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BURUNDI

March 2014

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—STAFF REPORT; PRESS RELEASE

In the context of the fourth review under the Extended Credit Facility arrangement, 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 a lapse of time basis, following discussions that ended on December 13, 2013, with the officials of Burundi on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on February 14, 2014
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Press Release**

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

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INTERNATIONAL MONETARY FUND

BURUNDI

February 14, 2014

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

KEY ISSUES

Context: Swift corrective measures were instrumental in putting the program back on track and placing the fiscal outlook on a sounder footing in the run-up to the 2015 elections.

Program: The Executive Board approved the three-year arrangement under the Extended Credit Facility (ECF) on January 27, 2012, with a total access of 39 percent of quota (SDR 30 million). The first, second and third reviews were completed on July 27, 2012, February 14, 2013, and September 6, 2013, respectively. For the fourth review, all performance criteria were observed, aided by the adoption of significant measures to bring the program back on track following fiscal slippages in early 2013. Satisfactory progress has been made on structural reforms. Policy discussions focused on reinvigorating program implementation after the difficulties in completing the third review under the ECF arrangement.

Outlook and risks: The macroeconomic outlook remains difficult, and external vulnerabilities persist in the context of lower international coffee prices. Absent poor harvests, the inflation outlook in 2014 remains favorable, owing to lower projected international food and fuel prices. Wavering program ownership and expenditure pressures in the run-up to elections constitute key risks to the outlook.

Staff Views: The staff recommends the completion of the fourth review under the ECF arrangement, setting of new performance and indicative criteria for September 2014, and the 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 P. Toffano (FAD) visited Burundi during December2–13, 2013. The mission was assisted by K. Yao (outgoing resident representative) and P. Youm (incoming resident representative). 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

1. **The socio-political context remains delicate.** Efforts by parliament to amend the constitution, including facilitating a third term by the incumbent president has been perceived by the opposition and civil society as a potential breach of the 2000 Arusha Peace agreement. Despite relief efforts by the international community in easing the impact of the repatriation of some 48,000 refugees from neighboring countries, conflicts over land are emerging in one of the world's most densely populated countries (MEFP ¶2). The reintegration of these refugees, in addition to providing relief to those associated with the conflict in Eastern Congo continues to strain the provision of public services and add to existing unemployment pressures.

2. **The economic recovery continues to gain momentum in the aftermath of the food and fuel shocks** (Figures 1–3 and Tables 1–5).

- **Economic activity has picked up.** Growth is expected to improve at about 4.5 percent in 2013 and 4.7 percent in 2014, underpinned by the agriculture and construction sectors as well as the implementation of major infrastructure projects, including fiber optics, hydropower, and roads. There are also signs of uptick in tourist arrivals, although data coverage remains spotty. Exports fell sharply by an estimated 35.5 percent, largely reflecting the decline in coffee exports, while imports rose by about 2.5 percent, in part reflecting the impact of humanitarian aid. Reflecting these developments, the current account deficit increased to an estimated 23 percent of GDP compared to 18.5 percent in 2012. This deficit is financed by foreign direct investment, project grants and concessional loans. Headline inflation declined from its peak of 25 percent (y-o-y) in March 2012 to about 9 percent (y-o-y) at end-2013.
- **The implementation of swift corrective measures in July 2013 in response to revenue slippages was instrumental in putting the program back on track**. Revenue collections, which also benefitted from the pickup in economic activity, increased by about 6 percent (y-o-y) at end-2013, outperforming program targets and placing the 2014 budget on a sounder footing.[1] Expenditures were broadly contained.
- **Monetary conditions and the exchange rate remain stable.** With the improvement in liquidity conditions, the central bank reduced its policy rate by about 100 basis points since May to 10.7 percent in September. Growth in broad money increased to about 19.5 percent (y-o-y) at end-October while growth in credit to the private sector remained subdued at about 6 percent (y-o-y), in part reflecting the stickiness of lending rates. The banking sector remains adequately capitalized and profitable although nonperforming loans (NPLs) have picked up (Table 8). The Burundi franc has remained stable since a sharp depreciation in early 2013.

[1] The good revenue performance was mainly due to an increase in fuel taxes, which has been implemented gradually since June and was formalized in a new fuel retail price structure in September 2013.

3. Program implementation has been satisfactory. Most end-June indicative targets were met with the exception of pro-poor spending. At end-September, all performance criteria and indicative targets were observed, including the indicative target on pro-poor expenditure (MEFP, Table I-1). Satisfactory progress was made in the implementation of structural reforms (MEFP, Table I-2). The streamlining of customs procedures at three recently established border posts with Rwanda and Tanzania is expected to ease transportation bottlenecks and lower costs of doing business (end-September benchmark). Progress was made in implementing treasury and financial safeguards' recommendations with the establishment of a coordination committee between the central bank and the ministry of finance.

OUTLOOK AND RISKS

4. The macroeconomic outlook remains difficult, and external vulnerabilities persist in the context of lower international coffee prices and the narrow export base. Economic activity is projected to improve further in 2014, while the inflation outlook, absent poor harvests, remains favorable, owing to lower projected international food and fuel prices. Policy reversals of recently adopted measures, expenditure pressures in the run-up to the 2015 elections, and slippages in the implementation of structural reforms would jeopardize the macroeconomic outlook.

