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Burundi: Request for Modification of Nonconcessional External Debt Limit Under the Extended Credit Facility

This staff report for the Request for Modification of Nonconcessional External Debt Limit Under the Extended Credit Facility, was prepared by a staff team of the IMF, following discussions that ended on September 21, 2011, 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 October 13, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

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BURUNDI

Request for Modification of Nonconcessional External Debt Limit Under the Extended Credit Facility

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

Approved by Saul Lizondo (AFR) and Dominique Desruelle (SPR)

October 13, 2011

1. **In the attached letter, the Burundian authorities request a modification of the zero limit on nonconcessional external debt** in the country's arrangement under the Extended Credit Facility (ECF), to accommodate a US$80 million line of credit contracted by the government of Burundi with the Export Import Bank of India to finance the Kabu 16 hydroelectric plant located at the Kaburantwa River.[1] The line of credit has a grant element of 31.6 percent, which is below the 50 percent level required under the arrangement for a line of credit to be considered concessional.

2. **The authorities have sought to increase the grant element of the financing for the hydroelectric plant to 50 percent, but have been unsuccessful.** At the time of the Sixth Review under the ECF, completed on July 13, 2011 (IMF Country Report No. 11/199), the authorities indicated that they would not ratify the line of credit unless the terms could be modified to reach the required 50 percent grant element. However, they were unable to change the terms of the line of credit and to obtain additional grants from donors that could be tied to the line of credit as a package to meet the 50 percent requirement. As the authorities' letter indicated, the African Development Bank could not provide additional resources. Subsequently, both the World Bank and European Union also responded unfavorably to the authorities' request as their concessional support was already fully allocated to ongoing priority projects.

3. **The World Bank has indicated that the project is economically viable and that the authorities are implementing measures to strengthen the financial operations of the electricity company (REGIDESO).** The World Bank's assessment notes that the project would increase Burundi's generation capacity by 36 percent, and that cash flow generated from sales should be sufficient to service the debt.[2] In addition, the electricity company is

[1] The obligor is the government of Burundi rather than the state-owned electricity company.

[2] The estimated economic internal rate of return of the project is 33 percent, the cost of power generated by the

(continued)

undertaking a number of reforms proposed by the World Bank to strengthen financial management, including cost recovery measures, which are essential to reinforce safeguards that limit the degree of budget transfers. These measures include a series of tariff adjustments reflective of operational costs, the implementation of a fuel cost pass-through mechanism, and an increase in the revenue base (through pre-paid cards and metering systems) from 50 percent for both public and private subscribers to about 80 percent in 2012. An independent auditor has been recruited to oversee the implementation of a five-year performance contract between the electricity company and the government as part of the World Bank's supported restructuring and recapitalization of the electricity company. Staff will discuss with the authorities arrangements for funds to be transferred from REGIDESO to the budget for repayment of the line of credit. Staff will collaborate with the World Bank in developing safeguards to be introduced at the time of the next review.

4. **Staff supports the authorities' request for a modification of the zero nonconcessional external debt performance criterion.** On the basis of debt sustainability analysis done at the time of the Sixth Review (IMF Country Report No. 11/199) the present value (PV) of external debt-to-exports ratio and debt service-to exports ratio would increase initially, but would not result in a significant and persistent increase in debt vulnerabilities (Figures 1–2; Tables 1–4)[3]. All other external indicators would remain below indicative thresholds. Staff's assessment of the capacity to repay the Fund would not be materially affected by this change to the program. While a line of credit with a 50 percent grant element would have been preferable, the current line of credit with a 31.6 percent grant element is the only financing option available to the authorities at present. Staff considers that the benefits of the hydroelectric plant outweigh the additional risk arising from the proposed line of credit. The line of credit would help Burundi increase its electricity generation capacity significantly which has been identified by both donors and businesses as the major constraint to growth. Ring-fencing this operation as an exceptional case would be critical given Burundi's high risk of debt distress that is in part due to a narrow export base. The technical memorandum of understanding (TMU) would be modified to include the REGIDESO electricity company in the coverage of new nonconcessional external debt to underscore the close monitoring of potential fiscal liabilities emanating from the electricity sector going forward. The proposed modification of the Technical Memorandum of Understanding and Table I.2 of the Memorandum of Economic and Financial Policies are set out in Attachments I and II, respectively.

