal with aid volatility, as well as for gross fiscal revenue and reserve money. Other continuous performance criteria maintain zero ceilings on (i) short term external debt of the government; and (ii) accumulation of external payments arrears of the government. End-September and end-December indicative targets are proposed for government fiscal revenue, domestic arrears accumulation, reserve money, and pro-poor spending.

21. **The authorities are making progress in implementing the recommendations from the recent safeguards assessment that was conducted in 2012.** The coordination between the Ministry of Finance and the central bank is being strengthened based on regular meetings between the leadership of both institutions. However, further efforts are needed to address remaining control weaknesses in the fiscal accounts relating to government payments, including a framework to monitor the implementation of recommendations from the special audits commissioned by the central bank. Delays in external disbursements and revenue shortfalls have invariably resulted in recourse to central bank financing. Staff stressed that strengthening revenue mobilization would be crucial for increasing fiscal space to withstand these events and reduce recourse to central bank financing.

[13] Doing business indicators however should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

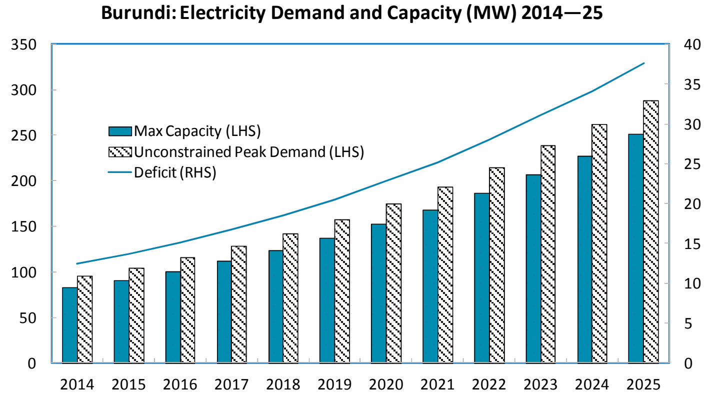
Box 3. Burundi Electricity Sector Developments

Access to reliable sources of power remains a key constraint to growth. Improvements in energy supply are identified as an important pillar of the country's second poverty reduction strategy, which aims to increase growth through sustainable economic transformation. Less than 5 percent of the population has access to power, mostly in and around the city of Bujumbura. Power cuts are frequent, especially in the dry season.

Several initiatives designed to increase the supply of power have been undertaken in recent years. Six hydropower projects at various stages of construction and financing, including the 48MW Jiji-Mulembwe financed by the European Union, World Bank, African Development Bank and European Investment Bank on concessional terms, are set to increase the country's capacity to more than 150MW by 2018. Reforms at the state-run utility company have improved corporate governance and placed its finances on a more sustainable footing. Tariffs were increased in 2012 by about 70 percent, while a successful pre-paid metering system helped reduce payment delinquency. A couple of leased diesel generators were brought on line in 2013 to help ease the country's energy gap, albeit at a high cost.

Despite these positive developments, about 35 percent of the projected demand for electricity will remain unmet over the next decade (Figure 3.1).[1] Current demand and supply trends still point to a growing energy deficit during 2014–25. As the updating and rehabilitating of the distribution network and the electrification of the countryside will only be done gradually, it is expected that about 70 percent of the new power will be absorbed by the country's underdeveloped industrial sector. For Burundi to be fully able to exploit its significant nickel reserves, an additional 150MW of power generation capacity will be needed. To this end, the World Bank is currently helping the authorities develop a sound PPP framework.

Burundi: Electricity Demand and Capacity (MW) 2014—25



Source: World Bank.

[1] World Bank estimate, 2014.

22. **Burundi's capacity to repay the Fund is adequate.** Obligations to the Fund based on existing and prospective credit, measured in relation to official reserves or exports of goods and services, do not show solvency or liquidity risks (Table 6).

23. **The program is subject to several risks (¶5 and ¶6).** These arise from the risk of fiscal slippage in the run-up to the 2015 Presidential elections despite a broad-based consensus by key stakeholders on the need for corrective measures. The tail risk of a sharp uptick in international food and oil prices could result in policy reversal regarding recent increases in petroleum product prices and the reinstatement of taxes on food products. Governance issues or the failure to make measurable progress in PFM reforms could curtail donor support. Reintegrating repatriated refugees is likely to add to unemployment, increase demand for public services, and could increase social conflict over access to land.

24. **Progress on poverty reduction has been mixed**. As reflected in the recent annual progress report (2013) achieving higher growth proved difficult in the face of large food and fuel shocks and inadequate financial resources. In particular, revenue mobilization has proven to be challenging, and when combined with aid volatility, constrained the implementation of a sustainable medium-term expenditure framework. A limited supply of electricity punctuated by frequent blackouts, stymied growth and proved insufficient to put a major dent in poverty. Notwithstanding, access to basic services improved. Primary school enrolment has reached almost 100 percent with achievement rates rising appreciably. Social protection programs in the health and education sectors have borne fruit (Box 4). The authorities continue to pursue policies aimed at developing critical infrastructure, the modernization of the agricultural sector including through privatization of coffee, promoting tourism, and greater financial inclusion in order to boost medium-term growth.

MEFP ¶35, ¶36

25. **The low statistical capacity limits the government's ability to develop sound economic and social policies** (Informational Annex). Weak data sources hamper the compilation of timely and reliable national accounts. The quality of balance of payments estimates is undermined by limited resources and weak basic data on virtually all components. The narrow geographical coverage of the consumer price index limits its representativeness and ability to accurately reflect inflation trends.[14] The authorities plan to enhance the production and dissemination of statistics, in particular those related to national accounts and balance of payments. Measures include better resource endowments, conducting surveys (agriculture, household living conditions, FDI), and reinvigorating the National Statistical Strategy adopted in 2010.

[14] A new consumer price index using weights derived from a 2008 household budget survey has been introduced in December 2013.

Box 4. Spotlight on Quick Wins

Burundi has undertaken several programs aimed at improving social protection that have been deemed successful. Despite being ranked as one of the poorest countries in the world, Burundi has implemented reforms to improve the health and education sectors. Very limited fiscal space makes the prioritization of programs and efficient targeting essential.

Labor-intensive public works programs (PWPs) have been implemented to raise the incomes and consumption of the most vulnerable. PWPs are frequently used to smooth the consumption of vulnerable households during lean seasons through temporary periods of employment. PWPs take the form of water and land conservation works and soil productivity investments that are frequently donor-financed.

The health program has improved access to health care services for the most vulnerable. In 2006, the government abolished fees for health services for children under 5 years and pregnant women. Subsequently, free services were expanded to include vaccinations and the treatment of illnesses such as HIV/AIDS, tuberculosis, and malaria. These measures were financed from own resources and donor funds which were performance-based (World Bank).[1] These indirect social transfers are by far the largest non-contributory public social assistance mechanisms.

Burundi: Health Care Program Key Indicators

	2010	2013
	(In percent)	
Deliveries in health facilities	59.5	78.8
Households with mosquito nets	52.6	66.2
Children under 5 years with a fever taken to health provider	62.1	67.2
Women aged 15–49 subject to HIV test	18.7	55.3
Children under 5 years: chronic under-nutrition	57.7	46.3

Source: World Bank, "Burundi Social Safety Nets", mimeo, June 2014.

The utilization of health services increased dramatically. Children protected by insecticide-treated bed nets increased by almost 15 percent during the period 2010–13, while consultations and hospital admissions for children under five years also rose. The number of births delivered in health facilities improved considerably (Table).

The education program boosted enrolment. The main measure comprised the abolition of primary school fees since 2005 which was supplemented by donor contributions. School feeding provided jointly by the government and the World Food Program covers about 10 percent of primary school students. Net enrolment in primary school rose from 59.8 percent to 95.4 percent in 2013 while completion rates rose to about 68 percent. Gender parity at the primary level is within reach.

[1] World Bank. "Burundi Social Safety Nets", mimeo, June 2014.

STAFF APPRAISAL

26. **Performance under the ECF arrangement was broadly satisfactory under challenging circumstances**. All program PCs were observed. However, the authorities' ability to deepen reforms has been tested by weak capacity, policy-induced slippages, and aid volatility.

27. **Risks to the outlook remain elevated in the run-up to the 2015 Presidential elections**. Staff stressed the need to build additional fiscal space in order to respond to contingencies.

28. **Continued implementation of revenue reforms is critical to the program's success.** In the context of declining budget support and a rapidly growing population, revenue collection should be stepped up to permit greater financing of public investments critical to growth and poverty reduction. Buttressing revenues hinges on implementing durable measures, enhancing tax administration, and rationalizing discretionary exemptions.

29. **Sound public financial management remains a cornerstone of the program that aims to improve financial accountability and transparency.** Building on progress made thus far, there is a need to address remaining weaknesses in migration to the new system of delegating payment orders to the ministry level, strengthening the capacity of staff in accounting, and improving the functioning of the information system.

30. **Strengthening debt management is key to preserving debt sustainability.** Debt sustainability remains the anchor underpinning medium-term fiscal policy. Given the high risk of debt distress and low institutional capacity, the budget should continue to rely on grants and highly concessional external financing. The authorities are encouraged to expedite the adoption of the new debt law that would provide an overarching framework for effective debt management and policy.

31. **Monetary policy should continue to be geared toward stabilizing inflation expectations.** Although inflation declined significantly in recent months, a potential fiscal deterioration financed by recourse to central bank financing could reignite inflation and reverse recent gains. Any change in the monetary stance to support growth should proceed gradually until the decline in inflation becomes sustained.

32. **Greater exchange rate flexibility will be an important tool in rebalancing the policy mix.** The authorities are encouraged to permit greater exchange rate flexibility to facilitate external adjustment, enhance external competitiveness and to safeguard foreign reserves.

33. **Staff encouraged the authorities to continue progress on the structural reform agenda.** Key reforms center on improving the business environment and physical infrastructure, strengthening social protection, deepening financial intermediation and inclusion, and EAC integration.

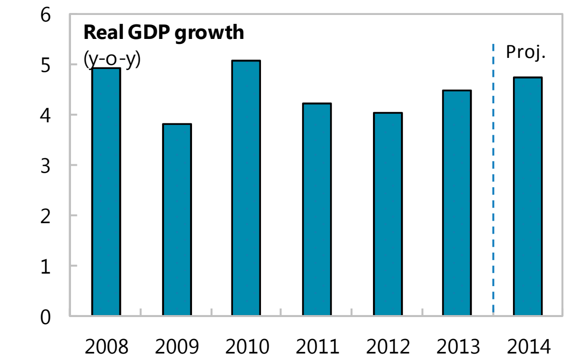
34. **Based on program performance and the authorities' efforts to address program slippages, staff recommends completion of the fifth review** under the ECF and the setting of revised performance criteria and indicative targets for September–December 2014, and structural benchmarks for 2014.

35. **Further improvements to data quality are crucial for informed policy making.** While adequate for surveillance, the absence of timely and reliable data significantly hampers the conduct of economic policy. The authorities are encouraged to accelerate and expand efforts to increase data coverage and quality, particularly in the areas of balance of payments and national accounts. The capacity of the national statistical agency should continue to be strengthened, supported by technical assistance from the Fund and other development partners.

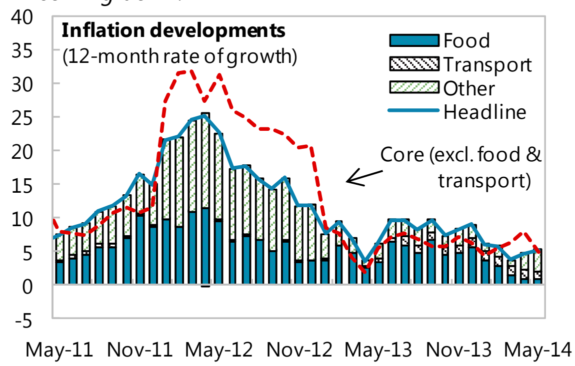
36. **It is proposed that the next Article IV consultation takes place within 24 months, subject to the decision on consultation cycles (Decision No. 14747– (10/96), September 28, 2010) as amended.**

Figure 1. Burundi: Recent Developments, 2008–14

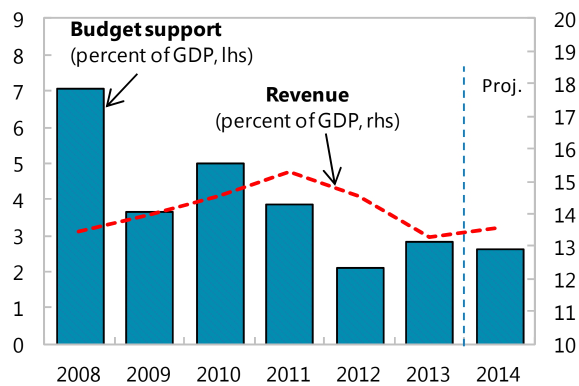
Growth has been picking up following recent adverse shocks.



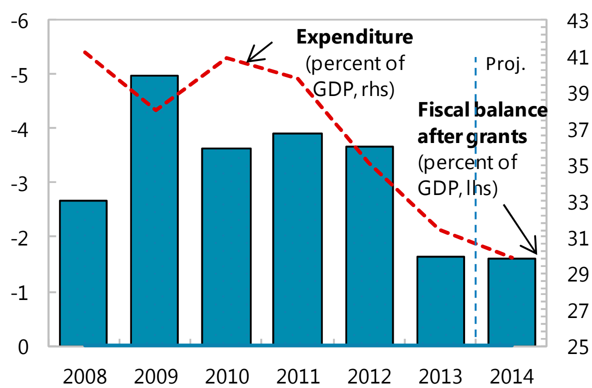
Headline and core measures of inflation are coming down.



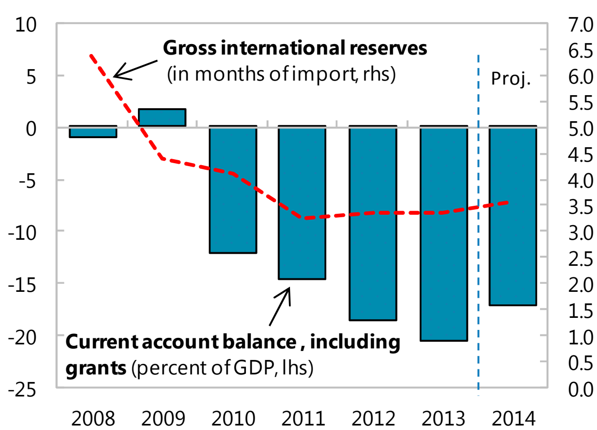
Revenues have stabilized after adopting corrective measures.



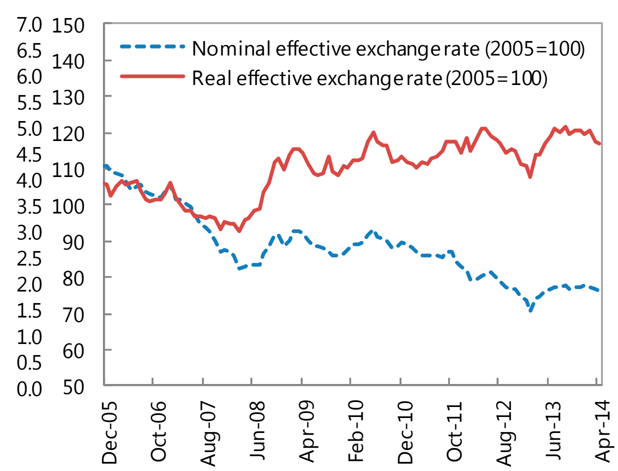
Spending has been contained.



The current account deficit remains elevated in part due to external shocks...

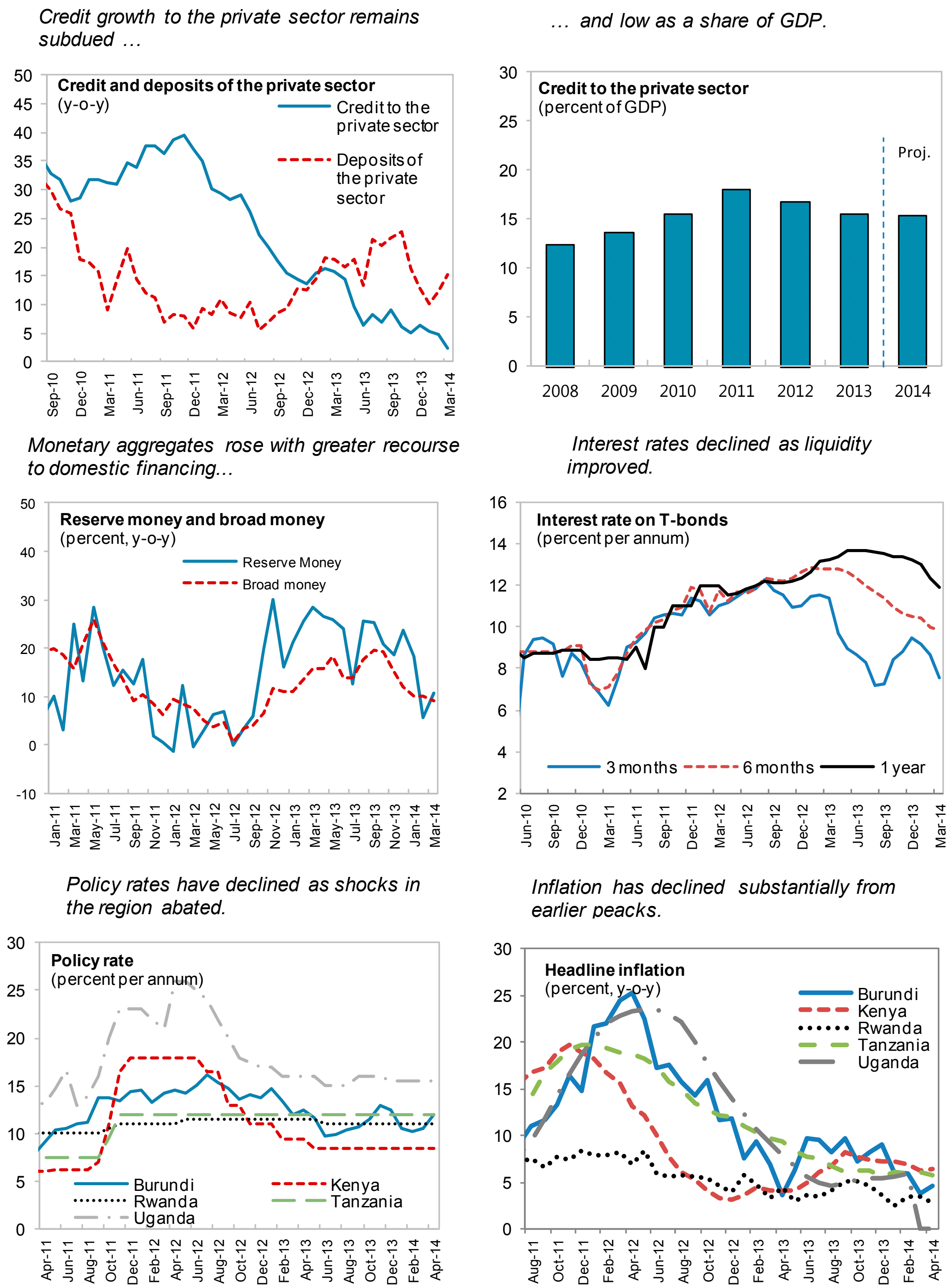


... while the REER appreciated reflecting higher inflation than in trading partners.



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

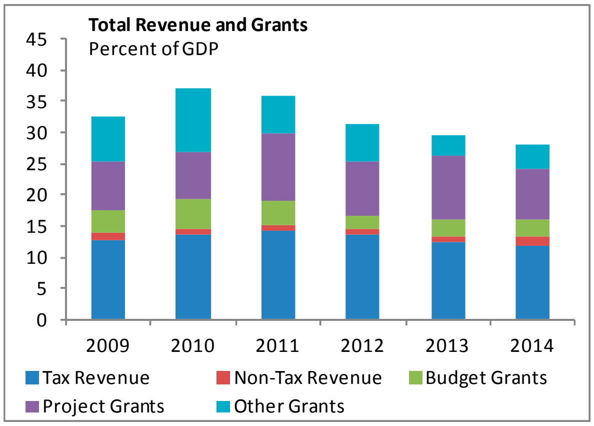
Figure 2. Burundi: Monetary Developments, 2008–14



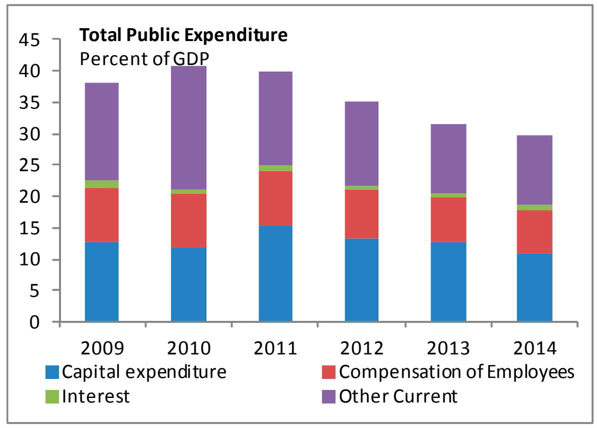
Sources: Burundi authorities; and IMF staff estimates and projections.