Box. Burundi: Impact of Elections on Program Implementation

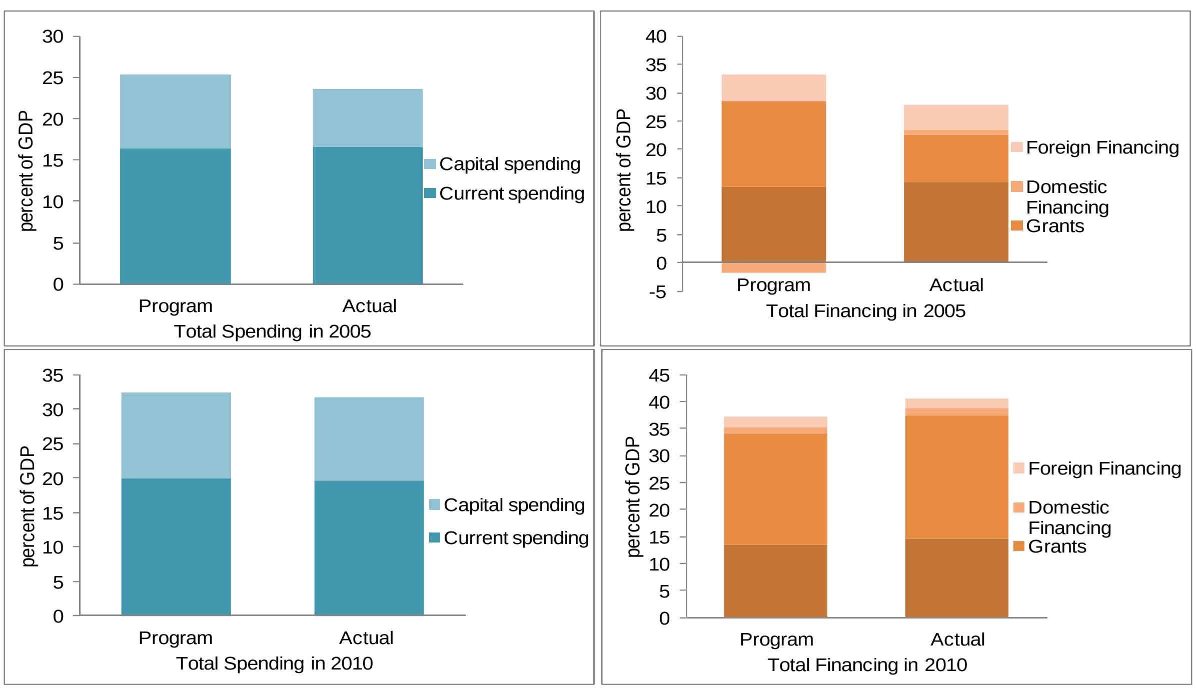
Expansionary fiscal policies tend to increase preceding electoral cycles. This phenomenon is known as "political business cycles" and seems to be more frequent in new democracies, where voters are relatively more inexperienced with electoral politics or lack voice and representation in curbing expansionary fiscal policies (Brender and Drazen, 2005). [1]

Fiscal policy in Burundi remained prudent during recent elections. Since the signature of the Arusha Peace Accord in 2000, Burundi has undertaken two elections, in 2005 and 2010, respectively. Despite being a young democracy coupled with an uncertain political environment, macroeconomic developments in general and fiscal policy in particular were mostly on track during both elections.

Total spending was lower than programmed in both 2005 and 2010. Current spending remained broadly in line with the program, reflecting the authorities' ability to contain strong pressures to increase wages. Capital spending was reduced through lower-than-programmed domestically financed projects. However, available financing was higher in 2010 relative to 2005. In particular, budget support was higher in 2010 compared to 2005 when shortfalls were partly offset by recourse to domestic financing.

Fast forward to the 2015 elections. Risks to the outlook are accentuated by lower projected budget support (by three percentage points of GDP) relative to 2010 and are compounded by the large influx of refugees who have increased demand for public services and land. Policy-induced fiscal slippages have lowered the medium-term path for revenues relative to what was originally envisaged under the program, thus constraining the authorities' ability to respond to contingencies.

Total Expenditures and Total Financing in 2005 and 2010 elections



Sources: Burundi authorities; and IMF Staff calculations and estimates.
1/ Brender, A. and A. Drazen, 2005. "Political budget cycles in new versus established democracies," Journal of Monetary Economics, vol. 52(7), pp. 1271-1295.

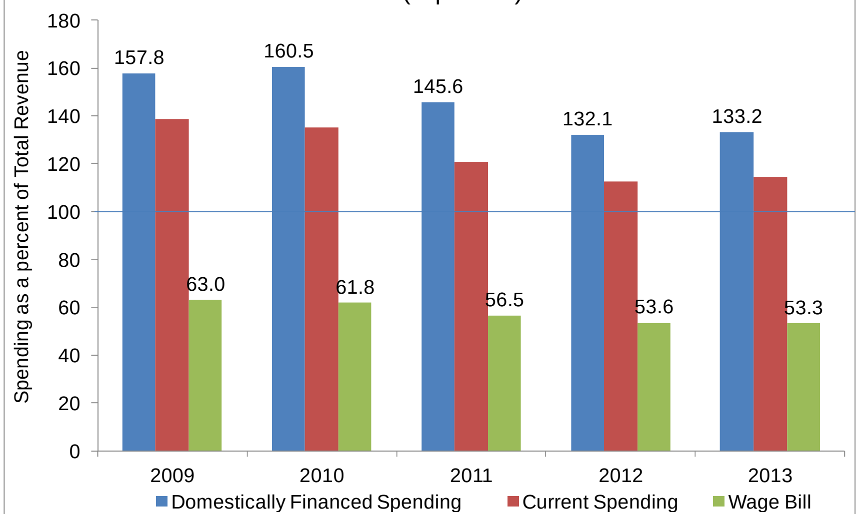
POLICY DISCUSSIONS

Discussions focused on reinvigorating program implementation after the difficulties in completing the third review under the ECF arrangement.

A. Recommitting to Revenue Mobilization

5. The implementation of swift corrective measures adopted in July in response to policy-induced revenue slippages, were instrumental in putting the program back on track (Country Report No. 13/288). Owing to a rebound in revenue performance (¶12),[2] the overall deficit in 2013 is expected to remain broadly in line with the program (MEFP ¶7). The recently introduced floor on revenue collections helped to guide the authorities in complying with the revenue pillar under the program. While there has been sustained effort in covering a greater share of domestically financed spending since the inception of the Burundi Revenue Authority (BRA) (Text Figure 1), Burundi's fiscal framework remains risky. Staff emphasized that Burundi's fiscal position is likely to remain structurally weak over the medium term in the absence of new revenue measures and the country's heavy reliance on donor support (about 50 percent of the total budget).

Text Figure 1: Spending-to-Revenue Ratio, 2009—13
(in percent)



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

6. The 2014 budget that was adopted last December is broadly in line with the program. Relative to the program (Country Report No. 13/288), the fiscal stance is stronger as indicated by a lower domestic primary balance.[3] Hence, the overall deficit is lower by about 1 percentage point of GDP owing to higher-than-expected revenues in 2013 and a containment of spending. However,

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[2] Notwithstanding the nominal increase in revenues, they decline in terms of GDP relative to end-2012.

[3] The domestic primary balance, a measure of domestic fiscal effort, for 2013 in Country Report No. 13/288 was -3.3 percent of GDP compared with -2.2 percent of GDP in the adopted budget. The domestic primary balance is defined as revenues minus domestically-financed expenditures.

staff encouraged the authorities to build fiscal buffers to address potential election-related spending pressures or to supplement the international community's contributions to refugee-related costs. Contingency measures include the sale of telecoms licenses, collection of arrears from large- and medium-sized tax payers. Additional donor support could also help in building buffers (MEFP ¶22). Staff stressed the need to rein in spending pressures arising from weaknesses in controlling transportation costs and that transfers to hospitals associated with the health care program should be respected to avoid the buildup in arrears to suppliers and to safeguard adequate service delivery (MEFP ¶24 and ¶25).