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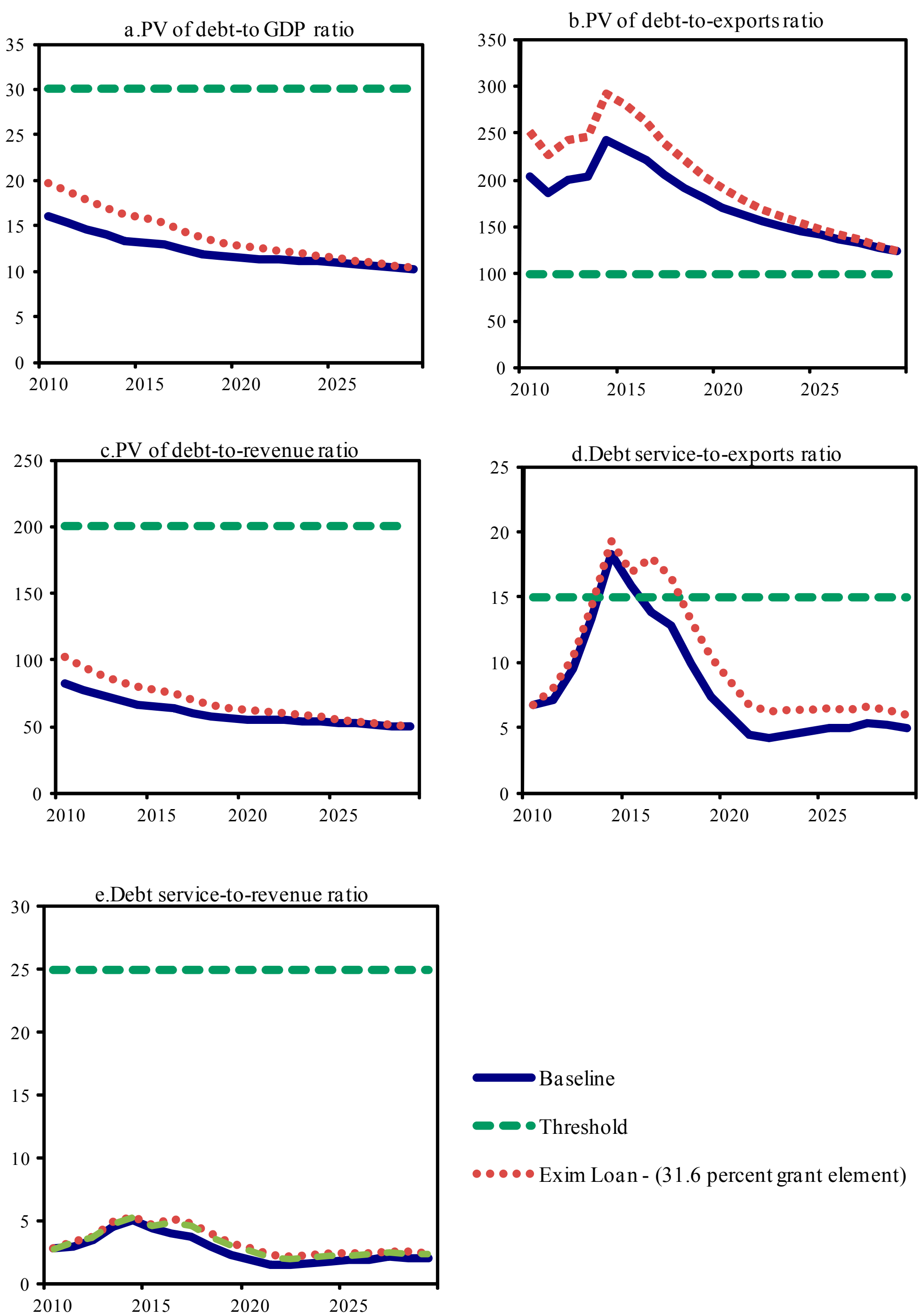
project US$0.055/kWh compared to the price at which the electricity could be sold, US$0.33/kWh.

[3] Real GDP growth would average 6 percent during 2014–30, 1 percentage point higher relative to the baseline, and exports are assumed to increase by an annual average of 7.5 percent in volume terms during the same period, compared to 6.1 percent under the baseline.

Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt, 2011–30

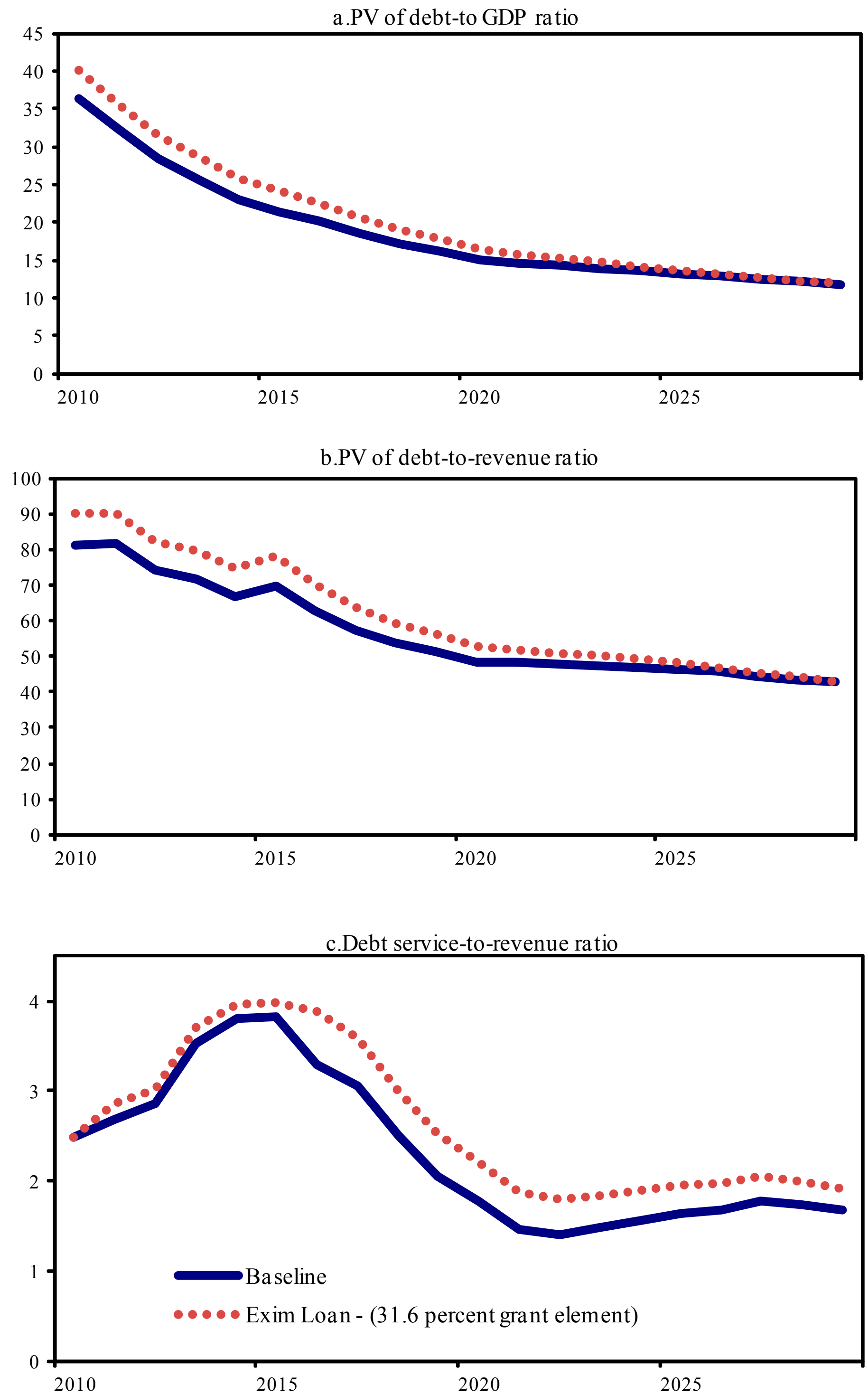
(Percent)



Sources: Burundian authorities and staff estimates and projections.

Figure 2. Burundi: Indicators of Public and Publicly Guaranteed Debt, 2011-30

(Percent)



Sources: Burundian authorities and staff estimates and projections.