Figure 3. Burundi: Fiscal Developments, 2009–14

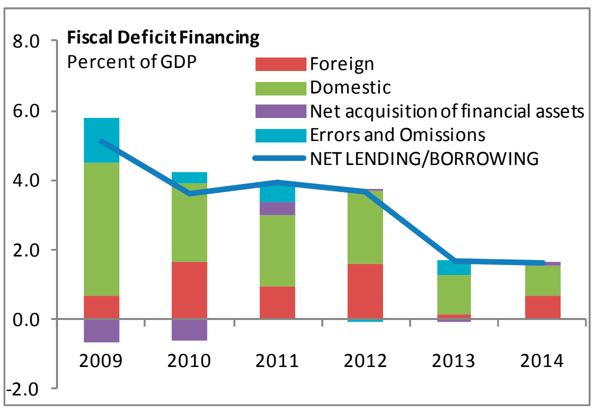
Both revenues and grants have declined…



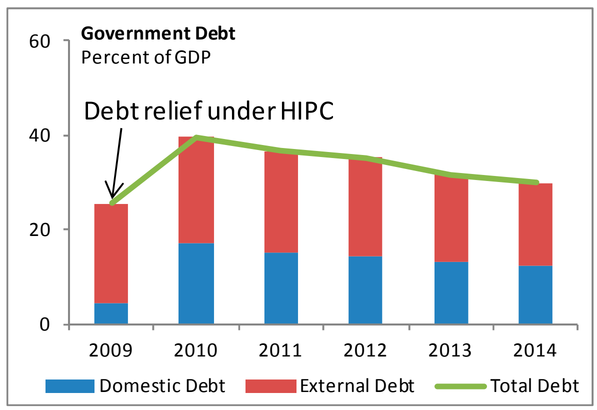
…constraining spending…



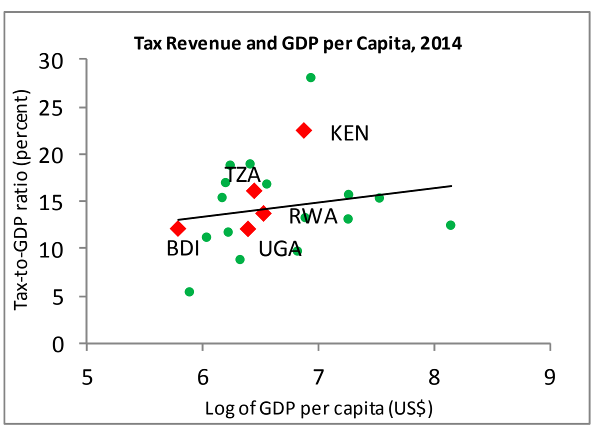
… and contributing to ongoing fiscal adjustment.



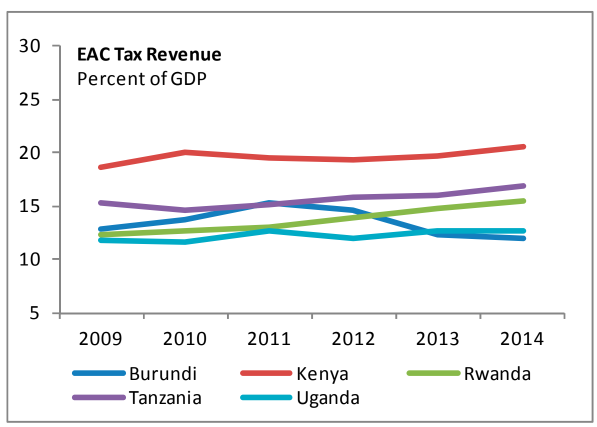
Debt relief has provided some fiscal space.



More revenues need to be mobilized…



… to keep up with EAC peers.



Sources: Burundi authorities; and IMF staff estimates

Table 1. Burundi: Selected Economic and Financial Indicators, 2012–17

	2012	2013		2014		2015	2016	2017
	Est.	Prog.[1]	Est.	Prog.[1]	Proj.		Proj.	
	(Annual percentage change)							
National income and prices								
Real GDP growth	4.0	4.5	4.5	4.7	4.7	4.8	5.0	5.2
GDP deflator	16.4	11.7	11.7	8.1	8.1	6.6	5.5	5.4
Consumer prices (period average)	18.2	7.9	7.9	7.0	7.5	6.1	5.6	5.4
Consumer prices (end of period)	11.8	8.8	9.0	5.9	7.0	5.4	5.8	5.1
External sector								
Exports, f.o.b. (US$)	8.6	-35.6	-31.9	15.2	27.8	7.5	6.1	9.2
Imports, f.o.b. (US$)	14.8	2.4	-0.2	1.7	3.2	5.4	7.1	6.6
Terms of trade (deterioration = –)	-20.6	-17.6	-10.1	-2.4	3.8	0.1	-0.8	1.6
	(Change in percent of beginning of period M2, unless otherwise indicated)							
Money and credit								
Net foreign assets	-5.3	4.3	-0.5	6.1	8.4			
Domestic credit	15.2	8.5	13.0	17.8	10.6			
Government	1.9	0.9	6.3	3.1	2.4			
Private sector	9.9	8.4	6.5	14.7	9.2			
Money and quasi-money (M2)	10.9	16.7	11.9	13.2	13.2			
Reserve money (12–month growth rate)	16.2	18.5	23.6	15.8	12.5			
	(Percent of GDP)							
General government								
Revenue and grants	31.4	30.0	29.7	27.4	28.3	28.3	29.0	29.2
Of which: Tax and nontax revenue	14.5	13.2	13.3	13.2	13.6	14.3	14.4	14.4
Total expenditure	35.1	31.9	31.4	29.0	29.9	30.5	31.0	31.1
Net lending (+) / borrowing (-)	-3.7	-1.9	-1.7	-1.6	-1.7	-2.1	-2.0	-1.9
External sector								
Current account balance	-18.5	-23.0	-20.5	-21.3	-17.2	-17.6	-17.9	-16.7
Overall balance of payments	0.5	0.0	0.4	0.0	1.2	-0.4	-0.5	0.0
Savings-investment balance	-18.5	-23.0	-20.5	-21.3	-17.2	-17.6	-17.9	-16.7
Private	-14.8	-21.1	-18.9	-19.8	-15.5	-15.5	-15.9	-14.8
Public	-3.7	-1.9	-1.7	-1.6	-1.7	-2.1	-2.0	-1.9
External sector								
Gross official reserves (US$ million)	309	326	321	355	359	388	433	482
Months of imports	3.3	3.5	3.4	3.6	3.6	3.7	3.9	4.1
Memorandum item:								
GDP at current market prices (BIF billion)	3621	4227	4227	4785	4785	5344	5923	6566
Nominal GDP per Capita (US Dollars)	267	305	305	328	333	354	372	394

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

[1] IMF Country Report 14/83.

Table 2a. Burundi: Central Government Operations, 2012–17

	2012	2013		2014		2015	2016	2017
	Prel.	Prog.	Est.	Prog.	Proj.		Proj.	
				(BIF billion)				
Revenue and grants	1,136.9	1,266.4	1,255.5	1,311.1	1,351.9	1,515.0	1,716.5	1,920.0
Tax revenue	491.8	518.3	522.3	580.2	573.6	703.4	791.8	877.8
Taxes on income, profits, and capital gains	155.9	163.9	146.0	167.2	162.6	184.4	216.7	240.2
Taxes on goods & services	286.2	303.7	327.0	359.1	351.9	438.0	485.4	538.2
Taxes on international trade & transactions	49.7	50.7	49.3	53.9	53.9	81.0	89.7	99.5
Nontax revenue [1]	34.9	39.7	39.1	53.0	75.2	60.5	63.7	70.6
Grants	610.2	708.4	694.1	677.8	703.1	751.0	860.9	971.5
Program support	75.3	134.1	120.4	101.2	125.2	107.3	124.9	134.9
Project support	321.8	400.1	430.6	401.1	382.9	460.9	527.0	599.0
Other grants and transfers [2]	213.1	174.2	143.1	175.6	195.0	182.9	209.1	237.7
Total expenditure	1,269.8	1,347.1	1,325.7	1,385.9	1,431.3	1,627.9	1,834.4	2,042.5
Expense	792.2	811.5	786.2	868.1	904.7	973.4	1,056.1	1,180.0
Compensation of employees	282.2	297.4	295.9	322.3	322.3	354.6	386.7	421.7
Regularization of compensation arrears [3]	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases/use of goods & services	103.8	113.9	117.9	108.4	113.0	128.5	145.1	164.0
Subsidies and Social benefits	163.2	182.5	183.5	191.0	206.9	231.1	256.1	281.1
Interest	26.7	35.2	29.6	40.9	40.8	44.4	49.2	60.5
Of which: Domestic	23.3	29.8	25.2	34.8	34.7	36.9	40.5	51.1
Other expense	210.4	182.6	159.2	205.4	221.7	214.9	219.1	252.7
Of which: Domestically financed [4]	11.3	9.1	18.5	11.4	29.7	32.0	10.0	15.0
Net acquisition of nonfinancial assets	477.6	535.6	539.5	517.9	526.5	654.5	778.2	862.6
Of which: Domestically financed	91.1	96.0	94.3	93.9	100.1	136.9	192.8	235.0
Net lending (+) / borrowing (-)	-132.9	-80.7	-70.2	-74.9	-79.4	-112.9	-117.9	-122.6
Errors and omissions	-0.6	0.0	18.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets [5]	-0.1	-2.6	1.1	-3.0	-4.5	-4.0	-4.0	-4.0
Deposits	9.0	0.0	2.7	0.0	0.0	-2.0	-2.0	-2.0
Policy lending	-1.0	0.0	0.0	0.0	0.0	-1.0	-1.0	-1.0
Shares and other equity	-8.1	-2.6	-1.6	-3.0	-4.5	-1.0	-1.0	-1.0
Net incurrence of liabilities	133.5	78.1	53.3	71.8	74.9	85.0	82.5	59.2
Domestic	75.2	47.5	46.1	41.2	42.7	45.6	50.8	56.5
Foreign	58.2	30.6	7.2	30.6	32.2	39.4	31.7	2.7
Financing gap	0.0	0.0	0.0	0.0	0.0	23.9	31.4	59.3
Revenue and grants	1,136.9	1,266.4	1,255.5	1,311.1	1,351.9	1,515.0	1,716.5	1,920.0
Total expenditure	1,269.8	1,347.1	1,325.7	1,385.9	1,431.3	1,627.9	1,834.4	2,042.5
Of which: Compensation of employees	282.2	297.4	295.9	322.3	322.3	354.6	386.7	421.7
Memorandum items:								
Net domestic financing	66.3	47.5	43.4	41.2	42.7	47.6	52.8	58.5
Domestic primary deficit	-130.9	-140.8	-148.8	-93.8	-123.2	-119.1	-135.2	-168.3
Public debt [6]	35.2	31.3	31.5	29.6	29.8	28.5	26.8	25.0
Of which: Domestic debt	14.4	13.1	13.1	12.4	12.4	12.0	11.7	11.4
GDP at current market prices (BIF billion)	3,621	4,227	4,227	4,785	4,785	5,344	5,923	6,566

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

[1] Sale of fixed capital assets included in nontax revenue rather than under expenditure.

[2] Includes reimbursement for the Africa Mission to Somalia (AMISOM Fund).

[3] Compensation due to the repayment of wage arrears and arrears in payments to ONATEL.

[4] Includes payment of BIF 18 billion in commitments at end-2013.

[5] A negative sign denotes a reduction of financial assets.

[6] As a percent of GDP.

Table 2b. Burundi: Central Government Operations, 2012–17

	2012	2013		2014			2015	2016	2017
	Prel.	Prog.	Est.	Prog.	Budget	Proj.		Proj.	
	(Percent of GDP, unless otherwise indicated)								
Revenue and grants	31.4	30.0	29.7	27.4	27.6	28.3	28.3	29.0	29.2
Tax revenue	13.6	12.3	12.4	12.1	12.0	12.0	13.2	13.4	13.4
Taxes on income, profits, and capital gains	4.3	3.9	3.5	3.5	3.5	3.4	3.5	3.7	3.7
Taxes on goods & services	7.9	7.2	7.7	7.5	7.4	7.4	8.2	8.2	8.2
Taxes on international trade & transactions	1.4	1.2	1.2	1.1	1.1	1.1	1.5	1.5	1.5
Nontax revenue [1]	1.0	0.9	0.9	1.1	1.3	1.6	1.1	1.1	1.1
Grants	16.9	16.8	16.4	14.2	14.3	14.7	14.1	14.5	14.8
Program support	2.1	3.2	2.8	2.1	2.1	2.6	2.0	2.1	2.1
Project support	8.9	9.5	10.2	8.4	8.5	8.0	8.6	8.9	9.1
Other grants and transfers [2]	5.9	4.1	3.4	3.7	3.7	4.1	3.4	3.5	3.6
Total expenditure	35.1	31.9	31.4	29.0	29.1	29.9	30.5	31.0	31.1
Expense	21.9	19.2	18.6	18.1	18.1	18.9	18.2	17.8	18.0
Compensation of employees	7.8	7.0	7.0	6.7	6.7	6.7	6.6	6.5	6.4
Regularization of compensation arrears [3]	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases/use of goods & services	2.9	2.7	2.8	2.3	2.3	2.4	2.4	2.4	2.5
Subsidies and Social benefits	4.5	4.3	4.3	4.0	4.0	4.3	4.3	4.3	4.3
Interest	0.7	0.8	0.7	0.9	0.9	0.9	0.8	0.8	0.9
Of which: Domestic	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.8
Other expense	5.8	4.3	3.8	4.3	4.3	4.6	4.0	3.7	3.8
Of which: Domestically financed [4]	0.3	0.2	0.4	0.2	0.2	0.6	0.6	0.2	0.2
Net acquisition of nonfinancial assets	13.2	12.7	12.8	10.8	11.0	11.0	12.2	13.1	13.1
Of which: Domestically financed	2.5	2.3	2.2	2.0	2.0	2.1	2.6	3.3	3.6
Net lending (+) / borrowing (-)	-3.7	-1.9	-1.7	-1.6	-1.6	-1.7	-2.1	-2.0	-1.9
Errors and omissions	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets[5]	0.0	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Deposits	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Policy lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shares and other equity	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	0.0	0.0	0.0
Net incurrence of liabilities	3.7	1.8	1.3	1.5	1.5	1.6	1.6	1.4	0.9
Domestic	2.1	1.1	1.1	0.9	0.8	0.9	0.9	0.9	0.9
Foreign	1.6	0.7	0.2	0.6	0.6	0.7	0.7	0.5	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.5	0.9
Memorandum items:									
Net domestic financing	1.8	1.1	1.1	0.9	0.8	0.9	0.9	0.9	0.9
Domestic primary deficit	-3.6	-3.3	-3.5	-2.0	-1.9	-2.6	-2.2	-2.3	-2.6
Public debt	35.2	31.3	31.5	29.8		29.8	28.5	26.8	25.0
of which: domestic debt	14.4	13.1	13.1	12.4		12.4	12.0	11.7	11.4
GDP at current market prices (BIF billion)	3,621	4,227	4,227	4,785	4,785	4,785	5,344	5,923	6,566

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

[1] Sale of fixed capital assets included in nontax revenue rather than under expenditure.

[2] Includes reimbursement for the Africa Mission to Somalia (AMISOM Fund).

[3] Compensation due to the repayment of wage arrears and arrears in payments to ONATEL.

[4] Includes payment of BIF 18 billion in commitments at end-2013.

[5] A negative sign denotes a reduction of financial assets.

Table 3. Burundi: Monetary Survey, 2012–15

	2012	2013		2014		2015
	Act.	Prog.[1]	Act.	Prog.[1]	Proj.	Proj.
	(BIF billion)					
Net foreign assets	28.0	59.7	24.1	112.9	94.3	162.5
Central bank	14.0	35.7	31.3	81.9	76.4	142.6
Deposit money banks	14.0	24.0	-7.1	31.0	17.9	19.9
Net domestic assets	916.9	1043.5	1028.6	1188.6	1145.4	1251.3
Domestic credit	989.3	1052.5	1086.4	1207.5	1174.8	1318.3
Net claims on the government	354.9	361.7	402.0	388.6	422.0	451.5
Of which: on the treasury	403.1	409.9	456.5	436.8	476.5	506.0
Credit to the economy	634.4	690.8	684.5	818.8	752.8	866.8
Other items, net (assets = +)	-72.4	-9.0	-57.9	-18.8	-29.4	-67.0
M3	944.9	1103.1	1052.7	1301.5	1239.6	1413.8
Foreign currency deposits	199.7	233.1	218.9	316.6	295.7	359.6
M2	745.2	870.0	833.8	984.9	943.9	1054.2
Currency in circulation	173.9	203.4	187.5	239.9	255.8	309.3
Local currency deposits	571.3	666.6	646.3	745.0	688.1	744.9
Demand deposits	366.5	427.5	409.7	474.3	420.3	445.8
Quasi-money	204.8	239.1	236.6	270.7	267.9	299.2
	Change as a percentage of beginning period M3					
Net foreign assets	-5.3	4.3	-0.5	6.1	8.4	7.2
Central bank	-1.8	2.9	2.3	5.3	5.4	7.0
Deposit money banks	-3.4	1.3	-2.8	0.8	3.0	0.2
Net domestic assets	21.7	17.0	15.0	16.7	14.0	11.2
Domestic credit	15.2	8.5	13.0	17.8	10.6	15.2
Net claims on the government	1.9	0.9	6.3	3.1	2.4	3.1
Credit to the economy	13.3	7.6	6.7	14.7	8.2	12.1
Of which: private sector	9.9	8.4	6.5	14.7	9.2	12.1
M3	16.4	21.2	14.5	22.8	22.4	18.4
Foreign currency deposits	5.6	4.5	2.6	9.6	9.2	6.8
M2	10.9	16.7	11.9	13.2	13.2	11.7
Currency in circulation	3.1	4.0	1.8	4.2	8.2	5.7
Local currency deposits	7.8	12.8	10.1	9.0	5.0	6.0
Demand deposits	5.2	8.2	5.8	5.4	1.3	2.7
Quasi-money	2.6	4.6	4.3	3.6	3.7	3.3
Memorandum items:						
Reserve money (12–month percent change)	16.2	18.5	23.6	15.8	12.5	12.7
Velocity (GDP/M2; end of period)	4.9	4.9	5.1	4.9	5.1	5.1

Sources: Burundi authorities; IMF staff estimates and projections.

[1] IMF Country Report 14/83.