7. Enhanced revenue mobilization is critical to the success of the program in light of declining budget support and recent policy-induced revenue slippages. The decline in budget support from 5 percent of GDP in 2010 to a projected 2 percent of GDP in 2014, in part reflecting austerity conditions in traditional donor countries and more stringent governance-based conditionality, has induced a sharp fiscal adjustment (Figures 1 and 3, and Table 2b). This development has been compounded by revenue losses of about 1½ percent of GDP relative to end-2012. While corrective measures have helped to improve the fiscal outlook in the short term, further efforts are needed to strengthen revenue collections. In this connection, staff urged the authorities to implement recent technical assistance (TA) recommendations on revenue administration geared toward strengthening compliance, reinforcing the tax administration's capacity to manage large and medium-sized taxpayers, and the collection of tax arrears (MEFP ¶10). Staff also underscored the importance of rationalizing discretionary exemptions reinforcing tax administration, and adopting a more sustainable petroleum pricing formula to help buttress fiscal revenues over the medium term.[4] To this end, staff encouraged the authorities to develop policies governing exemptions based on TA recommendations, revise the investment code, and to discuss the basis for a new excise law (benchmark September 2014).

B. Strengthening Public Financial Management (PFM) Reforms

8. The implementation of the public financial management (PFM) strategy developed in 2012 is encouraging. Progress in budget execution includes (i) the preparation and adoption of a manual for budget execution instituting the rationalized chain of expenditures (CRD); (ii) the adoption of a ministerial ordinance officially instituting the CRD; and (iii) the nomination of commitment controllers in three pilot ministries representing 40 percent of total budget expenditure (MEFP ¶10).[5]

9. Nevertheless, efforts to remedy remaining weaknesses in key areas need to be stepped up. Expenditure control, accounting, budget preparation and execution, and treasury cash flow continue to constrain the effectiveness of economic policies and program implementation. Thirteen expenditure controllers, including those in the three pilot ministries, have been nominated and

[4] In line with FAD advice, staff has advocated a system of upper and lower price bands that balance the objectives of reducing price volatility at the pump and safeguarding revenue collections.

[5] The three ministries comprise of agriculture, education, and health.

trained. However, their effectiveness is constrained by inadequate resources and shortcomings in the Integrated Financial Management and Information System (IFMIS) that impede connectivity by ministries. Staff encouraged the authorities to continue working with key donors involved in the reform to explore ways to enhance connectivity to the IFMIS as these efforts are critical to mitigate past lapses in expenditure controls that resulted in extra-budgetary spending (MEFP ¶33). The role of the treasury committee has been strengthened through regularized meetings between the central bank and the ministry of finance and a treasury cash flow plan is in place. However, delays in budget support or policy slippages frequently result in recourse to central bank financing. Staff underscored that better alignment of the treasury cash flow and commitment plans would help mitigate repetitive past under-execution of pro-poor spending targets.

C. Safeguarding Debt Sustainability

10. Preserving debt sustainability continues to anchor medium-term fiscal policy. An update of the debt sustainability analysis (DSA) using the 5 percent discount rate in line with the recent Board decision shows some improvements. Due to Burundi's narrow export base, [6] two indicators still breach the threshold in the baseline scenario, and the assessment of high risk of debt distress remains. However, the present value (PV) of external debt-to-GDP and debt-to-government revenue ratios have improved and are now below their relevant thresholds (Figures 1 and 2 and Tables 1–4 of the DSA[7]).[8] The DSA suggests that Burundi has limited borrowing space, and underscores that loans should continue to be highly concessional. The authorities have begun to produce a quarterly report on domestic and external debt with a view to improving budget and cash management. Fund TA is planned in early 2014 and will assist in finalizing a draft debt law that would provide an overarching legal framework (end-March 2014 benchmark), (MEFP ¶11). In addition, the TA regional center (AFRITAC) envisages in its regional assistance plan for 2014–15 TA missions to enhance the debt management capacity of the debt unit and to train relevant local staff on debt risk analysis and portfolio composition. Regarding public-private partnerships (PPP), the International Finance Corporation of the World Bank is assisting the authorities in developing a legal framework governing this type of financing arrangement.

D. Maintaining price stability and facilitating external adjustment

11. The authorities agreed to continue to gear monetary policy toward stabilizing inflation expectations (MEFP ¶29). Following a period of monetary tightening in response to external shocks, the central bank lowered its policy rate slightly, permitting credit to the private sector to

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

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

[8] The staff discussed with the authorities the changes to concessionality calculation and the related changes to the TMU reflecting the Board's decision on uniform discount rates. Discrepancies arose between source data in the DSA and BOP tables and will be addressed in the next report and through ongoing technical assistance to strengthen data coverage.

expand. 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. The authorities indicated that if inflationary pressures pose no threat to economic activity, they could consider the possibility of gradually easing monetary policy. However in the event of higher inflationary pressures, policy tightening could be effected through available tools, including deposit auctions, the required reserve ratio, and the issuance of Treasury bills. Staff cautioned that further changes in the monetary stance to support growth should proceed gradually until the decline in inflation becomes sustained.

12. Exchange rate flexibility is essential for adjusting to shocks while safeguarding international reserves (MEFP ¶30). Greater exchange rate flexibility helped the economy to weather the impact of recent shocks. However, the authorities were concerned that the country's shallow foreign exchange market could lead to significant exchange rate volatility, as lumpy transactions or very few participants could cause undesirable movements in the exchange rate. They also expressed concern about upside inflation risks associated with exchange rate depreciation given the relatively high import content of the CPI basket. The authorities reiterated their commitment to a managed float exchange rate regime in the context of the East African Community (EAC) integration efforts. They highlighted the efforts being made to promote the development of the interbank foreign exchange market. At the same time, they indicated that the central bank's interventions in the foreign exchange market will continue to aim at smoothing exchange rate volatility.