Table 1. Burundi: External Debt Sustainability Framework, Baseline Scenario, 2007–30 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-203 Average
External debt (nominal) 1/	**155.0**	**134.2**	**27.4**			**28.2**	**33.6**	**31.5**	**29.9**	**28.5**	**27.4**		**22.7**	**17.1**	
Off which: public and publicly guaranteed (PPG)	155.0	134.2	27.4			28.2	33.6	31.5	29.9	28.5	27.4		22.7	17.1	
Change in external debt	-0.9	-20.8	-106.8			0.8	5.4	-2.1	-1.6	-1.4	-1.1		-1.0	-0.4	
Identified net debt-creating flows	-1.3	-24.8	-12.0			-0.4	3.4	2.6	1.3	0.7	3.6		3.8	1.2	
Non-interest current account deficit	**15.3**	**15.6**	**15.9**	**8.2**	**6.5**	**13.3**	**15.9**	**16.0**	**13.5**	**12.0**	**14.3**		**14.5**	**9.0**	12.4
Deficit in balance of goods and services	39.8	50.9	40.7			43.4	41.8	34.9	31.5	27.1	27.0		21.6	10.7	
Exports	8.6	9.0	7.3			8.3	7.9	8.3	7.3	6.9	5.5		6.5	8.4	
Imports	48.3	59.9	48.0			51.7	49.7	43.2	38.9	34.0	32.5		28.1	19.1	
Net current transfers (negative = inflow)	-24.6	-36.3	-25.1	-20.5	9.5	-30.4	-26.2	-19.1	-18.2	-15.3	-12.8		-7.2	-4.9	-6.5
Off which: official	-21.6	-28.3	-20.0			-25.4	-21.3	-14.4	-13.7	-11.0	-8.6		-3.0	-1.2	
Other current account flows (negative = net inflow)	0.2	0.9	0.3			0.3	0.3	0.2	0.1	0.1	0.1		0.1	3.1	
Net FDI (negative = inflow)	**-8.1**	**-14.6**	**-11.4**	**-6.1**	**4.3**	**-12.8**	**-11.6**	**-12.2**	**-11.0**	**-10.1**	**-9.5**		**-9.8**	**-7.1**	-8.5
Endogenous debt dynamics 2/	**-8.5**	**-25.8**	**-16.6**			**-0.9**	**-0.9**	**-1.2**	**-1.2**	**-1.2**	**-1.2**		**-0.9**	**-0.7**	
Contribution from nominal interest rate	0.4	-0.6	0.1			0.0	0.1	0.2	0.2	0.2	0.2		0.2	0.1	
Contribution from real GDP growth	-5.3	-5.9	-4.1			-0.9	-1.1	-1.4	-1.4	-1.4	-1.3		-1.1	-0.8	
Contribution from price and exchange rate changes	-3.6	-19.4	-12.6			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**0.4**	**4.0**	**-94.8**			**1.2**	**2.0**	**-4.7**	**-2.9**	**-2.0**	**-4.7**		**-4.8**	**-1.6**	
Off which: exceptional financing	-5.9	-7.9	-81.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	…	…	14.1			15.3	19.8	18.7	17.8	16.9	16.2		13.2	10.4	
In percent of exports	…	…	192.6			183.6	251.3	226.3	243.1	246.2	292.1		204.4	124.5	
PV of PPG external debt	**…**	**…**	**14.1**			**15.3**	**19.8**	**18.7**	**17.8**	**16.9**	**16.2**		**13.2**	**10.4**	
In percent of exports	**…**	**…**	**192.6**			**183.6**	**251.3**	**226.3**	**243.1**	**246.2**	**292.1**		**204.4**	**124.5**	
In percent of government revenues	**…**	**…**	**76.0**			**77.1**	**102.2**	**94.7**	**88.9**	**84.1**	**79.6**		**64.2**	**50.4**	
Debt service-to-exports ratio (in percent)	**6.8**	**-3.3**	**1.7**			**1.1**	**6.8**	**8.0**	**10.4**	**14.3**	**19.3**		**10.4**	**6.1**	
PPG debt service-to-exports ratio (in percent)	**6.8**	**-3.3**	**1.7**			**1.1**	**6.8**	**8.0**	**10.4**	**14.3**	**19.3**		**10.4**	**6.1**	
PPG debt service-to-revenue ratio (in percent)	**3.1**	**-1.6**	**0.7**			**0.5**	**2.8**	**3.3**	**3.8**	**4.9**	**5.3**		**3.3**	**2.4**	
Total gross financing need (Millions of U.S. dollars)	76.3	8.0	62.2			8.4	80.4	84.7	69.1	65.7	144.8		183.3	151.7	
Non-interest current account deficit that stabilizes debt ratio	16.2	36.4	122.8			12.5	10.5	18.1	15.1	13.3	15.4		15.5	9.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.6	4.5	3.5	2.7	2.4	3.9	4.2	4.8	5.0	5.0	5.0	4.7	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	2.4	14.3	10.4	2.9	10.8	7.8	7.0	9.6	5.8	3.9	1.7	6.0	1.5	1.3	1.4
Effective interest rate (percent) 5/	0.3	-0.4	0.1	0.5	0.7	0.2	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
Growth of exports of G&S (US dollar terms, in percent)	-10.2	26.0	-7.2	6.9	22.6	26.8	5.5	20.7	-1.7	2.4	-14.0	6.6	10.8	8.3	9.4
Growth of imports of G&S (US dollar terms, in percent)	5.5	48.2	-8.5	19.8	20.6	20.5	7.2	-0.2	0.0	-4.5	2.1	4.2	3.2	1.5	2.7
Grant element of new public sector borrowing (in percent)	…	…	…	…	…	40.8	29.7	46.2	50.8	50.8	50.8	44.8	50.8	50.8	50.8
Government revenues (excluding grants, in percent of GDP)	18.6	18.5	18.6			19.8	19.4	19.8	20.0	20.1	20.3		20.6	20.7	20.6
Aid flows (in Millions of US dollars) 7/	226.5	468.7	1218.1			495.8	456.2	417.1	430.3	403.3	398.4		404.8	509.4	
Off which: Grants	203.7	436.4	1204.7			460.9	420.5	377.2	388.8	359.6	353.7		371.0	446.5	
Off which: Concessional loans	22.8	32.3	13.4			34.9	35.7	39.9	41.5	43.7	44.7		33.8	62.9	
Grant-equivalent financing (in percent of GDP) 8/	…	…	…			32.5	27.8	20.9	19.3	16.5	15.2		11.5	7.6	9.9
Grant-equivalent financing (in percent of external financing) 8/	…	…	…			93.7	82.8	94.0	95.2	94.7	94.5		95.9	93.9	94.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	975.1	1164.7	1330.4			1488.9	1660.8	1907.2	2118.5	2312.2	2470.0		3381.6	6288.5	
Nominal dollar GDP growth	6.1	19.4	14.2			11.9	11.5	14.8	11.1	9.1	6.8	10.9	6.5	6.3	6.4
PV of PPG external debt (in Millions of US dollars)			188.2			227.3	323.5	349.6	367.9	381.4	392.2		439.4	643.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.9	6.5	1.6	1.0	0.6	0.5	2.2	0.3	0.4	0.4
Gross remittances (Millions of US dollars)	29.2	94.3	69.4			76.0	83.2	92.2	96.8	101.7	106.8		146.3	237.5	
PV of PPG external debt (in percent of GDP + remittances)	…	…	13.4			14.5	18.8	17.9	17.0	16.2	15.5		12.7	10.0	
PV of PPG external debt (in percent of exports + remittances)	…	…	112.6			113.8	153.5	142.9	149.7	150.1	164.0		122.5	85.7	
Debt service of PPG external debt (in percent of exports + remittance	…	…	1.0			0.7	4.2	5.0	6.4	8.7	10.9		6.2	4.2	