Table 4. Burundi: Central Bank Accounts, 2012–14

	2012	2013				2014			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
					Est..	Proj.			
	(BIF billion)								
Net foreign assets	14.0	11.2	17.3	20.8	31.3	14.1	21.0	31.7	76.4
Assets	483.8	455.4	426.6	458.2	500.1	490.4	491.3	543.5	564.0
Liabilities	469.8	444.1	409.3	437.4	468.8	476.3	470.3	511.8	487.5
Net domestic assets	231.3	236.9	261.7	254.3	272.0	261.0	253.5	270.4	262.6
Domestic credit	344.5	334.8	341.9	336.6	349.6	357.1	349.6	361.0	295.9
Net claims on the government	315.4	297.6	311.9	303.4	317.5	324.5	337.6	354.6	306.8
Other credit	22.3	37.3	36.7	36.7	36.7	32.7	12.1	6.3	-11.0
Other items, net (assets = +)	-113.2	-97.9	-80.2	-82.3	-77.5	-96.1	-96.1	-90.6	-33.2
Reserve money	245.3	248.2	279.0	275.1	303.3	275.1	274.6	302.1	339.0
Currency in circulation	173.9	166.9	180.4	175.4	187.5	173.2	177.5	192.6	255.8
Bank reserves	39.9	45.8	57.0	65.7	82.7	70.9	71.4	73.1	59.0
Cash in vault	24.4	22.3	25.4	25.6	24.2	28.1	26.7	26.9	17.4
Other nonbank deposits	7.2	13.2	16.3	8.4	8.9	2.9	-1.0	9.4	6.8
Memorandum items:									
Net foreign assets of BRB (US$ million)	9.1	7.3	11.2	13.5	20.3	9.1	13.2	19.7	49.0

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

Table 5. Burundi: Balance of Payments, 2012–17

	2012	2013		2014		2015	2016	2017
	Prel.	Prog.	Est.	Prog.	Proj.		Proj.	
				(US$ million)				
Current account	-433.3	-632.2	-562.9	-643.7	-527.8	-586.3	-640.7	-648.9
(excluding official transfers)	-756.0	-849.3	-780.0	-843.5	-757.7	-792.6	-848.9	-874.5
Trade balance	-751.5	-820.6	-792.5	-823.1	-795.6	-836.0	-896.5	-952.2
Exports, f.o.b.	134.7	86.8	91.8	99.9	117.3	126.1	133.8	146.0
Of which: coffee	70.0	23.5	28.7	34.0	52.9	56.2	58.3	63.6
Imports, f.o.b.	-886.2	-907.4	-884.3	-923.0	-912.9	-962.1	-1030.3	-1098.2
Of which: petroleum products	-143.3	-193.7	-170.9	-196.7	-179.2	-179.6	-180.0	-183.9
Services (net)	-118.7	-152.8	-114.6	-149.0	-93.0	-94.0	-97.6	-76.4
Income (net)	-9.0	-10.8	-1.4	-9.2	0.1	1.3	3.5	6.6
Current transfers (net)	446.0	352.2	345.6	337.6	360.7	342.4	350.0	373.1
Of which: official (net)	322.7	217.2	217.1	199.8	229.9	206.3	208.3	225.6
Capital account [1]	223.1	257.7	257.7	250.9	243.0	285.8	316.8	351.2
Financial account	181.2	374.5	228.2	392.7	321.8	295.1	315.2	297.6
Direct investment	0.6	68.0	68.0	71.4	71.4	75.0	78.7	82.7
Other investment	180.6	306.5	160.2	321.3	250.4	220.2	236.5	215.0
Assets	-48.7	-44.1	-45.9	-62.7	-78.1	-74.5	-93.3	-102.9
Liabilities	229.3	350.6	206.1	383.9	328.5	294.7	329.8	317.9
Errors and omissions	39.7	0.0	88.7	0.0	0.0	0.0	0.0	0.0
Overall balance	10.7	0.0	11.6	-0.2	37.1	-5.3	-8.7	-0.1
Financing (increase in assets = –)	-10.7	0.0	-11.6	0.1	-37.1	0.1	0.1	0.1
Of which: change in official reserves	-13.2	-17.4	-12.7	-28.8	-37.1	-29.6	-44.4	-48.0
Fund Purchases and loans	15.4	15.2	15.4	15.3	15.6	7.8	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	5.3	8.6	23.7
				(Percent of GDP, unless otherwise indicated)				
Memorandum items:								
Current account	-18.5	-23.0	-20.5	-21.3	-17.2	-17.6	-17.9	-16.8
Gross official reserves								
US$ million	309	326	321	355	359	388.2	432.6	480.6
Months of imports	3.3	3.5	3.4	3.6	3.6	3.7	3.9	4.1
PV of external debt (percent of exports of GS)	187	226	273	220	248	233	169	151
Government external debt (percent of GDP)	21	19	19	18	18	17	16	14
Coffee price (US cents per lb)	188	134	141	124	186	187	184	196
Oil (US$/barrel)	105	104	104	101	104	100	95	92
Nominal GDP (US$ million)	2,342	2,743	2,743	3,015	3,069	3,334	3,580	3,868

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

[1] Based on preliminary information provided by donors.

Table 6. Burundi: Indicators of Capacity to Repay the Fund, 2014–25

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Projections						
Fund obligations based on existing credit												
(SDR million)												
Principal	5.6	12.5	13.0	12.0	12.5	11.8	9.6	7.0	4.4	2.5	0.5	0.0
Charges and interest	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit												
(SDR million)												
Principal	5.6	12.5	13.0	12.0	12.5	11.8	11.1	9.0	6.4	4.5	2.5	0.5
Charges and interest	0.0	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Total obligations based on existing and prospective credit												
SDR million	5.6	12.7	13.2	12.2	12.6	11.9	11.2	9.0	6.4	4.5	2.5	0.5
Percent of exports of goods and services	3.4	7.2	7.4	6.4	6.1	5.2	4.5	3.3	2.2	1.4	0.7	0.1
Percent of debt service[1]	38.5	56.1	49.1	47.9	47.4	42.0	42.6	36.8	28.2	21.0	13.6	2.8
Percent of gross official reserves	2.4	5.1	4.8	4.0	3.6	3.1	2.7	2.1	1.4	0.8	0.4	0.1
Percent of GDP	0.3	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.1	0.1	--
Percent of quota	7.3	16.5	17.1	15.8	16.4	15.4	14.5	11.7	8.3	5.9	3.2	0.6
Outstanding Fund credit												
SDR million	99.2	91.7	78.7	66.7	54.3	42.5	31.4	22.4	16.0	11.5	9.0	8.5
Percent of exports of goods and services	60.0	52.1	44.4	35.0	26.1	18.7	12.6	8.3	5.4	3.5	2.5	2.1
Percent of debt service[1]	680.5	404.4	293.2	263.0	204.2	150.4	119.6	91.4	70.2	53.6	49.1	47.7
Percent of gross official reserves	42.8	37.0	28.6	22.0	15.4	11.0	7.7	5.2	3.5	2.1	1.5	1.3
Percent of GDP	5.0	4.3	3.5	2.7	2.1	1.5	1.0	0.7	0.4	0.3	0.2	0.2
Percent of quota	128.8	119.1	102.2	86.7	70.5	55.2	40.8	29.1	20.8	14.9	11.7	11.0
Net use of Fund credit (SDR million)	4.4	-7.5	-13.0	-12.0	-12.5	-11.8	-11.1	-9.0	-6.4	-4.5	-2.5	-0.5
Disbursements	10.0	5.0	--	--	--	--	--	--	--	--	--	--
Repayments and repurchases	5.6	12.5	13.0	12.0	12.5	11.8	11.1	9.0	6.4	4.5	2.5	0.5
Memorandum items:												
Exports of goods and services (US$ million)	255.9	275.3	278.7	302.6	329.9	360.1	393.4	430.0	471.6	517.6	569.8	628.1
Debt service (US$ million)	22.6	35.5	42.2	40.2	42.1	44.8	41.6	38.9	36.1	34.0	29.0	28.3
Gross official reserves (US$ million)	359	388	433	481	560	613	646	689	735	874	950	1035
Nominal GDP ((US$ million)	3,068.8	3,334.1	3,580.1	3,868.1	4,194.4	4,521.5	4,874.4	5,257.1	5,703.3	6,206.4	6,753.0	7,367.6
Quota (SDR, million)	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0	77.0

Source: IMF staff estimates and projections.

[1] Total debt service includes IMF repurchases and repayments.

Table 7. Burundi: Tentative Schedule of ECF Disbursements and Reviews, 2012–15

Date	Disbursement (SDR million)	Percent of quota	Conditions
January 27, 2012	1.00	1.3	Executive Board approval.
July 15, 2012	4.00	5.2	Completion of first review, based on observance of performance criteria at end-March 2012.
January 15, 2013	5.00	6.5	Completion of second review, based on observance of performance criteria at end-September 2012.
September 15, 2013	5.00	6.5	Completion of third review, based on observance of performance criteria at end-March 2013.
January 15, 2014	5.00	6.5	Completion of fourth review, based on observance of performance criteria at end-September 2013.
July 15, 2014	5.00	6.5	Completion of fifth review, based on observance of performance criteria at end-March 2014.
January 15, 2015	5.00	6.5	Completion of sixth review, based on observance of performance criteria at end-September 2014.
Total for the ECF arrangement	30.00	39.0	

Source: IMF staff estimates.

Table 8. Burundi: Banking Systems Soundness Indicators, 2009–14
(percent, unless otherwise indicated)

	2010 Dec	2011 Mar	2011 Jun	2011 Sept	2011 Dec	2012 Mar	2012 Jun	2012 Sep	2012 Dec.	2013 Mar.	2013 Jun	2013 Sep	2013 Dec	2014 Mar.
Capital Requirement														
Capital requirement over weighted assets (solvency ratio)	19.7	21.7	20.7	20.0	19.8	19.8	18.9	19.7	20.2	21.1	21.8	19.9	22.3	21.9
Core capital (Tier 1 capital) over weighted assets	16.9	18.9	18.1	17.6	17.3	17.3	16.6	17.5	18.0	18.9	19.6	17.8	19.2	19.5
Quality of assets														
Nonperforming loans (percent of total gross loans granted)	10.0	8.8	7.6	7.3	7.7	8.1	7.3	8.0	8.7	9.6	10.1	9.9	10.3	11.7
Provisions (percent of nonperforming loans)	87.6	90.5	90.6	81.9	83.3	76.7	83.1	78.0	77.8	72.8	74.5	78.8	84.2	81.2
Nonperforming loans net of provisions (percent of capital)	4.3	2.8	2.6	5.0	4.9	7.1	5.0	6.7	7.1	9.4	8.7	7.3	5.2	7.2
Large exposures (percent of capital)	28.6	25.8	27.3	21.7	23.5	20.8	23.4	20.8	22.9	23.8	22.4	23.3	51.5	58.2
Profitability rates														
Return on assets	2.5	1.0	1.9	2.9	3.2	0.7	1.1	1.5	1.5	0.3	0.8	1.2	1.4	0.4
Return on equity capital	21.8	6.7	13.2	20.3	23.0	4.6	8.0	10.2	10.5	2.0	5.0	7.6	8.7	2.8
Net interest (percent of gross results)	191.3	168.3	164.8	165.7	175.6	176.9	184.9	192.7	197.8	204.1	275.7	86.9	82.9	55.4
Costs excluding interest (percent of gross outturn)	143.4	101.4	100.0	121.4	114.0	128.6	112.1	153.7	241.0	199.1	248.7	77.7	77.0	64.1
Liquidity														
Liquid assets (percent of all loans granted)	90.5	77.7	55.8	49.5	59.5	56.0	45.8	26.7	52.6	52.5	52.8	58.0	66.7	72.9
Liquid assets (percent of short-term commitments)	153.5	133.0	91.2	79.4	93.1	88.6	70.8	74.2	85.5	103.9	86.6	90.4	67.5	73.6

Source: Burundi authorities.

Annex I. Risk Assessment Matrix (RAM)[1]

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
External Risks			
Decline in donor support Perceived lack of progress on human rights, and rule of law remains is undermining the size and timeliness of donor support.	Medium	1- Decline in total revenues 2- Increase in financing needs 3- Higher pressures to increase revenues 4- Higher pressures to rationalize fiscal expenditures Limited resources to mitigate impact.	Enhance governance and transparency. Bolster revenue mobilization to reduce dependency on external support.
Terms of Trade shock Coffee prices have picked up but subject to uncertain harvests by large producers..	Medium	1- Deterioration of the export base 2- Increase in inflation 3- Lower growth Limited policy instruments to mitigate impact.	Increase international reserves with a flexible exchange rate to provide more robust buffers against external shocks. Increase fiscal space to respond to commodity price shocks.
Protracted period of slower growth in advanced and emerging economies: • **Advanced economies:** Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation. • **Emerging markets:** maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	High High	Deterioration of the current account deficit as export earnings decline, lower direct investment (e.g., from China and India), as well as lower accumulation of international reserves. Adverse implications for growth.	Increase international reserves with a flexible exchange rate to provide more robust buffers against external shocks. Increase fiscal space and step up diversification of non-traditional exports.
Heightened geopolitical risks in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy.	High	Increase the cost of oil imports (projected at about 21 percent of total imports in 2014). Fuel-related subsidies could destabilize the fiscal stance.	Ensure timely adjustments to retail fuel prices guided by a more flexible pricing formula to contain subsidies, temper demand, and protect reserves. Allow greater exchange rate flexibility.

Nature/Source of Threat	Likelihood	Expected Impact on Economy	Staff Advice on Policy Responses
Domestic Risks			
A deterioration of the political and security situation • The political situation remains fragile. Relations between the government on the one hand and the media, civil society and opposition parties deteriorated in recent months. • The pending determination of whether the President will run for a third term in 2015 led to a groundswell of discontent among the opposition and the civil society. • The repatriation of some 48,000 refugees from neighboring countries have increased social tensions, conflict over land and strain the provision of public services.	High	1- General social unrest 2- Increase pressures on fiscal expenditures (mainly military spending) 3- Lower growth Limited resources to mitigate impact.	Allow automatic fiscal stabilizers to operate, and assuming the turbulence is temporary, reserve buffers should be used to cushion the shock and smooth exchange rate volatility, while sterilizing any intervention to prevent excessive monetary tightening.

1/ The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding this baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff's views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

Annex II. Impediments to Growth[1]

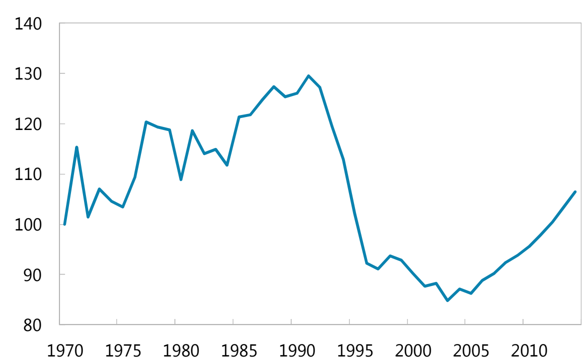
Impediments to growth are legion and include geography, fast population growth, high population density, limited electricity supply, and high transportation costs. Although total factor productivity has stagnated, new sources of growth are envisaged from regional integration within the East African Community, tourism, mining and financial services sectors. Expanding non-traditional exports is key to reducing vulnerabilities to external shocks. But this is conditional in part on the expansion of electricity supply to which only about five percent of the population has access.

A. Background

1. **Burundi is a landlocked country with poor infrastructure, and boasts one of the highest population densities in the world.** The workforce is mostly undereducated and agrarian, and typically works in the country's large informal sector. Burundi is prone to external shocks, natural disasters, and the influx of refugees from conflicts in neighboring countries.[2] About 50 percent of the budget is financed by donor assistance, while coffee and tea account for about 80 percent of exports. Approximately 80 percent of the population lives below the poverty line defined at 1.25US$/day.

2. **Significant economic progress has been achieved since the Arusha Peace Accord (2000), but Burundi remains fragile.** At about 3 percent/year, Burundi has one of the highest population growth rates in the world. In recent years, real GDP has picked up following the 2000 peace agreement, in part because of the peace dividend, and has now risen to its 1970s levels (Annex II. Figure 1). The pickup in real GDP per capita also reflected increased output in both the secondary and tertiary sectors (Annex II. Figure 2). In the tertiary sector, both tourism and financial services are increasingly contributing to growth as regional integration intensifies with the rest of the East African Community (EAC). Conversely, the primary sector's average growth rate was about 0.5 percent since 2005, owing to land fragmentation, and inefficient utilization of agricultural inputs.

Figure 1 : Burundi: Real GDP Per Capita, (1970=100)

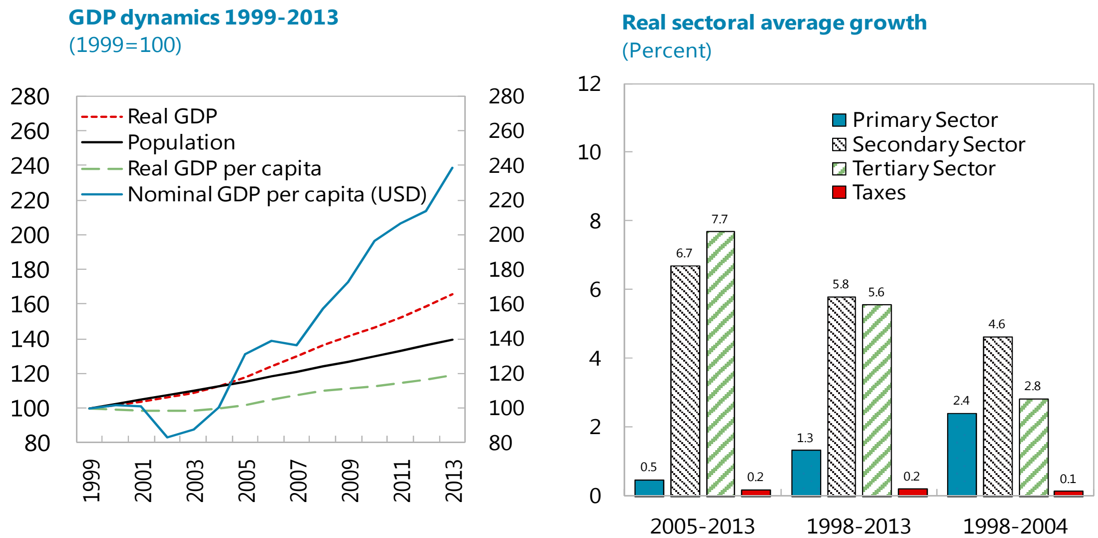


Source: IMF staff estimates.

[1] This note was prepared by Francois Boutin-Dufresne.

[2] Between 2003–12, Burundi experienced 27 natural disasters (floods, earthquakes, storms)

Figure 2. Burundi: Recent GDP Developments

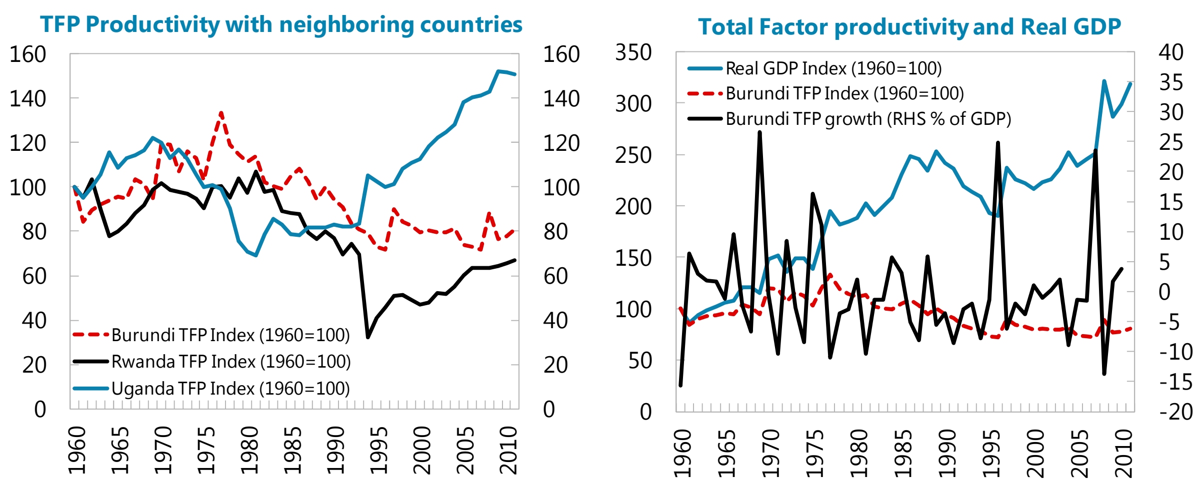


Source:IMF staff and Burundi authorities.

B. Is Productivity Growth Sufficient To Reduce Poverty?

3. **Total factor productivity (TFP) in Burundi has stagnated.** A combination of past poor macroeconomic management and civil strife significantly depleted the country's productive base. As a result, TFP growth hovered around zero in the last two decades (Annex II. Figure 3), especially considering the large population displacements that occurred during the 1994–2005 war period. Productivity grew sharply in the years following the peace agreement when the country renewed its partnership with the international community which yielded important aid inflows. On the other hand, Burundi underperformed both its neighbors Rwanda and Uganda, which experienced an increase in TFP since the mid-nineties.

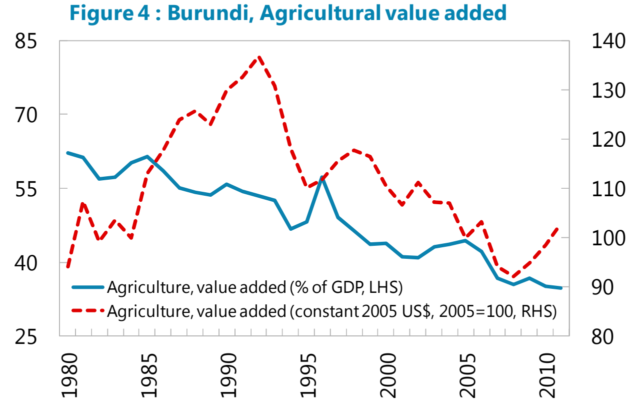
Figure 3: Burundi, productivity developments



Source : IMF staff estimates.

4. **Burundi's economy remains largely agrarian.** About 90 percent of the population depends on agriculture for their living. Despite the fact that the country boasts some of the world's most fertile soil, value added in agriculture remains amongst the lowest in Sub-Saharan Africa, and has been declining over the last two decades (Annex II. Figure 4). The latter has been negatively affected by recent weather patterns, periodic civil strife and a high population density that has led to excessive land fragmentation.[3] According to Oxfam, 72 percent of the population does not have reliable access to sufficient amounts of food, keeping the country on the verge of a permanent food crisis.[4]

Figure 4 : Burundi, Agricultural value added



Source: World Bank WDI.