E. Safeguarding Financial Sector Soundness

13. Domestic liquidity conditions improved following severe shortages in 2012. In recent months, the repatriation of coffee export revenues, donor inflows, and the entry of regional banks with access to cross-border financing, contributed to an improvement in liquidity conditions.[9] As a result, overall liquidity ratios have improved, mostly driven by larger banks (Table 8). The participation of regional banks has given renewed impetus to the government securities market. The government's timely repayment of debt service has helped commercial banks channel financing to productive sectors. The banking sector remains adequately capitalized and profitable although NPLs have picked up reflecting the adverse impact of recent food and fuel shocks. Weaknesses in the legal system concerning creditor rights are another contributing factor.

14. The central bank took appropriate measures to safeguard the soundness of the financial system. Based on recommendations of recent IMF TA, 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; and (iii) calculation of liquidity ratios based on local currency deposits (currently the ratio includes foreign deposits). The authorities also envisage a change in the legal framework to allow the central bank to swiftly intervene in troubled banks to prevent and to contain emerging crises. To enhance the supervision

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

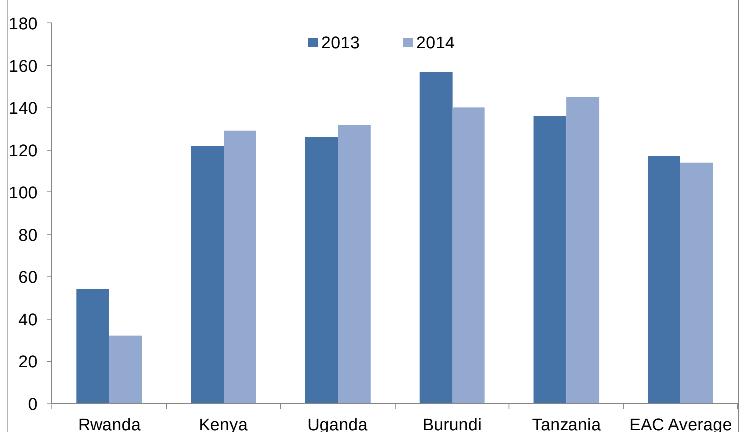
of the banking sector, the central bank has: (i) restructured its banking supervision department to incorporate the financial stability function; (ii) developed the methodology and detailed manual of risk-based supervision and is in the process of finalizing its draft circular; and (iii) stepped up surveillance of pan-African banks through the conduct of joint inspections with home-country supervisors. The central bank is also in the process of completing the migration to the International Financial Reporting System (IFRS) (MEFP ¶13) and continues to pursue the implementation of safeguard measures (MEFP ¶15).

F. Other Macro-Critical Reforms

15. Burundi's economy remains highly vulnerable to shocks, due to its narrow export base and dependence on donors support. Owing to the limited export base, the trade balance is structurally skewed towards imports, which have contributed to widening and persistent current account deficits that are financed through concessional borrowing from multilateral and bilateral creditors. Over the medium term, structural reforms to diversify the economy and reduce Burundi's vulnerability to shocks will be crucial for sustained growth and poverty reduction. While reiterating their commitment to reforms, the authorities noted that greater program flexibility of the 50 percent grant element under the debt limits policy would allow borrowing to finance electricity and other vital infrastructure projects to improve the balance of payments and growth outlook.

16. Notable progress was made in a few areas. The recent adoption of a privatization law will add impetus to the third round of bids for the 76 remaining coffee washing stations which should help in boosting coffee exports over the medium term.[10] Despite the expansion in electricity supply (the main constraint to growth) by 15MW to 55MW since 2012, less than 5percent of the population has access to electricity. Large hydroelectric projects that could help address the energy deficit and foster the emergence of non-traditional exports are not expected to come on stream before 2017. Continued improvements in the business environment[11] that build on recent reforms including the establishment of one-stop-shops for starting a business, securing construction permits and registering property are critical to attracting

Text Figure 2: Doing Business Global Ranking



Note. 2013 rankings out of 185 countries; 2014 rankings out of 189 countries.
Source: World Bank *Doing Business 2014*.

[10] 41 coffee washing stations were sold during two previous bids.

[11] Doing Business indicators 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.

foreign direct investment. Burundi's adherence to the EAC's monetary union protocol augurs well for buttressing macroeconomic stability through the harmonization of monetary and fiscal policies, fostering trade and investment, and enhancing employment opportunities.

PROGRAM ISSUES

17. **The program is on track.** Performance criteria and indicative targets at end-September were met. Satisfactory structural reform progress has also been made so far. The authorities reiterated their commitment to step up efforts to complete the planned reforms.

18. **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).

Text Table 1. Structural Measures: Fourth Review Under the ECF Arrangement

Measures	Implementation Date	Status	Objective
Prepare an expedited customs clearance procedure and establish 3 one-stop border posts.	September 30, 2013	Met	Reduce fraud and increase customs revenue.
Put in place a monitoring framework and calendar of regular meetings of the coordination committee of the Ministry of Finance and the central bank regarding the implementation of monetary and fiscal policy and the recommendations concerning public financial management, including from the special audit of large disbursements on behalf of the government processed by the BRB during June 30, 2011-March 31, 2012.	September 30, 2013	Met	Implement a monitoring framework to ensure that the safeguard recommendations are met.

Source: Burundi authorities; and IMF staff.

Text Table 2. Structural Measures: Fifth and Sixth Reviews Under the ECF Arrangement

Measures	Implementation Date	Benchmark for Review	Objective
Public financial management			
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.	March 30, 2014	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.	June 30, 2014	5th	Ensure timely and accurate reconciliation between government accounts and the accuracy of revenues collected.
Implement a program to unify the current data base of civil servants with that form the 2008 census.	September 30, 2014	6th	Reinforce the Ministry of Finance's management of salaries.
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.	September 30, 2014	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.	March 30, 2014	5th	Establish a legal framework governing public debt.

Source: Burundi authorities; and IMF staff.

STAFF APPRAISAL

19. The economic recovery continues to gain momentum. Growth picked up on the back of solid agricultural and construction activity, along with improvements in the tourism sector. Looking ahead prospects for growth and inflation in 2014 appear favorable.

20. Performance under the ECF arrangement was satisfactory. All program PCs were observed. Swift corrective measures were instrumental in placing the fiscal outlook on a sounder footing.

21. A re-commitment to revenue mobilization is critical to the success of the program in light of declining budget support and recent policy-induced revenue slippages. With increasing pressure on public expenditures to address social and economic needs and the lack of flexibility in the composition of expenditure, revenue collection should be stepped up to create additional fiscal space for financing public investments critical to growth and poverty reduction. While measures adopted in the revised 2013 budget have improved the fiscal outlook in the short term, further efforts are needed to strengthen revenue collections. These include rationalizing discretionary exemptions reinforcing tax administration, and adopting a more sustainable petroleum pricing formula to help buttress fiscal revenues over the medium term.