Sources: Burundian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes. The large residual in 2009 reflects the HIPC Initiative and MDRI debt relief.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are derived over the past 10 years.

7/ Defined as grants, concessional loans, and debt relief. Concessional loans are defined as having a grant element of at least 50 percent, as currently mandated under the ECF-supported program.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2a. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	15	20	19	18	17	16	**13**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	15	19	19	18	18	16	**3**	2
A2. New public sector loans on less favorable terms in 2010-30 2/	15	21	20	20	19	19	**18**	17
A3. Improved export capacity	15	19	17	15	14	12	**9**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	15	20	20	19	18	17	**14**	11
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	15	20	21	20	19	18	**15**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	15	23	25	24	23	22	**18**	14
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2011-12 4/	15	33	40	37	35	34	**29**	17
B5. Combination of B1-B4 using one-half standard deviation shocks	15	34	50	47	44	43	**36**	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	15	27	25	24	23	22	**18**	14
PV of debt-to-exports ratio								
Baseline	184	251	226	243	246	292	**204**	124
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	184	243	225	249	260	287	**40**	19
A2. New public sector loans on less favorable terms in 2010-30 2/	184	261	245	271	282	348	**280**	199
A3. Improved export capacity	173	223	191	193	184	202	**123**	70
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	184	247	221	237	240	287	**201**	122
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	184	323	455	486	492	588	**415**	239
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	184	247	221	237	240	287	**201**	122
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2011-12 4/	184	414	481	509	515	617	**445**	207
B5. Combination of B1-B4 using one-half standard deviation shocks	184	428	640	678	685	822	**592**	280
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	184	247	221	237	240	287	**201**	122
PV of debt-to-revenue ratio								
Baseline	77	102	95	89	84	80	**64**	50
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	77	99	94	91	89	78	**12**	8
A2. New public sector loans on less favorable terms in 2010-30 2/	77	106	103	99	96	95	**88**	81
A3. Improved export capacity	77	96	85	75	67	60	**42**	30
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	77	105	100	94	89	85	**68**	54
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	77	105	106	99	94	89	**73**	54
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	77	117	128	120	113	108	**87**	68
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2011-12 4/	77	168	201	186	176	168	**140**	84
B5. Combination of B1-B4 using one-half standard deviation shocks	77	178	251	233	219	210	**174**	106
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	77	140	129	120	114	109	**88**	69

Table 2b. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-30 (concluded)
(In percent)