5. **Coffee and tea dominate agricultural production and exports.** Burundi is endowed with exceptional agricultural conditions to produce high-quality, high-value coffee. About 800,000 households grow coffee for a living. The sector has been underperforming in the last decade and witnessed declining production levels and quality over time.[5] Production remains volatile given changing climatic conditions and less than optimal use of fertilizers. Local coffee non-governmental organizations (NGOs) estimate the sector's potential production at about 60,000 tons/year with ideal climatic, tree maintenance, and fertilizer use. At current production levels of about 18,000 tons per year, the production gap represents a 2 percentage points of GDP loss as well as an important loss of potential foreign exchange earnings.

6. **Low productivity and high population growth imply that Burundi is unlikely to reduce poverty significantly.** With an estimated 80 percent of the population living below the poverty line[6], Burundi is unlikely to meet any of the UN Millennium Development Goals by 2015.[7] Despite recent improvements in health and education outcomes following the implementation of school feeding and maternal health programs, Burundi currently still ranks 178th out of 186 countries on the UN *Human Development Index*. The official unemployment rate is around

[3] Nganou, Jean-Pascal and Kebede, Ephraim (2012): *Sources of Growth in Post-Conflict Burundi: From Destruction to Production,* World Bank Working Paper.

[4] See: http://www.oxfam.org/en/grow/policy/investing-agriculture-burundi#sthash.eAjnJblF.dpuf

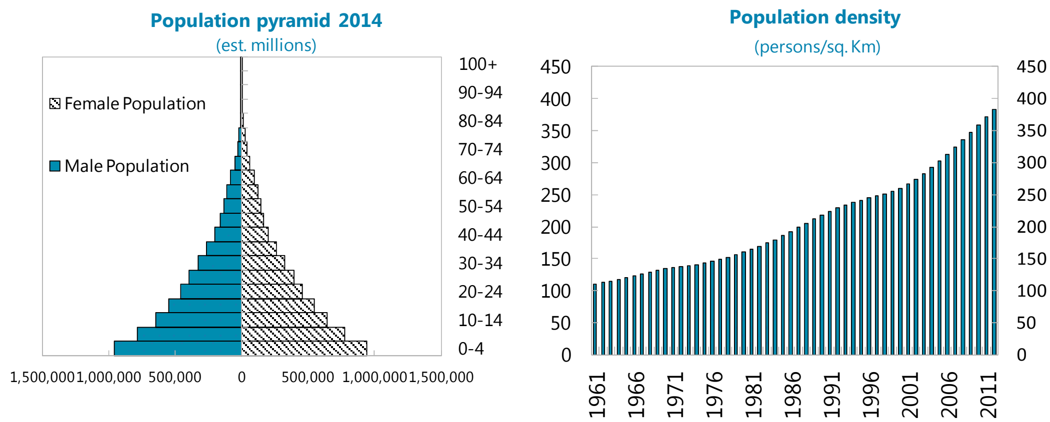
[5] See Country Economic Memorandum (CEM), The Challenge of Achieving Stable and Shared Growth, World Bank, March 2010.

[6] World Bank 2006 estimate.

[7] See UN MDG report on Burundi, 2010. http://www.undp.org/content/dam/undp/library/MDG/english/MDG%20Country%20Reports/Burundi/rapport_national_omd_burundi2010.pdf

11 percent[8], but a large amount of workers remain underemployed in the informal sector. A rapidly increasing population density, coupled to a heavily skewed population pyramid, where two thirds of the population is less than 25 years of age suggest that the development of formal employment opportunities will be critical for the country's future economic and social stability (Annex II. Figure 5).

Figure 5. Population Developments



Source: US census bureau.

Source: World Bank.

7. **Burundi development outcomes continue to underperform those of Rwanda, a country with which it shares similar characteristics and experience (Table 1).** Both countries are landlocked, inhabited by similar ethnic groups with a shared history, and emerged from a major civil conflict in the early 2000's. Since the end of the conflict period, Rwanda received twice as much official aid in the last 20 years compared to Burundi, which may in part explain higher economic growth and better development outcomes.

Table 1 : Burundi and Rwanda : Development Indicators 1993-2012

Macro/Development Indicator	Burundi 2012	Burundi 1993-2012 AVG	Rwanda 2012	Rwanda 1993-2012 AVG
Exports of goods and services (% of GDP)	9.0	8.0	13.2	8.9
External debt stocks (% of GNI)	27.0	105.7	..	57.3
GDP (constant 2005 US$)	1508.0	1086.7	4463.0	2149.8
GDP per capita growth (annual %)	0.8	-1.7	5.0	3.1
GDP per capita (constant 2005 US$)	153.1	156.6	389.6	262.9
Household final consumption expenditure (annual % growth)	4.1	3.0	5.9	5.3
Doing Business rank (2014)	140.0		32.0	
TI corruption perceptions index (2014)	157 of 177		49 of 177	
Internet users (per 100 people)	1.2	0.4	8.0	2.5
Human development index (2012)	178		167	
Life expectancy at birth, total (years)	53.6	49.4	63.5	49.1
Literacy rate, adult total (% of people ages 15 and above)	..	73.1	..	65.4
Years of schooling (mean)	2.7		3.3	
Mobile cellular subscriptions (per 100 people)	22.8	4.4	49.7	8.8
Net official development assistance and official aid received (constant 2011 US$ millions)	540.0	350.3	900.0	696.1
Poverty gap at $1.25 a day (PPP) (%)	..	41.8	..	32.8
Population (millions)	10.0		11.0	
Population growth (annual %)	3.2	2.6	2.8	2.8

Sources: World Bank, United Nations and Transparency International.

8 2006 Estimate for urban areas.

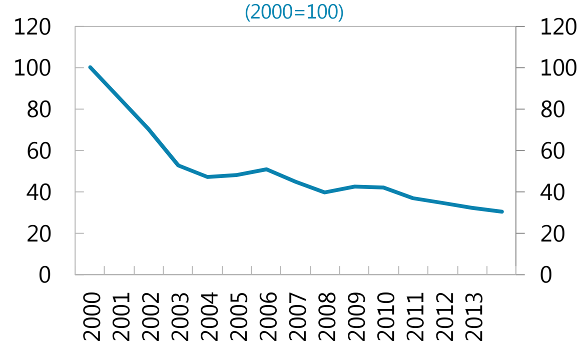
C. Constraints to Growth: Many but Not Insurmountable

8. **Burundi needs to expand its export base to mitigate vulnerabilities to external shocks.** The combination of a narrow export base and high dependence on donor support, have led to worsening external vulnerabilities in that Burundi's current account has continued to widen as aid was spent and absorbed. While greater exchange rate flexibility has recently helped the economy to adjust to large food and fuel shocks, Burundi's relative productivity to that of its trading partners has been declining (ANNEX II, Figure 6). For Burundi to improve its ability to generate growth and alleviate poverty, improvements in the country's overall competitiveness will be essential.

Figure 6: Burundi Competitiveness

Real per capita GDP relative to that of trading partners

(2000=100)



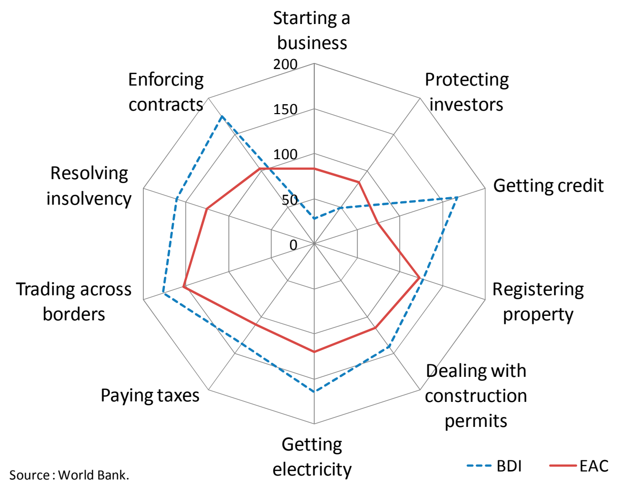
Source: IMF staff estimates.

9. **Burundi achieved significant progress in improving its business environment in recent years.** The country improved from 177 in 2011 to 140 at end-2014 on the Doing Business Index, but still lags behind other countries in the region (Figure 7). Despite several improvements in the areas of securing construction permits, registering a property, and starting a business, accessing to credit, safeguarding creditor rights and accessing reliable electricity supply continue to stymie the emergence of nontraditional exports.[9] Moreover, the perception of corruption is entrenched. Finally, as a landlocked country, Burundi still suffers from poor transport and logistical links to regional ports in Tanzania and Kenya. As a result, administrative costs to import a 20 feet container in Burundi are among the highest in the region.[10]

[9] Doing business indicators however should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

[10] See Exchange rate assessment for more details.

Figure 7: Burundi: Ease of Doing Business



Source : World Bank.

10. **The availability of energy remains a binding constraint to growth.** Only 5 percent of the population has access to power, one of the lowest access levels in Sub-Saharan Africa. Seventy-two percent of businesses cite unreliable electricity supply as being one of the main impediments for doing business in the country despite the expansion in electricity supply by 15MW to 55MW since 2012. Only about 10 percent of the country's hydropower potential is developed.[11] Six projects at various stages of construction and financing are currently being developed, which should help triple production capacity to 154Mw in 2018, provided that the financing need of $681 million is supplied by donors on concessional terms.

D. Forging Ahead

11. **Burundi boasts significant mining and some oil and gas resources.** The country possesses an estimated 200 million tons of exploitable nickel—about 5 percent of world reserves—making it one of the world's ten largest undeveloped nickel deposits. The development of this resource would require significant infrastructure investments in the road and energy sectors, for which the development of a coherent PPP framework will be essential. A new mining code has been adopted by parliament, while several foreign companies are now exploring nearby Lake Tanganyika for possible oil and gas deposits**.**

12. **Improving productivity in the agriculture sector, including coffee and tea production, remains key to increase growth and reduce poverty in Burundi.** Given the importance of the sector in reducing poverty, a more productive agriculture sector could help reduce economic fragility. The country's 2012–17 agricultural investment plans to increase productivity in the sector and improve food security. With a more productive sector, import substitution of food products could also help reduce vulnerabilities to supply shocks and food insecurity.

[11] See February 2012 IMF Country Report No. 12/28.

13. **Improvements in macroeconomic management and regional integration are key to Burundi's economic transformation.** Greater reliance on domestic revenues would reduce reliance on donor support and mitigate the impact of aid volatility**.** Policy induced slippages have resulted in the loss of 1.5 percentage points of GDP in revenues since 2012 while direct budget support has declined by 3 percentage points of GDP to 2 percent since 2010. Consequently, domestically financed public investment and propoor spending have invariably suffered during fiscal adjustment. "Quick win" social programs such as the school feeding and free health care for pregnant women need to be safeguarded to ensure inclusiveness and buy in by the population for the authorities' poverty reduction and growth strategy. Burundi has already begun to benefit from cross-border flows into the tourism, manufacturing and banking sectors arising from integration in the EAC. More needs to be done to reduce nontariff barriers and to improve infrastructure to increase access and to lower transportation costs.

Annex III. Deepening Burundi's Financial Intermediation and Inclusion[1]

Despite improvements in recent years, financial intermediation remains weak and access to financial services by firms and households limited, undermining their potential contribution to economic growth and poverty reduction. Looking forward, there is a need for concerted efforts to remove both economy-wide and banking sector–specific impediments to financial deepening and the maintaining of financial stability. Policy actions could include: (i) strengthening the regulatory framework and collateral and provisioning requirements; (ii) improving financial literacy and entrepreneurial skills; (iii) introducing insurance mechanisms and developing credit guarantee instruments to hedge risks, while supporting execution of collateral on bad loans and improving the credit culture; and (iv) developing diversified non-banking financial institutions including microfinance institutions.

A. Financial Sector

1. **Burundi has a small financial sector with banks playing a dominant role.** The sector consists of commercial banks and includes some formal nonbank financial institutions, mainly development banks and a growing microfinance network. The insurance and pension sector is underdeveloped, which is an impediment to resource mobilization and reducing maturity mismatches. Banks dominate the financial sector in terms of assets but play a limited role in financial inclusion.

Structure of the Banking Sector

2. **The banking sector in Burundi is small, highly concentrated, and focused on basic operations (ANNEX III, Table 1).** The total assets of the 10 banks comprising the sector amount to some US$824 million (30 percent of GDP), and the capital of the largest bank is barely US$20 million. The three largest banks, the Banque de Crédit de Bujumbura (BCB), the Banque Commerciale du Burundi (BANCOBU), and the Interbank Burundi (IBB) carry a market share of about 65 percent, and account for 69 percent of deposits and 67 of credit allocated in 2013. Banking operations are limited to taking deposits and granting very short-term loans to a very narrow client base: large companies, wholesale and retail trade, and the coffee business. Services to individuals and to small and medium-sized enterprises (SME) are expanding at only a slow pace. There is very little use of payment cards, and telephone banking and electronic banking services are still under discussion. The use of documentary credits is held back by the insistence on cash settlement of imports.

3. **The domestic banking sector has been developing significant linkages with the outside world and at the same time it is becoming more closely integrated into the EAC region**. Following the installation of the pan-African banking groups Bank of Africa and EcoBank, three banking groups based in other member countries of the EAC have opened subsidiaries. In addition, the Nigerian banking group Access Bank has purchased a controlling interest (87.5 percent) in a

[1] This note was prepared by Jemma Dridi.

small local bank, Finbank. In 2012, two of East-Africa's biggest such institutions—Kenya Commercial Bank (KCB) and Tanzania's CRDB—opened their first branches in the capital, Bujumbura.

Table 1: Characteristics of commercial banks in Burundi, 2013

	Year of creation	Branches (number)	State's share (percent)	Public share [1/] (percent)	Total assets (million BUF)	Deposits (million BUF)	Loans (million BUF)	Loans-to-Deposit ratio	Employment (number)
BCB	1964	21	10.7	33.7	324,334	238,866	135,871	57	374
BANCOBU	1964	14	3.0	52.4	182,627	124,261	116,456	94	389
IBB	1992	9	0.0	0.0	316,035	227,527	152,573	67	463
BBCI	1988	10	1.7	18.7	84,310	45,918	57,741	126	204
BGF	1996	11	0.0	0.0	64,429	38,677	43,860	113	208
FINBANK	2002	5	0.0	0.0	37,835	21,722	14,757	68	85
ECOBANK (SBF before 20	2008	11	0.0	7.2	145,795	97,670	45,621	47	141
DTBB	2008	2	0.0	0.0	34,461	18,187	23,302	128	50
KCB	2012	2	0.0	0.0	44,328	23,446	8,967	38	65
CRDB	2012	2	0.0	0.0	35,402	15,408	4,092	27	48
TOTAL		**87**			**1,269,557**	**851,682**	**603,240**	71	**2027**

Source: Burundi authorities

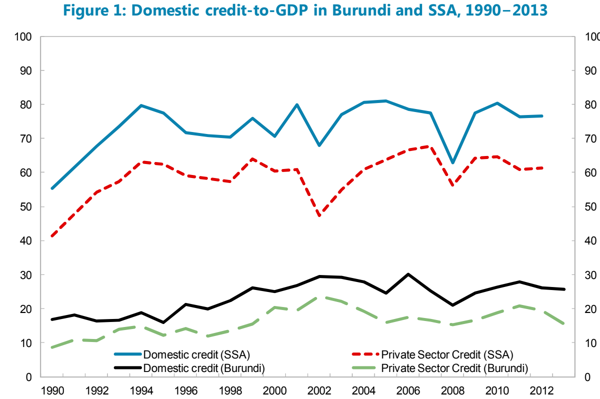
[1/] Public share: Shares owned by state-owned entreprises.

Notes : BCB= Banque de Crédit de Bujumbura; BANCOBU: Banque Commerciale du Burundi ; IBB= Inter Bank Burundi; BBCI=Banque Burundaise pour le Commerce et l'Investissement; BGF= Banque de Gestion et de Financement; FINBANK= Finalease Bank; SBF= Société Burundaise de Financement; DTBB= Diamond Trust Bank, Burundi; KCB= Kenya Commercial Bank; CRDB= Tanzania's CRDB Bank.

Efficiency and Profitability of the Banking Sector

4. **Banking sector credit to the economy has been persistently below regional levels (ANNEX III, Figure 1).** Domestic credit from the banking sector represented 23 percent of per year GDP on average, which is about a third of the average for Sub-Saharan Africa (70 percent of GDP). The credit to the private sector is even smaller. At about 15 percent of GDP, it represents less than one-third of the average ratio for Sub-Saharan Africa (59 percent of GDP).

Figure 1: Domestic credit-to-GDP in Burundi and SSA, 1990–2013

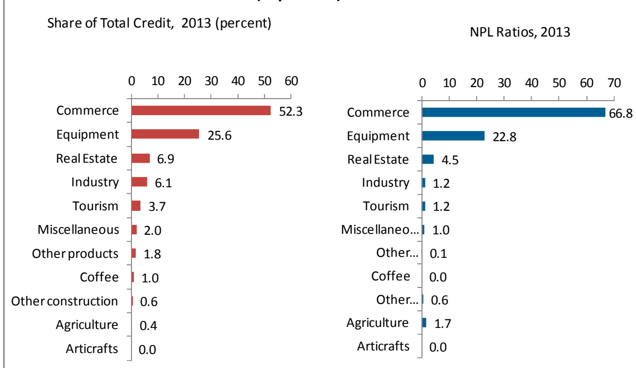


5. **Banks allocate relatively more credit to the central government than in the rest of Sub- Saharan Africa.** Bank credit to the government represented about 38 percent of total credit on average during 1995—2013, compared to 25 percent in the rest of Africa. The government's cash management problems are having a heavy impact on the banks' liquidity and on the quality of their loan portfolios. The state plays a preponderant role in the economy, as it is the largest consumer of goods and services. Consequently, payment delays to contractors and suppliers have severe repercussions on the cash balances, and even on the solvency, of its suppliers, and hence on the regularity with which they repay their loans. The relatively high share of credit to the government also gives rise to capital misallocation and crowds out the private sector. In turn, the capital misallocation may explain in part low total factor productivity (see Annex II). According to the World Bank's *Doing Business* report, Burundi firms identify the limited access finance as a major constraint, which hinders firms' growth and investment.

6. **Credit to the economy does not reflect Burundi's development priorities as articulated in the government's poverty reduction strategy, both in terms of sectoral allocation and terms structure.**

- **The bulk of credit accrues to services, while too little credit goes to agriculture and industry (ANNEX III, Figure 2).** This contrast with the risk taken in lending (as measured by the NPLs rate), which is the highest for trade. In 2013, agriculture received less than ½ percent of total credit, down from over 2 percent in the 1980s and early 1990s. At the same time, agriculture still accounts for over one-third of GDP and remains the mainstay of the economy, employing more than 80 percent of Burundi's population, notably in the cultivation of coffee and tea. The deterioration in credit allocation is even steeper for industry, with a share in total credit declining from an average of 16 percent in the 1980s and early 1990s to 6 percent in 2013. In contrast, trade, which represents less than 10 percent of GDP saw its share in total credit increase from about 40 percent in the 1980s and early 1990s to about 53 percent in 2013. The NPL rates stood at about 67, 1.2, and 1.7 percent for Commerce, industry and agriculture, respectively. This high concentration of credit in one sector, increases banks' vulnerability. Negative trade shocks can severely undermine the stability of the banking sector.

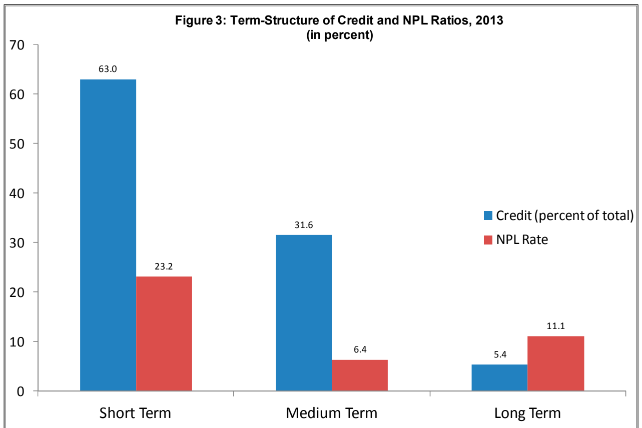
Figure 2: Sectoral Credit Distribution and NPL Ratios, 2013
(in percent)



Sources: Burundi authorities; and IMF staff calculations.

- **The term structure of allocated credit is characterized by the predominance of short-term credit**. This contrasts with the risk taken in lending, which is the highest for short-term lending (ANNEX III, Figure 3). This is not conducive to resource mobilization for long-term development projects. The share of short-term credit in total domestic credit averaged 65 percent during 2005—13. At the same time, long-term credit declined to about 6 percent, while medium-term credit hovered around 30 percent of total domestic credit. Also, despite banks' concentration on short-term credit, these loans are riskier than long-term credit. Long-term loans are associated with the lowest level of risk but they account for the lowest share of total loans. For example, the NPL rate in 2013 stood at about 25, 5.5, and 11 percent for short-term, medium-term, and long-term credit, respectively.