22. Improving public financial management is crucial for enhancing the quality of spending and facilitating implementation of prudent fiscal policies. While notable progress has been made in recent months, weaknesses in expenditure control, accounting, budget preparation and execution, and treasury cash flow management continue to constrain the effectiveness of economic policies and program implementation. The authorities' reiteration of their commitment to the reforms, in addition to continued TA, dovetailed with support from the long-term PFM advisor, are critical to ensuring their successful implementation.

23. Burundi remains at high risk of debt distress, underscoring the importance of reinforcing debt management. Staff urges the authorities to continue to rely on concessional loans and grants, and to pursue prudent fiscal policy to avoid unsustainable debt dynamics and recourse to central bank financing. The authorities are also encouraged to expedite the finalization of a debt law governing the contracting of debt. The public debt law will also frame the country's debt management strategy

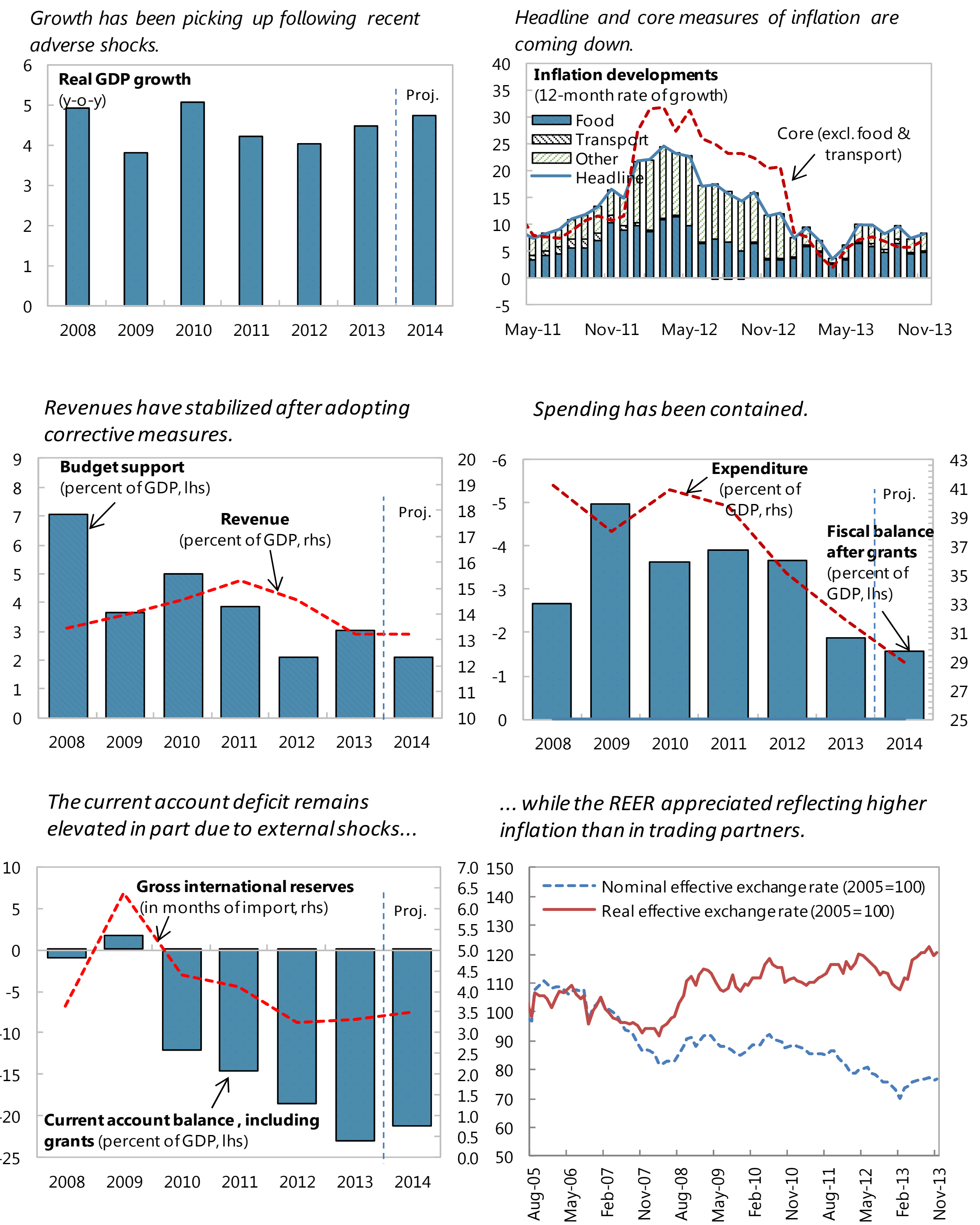
24. Monetary policy should continue to be geared toward stabilizing inflation expectations. Although inflation has declined significantly, further changes in the monetary stance to support growth should proceed gradually until the decline in inflation becomes sustained. Staff encourages the central bank to step up efforts to improve liquidity forecasting, promote the interbank market, and to enhance the effectiveness of monetary operations.

25. Greater exchange rate flexibility will be an important tool in rebalancing the policy mix. Staff encourages the authorities to continue pursuing efforts to develop the interbank foreign exchange market to ensure more effective price discovery and to stand ready to intervene in the event of excessive exchange rate volatility.

26. An uncertain external environment coupled with the influx of refugees and pre-election year uncertainty pose the greatest downside risks. Staff encourages the authorities to build additional fiscal space to respond to these contingencies in the run-up to 2015 elections. Strong policy commitments under the program will be needed to safeguard macroeconomic stability during this period.

27. Staff supports the completion of the fourth review of the ECF arrangement, based on satisfactory performance and the authorities' forward-looking policy commitments.