	Debt service-to-exports ratio							
Baseline	1	7	8	10	14	19	**10**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	1	7	9	12	17	24	**11**	1
A2. New public sector loans on less favorable terms in 2010-30 2/	1	7	9	12	17	23	**12**	10
A3. Improved export capacity	1	6	7	9	13	17	**9**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	1	7	8	10	14	19	**10**	6
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	1	9	15	20	26	36	**19**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	1	7	8	10	14	19	**10**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	1	7	10	14	18	24	**13**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	1	8	13	19	25	33	**18**	16
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	1	7	8	10	14	19	**10**	6
	Debt service-to-revenue ratio							
Baseline	0	3	3	4	5	5	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-30 1/	0	3	4	4	6	6	**3**	0
A2. New public sector loans on less favorable terms in 2010-30 2/	0	3	4	4	6	6	**4**	4
A3. Improved export capacity	0	3	3	4	5	5	**3**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-12	0	3	4	4	5	6	**4**	3
B2. Export value growth at historical average minus one standard deviation in 2011-12 3/	0	3	3	4	5	5	**3**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-12	0	3	5	5	7	7	**5**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-12 4/	0	3	4	5	6	6	**4**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	0	3	5	7	8	8	**5**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	0	4	5	5	7	7	**5**	3
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	48	48	48	48	48	48	**48**	48

Sources: Burundian authorities and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.

3/ The standardized stress test of assuming export value growth at historical average minus one standard deviation is not relevant for a country like Burundi which experienced conflict and whose exports suffer from cyclical factors.

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Burundi: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-30
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	177.8	153.9	48.2			50.0	53.9	48.5	43.6	40.1	37.0		27.3	18.6	
Off which: foreign-currency denominated	155.0	134.2	27.4			28.2	33.6	31.5	29.9	28.5	27.4		22.7	17.1	
Change in public sector debt	-2.5	-23.9	-105.7			1.8	3.9	-5.5	-4.9	-3.5	-3.1		-1.7	-0.6	
Identified debt-creating flows	-5.0	-31.9	-147.8			-1.2	-2.9	-4.8	-4.0	-2.5	-2.1		-0.5	-2.0	
Primary deficit	-3.2	0.0	-59.5	-5.9	18.9	3.4	2.2	2.1	1.0	1.4	0.8	1.8	1.2	-0.9	0.8
Revenue and grants	39.5	56.0	109.2			50.8	44.7	39.6	38.4	35.7	34.6		31.5	27.8	
Of which: grants	20.9	37.5	90.6			31.0	25.3	19.8	18.4	15.6	14.3		11.0	7.1	
Primary (noninterest) expenditure	36.4	56.0	49.7			54.2	46.9	41.7	39.4	37.1	35.4		32.8	26.8	
Automatic debt dynamics	-1.0	-29.0	-23.0			-4.6	-5.1	-6.9	-5.0	-3.9	-2.9		-1.7	-1.1	
Contribution from interest rate/growth differential	-10.1	-14.6	-8.0			-2.9	-4.1	-4.9	-4.0	-3.3	-2.7		-1.8	-1.2	
Of which: contribution from average real interest rate	-3.9	-6.9	-2.8			-1.1	-2.1	-2.4	-1.7	-1.2	-0.8		-0.4	-0.3	
Of which: contribution from real GDP growth	-6.2	-7.7	-5.2			-1.8	-2.0	-2.5	-2.3	-2.1	-1.9		-1.4	-0.9	
Contribution from real exchange rate depreciation	9.1	-14.4	-15.0			-1.6	-1.0	-2.0	-1.0	-0.5	-0.1		…	…	
Other identified debt-creating flows	-0.8	-3.0	-65.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.8	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-3.0	-65.3			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.5	8.0	42.1			3.0	6.9	-0.6	-0.9	-1.0	-1.0		-1.2	1.4	
Other Sustainability Indicators															
PV of public sector debt	22.7	19.7	34.9			37.1	40.1	35.7	31.5	28.5	25.8		17.8	11.9	
Off which: foreign-currency denominated	0.0	0.0	14.1			15.3	19.8	18.7	17.8	16.9	16.2		13.2	10.4	
Off which: external	…	…	14.1			15.3	19.8	18.7	17.8	16.9	16.2		13.2	10.4	
PV of contingent liabilities (not included in public sector debt)	…	…	…			…	…	…	…	…	…		…	…	
Gross financing need 2/	-0.9	1.0	-58.5			4.1	3.3	3.2	2.2	2.7	2.2		2.0	-0.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	57.6	35.1	32.0			73.1	89.8	90.2	82.1	79.9	74.5		56.4	43.0	
PV of public sector debt-to-revenue ratio (in percent)	122.1	106.1	187.7			187.2	207.4	180.4	157.4	141.6	127.0		86.5	57.7	
Off which: external 3/	…	…	76.0			77.1	102.2	94.7	88.9	84.1	79.6		64.2	50.4	
Debt service-to-revenue and grants ratio (in percent) 4/	5.8	1.6	0.9			1.4	2.5	2.9	3.0	3.7	4.0		2.7	2.0	
Debt service-to-revenue ratio (in percent) 4/	12.3	5.0	5.5			3.7	5.7	5.7	5.8	6.6	6.8		4.1	2.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.6	24.0	46.2			1.6	-1.7	7.6	5.9	4.9	3.8		2.9	-0.4	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.6	4.5	3.5	2.7	2.4	3.9	4.2	4.8	5.0	5.0	5.0	4.7	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	0.3	-0.4	0.1	0.5	0.7	0.2	0.6	0.7	0.7	0.7	0.7	0.6	0.7	0.7	0.7
Average real interest rate on domestic debt (in percent)	-0.2	-14.5	-7.6	-5.3	6.4	-4.8	-8.7	-10.5	-8.2	-6.9	-4.1	-7.2	-2.6	-2.8	-2.6
Real exchange rate depreciation (in percent, + indicates depreciation)	6.2	-9.9	-11.7	-0.3	12.9	-6.3	…	…	…	…	…	…	…	…	…
Inflation rate (GDP deflator, in percent)	8.2	25.1	14.1	10.9	6.8	7.8	11.9	13.8	11.0	9.5	6.3	10.0	5.0	4.8	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.0	0.6	-0.1	0.1	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	…	…	…	…	…	40.8	29.7	46.2	50.8	50.8	50.8	44.8	50.8	50.8	50.8