Figure 3: Term-Structure of Credit and NPL Ratios, 2013
(in percent)

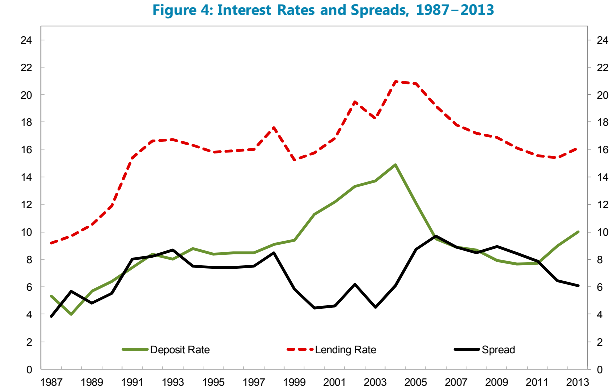


Sources: Burundi authorities; and IMF staff calculations and estimates.

7. **The low share of credit allocated to agriculture and industry may be explained by the structure of these sectors, their low productivity and high level of uncertainty.** For agriculture: (i) most agricultural activities are in the informal sector which is typically cut off from modern financial services; (ii) the lack of collateral and the high cost of loans to informal economic activities; (iii) vulnerability to weather shocks is high because agriculture is mainly rain-fed; and (iv) the rudimentary production technologies render agricultural production highly uncertain. The low proportion of credit to industry may be explained by low profitability, in addition to uncertainty. The low demand for credit in industry can be explained by: (i) a still weak business environment; (ii) high transport costs and unreliable energy supply, which increase production costs, reducing profitability and the return on investment; and (iii) the mismatch between the needs of the industrial sector for long-term loans and banks' lending capacity and preferences for short-term lending.

8. **The banking sector in Burundi appears to be profitable despite existing institutional and structural constraints.** The average return on equity ratio stands at 8.2 percent in 2013, with returns as high as 20.6 percent in larger banks.. This good performance does not seem to reflect real economic improvements as shown by the still moderate growth performance and high poverty incidence. This outcome could reflect the high concentration and low competition. The three - dominant banks control the banking sector and implicitly divide up the market, without having to compete to attract clients. Banks extract rents by using deposits and savings, which are poorly remunerated, to lend at very high rates that do not reflect the cost of these funds. There is a persistently high spread between the lending and deposit interest rates (ANNEX III, Figure 4). While risk remains significant in lending activities, these spreads may reflect the lack of competition and is synonymous with rent extraction. High rates of return on equity may also reflect of the under-capitalization of some commercial banks. Profitability and the solvency may also be overstated due to the classification of NPLs[2] and the arbitrary approach to the weighting of liabilities to banks and to the state, which could lead to an underestimation of the real risks to which the banks are exposed (MCM report 2012).[3]

Figure 4: Interest Rates and Spreads, 1987–2013



Sources: Burundi authorities; World Bank WDI.

9. **However, the concentration of loans to a few large clients exposes banks to high risks.** The banking system's exposure to large creditor stood at 52 percent on average in 2013, and was

[2] Loans are not classified as nonperforming until 180 days have elapsed, instead of the 90-day limit that is most widely used.

[3] Cash deposits in banks are uniformly rated at 20 percent without distinction as to the quality of the correspondent, the country in which it operates, or the fact that all these institutions may belong to a single group. Moreover, the zero-risk rating of the State is at odds with the general perception of a systemic threat posed by the State's financial situation.

much higher for the three largest commercial banks. According to resilience tests of the banking sector based on 2008 (November) data, a decline in the quality of debts owed by the five largest debtors of the banking sector could reduce the solvency ratios of 4 out of 7 commercial banks below the legal minimum (IMF and World Bank, 2009).

B. Financial Inclusion

Current Situation

10. **The level of financial inclusion in Burundi is low relative to Sub-Saharan Africa and low income countries.** While the supply of formal financial services has become relatively more diversified and the number of access points has increased, the first national survey (BRB, 2012) shows that only one adult out of eight has an account in a formal financial institution and that only 3 percent of adult population have access to credit (ANNEX III, Table 2). With only 7 percent of adult access to formal financial services, Burundi also lags behind the other EAC members, where the same indicator stood at 17, 20, 33, and 42, for Tanzania, Uganda, Rwanda, and Kenya, respectively. It is possible to distinguish two groups: (i) on the one hand, the salaried workers in the formal sector-mostly well-paid educated men living in urban areas, who represent the privileged clientele of both banks and micro-finance institutions (MFIs); (ii) on the other hand, the workers in the informal sector, largely the majority of the active population, living in rural areas, with low literacy and income bordering the poverty line. Most of the latter group are excluded from the formal financial system and have a poor knowledge of the formal financial services currently offered.

11. **The low level of financial inclusion in Burundi is related to socio-economic and financial system factors (ANNEX III, Figure 5).** Socio-economic factors include monetary poverty, with the monthly income of more than 60 percent of the population estimated at less than BUF 25,000 (about $20) and low level of literacy (40 percent are illiterate), especially in rural areas where a majority of the rural population depends on agriculture. Factors related to the financial system include the long distance from the access points, the high minimum deposit required to open an account and guarantees required for granting credit. Other factors relate to the fact that loan products offered by the banks and MFIs do not meet the needs of farmers, merchants, and other operators in the informal sector.

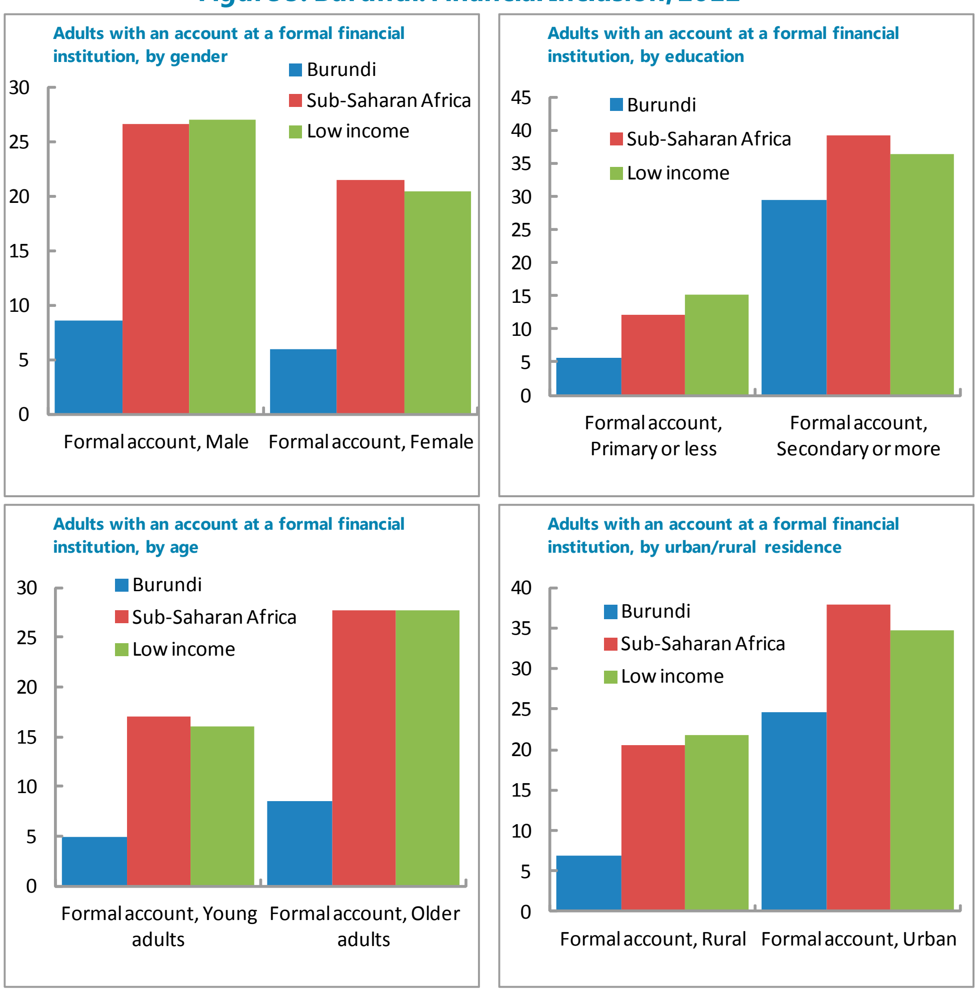
12. **There are also a number of other contributing factors**, which include: (i) a high concentration of points of service within the capital, Bujumbura and limited access outside the capital; (ii) low level of financial education among Burundi's population; and (iii) low level of awareness of financial institutions. The long distance between service points and the lack of and costliness of motorized transportation are important factors that hinder access to financial services. The population uses informal services more frequently than those offered by formal financial institutions, in terms of saving, borrowing and transferring money. There are also demographic differences in account ownership, with the rate of ownership of accounts varying widely across different social and economic categories. Figure 5 (ANNEX III), which depicts the percentage of adults holding an account at a formal financial institution according to gender, level of education, age, and urban/rural residence, shows that Burundi stands well below SSA and LICs averages.

Table 2: Key financial inclusion indicators in Burundi

Number of licensed financial institutions	33
Number of service points	492
Percentage of service points in urban areas	34.6
Number of service points per 1000 km2	17.7
Number of service points per 100 000 adults	12.9
Number of ATMs	27
Percentage of ATMs in urban areas	96.3
Number of ATMs per 100 000 adults	0.7
Percentage of municipalities with at least one service point	95.4
Percentage of adult population living in municipalities with at least one service point	97
Percentage of the adult population living within less than 8 km from a formal financial services access point	49.4
Percenateg of the adult population with at least one deposit account in a licensed financial institution	12.5
Number of accounts / customers	831,454
Number of accounts / customers per 1 000 adults	218
Total outstanding deposits by individuals (millions of BIF)	554,500
Percentage of the adult population with at least one credit account in an licensed financial institution	2.9
Number of outstanding loans	163,389
Number of outstanding loans per 1 000 adults	43
Total outstanding loans to individuals (millions BIF)	329,590

Source: Bank of the Republic of Burundi, Burundi National Financial Survey, August 2012.

Figure 5. Burundi: Financial Inclusion, 2012



Sources: Burundi authorities; and World Bank.

Microfinance, a Relatively New Phenomenon

13. **MFIs have been growing rapidly in recent years and are key players in providing financial services to the lower to mid-income segment of the population, particularly in rural areas.** MFIs' total savings are about at par with total deposit in the banking system, while outstanding loans (about 2 percent of GDP) represent 11 percent of domestic credit by the banking sector. Compared with 2007, outstanding loans from and deposits in MFIs increased by about 255 percent and 108 percent, respectively albeit from a low base (ANNEX III, Table 3). The factors explaining the increase in the demand for microfinance services include: (i) the increase in the cost of living and the deterioration of purchasing power due to the war and the economic crisis have made it more difficult for a large segment of the population to survive on regular wage incomes; and (ii) the increasing difficulty to access formal banking services. From this perspective, the development of microfinance can be interpreted as an attempt to fill a vacuum in financial intermediation.

14. **Further developments in microfinance hinges on enhancing the regulatory framework for MFIs, building their capacity, and securing stable resources.** The ministry of finance adopted the microfinance law in 2006, with the objective protecting savers and borrowers while minimizing risk taking by MFIs. Enhanced regulations and capacity building of MFIs, including by providing experts with proven field experience, would help mitigate risks that may emerge from strong growth of MFIs. This will also help MFIs better manage risks through efficient credit assessment and stronger loan recovery mechanisms. The declining donor support could further strain loanable resources, forcing MFIs to both ration credit and charge high interest rates, hence making it difficult to achieve sufficient penetration to low income groups.

Table 3: Summary indicators of microfinance institutions in Burundi, 2007—13

Indicators	Dec. 31,2007	Dec. 31,2008	Dec. 31,2009	Dec. 31,2010	Dec. 31,2011	Dec. 31,2012	Dec. 31,2013	2007—13 (change in percent)
Members/clients	252,703	309,682	430,842	446,661	524,594	536,741	615,320	143
Loans issued (FBU million)	13,135	21,972	40,633	54,631	66,725	70,928	86,779	561
Number of loans	48,199	71,883	101,904	136,413	144,032	154,988	178,126	270
Average loan (FBU)	272,516	305,663	398,737	400,481	463,263	457,634	487,177	79
Outstanding loans (FBU million)	19,009	27,057	41,271	56,309	86,011	67,045	82,834	336
Number of active borrowers	94,312	134,992	166,366	127,398	144,446	143,541	168,456	79
Savings (FBU million)	27,625	30,311	33,282	43,048	67,502	74,879	79,722	189
Number of depositors	252,703	339,571	384,609	402,189	496,961	519,711	577,308	128
Number of service posts	160	173	184	190	277	277	314	96
Number of employees	629	760	926	1025	1134	1188	1342	113

Sources: Réseau des Institutions de Microfinance (RIM); and IMF staff calculations.

C. Conclusion and Main Recommendations

15. **Notwithstanding improvements in recent years, the financial system remains shallow and contributes little to growth and poverty reduction, financial inclusion indicators remain below regional averages.** To improve financial intermediation and achieve the authorities target of boosting the inclusion rate to 27 percent by 2015, consideration should be given to the following:

- advance regional EAC integration to boost the harmonization of monetary and supervisory policies, while addressing a comprehensive financial sector reforms in the context of the development and integration of capital markets in EAC;

- enhance use of mobile banking, which has just been introduced in Burundi to expand access. This has produced remarkable results in other African countries such as Kenya and South Africa;

- ensure proper risk-based supervision of both bank and nonbank financial intermediaries to safeguard financial stability;

- address weaknesses in the legal and regulatory framework to ensure efficient enforcement of the contracts in cases of debtor default; and

- establish credit insurance schemes such as an agricultural credit guarantee/support scheme to ensure farmers' access to agricultural credit. These schemes prove successful in Nigeria and other African countries. Continue improvements to the business environment by addressing remaining challenges, which include: (i) getting credit; trading across borders; (ii) getting electricity; (iii) resolving insolvency; and (iv) dealing with construction permits.

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Appendix I. Letter of Intent

Bujumbura, July 21, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C., 20431

Dear Ms. Lagarde:

1. The Executive Board of the International Monetary Fund (IMF) approved on January 27, 2012, a new three-year arrangement under the Extended Credit Facility (ECF) for the Republic of Burundi. This arrangement supports our medium term program and aims to consolidate the process of macroeconomic stability, accelerate growth and reduce poverty. In accordance with this arrangement, the Government of Burundi has considered, with the help of a mission of the IMF, the implementation of the program for the fifth review under the arrangement. This review focused on the implementation of the program during the period from October 1st 2013 to March 31st, 2014, as well as on the prospects and economic and financial to measures implemented in 2014.

2. Burundi remains vulnerable to the persistent effects of external shocks from commodity prices and the decrease in the tax effort which has been ongoing for more than two years. Moreover, in this pre-election period, social and political tensions may develop, which, coupled with additional external shocks, could undermine the significant progress made towards macroeconomic stabilization in recent years. For this reason, we have stepped up efforts to mobilize additional revenues, including exceptional revenue measures, which could help in responding to potential contingencies related to the upcoming elections.

3. The strengthening of tax administration will compliment the measures included in a July 2014 supplementary budget to compensate for revenue losses arising from the harmonization of the corporate tax regime with that of the East African Community. The strengthening of expenditure controls in the first quarter of 2014 helped mitigate the effects of these shortfalls and contributed to the satisfactory execution of the program at end March 2014. All quantitative criteria have been met except the indicative targets on fiscal revenues and reserve money, as well as some structural benchmarks, including the indicative target pro-poor expenditures, which were protected from the effects of compression of expenditures and from the delay in the disbursement of budget support. The Government remains firmly committed to the continued implementation of the program, which should help preserve the viability of public finances and debt and boost economic growth over the medium term. To this end, it will maintain prudent fiscal and monetary policies to help anchor inflation expectations inflation at levels consistent with price stability.

4. With regard to the significant progress in the implementation of the program supported by the ECF arrangement, the Government is seeking the conclusion of the fifth review, the setting of

new performance criteria and indicative criteria for September 30, 2014 and December, 31, 2014 and the sixth disbursement of 5 million SDR from the IMF.

5. The Government believes that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

6. The Government will communicate to the IMF all the information necessary to ensure the implementation and regular monitoring of the program. This information, as well as the follow-up modalities related to the implementation of the program as well as the quantitative targets and structural benchmarks outlined in the Technical Memorandum of Understanding (TMU), are also attached to this letter. The sixth Review on September 2014 performance criteria will be completed no later than January 31, 2015.

7. The Burundian authorities wish to make this letter available to the public along with the attached Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU) as well as the IMF staff report on the 5th review. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Burundian government.

Sincerely yours,

/s/

Tabu Abdallah MANIRAKIZA
Minister of Finance and
Economic Development Planning

/s/

Jean CIZA
Governor, Bank of the Republic of Burundi

/s/

Gervais RUFYIKIRI
Second Vice-President, Republic of Burundi

Attachments: Memorandum of economic and Financial Policies (MEFP)
Technical Memorandum of Understanding (TMU)

Attachment I. Amendments to the Memorandum of Economic and Financial Policies

A. Introduction

1. Burundi adopted an economic and financial program supported by an arrangement with the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) to consolidate economic and political gains, promote inclusive economic growth, curb inflation, and strengthen policies designed to combat endemic poverty. This Memorandum supplements the December 2011, July 2012, January 2013, August 2013, and December 2013 versions. It reports on the implementation of the program's quantitative targets and structural benchmarks at end-March 2014 and defines the economic policies and reforms the government intends to implement in the second half of 2014 and in 2015 to achieve the objectives of its economic and financial program. The program measures and objectives are consistent with the Poverty Reduction and Growth Strategy Paper (PRSP-II).

2. Burundi remains vulnerable to the lingering effects of external shocks associated with commodity prices and the observed decline in the tax effort over the course of more than two years. Social and political tensions might arise during this pre-election period. The combined effects of these external shocks and the risk of social and political tensions could undermine the substantial progress made towards macroeconomic stability. Moreover, the effects of public finances and the external position resulting from the deteriorating terms of trade and a drop in direct budget support are compounded by the insufficient mobilization of domestic resources, particularly due to the narrow tax base. Burundi therefore continues to be forced to seek support from technical and financial partners to complete the transformation of its economy and strengthen its political institutions.

3. The Burundi development partners conference held in Geneva in October 2012 provided a forum for the government to apprise its partners of the considerable advances Burundi has made, notably with regard to good governance, peace consolidation, and improved public access to basic social services. In the wake of the Geneva conference, the government organized two sectoral conferences in July and October 2013. The target sectors are in line with the main pillars of the PRSP-II and pertain to: (i) transport infrastructure and information and communications technologies (ICT); (ii) energy; (iii) private-sector and tourism development; (iv) governance, rule of law, and gender; (v) education; (vi) health; and (vii) the environment, water, and sanitation. The government is aware of how much remains to be done in these areas. This is why the authorities have sought continued political support and additional financial assistance to promote sustainable economic growth, curb unemployment, and reduce endemic poverty.

B. Economic Developments and Implementation Of The Economic Program in 2013 and in The First Quarter of 2014

4. Macroeconomic developments remain broadly in line with program objectives. GDP growth saw a slight uptick from 4 percent in 2012 to 4.5 percent in 2013, a trend that is expected to continue in 2014 owing to the rebound in agricultural production, particularly coffee, and in infrastructure investments, notably fiber optics, transport, and hydroelectric dams. Inflation dropped sharply from 12 percent year-on-year at end-2012 to 9 percent at end-2013, and then to 3.5 percent at end-May 2014, driven by favorable developments in international petroleum product and food prices (and the resumption of agricultural production).

5. The external position remains fragile, as the external current account deficit (including transfers) weakened substantially, reaching 20.5 percent of GDP compared to 18.5 percent in 2012, despite efforts to mitigate the effects of the deteriorating terms of trade. Imports declined by about 0.2 percent, while exports fell sharply by roughly 31.9 percent, largely reflecting lower coffee exports. Official foreign exchange reserves increased slightly to the equivalent of 3.4 months of imports at end-2013.

6. During 2013 and in the first quarter of 2014, better liquidity conditions led to a shift in monetary policy. The Central Bank of Burundi (BRB) was able to cut its intervention rate by 200 basis points to bring it down to 10.5 percent in March 2014, with lower inflation contributing to positive real interest rates. Money supply growth slowed and fell to 9.2 percent year-on-year at end-March 2014, while growth of credit to the private sector was very modest, falling to 2.2 percent. The Monetary Policy Committee published its 2014 first quarter report, along with a monetary policy statement publicly announcing the monetary authority's intentions for the future. This innovation enhances the transparency and credibility of the monetary policy. Following the BRB's interventions to dampen volatility in 2013, the Burundian franc remained relatively stable.