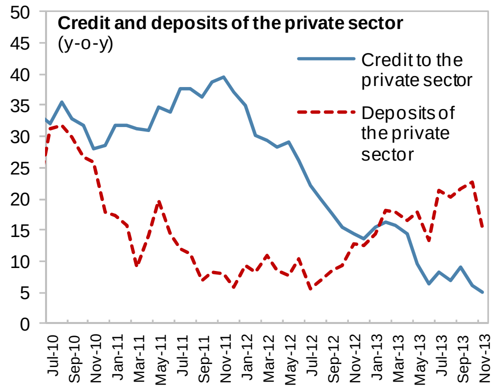
Figure 1. Burundi: Recent Developments, 2008–14



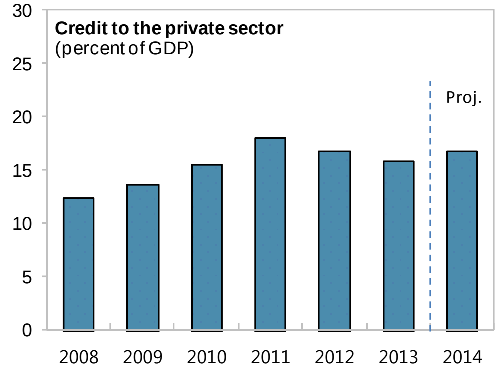
Sources: Burundi authorities; and IMF staff estimates and projections.

Figure 2. Burundi: Monetary Developments, 2008–14

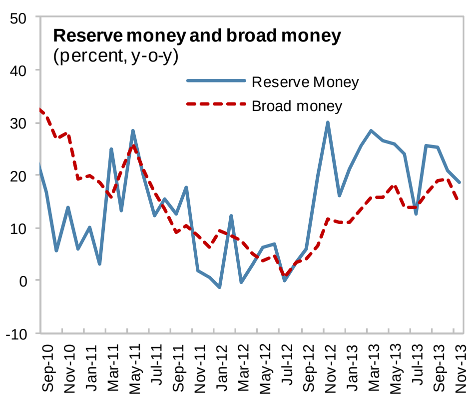
Credit growth to the private sector remains subdued …



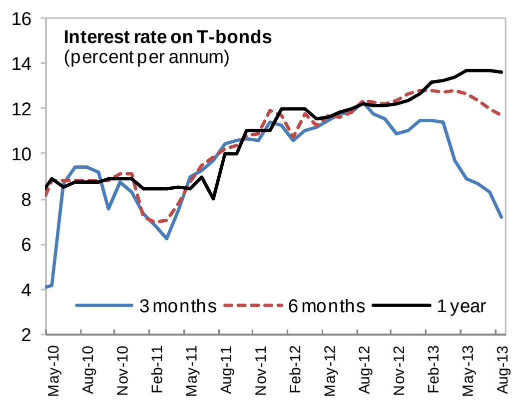
… and low as a share of GDP.



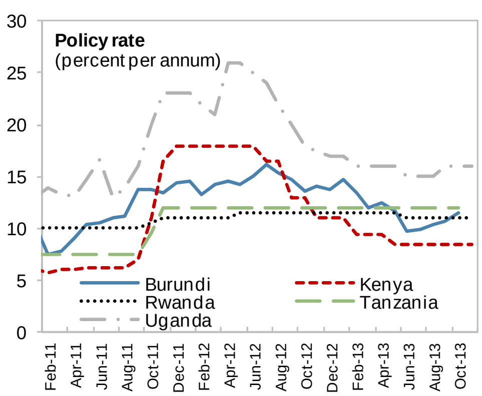
Monetary aggregates rose with greater recourse to domestic financing...



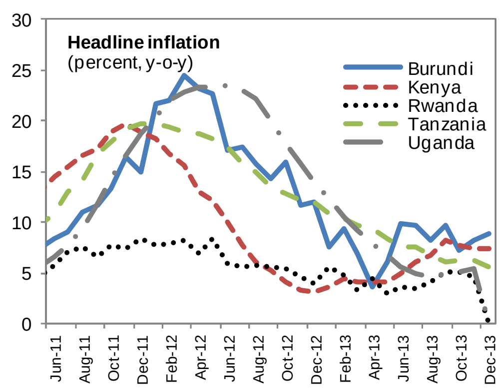
Interest rates declined as liquidity improved.



Policy rates have declined as shocks in the region abated.



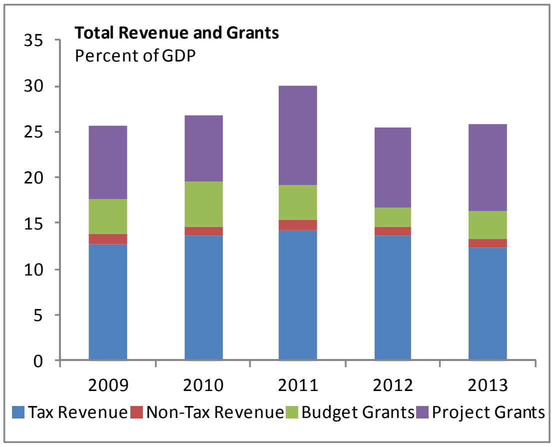
Inflation has declined substantially from earlier peacks.



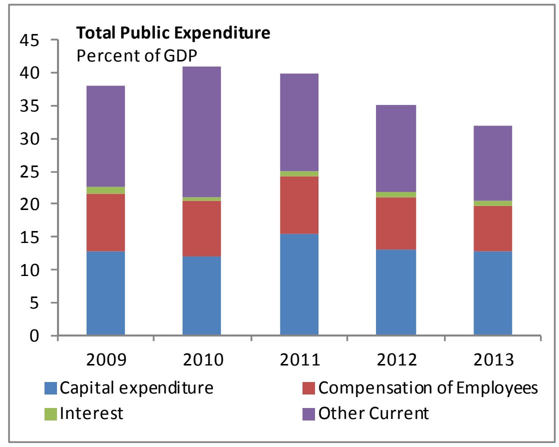
Sources: Burundi authorities; and IMF staff estimates and projections.

Figure 3. Burundi: Fiscal Developments, 2009–13

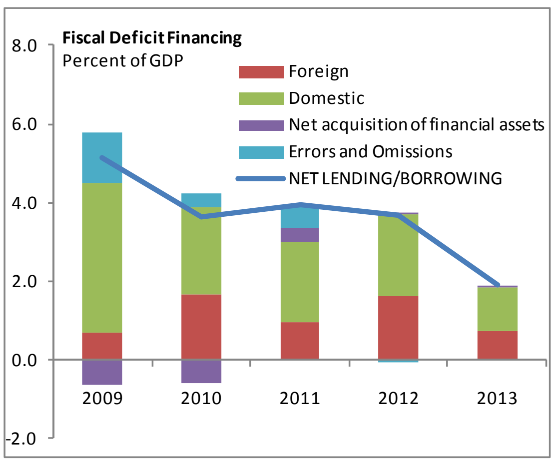
Both revenues and grants have declined...