Sources: Burundian authorities and staff estimates and projections.

1/ General government, on a gross basis.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are derived over the past 10 years.

Table 4. Burundi: Sensitivity Analysis for Key Indicators of Public Debt 2010–30

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	37	40	36	32	29	26	18	12
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	37	39	35	30	27	24	13	8
A2. Primary balance is unchanged from 2010	37	41	37	34	32	31	28	34
A3. Permanently lower GDP growth 1/	37	40	36	32	30	27	22	25
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-12	37	42	40	37	34	32	28	28
B2. Primary balance is at historical average minus one standard deviations in 2011-12	37	40	35	31	28	26	18	12
B3. Combination of B1-B2 using one half standard deviation shocks	37	40	36	33	30	28	23	22
B4. One-time 30 percent real depreciation in 2011	37	46	40	36	32	29	20	14
B5. 10 percent of GDP increase in other debt-creating flows in 2011	37	46	41	37	33	30	22	14
PV of Debt-to-Revenue Ratio 2/								
Baseline	73	90	90	82	80	74	56	43
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	73	88	86	77	74	68	38	0
A2. Primary balance is unchanged from 2010	73	91	94	89	91	90	88	123
A3. Permanently lower GDP growth 1/	73	90	91	84	82	78	68	86
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-12	73	92	97	91	92	90	86	99
B2. Primary balance is at historical average minus one standard deviations in 2011-12	73	89	89	81	79	74	56	43
B3. Combination of B1-B2 using one half standard deviation shocks	73	89	89	83	83	79	72	79
B4. One-time 30 percent real depreciation in 2011	73	102	102	93	90	84	64	50
B5. 10 percent of GDP increase in other debt-creating flows in 2011	73	103	104	95	93	88	70	51
Debt Service-to-Revenue Ratio 2/								
Baseline	1	2	3	3	4	4	3	2
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1	3	3	3	4	4	3	0
A2. Primary balance is unchanged from 2010	1	2	3	3	4	4	3	5
A3. Permanently lower GDP growth 1/	1	2	3	3	4	4	3	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-12	1	3	3	3	4	4	3	5
B2. Primary balance is at historical average minus one standard deviations in 2011-12	1	2	3	3	4	4	3	2
B3. Combination of B1-B2 using one half standard deviation shocks	1	3	3	3	4	4	3	3
B4. One-time 30 percent real depreciation in 2011	1	3	4	4	5	5	4	3
B5. 10 percent of GDP increase in other debt-creating flows in 2011	1	2	3	3	4	4	3	3

Sources: Burundian authorities and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Appendix

Bujumbura, September 20, 2011

The Managing Director
International Monetary Fund
Washington, D.C.