7. Budget execution in 2013 was broadly in line with program objectives. The improvement observed in mobilizing domestic resources with the adoption of corrective measures designed to offset the revenue losses posted in the first half of the year translated into roughly BIF 522.3 billion in tax revenues at end-December 2013, a 6-percent increase from 2012; by comparison, nominal GDP growth was 16 percent. This improvement was driven by the recovery in economic activity, as evidenced by the strong rise in the value added tax (VAT) and by the gradual resumption of taxes on petroleum products. At end-December 2013, the overall fiscal deficit (cash basis, including non-HIPC grants) was estimated at around 1.7 percent of GDP. The tax pressure declinedd to 12.4 percent of GDP, primarily as a result of the continued suspension of excise duties on petroleum products during the first half of the year. In the first quarter of 2014, the full effect of the measures to harmonize the Burundian tax system with that of member countries of the East African Community was amplified by loss statements issued by more than a fifth of the large taxpayers (following elimination of the minimum tax) and shortcomings in tax administration, resulting in a shortfall equivalent to 0.4 percent of GDP. Annualized, this deterioration would lead to a decline in the tax effort and, consequently, in the domestic financing requirement of 1 percent of GDP, furthering the

erosion of gains accumulated by the Burundian Revenue Office (OBR) in its first three years. Wages and salaries, and investment spending financed with own resources were contained to offset the slight increases in spending on materials and transfers.

8. The downward trend in the wage bill relative to GDP continued and was at 7 percent of GDP in 2013, a decrease of 0.8 percentage points of GDP from 2012. The roll-out of the payroll software (OPEN PRH) and the adoption of a unified registration procedure for civil servants cleared up the civil service database and payroll system by virtually eliminating duplicates and ghost records. The new OPEN PRH system also considerably reduced payroll processing times. Extended software access will guarantee better management of the payroll, which is one of the largest government budget items (end-September benchmark).

9. Program execution in the first quarter of 2014 was satisfactory overall. All the quantitative performance criteria at end-March were met. However, the indicative targets for tax revenues and the monetary base failed to be attained. Furthermore, the implementation of structural measures lagged due mainly to delays in obtaining the required technical assistance. The audit of extrabudgetary arrears carried out by the Audit Office has begun and is expected to be completed by the end of the year. With respect to the law on debt management, the recommendations stemming from the IMF's technical assistance were conveyed to the authorities in May and taken into consideration in the draft law, which will be submitted to Parliament before end-September (end-September benchmark). Lastly, significant progress was made in strengthening public financial management. Thus, as part of the efforts to put in place the government's rationalized expenditure chain (*chaîne rationalisée de dépense*), the Minister of Finance issued an order that will allow ministries and other institutions to engage expenditures where expenditures controllers are present. In addition, an integrated public financial management software package was purchased and is being installed. It will enable online monitoring of all budgetary transactions, the introduction of credits for payment of government obligations, and the compilation of the government flow-of-funds table (TOFE). The software package is a "living" tool, interconnecting with any other systems that monitor government operations or the government's position, particularly the revenue chain (*chaîne recettes*).

10. The central bank continues to implement projects for the modernization of the financial sector, one of the components of the proposed financial sector development (PSD). To that end, it is working on: (1) strengthening supervision of banks, nonbank financial institutions, and microfinance institutions; (2) modernizing payments systems (ACH/RTGS, e-money and central securities depository) through a more robust IT infrastructure; and (3) making use of new information and communications technologies (NICT) by the banking system more widespread, and modernizing of the payments system and or its associated legal and institutional framework. Much headway has been made in these areas. The law on the National payment system was finalized and introduced in the legislative agenda while the interbank electronic payment agreement protocol is currently being reviewed for signature by the parties involved.

11. As regards bank supervision, directives on business continuity management were adopted and transmitted by the BRB to the banking sector with firm instructions for their implementation by

June 30, 2014. In their cooperation with the regulators of parent foreign banks (Ecobank Burundi, FinBank, DTB Burundi, KCB Bank Burundi, and CRDB Bank Burundi), BRB supervisors have already taken part in joint inspection missions with Central Bank of Kenya supervisors during on-site inspections of the KCB and the DTB, parent banks of KCB Bank Burundi and DTB Burundi, respectively. Moreover, Central Bank of Nigeria supervisors carried out an inspection mission of FinBank, a subsidiary of Access Bank, in December 2012 together with BRB supervisors.

12. The draft banking law, on which the IMF and the National Bank of Belgium had made remarks, was also commented on by the industry. This law will also constitute a legal framework for mobile banking and microfinance activities. A draft regulation on payments systems and another on commercial agents in bank operations and payment services are being finalized to expand the legal framework of payments systems. A draft proposed to amend the decree governing microfinance institutions has been developed. These three instruments will be published following the enactment of the amended banking law from which they originate.

13. In accordance with the recommendations on safeguards, the BRB continues to submit a report on reserve management to its Board of Directors on a quarterly basis. To this end, a schedule of regular meetings has been prepared to ensure gradual implementation of the recommended safeguards.

14. In the coffee sector, the government is relying on support from the World Bank to boost productivity, while pursuing the program to privatize washing stations. The government recognizes the preponderant role the private sector should play in the coffee sector as part of its strategy to boost production and minimize the cyclical effects of coffee production.

15. Government reforms to make the business climate more appealing to private investors continue. Substantial progress has been made in eliminating constraints related to: (i) business start-ups; (ii) the issuance of building permits; (iii) property transfers; and (iv) regional trade, which no longer pose an obstacle to entrepreneurship. Owing to government's efforts to improve the business climate, Burundi is ranked among the 29 most reform-oriented countries in the Doing Business 2014 report, rising 37 spots from 177th to 140th in the 2011 and 2014 rankings, respectively.

C. Economic and Political Outlook for 2014

Macroeconomic framework

16. The economic outlook for Burundi remains challenging. GDP growth is expected to climb in the medium term, driven by a recovery in agricultural activity and construction, particularly for hydroelectric projects. Integration within the East African Community should spur investment in the tourism, wholesale and retail, and financial sectors and in telecommunications.

17. GDP growth should thus rise to 4.7 percent in 2014 compared to 4.5 percent in 2013, due to the rebound in coffee production and infrastructure works, namely the rehabilitation of roads damaged by rain and the construction of hydroelectric dams. Inflation, measured by the household

consumer price index, is expected to fall to 7.5 percent and stabilize at around 6 percent as an annual average in the medium term, buoyed by a prudent monetary policy and the projected drop in international food and petroleum product prices. The current account deficit of the balance of payments should improve slightly to settle at roughly 21 percent of GDP as a result of the rebound in coffee exports, and should continue to improve in the medium term owing to higher exports and a weaker expansion of imports, which had been driven by humanitarian aid these past few years. A slight improvement in official foreign exchange reserves is expected and should reach the equivalent of 3.6 months of imports, a reflection of the limited BRB interventions on the foreign exchange market.

Fiscal policy

18. The prudent fiscal policy conducted in recent years led to an improved fiscal position, with the reduction of the deficit in the basic primary balance in response to lower budget support and a contraction in the deficit from 5.8 percent of GDP in 2011 to 3.5 percent in 2013. The meagre fiscal space too often led to budget adjustments at the expense of investment spending in order to mitigate the effects of exogenous shocks. Capital expenditure remains precarious and tied to project grants, while execution continues to be highly dependent on the pace of disbursements of budget support.

19. Total government revenues and expenditures are expected to reach 27.6 and 29.9 percent of GDP, respectively. The overall fiscal balance deficit (cash basis, including grants) should be contained at 1.7 percent of GDP. Thus, pro-poor spending will continue to grow to about 9.5 percent of GDP without jeopardizing fiscal consolidation, and the wage bill will be brought under control.

20. Total (non-grant) budget revenue is forecasted to be FBu 648.8.2 billion, compared to FBu 571.6 billion in 2013. To reach this target, the July 2014 supplementary budget introduced new tax measures to generate additional revenues equivalent to about 1 percentage point of GDP and to put an end to the decline in the tax effort that has been ongoing since 2012. These measures focussed on the reinstatement of the minimum tax for companies that post an operating loss, the collection and remittance of VAT on beverages and petroleum products through withholdings (at the producer end), the exclusion of sole proprietorships from the investment code, the elimination of the VAT exemption for investors under the investment code, the treatment of tax credits to make them applicable solely to class zero goods and to bring the rate down from 37 to 30 percent, and the collection of a lump sum of 4 percent of the CIF value on the imports of companies not listed as major taxpayers. These measures, coupled with windfall revenues expected from mobile phone companies and the expected outcome of efforts to strengthen tax administration, particularly with respect to the collection of outstanding balances, will protect expenditure priorities and place government finances in a less precarious position in the run-up to the 2015 election. In response to the government’s request, the IMF sent a technical assistance mission to Bujumbura in the second half of July to support the authorities in developing a code on excise duties in order to increase revenue mobilization.

21. Total expenditure could reach FBu 1428.9.1 billion in 2014, an increase of 7.8 percent. This rise, following that of 5.1 percent expected in 2013, is in keeping with the requirements to develop economic and social infrastructure. The wage bill is expected to be FBu 322.3 billion, or 6.7 percent of GDP, meeting the human resources needs of the key education, health, and agricultural sectors. Investment spending financed with own resources is expected to total FBu 99.9 billion, or about 2.0 percent of GDP as in 2013.

22. In the health sector, the government will continue the policy of providing free healthcare for children under 5 years of age and covering the costs of childbirth. The rate of assisted childbirth was assessed at 72 percent in 2013. The government policy to control population growth was implemented, beginning with the approach of community-based distribution of contraceptives. In 2013, contraceptive use increased by 28 percent. Additional infrastructure investments are planned to meet the growing demand for health services. The government will continue to give priority to the hiring of medical personnel in a context of wage bill stabilization. These measures will contribute to higher quality medical care. The health insurance program, which gives vulnerable segments of the population access to health services, is becoming increasingly successful. To ensure its long-term viability, the government has embarked on its reform to better target beneficiaries and to enhance its complementarity with other medical insurance plans, particularly care for indigents provided by the Ministry of Solidarity, community-based mutual health insurance plans, medical coverage for civil servants, and private medical insurance.

23. In the education sector, the government will continue its successful program of providing free primary school education, which includes free meals for students served by school cafeterias. During the 2012/2013 academic year, the primary school completion rate increased to 68 percent and the percentage of students repeating a year dropped by 29.4 percent. The government also plans to build new classrooms and hire teachers to reduce the teacher–student ratio.

24. In the agricultural sector, the government, in close collaboration with technical and financial partners, plans to improve productivity in order to (i) combat the high cost of living, (ii) eliminate food insecurity, and (iii) increase coffee production while improving its quality so as to promote the label “Burundi coffee” on international markets. Accordingly, the government has developed and is implementing a program encouraging the use of fertilizer by rural producers. The purpose of this program is to achieve significant increases in agricultural productivity, thereby contributing to the fulfillment of objectives under the National Agricultural and Livestock Investment Plan (*Plan National d’Investissement Agricole et de l’Elevage*).

25. Aware of the fragility of the country’s external position, the government will continue with a prudent debt policy to avoid over-indebtedness and therefore intends to request funds in the form of grants or highly concessional loans with a grant element of at least 50 percent, sufficient to cover its financing requirements. The proposed law on debt, prepared with IMF technical assistance, will be tabled in Parliament during the October 2014 session and will provide an effective framework to guide the debt policy.

Monetary and exchange rate policies

26. The BRB continues to modernize the conduct of monetary policy, which will continue to be guided by the pursuit of price stability. To enhance the effectiveness of the policy, the BRB strives to build its capacity to forecast inflation and analyze the autonomous factors influencing liquidity. The observed deceleration of inflation enabled the BRB to gradually ease monetary policy in order to inject the economy with the resources it needs to function, without reigniting inflationary pressures. To that end, the BRB has requested technical assistance from the IMF in order to build its capacity to design and implement monetary policy, with a particular focus on identifying instruments that increase the effectiveness of interest rates and other BRB signals.

27. The exchange rate policy is conducted in a context of weak foreign exchange inflows and greater demand for imports. To ensure the effectiveness of the exchange rate policy, the BRB is pursuing its active market-making policy for the foreign exchange interbank market to ensure, with the required flexibility, that the exchange rate remains consistent with the fundamentals of the economy in order to maintain external stability.

28. The BRB is aware of the great importance of monitoring the financial system to bolster its soundness. To that end, it requested technical assistance from the IMF's Monetary and Capital Markets Department. Fund support came in the form of short-term missions. This mission should significantly reinforce the financial system monitoring mechanism, particularly the BRB's bank supervision unit. The BRB is also receiving technical assistance from the U.S. Department of the Treasury in the area of financial stability.

Structural measures

29. Some progress has been made in strengthening public financial management but the government is still facing major challenges, which it is striving to overcome with support from technical and financial partners. To permanently reverse the decline in the mobilization of revenues relative to GDP, the government decided to make available to the revenue authority (OBR) the resources it needs to strengthen its capacity to carry out its mission and give greater impetus to the Tax Policy Directorate. Both units have already undertaken to implement the key recommendations made by the IMF technical assistance mission in terms of tax policy and administration, including establishing an interface between the ministry of finance and OBR (end-December benchmark).

30. The Government adopted the first texts defining the renewed framework for the implementation of the organic law relative to public finance. The Minister of Finance signed the Ordinance which defines the legal regime applicable to public accountants and that establishes an audit capacity relating to budget management which will help pursue further reforms, such as the delegation of the commitment of expenditure, in acceptable conditions of safety, effectiveness and efficiency. An ordinance will be issued to facilitate the audit of managerial capacity (September benchmark) and the issuance of a decree governing the organizational chart of the financial directorate (end-December benchmark). Aware of its prior engagements relative to the successful implementation of these reforms and to the continuous improvement of budgetary discipline, the Government also committed to the standardization and to the strengthening of budget

management structures in ministries and other institutions through the adoption of a decree on the establishment of a financial and administrative divisions within these institutions (DAF).

31. The audit of extrabudgetary arrears by the Audit Office was finally initiated, with the results expected at end-2014. The Ministry of Finance earmarked FBu 100 million to enable the Audit Office to carry out this task.

32. In the context of efforts to implement the rationalized expenditure chain following the ministerial capacity audit conducted by the Audit Office, expenditure commitment will be delegated within the ministries responsible for health, education, and agriculture by the end of the year while the function of expenditure controllers shall be disabled. To make their work more effective, the government has decided, with support from such partners as the AfDB and the Netherlands, and in close consultation with World Bank and Fund staff, to speed up modernization of the public financial management system (SIGEFI). More specifically, the government purchased an integrated public financial management software package to enable secure online monitoring of all budgetary transactions, the allocation of appropriations after the budget vote, and the issuance of daily accounting reports (*journées comptables*) for Treasury settlement balances. The software can also be used to automatically create the TOFE. The SIGEFI will continue to generate budget execution monitoring data while the package, which already includes existing SIGEFI databases, is installed. The software package is a "living" tool and will be interconnected with other expenditure chains, particularly those relating to the wages and salaries of civil servants, and the computerized revenue tracking system.

D. Poverty Reduction and Growth Strategy Paper

33. The first review of implementation of the poverty reduction strategy (CSLP II) which was published in December 2013 highlights the persistent challenges having marked the year 2012. It stresses that the transformation of the transformation of the Burundian economy is slower-than-envisaged because of the weak performances of the main sectors driving growth and the delays recorded in putting in place supporting infrastructures. For this purpose, it is recommended to expedite reforms aimed at: (1) improving the productivity of the cash crops, in particular coffee; (2) a rational exploitation of the mining resources; (3) enhancing the business climate and the competitiveness of companies operating in Burundi; and (4) continuation of energy-related programs, transport and information technology (IT).

34. The preparation of the second progress report for 2013 started in June 2014. Thanks to the support of the World Bank, the Minimum Basket of Care (MBC) Survey provided new data, the exploitation of which will allow carrying out an analysis of the vulnerability profile, which constitutes one of the key indicators of the evolution of the socio-economic indicators of the CSLP. In addition, it is envisaged to update the poverty line through new information resulting from the survey of households' living conditions, which includes modules relating to employment, informal sector, social protection and the labor force. The next step will be to measure the evolution of this phenomenon whose estimates go back to 2006.

35. To improve the production of statistics, the ISTEEBU started to establish a system for compiling provisional national accounts, with support from AFRITAC Center, and plans to finalize this activity before the end of 2014. In addition, it also plans to set up, with support from AFRITAC Centre, a system of quarterly national accounts, to improve the production of its national accounts and to meet the users' needs. The update of the base year is one of the activities contributing to this improvement. Moreover, the ISTEEBU has just conducted a national survey on the households' living conditions. The results of this survey will make it possible to update a number of indicators necessary for the compilation of national accounts. An agricultural survey is also ongoing.

36. To enhance the production of balance of payments data, the BRB carried out, in collaboration with the ISTEEBU and the Investment Promotion Agency (API) a foreign direct investment survey in 2013. It also carries out, in collaboration with the ISTEEBU, an annual survey of cross-border trade. The collection of data on transport fees of goods at the OBR should be effective before the end-2014. Moreover, two projects are being studied which relate to the training of commercial banks on the geographical distribution of international transactions, which would allow compilation of regional balance of payments of the ECA and the data on insurance premium from insurance companies.

E. Program Monitoring

37. Semiannual monitoring of the program by the IMF Executive Board will continue, based on the quantitative monitoring indicators and structural benchmarks set out in Tables 1 and 2. These indicators are defined in the attached Technical Memorandum of Understanding (TMU). The semiannual reviews will be based on the data at end-March and end-September. The sixth program review will be based on the performance criteria for end-September 2014. To ensure the success of the program, the authorities agree to take all the steps necessary to meet the quantitative targets and structural benchmarks on which understandings were reached with the IMF.

Table I.1. Burundi: Performance Criteria and Indicative Targets, 2013–14
(BIF billion, unless otherwise indicated)

	2013							2014					
	Sep.				Dec.[1]			Mar.			Jun.[1]	Sep.	Dec.[1]
	Prog.	Prog., with adj.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.
Performance criteria													
Net foreign assets of the BRB (floor; US$ million) [2]	31.9	21.1	50.2	Met	17.0	75.8	Met	25.0	60.7	Met	33.1	19.7	49.0
Net domestic assets of the BRB (ceiling) [2]	264.8		254.3	Met	225.2	252.0	Not met	216.6	182.4	Met	229.7	270.4	262.7
Net domestic financing of the government (ceiling) [2]	42.0	52.7	28.6	Met	33.3	43.4	Not met	10.7	2.2	Met	21.3	39.0	42.7
External payments arrears of the government (ceiling; US$ million) [3]	0.0		0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0		0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million, cumulative from beginning of the program) [3, 4, 5]	28.0		28.0	Met	28.0	28.0	Met	28.0	0.0	Met	28.0	28.0	28.0
Indicative targets													
Gross fiscal revenue (excluding grants, floor, cumulative from beginning of calendar year)	380.2		414.0	Met	536.4	561.4	Met	151.8	137.3	Not met	267.6	450.2	636.6
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0		0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0
Reserve money (ceiling)	313.7		275.2	Met	252.0	303.3	Not met	257.3	276.2	Not met	282.8	302.2	339.1
Pro-poor spending (floor; cumulative from beginning of calendar year)	190.0		196.6	Met	270.0	270.8	Met	34.5	61.3	Met	118.7	189.2	303.6

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

[1] Indicative targets.
[2] Le plafond ou le plancher sera ajusté comme convenu au protocole d'accord technique.
[3] Continuous performance criterion.
[4] See definitions in TMU.
[5] The $28 million ceiling starting in September 2013 is to finance a road infrastructure project.

Table I.2. Burundi: Structural Measures: Fifth Review and Sixth Review Under the ECF

Measures	Implementation Date	Benchmark for Review	Objective
Public financial management			
Adopt the ministerial ordinance on the referential of budget management capacity audit.	September 15, 2014	Proposed for the 6th	Implement the regulatory framework necessary for the payment orders de-concentration.
Implement a program to unify the current data base of civil servants with that from the 2008 census.	September 30, 2014	6th	Reinforce the Ministry of Finance's management of salaries.
Adopt the decree settling the organization chart of the administrative and financial directorate (DAF) within ministries and other institutions.	December 30, 2014	Proposed for the 6th	Normalize and empower the budget management bodies within ministries and other institutions in order to improve the overall fiscal discipline.
Prepare an audit of arrears on extra-budgetary expenditure (not committed and without payment order) in prior years (to be performed by an independent auditor, for example the Audit Office or IGE [State Inspectorate General]); and adopt a payment plan.	November 30, 2014	Proposed to reschedule for the 6th	Identify and verify the amounts actually due and disputed invoices.
Put in place an interface between the revenue authority (OBR) and the Ministry of Finance.	December 30, 2014	6th	Improve budget execution.
Tax policy/Revenue administration			
Submit a law on excise taxes in line with IMF Technical Assistance.	December 30, 2014	Proposed for the 6th	Provide an umbrella legal framework clearly spelling out the purpose and scope of the law.
Debt management			
Submit a new law on debt management to parliament.	September 30, 2014	Proposed to reschedule for the 6th	Establish a legal framework governing public debt.