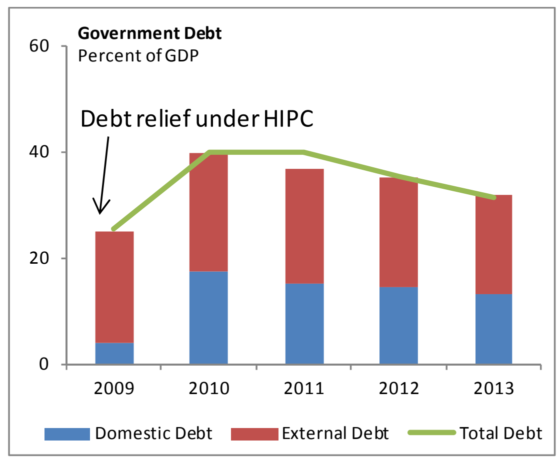
...constraining spending...



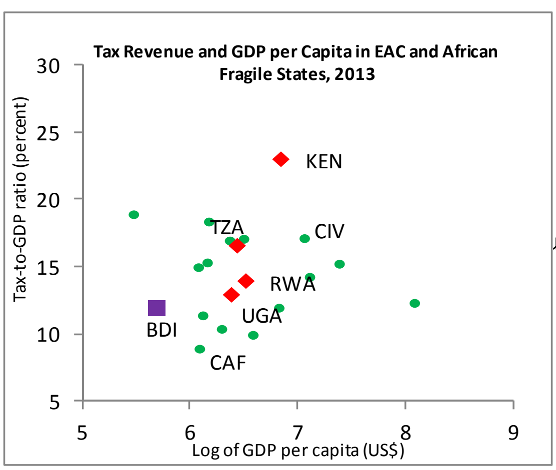
... and contributing to ongoing fiscal adjustment.



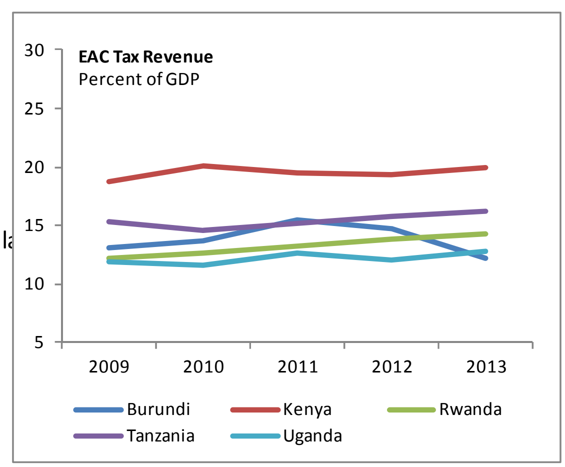
Debt relief has provided some fiscal space.



More revenues need to be mobilized...



... to keep up with EAC peers.



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

Table 1. Burundi: Selected Economic and Financial Indicators, 2011–16

	2011	2012		2013		2014		2015	2016
		Prog.[1]	Prel.	Prog.[1]	Est.	Prog.[1]	Proj.	Proj.	
				(Annual percentage change)					
National income and prices									
Real GDP growth	4.2	4.0	4.0	4.5	4.5	4.7	4.7	4.8	5.0
GDP deflator	14.7	15.4	16.4	11.9	11.7	7.8	8.1	6.6	5.5
Consumer prices (period average)	9.7	17.9	18.0	9.0	7.9	7.0	7.0	6.0	5.5
Consumer prices (end of period)	14.9	11.8	12.0	10.5	8.8	4.6	5.9	6.0	5.0
External sector									
Exports, f.o.b. (US$)	22.5	4.7	8.6	-21.3	-35.6	12.4	15.2	9.5	6.4
Imports, f.o.b. (US$)	7.9	7.3	14.8	-16.3	2.4	6.3	1.7	5.2	7.9
Terms of trade (deterioration = –)	-9.0	-17.9	-20.6	-14.9	-17.6	-0.4	-2.4	2.7	-0.9
				(Change in percent of beginning of period M2, unless otherwise indicated)					
Money and credit									
Net foreign assets	-12.1	-6.5	-5.3	3.1	4.3	6.9	6.1		
Domestic credit	30.7	12.3	15.2	15.6	8.5	19.5	17.8		
Government	8.0	4.9	1.9	0.9	0.9	3.1	3.1		
Private sector	24.1	6.9	9.9	15.5	8.4	16.4	14.7		
Money and quasi-money (M2)	6.1	7.3	10.9	16.9	16.7	12.9	13.2		
Reserve money (12–month growth rate)	0.6	26.5	13.7	19.7	18.5	15.5	15.8		
				(Percent of GDP)					
General government									
Revenue and grants	35.9	33.0	31.4	28.4	30.0	27.6	27.4	27.5	27.9
Of which: Tax and nontax revenue	15.3	14.8	14.5	13.0	13.2	13.1	13.2	13.3	13.3
Total expenditure	39.8	34.6	35.1	30.1	31.9	30.1	29.0	29.4	29.7
Net lending (+) / borrowing (-)	-3.9	-1.7	-3.7	-1.7	-1.9	-2.5	-1.6	-1.9	-1.8
External sector									
Current account balance	-14.7	-16.3	-18.5	-16.0	-23.0	-16.5	-21.3	-21.2	-20.1
Overall balance of payments	-1.6	-1.1	0.5	0.0	0.0	-0.6	0.0	-0.3	-0.3
Savings-investment balance	-14.7	-16.3	-18.5	-16.0	-23.0	-16.5	-21.3	-21.2	-20.1
Private	-10.8	-14.7	-14.8	-14.3	-21.1	-14.0	-19.8	-19.2	-18.3
Public	-3.9	-1.7	-3.7	-1.7	-1.9	-2.5	-1.6	-1.9	-1.8
External sector									
Gross official reserves (US$ million)	296	269	309	324	326	356	355	391	426
Months of imports	3.3	3.3	3.3	3.8	3.5	4.0	3.6	3.7	3.9
Memorandum item:									
GDP at current market prices (BIF billion)	2990	3566	3621	4169	4227	4708	4785	5344	5923
Nominal GDP per Capita (US Dollars)	256	270	267	294	305	315	328	346	365

Sources: Burundi authorities; and IMF staff estimates and projections.
[1] IMF Country Report 13/64.