Subject: Financing for Kabu 16 Dam

Madam Managing Director,

On May 24, 2011, the Government of the Republic of Burundi signed a financing agreement with Exim Bank of India for the construction of a 20 MW hydropower dam on the Kaburantwa River (Kabu 16) in the province of Cibitoke.

The terms of the financing do not offer a satisfactory degree of concessionality in regard to the Government's obligations to the IMF.

During the sixth review (May 23 – June 2, 2011), the Government of Burundi agreed with the mission to postpone ratification of the financing and request an additional 60 days and hold discussions with the principal donors, in this case the World Bank, the European Union, and the African Development Bank Group, with a view to securing project cofinancing in the form of a grant, in order to arrive at the required degree of concessionality. Of the three donors contacted, only the African Development Bank Group has responded, unfavorably, and no response has been received from the other two donors to date.

According to report No. 11/199 produced by the mission, the project will serve to encourage investment in nontraditional exports, and it is clearly profitable under the terms offered by Exim Bank of India (increase national hydropower capacity by 36 percent, generate sufficient cash flow to service the debt).

Burundi currently faces an energy deficit that constrains every development effort. No significant investment can be made. Operators wishing to invest in our country, particularly in the mining sector, lament the glaring energy shortage they confront.

Moreover, the financing terms under which this credit was extended to us are the most favorable terms extended to other countries in the same situation as Burundi.

Given that the letter of credit, as extended, is valid until September 26, 2011, we request that you grant a special waiver to enable us to ratify the letter of credit before it expires.

Very truly yours,

/s/	/s/
Gaspard Sindayigaya	Clotilde Nizigama
Governor, Bank of the Republic of Burundi	Minister of Finance

/s/
Gervais RUFYIKIRI
Second Vice President, Republic of Burundi

ATTACHMENT I. MODIFICATION OF THE TECHNICAL MEMORANDUM OF UNDERSTANDING ATTACHED TO THE LETTER FROM THE AUTHORITIES DATED JUNE 27, 2011

Paragraph 9 of the Technical Memorandum of Understanding will be modified as marked below:

The program includes a ceiling on new nonconcessional external debt. This performance criterion applies to the contracting or guaranteeing by the government, local governments, the BRB or 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. 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. The term "debt" shall be understood as defined in the Executive Board Decision 6230-(79/140), as revised on August 31, 2009 (Decision No. 14416-(09/91)). Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. 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 line of credit agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees. For line of credits with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for line of credits with shorter maturities. To both the 10-year and the 6-month average CIRRs, the following margins should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources and any Burundi franc-denominated treasury securities held by nonresidents. A ceiling of U.S$ 80 million is set forth in Table I.2 which is to be used exclusively for the line of credit contracted by the government of Burundi with the Export Import Bank of India for the financing of the Kabu 16 hydroelectric plant.

Attachment II. Table I.2. Burundi: Performance Criteria and Indicative Targets for 2011

(BIF billion, unless otherwise indicated)

	2010	2011					
	Dec.			Mar.	Jun.[1]	Sep.	Dec.[1]
	Act.	Prog.	Prog. Adj.	Act.	Rev. Prog.		
Performance criteria							
Net foreign assets of the BRB (floor; US$ million) [2]	84.6	58.3	37.2	84.9	50.0	26.1	70.3
Net domestic assets of the BRB (ceiling) [2]	105.6	101.9	129.1	86.4	148.9	190.7	143.6
Net domestic financing of the government (ceiling) [2]	36.0	36.2	63.4	-8.7	65.2	96.1	46.6
External payments arrears of the government (ceiling; US$ million) [3]	0.0	0.0		0.0	0.0	0.0	0.0
Short-term external debt of the government (ceiling; US$ million) [3, 4]	0.0	0.0		0.0	0.0	0.0	0.0
Nonconcessional external debt contracted or guaranteed by the government or the BRB (ceiling; US$ million) [3, 4, 5]	0.0	0.0		0.0	0.0	0.0	80.0
Indicative targets							
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0	0.0		0.0	0.0	0.0	0.0
Reserve money (ceiling)	209.8	176.9		193.9	213.5	224.9	235.5
Pro-poor spending (floor; cumulative from beginning of calendar year)	323.8	74.6		64.8	125.7	192.2	372.6
Memorandum item:							
External nonproject financial assistance (US$ million; cumulative from beginning of calendar year)	101.3	46.8		25.7	54.9	54.9	145.2

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

[1] Indicative targets.

[2] The ceiling or the floor will be adjusted as indicated in the TMU.

[3] Continuous performance criterion.

[4] See definitions in TMU.

[5] This $80 million is limited to the line of credit agreement between the government of Burundi and the Export Import Bank of India to finance the Kabu 16 hydro-electric plant.