Source: IMF staff; and Burundi authorities.

Attachment II. Amendments to the Technical Memorandum of Understanding

1. This technical memorandum of understanding covers the agreements on monitoring implementation of the program supported by the Extended Credit Facility (ECF) Arrangement. It sets out the definitions of program variables to monitor implementation of the program and the reporting requirements for the government of Burundi and the Bank of the Republic of Burundi (BRB). It defines quantitative performance criteria, indicative targets, and applicable adjustors.

A. Quantitative Program Targets

Quantitative performance criteria and indicative targets

2. The quantitative performance criteria for the program as shown in the MEFP are as follows:

- net foreign assets of the BRB (floor);
- net domestic assets of the BRB (ceiling);
- net domestic financing of the government (ceiling);
- external payment arrears of the government (ceiling, continuous);
- stock of short-term external debt (maturity of less than one year) of the government (ceiling, continuous); and new nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling, continuous).

3. The quantitative indicative targets for the program, shown in the MEFP, are as follows:

- gross fiscal revenue (floor);
- accumulation of domestic arrears (ceiling);
- reserve money (ceiling), and
- pro-poor spending (floor).

Definitions and measurement

4. The net foreign assets of the BRB are defined as the difference between (i) gross official reserves (valued at market prices) and other claims; and (ii) foreign exchange liabilities to nonresident entities (including the use of Fund resources, and liabilities arising from the use of any SDR allocation). The gross official reserves of the BRB are defined as those foreign assets that are liquid and freely available to the BRB.

5. 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.

6. The government's gross fiscal revenue is defined as the revenue appearing in the TOFE and includes all tax and non-tax revenue in the national budget, before deduction of tax refunds generated during the year, particularly accumulated VAT credits.

Adjustor for changes in the compulsory reserves coefficients

7. The ceiling on net domestic assets of the BRB will be adjusted symmetrically for any change in the compulsory reserves coefficient applied to deposits in commercial banks by the amount of the new coefficient minus that stipulated in the program, multiplied by bank deposits subject to compulsory reserves. The rate stipulated in the program is currently 3 percent.

8. Net domestic financing of the government is defined as the change in (i) outstanding loans, advances, and other credit to the government from the BRB and all of Burundi's commercial banks; (ii) plus the stock of all government securities held by the nonbank public denominated in Burundi francs, including that held by nonresidents; (iii) less government deposits held in the BRB or in Burundi's commercial banks. The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position.

9. The stock of external payment arrears of the government for program monitoring purposes is defined as the end-of-period amount of external debt service due and not paid within the grace period defined by a creditor, including contractual and late interest, for which a clearance agreement is not in place or for which arrears are not reschedulable. For arrears to exist, a creditor must claim payment of amounts due and not paid. Amounts in dispute are not considered arrears. 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.

Definition of debt

10. The program includes a ceiling on new nonconcessional external debt contracted or guaranteed by the government or the BRB. For the purpose of this program, external debt is defined as all debt contracted in a currency other than the Burundian Franc. This performance criterion applies to the contracting or guaranteeing by the government, local governments, the BRB and REGIDESO of new nonconcessional external debt (as specified below) with an original maturity of one year or more, including commitments contracted or guaranteed for which value has not been received (including leases). The coverage of government is defined as central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Debt contracted by state-owned enterprises is included in the overall ceiling, if guaranteed by the government.

11. For program purposes, the definition of debt is set out in Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

12. (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

13. (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

14. (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. The grant element of debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of contracting is calculated by discounting the future stream of payments of debt service due on this debt. The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. The discount rate used for this purpose is 5 percent.

16. The stock of short-term external debt with a maturity of less than one year owed by the government is to remain at zero under the program. The coverage of government is defined as

central government and any other special funds or operations that are part of the budgetary process or have a direct impact on the government's financial position. Normal import credits are excluded from this ceiling. Loans with an initial maturity, as recorded in the original loan agreement, of one year or more are considered medium-term or long-term loans. 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 leases). Excluded from this performance criterion are rescheduling arrangements, borrowing from the IMF, and any Burundi franc-denominated treasury securities held by nonresidents. As of September 2007, the stock of short-term debt outstanding was nil.

17. Consistent with the PRSP, the authorities' definition of pro-poor spending is based on three criteria: (i) social character of spending, based on the administrative classification of spending (this includes "social services" spending and part of "general services" and "economic services" spending if it has a social character component); (ii) consistency with one of the four PRSP pillars; and (iii) pro-poor investment spending, financed by donors.

18. The accumulation of domestic arrears is measured by the accumulation of non-executed payment orders older than 60 days.

External financial assistance adjustor

19. The program provides for adjusters to allow higher than expected external assistance to be spent (with a cap) and shortfall of external assistance to be financed domestically (with a cap).

20. Any financing excess up to US$40 million will be spent on expenditure priorities defined in the PRSP. The floor on the stock of net foreign assets of the BRB will be adjusted upward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted downward to accommodate 100 percent of any financing excess above US$40 million.

21. The floor on the stock of net foreign assets of the BRB will be adjusted downward, and the ceilings on the net domestic assets of the BRB and on net domestic financing to the government will be adjusted upward to accommodate a financing shortfall up to a maximum of US$40 million. External financial assistance will be converted to Burundi francs using the program-specified BIF/US$ exchange rate. The program exchange rate for end-September 2014 is 1,550 and at end-December 2014 is 1,560.2.

22. External financial assistance (measured in US$) 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); plus (ii) debt relief on current maturities; minus (iii) any cash payments for external arrears clearance operations. Donor disbursements into blocked accounts for the purpose of clearing arrears will not be considered foreign assistance for program monitoring purposes.

Provision of Information to IMF Staff

23. To facilitate the monitoring of program implementation, the authorities will prepare and forward to the IMF African Department a monthly progress report on the program, within six weeks of the end of each month, containing the following weekly data:

- foreign exchange auction market (MESD) transactions;
- the balance sheet of the BRB (weekly statement) (BRB Research Department).

24. The following monthly data, with a maximum lag of six weeks:

- a monitoring table (*tableau de bord*) containing the most recent weekly and monthly data on the main financial indicators (REFES);
- a table on foreign exchange cash flow (BRB Foreign Banking Operations Department);
- the monetary survey, including the breakdown of the BRB and of commercial banks (BRB Research Department);
- monthly exchange-rate data (official and parallel markets, end-of-month and monthly average) (BRB Research Department);
- a detailed breakdown of government revenue (Ministry of Finance);
- a detailed breakdown of government expenditure on a commitment basis, including pro-poor spending (Ministry of Finance);
- a detailed breakdown of the servicing of domestic and external public debt, including amounts due and paid, on interest and principal, as well as the breakdown by creditor and any accumulation of arrears on domestic or external debt (Ministry of Finance);
- a detailed breakdown of the stock of domestic payment arrears for the current fiscal year (Ministry of Finance);
- the amount of new debts contracted or guaranteed by the government, including detailed information on the terms (such as currency denomination, interest rate, grace period, maturity) (Ministry of Finance);
- actual disbursements of nonproject financial assistance, including new loans and debt relief granted by Burundi's external creditors (Ministry of Finance); and
- an update on the implementation of structural measures planned under the program (REFES).

25. The following quarterly data, with a maximum lag of six weeks:

- progress reports on the BRB's internal reforms, including each unit's action plans for the coming month (Reform Monitoring Committee, BRB).

26. SP/REFES/Ministry of Finance and BRB will also provide the IMF African Department with any information that is deemed necessary to ensure effective monitoring of the program.

INTERNATIONAL MONETARY FUND

BURUNDI

July 25, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, FIFTH REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA — INFORMATIONAL ANNEX

Prepared By | The African Department

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2014)

Membership Status: Joined: September 28, 1963; Article XIV

General Resources Account:	**SDR Million**	**%Quota**
Quota	77.00	100.00
Fund holdings of currency (Exchange Rate)	76.64	99.53
Reserve Tranche Position	0.36	0.47

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	73.85	100.00
Holdings	82.37	111.54

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	91.28	118.54

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Jan 27, 2012	Jan 26, 2015	30.00	20.00
ECF [1/]	Jul 07, 2008	Jan 23, 2012	51.20	51.20
ECF [1/]	Jan 23, 2004	Jan 22, 2008	69.30	69.30

[1/] Formerly PRGF.

Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	5.61	12.49	12.98	11.99	12.46
Charges/Interest		0.19	0.16	0.13	0.10
Total	5.61	12.68	13.14	12.12	12.56

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Aug 2005
Assistance committed	
by all creditors (US$ Million) [1/]	832.60
Of which: IMF assistance (US$ million)	27.87
(SDR equivalent in millions)	19.28
Completion point date	Jan 2009
II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	19.28

Interim assistance	0.26
Completion point balance	19.02
Additional disbursement of interest income [2/]	3.07
Total disbursements	22.35

[1/] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2/] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[1/]	26.40
Financed by: MDRI Trust	9.01
Remaining HIPC resources	17.39

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
February 2009	N/A	26.40	26.40

[1/] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Decision point - point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance - amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point - point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments

While initial action has been taken to improve the financial autonomy of the central bank, the update safeguards assessment of the Banque de la République du Burundi (BRB), completed in July 2012 in the context of the current ECF arrangement, identified some vulnerabilities and concluded that governance arrangements require significant strengthening namely Board and Audit Committee oversights of foreign exchange reserves and audit mechanisms respectively, and that control weaknesses in the fiscal accounts relating to government payments remain to be addressed. Against these findings, the assessment recommended (i) continuing the special audits of government transactions, and (ii) enhancing oversight and accountability measures. The (BRB) has started to address those vulnerabilities. An international audit firm was recruited to (i) conduct a special audit of large disbursements on behalf of the government processed by the BRB during June 30, 2011–March 31, 2012, (ii) evaluate the implementation of the new decree on public expenditures management, and (iii) ascertain the status of implementation of earlier special audit recommendations. The audit findings indicated ongoing control weaknesses that need to be addressed, including the lack of supporting documents of certain transactions and the partial implementation of the decree establishing the General Regulation on Government Budget Management. The audit report saw the need to integrate into existing procedures, a requirement to analyze risks in terms of the parties involved in the execution of payments, both at the level of the Ministry of Finance and the central bank, to ensure that only transactions with supporting documentation are executed. It also emphasized the importance of: (i) improving information on the nature of transactions and on the beneficiary of transfer orders to facilitate an initial risk analysis; (iii) requiring formal and written procedures in dealings with the Ministry of Finance to ensure that all accounts go through the normal public spending liquidation channels; (iv) requesting all institutions receiving periodical transfers to their accounts to justify how the previous transfer was used and to provide a utilization program for the transfer requested; and (v) improving the filing system at the Ministry of Finance to ensure that all transactions can be checked against the documentary justification supporting them. The submission of a report on reserves operation to the Board of the BRB was agreed as an additional program measure for 2013.

Exchange Arrangements

While the de jure exchange rate arrangement is floating, the de facto exchange rate arrangement has been reclassified to a stabilized arrangement against the dollar, the intervention currency. After depreciating by a cumulative 22 percent against the US dollar since 2011 in the face of the food of fuel shocks, the Burundi franc has remained stable following a bout of volatility in early 2013. The central bank intervened through foreign exchange sales to reverse the depreciation. It also replaced the foreign exchange auction with an inter bank market.

On March 31, 2014, the official exchange rate was BIF 1544.56 to the US dollar. In 2003 the central bank eliminated most remaining exchange restrictions on current international transactions and delegated authority to commercial banks to approve standard transactions. In early 2004, the surrender requirement was lowered to 50 percent and in early 2005 it was eliminated. Most external arrears to bilateral and multilateral creditors were cleared by the end of 2005. In December 2006 the government published a new foreign exchange regulation, the Foreign Exchange Regulation of 2006 that liberalized access to foreign exchange for current transactions and removed one multiple currency practice. In June 2010, the government replaced the Foreign Exchange Regulation of 2006 with the Exchange Regulation of 2010. The new regulation became operational in July 2010.

Burundi has availed itself of the transitional arrangements of Article XIV since it joined the Fund in 1962 but no longer maintains any exchange restrictions or multiple currency practices that relate to that article. It does have one multiple currency practice that is inconsistent with Article VIII, Section 2(a): the exchange rate used for government transactions differ by more than 2 percent from market exchange rates. Burundi maintains certain foreign exchange restrictions for security reasons and has notified the Fund of those restrictions in the past pursuant to Decision 144-(52/51).

Article IV Consultation

In accordance with Decision No. 14747-(10/96), adopted September 28, 2010, Burundi is on the 24-month Article IV cycle. The 2012 Article IV consultation was completed by the Executive Board on July 27, 2012 (IMF Country Report No. 12/226), along with the first review under the ECF arrangement.

In concluding the 2012 consultation, Executive Directors commended the Burundian authorities for progress in implementing their Fund-supported economic program in a difficult post-conflict environment. However, Directors considered that the external and internal risks weighing on the outlook called for a faster pace of fiscal and structural reforms, and encouraged the authorities to persist in their prudent approach to macroeconomic management.

Technical Assistance

April 2014	Tax administration
April 2014	National Accounts Statistics
April 2014	Government Finance Statistics
April 2014	Public Debt Management
April 2014	Financial soundness indicators
March 2014	Revenue Administration Mission
March 2014	Public Financial Management
February 2014	Revenue Administration
February 2014	Debt management
November 2013	Government Finance Statistics

October 2013	Tax Administration
October 2013	Program Budgeting
August 2013	FAD mission for programmed budgeting
June 2013	FAD mission training mission to strengthen PFM capacity
May 2013	FAD mission to launch PFM strategy
May 2013	FAD revenue administration mission
May 2013	AFRITAC mission on national accounts statistics
March 2013	MCM mission on harmonization of monetary and
March 2013	Foreign exchange operations in EAC
March 2013	MCM mission on risk based bank supervision
February 2013	MCM mission on EAC financial stability framework
February 2013	AFRITAC mission on bank supervision (database)
November 2012	MCM mission on crisis management framework
November 2012	FAD mission on cash management and financing
November 2012	STA mission on migration to GFSM 2001
October 2012	FAD mission on accounting and fiscal reporting
October 2012	AFRITAC mission on customs risk analysis
October 2012	MCM mission on liquidity forecasting
October 2012	MCM mission on bank supervision
August 2012	AFRITAC mission on PFM reform
July 2012	STA mission on migration to GFSM 2001

July 2012	AFRITAC mission on VAT operations
July 2012	AFRITAC mission on bank supervision and regulation
June 2012	AFRITAC mission on consumer price index
June 2012	AFRITAC mission on tax and customs administration
June 2012	AFRITAC mission on tax administration
May 2012	FAD on accounting and fiscal reporting
May 2012	FAD and AFRITAC missions on PFM reform

Resident Representative:

A part-time resident representative took up the post in Oct 2005 and an office with an administrative assistant opened in January 2006 in Bujumbura. Mr. Prosper Youm has been appointed resident representative as of January 2013.

JOINT WORLD BANK–IMF WORK PROGRAM, 2014–15

Title	Products	Provisional Timing of Mission	Expected Delivery Date
A. Mutual Information on Relevant Work Programs			
Bank work program	1. ERSG-VIII (Budget support)	June 2014 (Identification) September/October 2014 (Appraisal)	November 2014 (Board approval)
	2. Burundi New Budget Support Series	March 2015 (Identification) June/July 2015 (Appraisal)	September 2015 (Board approval)
	3. Burundi Capacity Building TA project	June 2014 (Identification)	March 2015 (Board approval)
	4. Second Burundi Economic Update	September / October 2014 (Pre-appraisal)	December 2014 (Decision meeting)
	5. Programmatic Public Expenditure Reviews	September 2014 (Main mission) September 2014 and March 2015 (Main missions)	June 2015 (Decision meeting)
IMF work program	5th review mission and Art IV. Mission	June 2014	July 2014
	6th review Mission	December 2014	February 2014
B. Agreement on Joint Products and Missions			
	Debt Sustainability Analysis		June 2014

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK GROUP (JUNE 2014)

Burundi has been a member of the African Development Bank (AfDB) Group since the group was founded in 1964. AfDB grant and loan operations with the country were interrupted by the outbreak of civil strife in 1993. On July 19, 2004, the AfDB Boards approved general policy guidelines to help post conflict countries 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 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 an arrears clearance proposal for Burundi whereby the balance of arrears was settled with the help of donors and the PCCF before the decision point for the enhanced HIPC Initiative.

On April 21, 2009, under the enhanced framework of the Heavily Indebted Poor Countries (HIPC) Initiative, the Board of Directors of AfDB approved AfDB's share of the HIPC debt relief in an amount equivalent to USD 150,200,000 in Net Present Value (NPV) terms as of the end of 2004. The Board of Directors also approved Burundi's qualification for debt relief under the Multilateral Debt Relief Initiative (MDRI), in an amount of US$ 15.38 million, (UA 10.48 million), in nominal terms.

The 2012-2016 Burundi Country Strategy Paper (CSP) was approved by the Board in January 2012. It analyzes the development perspectives and challenges facing the country and identifies the role the Bank can play, in close collaboration with the Government of Burundi (GoB) and development partners, in supporting the country to meet its development objectives; as articulated in the CSLPP-II and Burundi Vision 2025. The CSLP-II was prepared by the GoB in a participatory manner including civil society and the private sector and with support by the development partners. The AfDB funded several analytical studies that fed the CSLP-II. The strategy emphasizes selectivity and complementarity between the two pillars, namely strengthening state institutions and infrastructure improvements. The selection of these pillars is consistent with the Bank's comparative advantage in the infrastructure sector, as well as its value-added in the area of sector reforms, good governance and institutional capacity building. It also provides incentives for private sector development by ensuring the build-up of a necessary business climate and infrastructure; with the overall objective of promoting growth and inclusive development. The Board of Directors of the Bank approved the CSP MTR in June 2014. The two pillars will be maintained for the remaining period (2014-2016) with notably the budgetary and institutional support programs and projects in transport/energy sectors.

The Bank ongoing portfolio comprises eight (14) national operations for a total UA 110.44 million. The road sector accounts for 67% of the portfolio, followed by multi-sector (Economic Reform Support and Institutional Capacity Building) (17%). There are six (10) active multinational operations for UA 146,80 million, mostly in the road sector (60%).The first disbursement (7 million UA) of the fifth phase of Burundi's "Economic Reform Programme s" (PARE V, total amount is UA 12 million UA) has been disbursed in 2012. The second disbursement is planned in fourth quarter of 2014 once the remaining two conditions are met (report on the audit of public procurement and the amendment of the new investment code). In 2014, the Bank approved two projects in energy sector: *Rusumo Hydropower multinational program* for a total amount of UA 16.70 and *Jiji Murembwe Hydropower* for an amount of UA 14.34. The Bank is also undertaking several analytical studies including microfinance and poverty reduction in Burundi and relationship between growth and employment.

The following table provides an overview of AfDB's current ongoing operations in Burundi.

Sector	**Project Name**	**Amount (*million UA*)**
Water and Sanitation	Water Infrastructure Rehabilitation/ Expansion	12.00
Social Sector	Employment Creation Project	10.00
	Emergency to mitigate market fire of Bujumbura	0.33
	Emergency to victims of flooding in Bujumbura	0,64
Transport	Gitega-Nyangungu-Ngozi road phase 1 Project	24.1
	Makeboko – Ruyigi road Phase 1 Project	8.94
	Development of Bujumbura's port study	0.80
Energy	Technical assistant to Ministry of energy	0.41
	Jiji Murembwe Hydropower Project	14.34
Multi Sector	Economic Reform Support Programme V	12.00
	Institutional Capacity Building Project:	5.8
	(i) Data collection on labor and social protection,	
	(ii) Promotion of employment and youth entrepreneurship,	
	(iii) Public Financial Management	
	(iv) Monitoring and evaluation of poverty	
	(v) Private Sector Development	
Rural development	Project for Watershed management and support climate resilience	6.23
Multinational	Lake Tanganyika Integrated Management Project	4.96
	Lake Victoria and Sanitation Programme	14.1
	Mugina-Mabanda-Nyanza Lac and Rubavu-Gisiza road project	27.5
	Isaka-Kiga/Keza-Musongati Railway project	1.70
	Bugesera Multinational Project	15.02
	Nyamitanga-Ntendezi-Mwityazo Road	49.38
	NELSAP Interconnection Project	15.15
	Rusumo Hydropower Project	16,70
	TA and Capacity building to ICGLR	1.49
Total (National Public Sector only)		**124.78**
Total (National and Multinational)		**271.58**

STATISTICAL ISSUES

Burundi—STATISTICAL ISSUES APPENDIX As of June 2014
I. Assessment of Data Adequacy for Surveillance
General: Data provided to the Fund have serious shortcomings that significantly hamper surveillance. The most serious shortcomings affect national accounts and balance of payments statistics. Insufficient funding, staffing shortages and lack of equipment, along with coordination difficulties among responsible institutions, hinder the timely production and dissemination of macroeconomic statistics.
National accounts: The national statistical office (ISTEEBU) has implemented a new series of annual national accounts (ANA) in November 2011, with the support of the Observatoire économique et statistique d'Afrique Subsaharienne (Afristat), the African Development Bank (AfDB) and AFRITAC Central. The revisions included improved data sources, a change in the base year from 1996 to 2005, and updated compilation methodologies (based on the *1993 System of National Accounts*). Under the new data, nominal national incomes have been revised up by an average of 36 percent during 2005–08, while the average real growth rate for these years is about 1.5 percentage point higher than earlier estimated. ANA are available for the period 2005-2010. A system of provisional ANA has been implemented so that the ANA for 2011-13 should be released before 2015; and the agency will produce and release data for the 1997-2004 period thereafter. The ISTEEBU plans to rebase its GDP on 2014 once the estimates for 2011-14 become available with a methodology that will make better use of producer prices, wage and agricultural data. It has also embarked on the implementation of Quarterly National Accounts with the assistance of AFRITAC Central.
Price statistics: The ISTEEBU produces and disseminates a monthly consumer price index (CPI) for the capital city, Bujumbura. The CPI is based on the methodology recommended by the Common Market for Eastern and Southern Africa (COMESA). The reference period for prices is December 2013, while weights are based on the 2008 household survey. The basket selected for the calculation of the CPI contains 163 products, broken down into 12 consumer functions. The ISTEEBU is planning to revise CPI weights based on a survey on household consumption that should be completed and released in late 2014. The revised CPI methodology will also include price developments in the country's major cities and towns.
Government finance statistics: Burundi has benefitted from technical assistance (TA) provided by the World Bank and Fund's Fiscal Affairs Department in the areas of public financial management information systems and public expenditure management; and training provided by the Fund's Statistics Department (STA) in the compilation of government finance statistics. Nevertheless, government finance statistics (GFS) continue to suffer from weaknesses in coverage, accuracy, consistency, and timeliness. Burundi has accepted to participate in the GFS module under the Enhanced Data Dissemination Initiative (EDDI) project for Africa funded by the United Kingdom Department for International Development (DFID). The GFS module has as its main objective improving the quality and dissemination of fiscal statistics using the guidelines of the *Government Finance Statistics Manual 2001* (*GFSM 2001*). The support under the module consists mostly of a series of TA missions that started in 2011 and will continue until 2015. Recent TA shows the need to

improve the quality of public debt data. In 2013, Burundi started reporting GFS data for the *Government Finance Statistics Yearbook*.
Monetary and financial statistics: The monetary and financial statistics are now compiled following the recommended methodologies of the IMF's *Monetary and Financial Statistics Manual* (2000), and are broadly adequate for both surveillance and harmonization with the monetary statistics of other East African Community member countries. Transactions with the IMF are reflected incorrectly—the amount of loans received from the IMF differs from the Fund records, misrepresenting foreign liabilities of the central bank. STA informed the central bank of the issue, the resolution of which is pending. Because of the current payment system, there are differences between the central bank and other depository corporations (ODC) records. Normally, transactions between the central bank and ODC show up in ODC balance sheet with one-day lag that affects other items (net) (OIN) in the Depository Corporations survey. The liabilities of three banks in liquidation are shown in the central bank balance sheet; however, the information on these banks is not included in the summary of ODC data.
Financial sector surveillance: Burundi currently reports a set of financial soundness indicators (FSIs) using its own methodology; but an IMF FSI mission visited Burundi in April 2014 and the authorities have agreed by end July 2014 to provide a complete set of data for the 12 core FSIs as well as 11 encouraged indicators compiled following the recommended methodologies of the IMF's Financial Sector Indicators Compilation Guide. However, credit cooperatives and microfinance organizations will not be covered because of data collection issues and because these institutions represent less than 5 percent of the assets of the financial system.
External sector statistics: Annual balance of payments and international investment position statistics are compiled by the Banque de la République du Burundi (BRB) according to the fifth edition of the *Balance of Payments Manual* (*BPM5*). However, severe coverage and measurement difficulties impart a high degree of uncertainty to external sector statistics and surveillance. For example, there are significant divergences with other sources on imports and exports. Also, donor inflows are not appropriately recorded. A balance of payments reconciliation committee does not exist to cross check data from various sources (central bank, customs, and national institute of statistics). Measurement of capital and financial account transactions relies on Burundi's International Transaction Reporting System, which is known to have incomplete coverage. Further actions are required to improve the accuracy and reliability of external sector data.

II. Data Standards and Quality	
Participant in the General Data Dissemination System (GDDS) since August 2011.	No data ROSC is available.

III. Reporting to STA
Summary government finance transactions data are reported for publication in *International Finance Statistics* (*IFS*). Monetary and Financial Statistics, based on the Standardized Report Forms, are published in *IFS*. Balance of payments and international investment position data are published in *IFS* and in the *Balance of Payments Yearbook*.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE (As of June 2014)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 2014	May 2014	M	M	M
Reserve/Base Money	May 2014	May 2014	M	M	M
Broad Money	May 2014	May 2014	M	M	M
Central Bank Balance Sheet	May 2014	May 2014	M	M	M
Consolidated Balance Sheet of the Banking System	March 2014	March 2014	M	M	M
Interest Rates[2]	Mai 2014	May 2014	M	M	M
Consumer Price Index	May 2014	May 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	May 2014	May 2014	M	M	M

Stocks of Central Government and Central Government-Guaranteed Debt[5]	May 2014	May 2014	A	A	A
External Current Account Balance	2013	May 2014	A	A	A
Exports and Imports of Goods and Services	May 2014	May 2014	M	M	M
GDP/GNP	2012	December 2013	A	A	A
Gross External Debt	2013	June 2014	M	M	A
International Investment Position[6]	2011	Dec. 2013	A	A	A

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Press Release No. 14/395
FOR IMMEDIATE RELEASE
August 25, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under Extended Credit Facility Arrangement, Approves US$7.6 Million Disbursement, and Concludes 2014 Article IV Consultation with Burundi

On August 25, 2014, the Executive Board of the International Monetary Fund (IMF) completed the fifth review of Burundi's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF) arrangement, and also concluded the 2014 Article IV Consultation[1] with Burundi. The completion of the fifth review enables the immediate release of an amount equivalent to SDR 5 million (about US$7.6 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 25 million (about US$38.1 million).

In completing the fifth review, the Executive Board also approved the authorities' requests for a modification of performance criteria and indicative targets for September–December 2014 for net foreign assets and net domestic assets of the central bank and net domestic financing of the government, as well as for gross fiscal revenue and reserve money.

The three-year ECF arrangement in the amount equivalent to SDR 30 million (about US$ 45.7 million) was approved by the Executive Board on January 27, 2012 (see Press Release 12/35).

Following the Executive Board's discussion on Burundi, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair issued the following statement:

"Burundi has made satisfactory progress under the ECF-supported program. Economic growth is expected to pick up to about 4.7 percent in 2014, while inflation has been declining aided by moderating international food and fuel prices and stable monetary conditions. However, the medium-term economic outlook remains difficult, with downside risks arising from political uncertainties ahead of the 2015 elections, vulnerabilities to external shocks given Burundi's narrow export base, and the large influx of refugees.

"Revenue slippages that emerged in the first quarter of the year were addressed through corrective measures which formed the basis for a revised budget that was adopted by parliament. Sustaining revenue mobilization, enhancing tax administration, and rationalizing discretionary exemptions are critical to the success of the economic program.

"Monetary policy should continue to focus on stabilizing inflation expectations. While underlying inflation has declined in recent months, a potential fiscal deterioration financed by recourse to central bank financing could reignite inflation and reverse recent gains.

"Debt sustainability remains the anchor underpinning medium-term fiscal policy. Burundi continues to be at high risk of debt distress, therefore, it is important to rely mainly on grants and highly concessional loans. The new debt law will provide an overarching framework for effective public debt management and policy."

The Executive Board also completed the 2014 Article IV consultation.

The economic recovery continues to gain momentum in the aftermath of the recent food and fuel shocks. In 2013, real Gross Domestic Product (GDP) growth picked up to an estimated 4.5 percent, underpinned by the agriculture and construction sectors as well as the implementation of major infrastructure projects. Inflation decelerated to 8 percent at year end, supported by favorable international food and fuel prices, fiscal consolidation, and stable monetary conditions. The implementation of swift corrective measures in mid-2013 helped remedy revenue slippages and, together with a relative containment of expenditure, helped contain the overall deficit at 1.6 percent of GDP in line with the authorities' economic program supported by the ECF. Gross international reserves stood at 3.4 months of imports at end-2013.

The macroeconomic outlook is expected to improve in 2014 and in the medium term but remains subject to various risks. Real GDP growth is projected to improve slightly to 4.7 percent in 2014 and is expected to improve further over the medium term on the back of solid agricultural and construction activity, including the implementation of large hydroelectric projects. Deeper integration with the East African Community (EAC) is expected to spur investment in the tourism, wholesale and retail sectors, as well as in finance and telecommunications. Inflation should stabilize to single digits over the medium term in line with lower projected international food and fuel prices. The fiscal position is expected to improve over the medium term on the backdrop of durable revenue-enhancing measures and prudent spending policy. The current account deficit is projected to narrow to about 17 percent of GDP in 2014, as coffee exports rebound, and improve over the medium term reflecting higher exports and moderate growth in imports following earlier surges associated with humanitarian assistance. Greater exchange rate flexibility would help shore up international reserves to more comfortable levels. Key risks to the outlook include: (1) a deterioration of the political and security situation; (2) a further decline in donor support; (3) a worsening in the terms of trade; and (4) a protracted period of slower growth in advanced and emerging economies.

Executive Board Assessment[1]

Executive Directors noted that performance under the ECF had been satisfactory under challenging circumstances. Directors welcomed the adoption of corrective measures to address revenue shortfalls and to bolster revenues over the medium term.

Directors agreed that sustaining revenue mobilization efforts are critical to the success of the program. They underscored the need to step up revenue collection in order to respond to contingencies in the run-up to the 2015 Presidential elections, safeguard pro-poor spending, and to address the rising demand for public services from a rapidly growing population. They welcomed efforts to reform tax exemptions to mitigate the erosion of the revenue base while simplifying procedures associated with doing business.

Directors underscored the need to strengthen public financial and debt management to mitigate fiscal risks. They welcomed the progress made in implementing the public financial management strategy and encouraged the authorities to address outstanding weaknesses. To preserve debt sustainability, Burundi should continue to rely mainly on grants and highly concessional loans in light of its high risk of debt distress.

Directors stressed that monetary policy should continue to focus on stabilizing inflation expectations and welcomed the notable deceleration of inflation in recent months. Going forward, they encouraged the authorities to enhancing monetary transmission mechanism.

Directors noted that the exchange rate remains an important tool in facilitating external adjustment, enhancing external competitiveness and safeguarding foreign reserves.

Directors underscored the importance of deeper structural reforms to foster stronger and sustainable growth and to reduce poverty. They highlighted that reforms priorities should focus on improving competitiveness and the business climate, and addressing infrastructure gaps, including increasing energy supply. Directors concurred that enhancing financial intermediation, while maintaining financial stability, will be critical to facilitate credit to the private sector and support growth.

Directors encouraged the authorities to accelerate and expand efforts to increase data coverage and improve quality, to better inform policy making.

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Burundi: Selected Economic and Financial Indicators, 2012–17

	2012	2013		2014		2015	2016	2017
	Est.	Prog.[1]	Est.	Prog.[1]	Proj.		Proj.	
	(Annual percentage change)							
National income and prices								
Real GDP growth	4.0	4.5	4.5	4.7	4.7	4.8	5.0	5.2
GDP deflator	16.4	11.7	11.7	8.1	8.1	6.6	5.5	5.4
Consumer prices (period average)	18.2	7.9	7.9	7.0	7.5	6.1	5.6	5.4
Consumer prices (end of period)	11.8	8.8	9.0	5.9	7.0	5.4	5.8	5.1
External sector								
Exports, f.o.b. (US$)	8.6	-35.6	-31.9	15.2	27.8	7.5	6.1	9.2
Imports, f.o.b. (US$)	14.8	2.4	-0.2	1.7	3.2	5.4	7.1	6.6
Terms of trade (deterioration = –)	-20.6	-17.6	-10.1	-2.4	3.8	0.1	-0.8	1.6
	(Change in percent of beginning of period M2, unless otherwise indicated)							
Money and credit								
Net foreign assets	-5.3	4.3	-0.5	6.1	8.4			
Domestic credit	15.2	8.5	13.0	17.8	10.6			
Government	1.9	0.9	6.3	3.1	2.4			
Private sector	9.9	8.4	6.5	14.7	9.2			
Money and quasi-money (M2)	10.9	16.7	11.9	13.2	13.2			
Reserve money (12–month growth rate)	16.2	18.5	23.6	15.8	12.5			
	(Percent of GDP)							
General government								
Revenue and grants	31.4	30.0	29.7	27.4	28.2	28.6	29.2	29.5
Of which: Tax and nontax revenue	14.5	13.2	13.3	13.2	13.6	14.6	14.7	14.7
Total expenditure	35.1	31.9	31.4	29.0	29.9	30.5	30.9	31.1
Net lending (+) / borrowing (-)	-3.7	-1.9	-1.7	-1.6	-1.6	-1.8	-1.7	-1.6
External sector								
Current account balance	-18.5	-23.0	-20.5	-21.3	-17.2	-17.6	-17.9	-16.8
Overall balance of payments	0.5	0.0	0.4	0.0	1.2	-0.2	-0.2	0.0
Savings-investment balance	-18.5	-23.0	-20.5	-21.3	-17.2	-17.6	-17.9	-16.8
Private	-14.8	-21.1	-18.9	-19.8	-15.6	-15.8	-16.2	-15.2
Public	-3.7	-1.9	-1.7	-1.6	-1.6	-1.8	-1.7	-1.6
External sector								
Gross official reserves (US$ million)	309	326	321	355	359	388	433	481
Months of imports	3.3	3.5	3.4	3.6	3.6	3.7	3.9	4.1
Memorandum item:								
GDP at current market prices (BIF billion)	3621	4227	4227	4785	4785	5344	5923	6566
Nominal GDP per Capita (US Dollars)	267	305	305	328	333	354	371	392

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

[1] IMF Country Report 14/83.

Statement by Mr. Saho, Executive Director for Burundi
August 25, 2014

On behalf of my Burundian authorities, I thank the Board and Management of the Fund for their continued support to Burundi. The Fund-supported program has significantly assisted in the achievement of macroeconomic stability and moderate growth in Burundi. The authorities also appreciate the candid and constructive policy advice they receive from the Fund Staff. The close dialogue and mutual understanding which characterized the fifth ECF program review and the Article IV consultation are well reflected in the staff report.

Background

The Government of Burundi is implementing the ECF program under severe domestic and external challenges. While progress is notable in the restoration of macroeconomic stability, social development and improvement in the business environment, the implementation of the program in line with the goals of the Poverty Reduction Strategy Paper (PRSPII) remain unimpressive due to declining donor budget support and limited fiscal space for development financing. The Burundian economy is vulnerable to domestic shocks stemming from vagaries of weather and the lingering effects of external shocks associated with unstable commodity prices, which have led to the continuous deterioration in the terms of trade. The huge infrastructure gaps, especially in energy supply, together with a small private sector, are key impediments to high economic growth that is necessary to reduce poverty.

Against this background, the authorities have intensified their efforts to maintain macroeconomic stability, promote private sector development, and foster regional economic integration in the East African Community (EAC), while keeping the ECF program on track. To help complement their reform efforts, and catalyze external support, the authorities are requesting Executive Directors' support to conclude the 2014 article IV consultation, complete the fifth ECF review and set new performance criteria and indicative targets for September-December 2014.

Program performance

The program is broadly on track. At end March 2014, all performance criteria and indicative targets were met, except for the indicative targets on fiscal revenue and reserve money. Fiscal revenue underperformed relative to the program target due to the impact of the 2013 income tax law, the EAC tax harmonization exercise and weak tax administration. Satisfactory progress was made in the implementation of structural reforms albeit with delays. The structural benchmarks relating to the debt law and audit of arrears on extra-budgetary spending have been rescheduled.

Recent economic developments

Economic developments remain broadly in line with the ECF program. GDP growth increased from 4 percent in 2012 to 4.5 percent in 2013. It is expected that real GDP growth will improve slightly to 4.7 percent in 2014. Headline inflation decelerated sharply from 9 percent at end–2013 to 3.5 percent at end–May 2014, due to favorable developments in international petroleum and food prices. In 2013, the current account deficit widened reaching 20.5 percent of GDP compared to 18.5 percent in 2012.

On the fiscal front, domestic revenue collection weakened in the first quarter of 2014. The revenue underperformance reflected shortcomings in tax administration, the harmonization of the Burundian tax system with that of EAC and the losses declared by some large taxpayers under the existing tax law.

With respect to monetary policy, the authorities have made efforts to deepen policy credibility and strengthen the transmission mechanism. In this regard, the Monetary Policy Committee has begun publishing its quarterly reports and publicly announcing the monetary authorities' policy intentions.

Policies for the remainder of 2014 and beyond

Going forward, the authorities are committed to anchor policies toward maintaining macroeconomic stability and deepening structural reforms to promote high and inclusive growth. In this regard, they will continue to enhance and strengthen fiscal and monetary policies in line with the ECF program objectives. With regard to structural reforms, the authorities are committed to ensuring that the efforts in improving the economy's investment climate are sustained. Meanwhile, Burundi has moved up from being ranked at the bottom three to 140th out of 189 countries in the World Bank's Doing Business report in 2014.

Fiscal policy

The authorities are committed to the implementation of prudent fiscal policy in order to achieve sustainable and inclusive growth. Efforts will be made to further improve and strengthen domestic revenue mobilization especially given declining budget support.

With regard to public spending, the authorities will focus more on social services such as health and education, without neglecting critical expenditure on infrastructure development, especially in the energy sector. My authorities will continue, with technical assistance from the IMF, to strengthen their public finance management system.

Following the underperformance in domestic revenue collection, the authorities have implemented corrective measures in the July 2014 supplementary budget to increase revenue mobilization. It is expected that such measures will generate additional revenue equivalent to about 1 percent of GDP. In addition, more resources will be allocated to the Burundian Revenue Authority to strengthen tax administration.

Debt policy

The authorities are committed to debt sustainability. In this regard, they are working to improve and strengthen the debt management system. The new law on debt prepared with IMF technical assistance will be submitted to the Parliament in September 2014. The government will also maintain a prudent debt management policy and rely as much as possible on grants and highly concessional loans to finance capital intensive projects. However, given the very high concessionality threshold under the program, access to financial resources to meet development financing needs is expected to be very limited.

Monetary and exchange rate policies

The achievement of macroeconomic stability will continue to guide the authorities' stance on monetary and exchange rate policies. To achieve this objective, the Bank of Republic of Burundi (BRB) is committed to developing technical capacity to forecast inflation and enhancing the effectiveness of the monetary policy transmission mechanism.

On exchange rate policy, the BRB is pursuing an active market-making policy to develop an interbank foreign exchange market to ensure that the exchange rate remains flexible and consistent with the fundamentals of the economy, while maintaining external competitiveness.

Financial sector policy

The authorities aim to improve financial intermediation to support growth while maintaining financial stability. Credit to the private sector has been low mainly because of a weak legal and institutional framework, an uncertain economic environment, limited competition among banks and modest financial innovation. To mitigate some of these constraints, the authorities are in the process of establishing a credit bureau and a collateral registry, enhancing the supervision of microfinance institutions, and implementing regulatory changes to facilitate leasing finance. Given the surge in nonperforming loans, the BRB is gearing to improve and strengthen bank supervision with IMF technical assistance.

Conclusion

My Burundian authorities are committed to keeping the ECF program on track despite the challenging environment. They are aware that macroeconomic stability remains a key requirement for sustainable and inclusive growth. In this regard, the authorities are committed to implementing prudent fiscal and monetary policies while safeguarding economic transformation in line with the PRSPII. At the same time, they are committed to deepening structural reforms to enhance the business environment, and improve economic productivity.

The implementation of the PRSPII, focused on economic transformation, remains a challenge due to several constraints including energy shortages. Although, the authorities are striving to address this issue in the medium to long term, currently, the problem remains acute and is hampering the efforts to enhance growth and reduce poverty. The authorities will continue