Table 2. Burundi: Central Government Operations, 2011–16

	2011	2012		2013		2014			2015	2016
		Prog.	Prel.	Prog.	Est.	Prog.	Budget	Proj.	Proj.	
					(BIF billion)					
Revenue and grants	1,072.0	1,175.7	1,136.9	1,185.2	1,266.4	1,300.3	1,319.1	1,311.1	1,467.4	1,655.1
Tax revenue	424.1	492.0	491.8	494.4	518.3	562.1	573.4	580.2	650.3	723.1
Taxes on income, profits, and capital gains	131.0	156.2	155.9	151.3	163.9	170.8	167.6	167.2	188.6	211.1
Taxes on goods & services	248.6	285.9	286.2	299.9	303.7	342.0	351.9	359.1	401.5	445.1
Taxes on international trade & transactions	44.5	49.9	49.7	43.2	50.7	49.3	53.9	53.9	60.3	66.8
Nontax revenue [1]	32.9	35.5	34.9	49.0	39.7	55.3	60.9	53.0	59.2	65.6
Grants	615.0	648.2	610.2	641.8	708.4	682.9	684.8	677.8	757.9	866.5
Program support	115.0	114.0	75.3	133.9	134.1	98.1	100.8	101.2	108.3	125.8
Project support	325.9	321.4	321.8	307.3	400.1	386.1	405.2	401.1	486.9	555.2
Other grants and transfers [2]	174.1	212.8	213.1	200.6	174.2	198.6	178.8	175.6	162.7	185.6
Total expenditure	1,189.5	1,235.0	1,269.8	1,256.7	1,347.1	1,417.3	1,393.3	1,385.9	1,571.1	1,759.0
Expense	726.3	792.3	792.2	818.5	811.5	880.4	868.2	868.1	899.8	998.7
Compensation of employees	258.2	283.8	282.2	303.3	297.4	324.0	322.3	322.3	354.6	386.7
Regularization of compensation arrears [3]	22.0	6.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases/use of goods & services	97.9	99.0	103.8	106.9	113.9	107.4	108.4	108.4	123.3	139.2
Subsidies and Social benefits	140.0	159.3	163.2	188.1	182.5	190.2	191.4	191.0	213.3	236.4
Interest	25.5	33.1	26.7	36.0	35.2	46.0	41.0	40.9	45.9	50.8
Of which: Domestic	22.0	29.4	23.3	29.3	29.8	39.2	34.8	34.8	38.2	41.9
Other expense	182.6	211.0	210.4	184.0	182.6	212.8	205.1	205.4	162.7	185.6
Of which: Domestically financed	8.6	12.2	11.3	13.0	9.1	14.2	11.4	11.4	0.0	0.0
Net acquisition of nonfinancial assets	463.2	442.8	477.6	438.2	535.6	536.9	525.1	517.9	671.3	760.3
Of which: Domestically financed	104.7	99.6	91.1	103.7	96.0	92.1	93.9	93.9	126.4	145.4
Net lending (+) / borrowing (-)	-117.4	-59.3	-132.9	-71.5	-80.7	-117.0	-74.2	-74.9	-103.7	-103.8
Errors and omissions	17.0	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets [4]	-11.4	-16.5	-0.1	-8.6	-2.6	-3.0	-3.0	-3.0	-4.0	-4.0
Deposits	-10.4	-4.6	9.0	-1.0	0.0	-1.0	0.0	0.0	-2.0	-2.0
Policy lending	0.0	-1.0	-1.0	-1.0	0.0	-1.0	0.0	0.0	-1.0	-1.0
Shares and other equity	-1.0	-10.9	-8.1	-6.6	-2.6	-1.0	-3.0	-3.0	-1.0	-1.0
Net incurrence of liabilities	89.1	42.9	133.5	62.9	78.1	84.3	71.1	71.8	86.0	83.2
Domestic	60.7	26.8	75.2	32.2	47.5	41.6	40.2	41.2	45.6	50.8
Foreign	28.4	16.0	58.2	30.6	30.6	42.8	30.9	30.6	40.4	32.4
Financing gap	0.0	0.0	0.0	0.0	0.0	29.7	0.0	0.1	13.7	16.6
Revenue and grants	1,072.0	1,175.7	1,136.9	1,185.2	1,266.4	1,300.3	1,319.1	1,311.1	1,467.4	1,655.1
Total expenditure	1,189.5	1,235.0	1,269.8	1,256.7	1,347.1	1,417.3	1,393.3	1,385.9	1,571.1	1,759.0
Of which: Compensation of employees	258.2	283.8	282.2	303.3	297.4	324.0	322.3	322.3	354.6	386.7
Memorandum items:										
Net domestic financing	71.1	34.6	66.3	33.3	47.5	42.6	40.2	41.2	47.6	52.8
Domestic primary deficit	-174.3	-132.3	-130.9	-171.7	-140.8	-110.4	-93.1	-93.8	-108.1	-119.1
Propoor expenditure	371.5	398.0	353.7	368.7	381.9	435.4		449.6	522.1	597.3
Public debt [5]	39.7	35.6	35.2	31.3	31.3	29.6	…	29.6	28.2	26.6
Of which: Domestic debt	15.0	11.6	14.4	13.3	13.1	12.6	…	12.4	12.0	11.7
GDP at current market prices (BIF billion)	2,990	3,566	3,621	4,169	4,227	4,708	4,785	4,785	5,344	5,923

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] A negative sign denotes a reduction of financial assets.

[5] As a percent of GDP.

Table 2. Burundi: Central Government Operations, 2011–16 (concluded)

	2011	2012				2013		2014			2015	2016
	Est.	Prog.	Prog.	Prog.	Prel.	Prog.	Est.	Prog.	Budget	Proj.	Proj.	
	(Percent of GDP, unless otherwise indicated)											
Revenue and grants	35.9	32.1	30.8	33.0	31.4	28.4	30.0	27.6	27.6	27.4	27.5	27.9
Tax revenue	14.2	15.1	14.1	13.8	13.6	11.9	12.3	11.9	12.0	12.1	12.2	12.2
Taxes on income, profits, and capital gains	4.4	5.0	4.8	4.4	4.3	3.6	3.9	3.6	3.5	3.5	3.5	3.6
Taxes on goods & services	8.3	8.6	7.8	8.0	7.9	7.2	7.2	7.3	7.4	7.5	7.5	7.5
Taxes on international trade & transactions	1.5	1.4	1.4	1.4	1.4	1.0	1.2	1.0	1.1	1.1	1.1	1.1
Nontax revenue [1]	1.1	1.1	1.0	1.0	1.0	1.2	0.9	1.2	1.3	1.1	1.1	1.1
Grants	20.6	15.9	15.7	18.2	16.9	15.4	16.8	14.5	14.3	14.2	14.2	14.6
Program support	3.8	2.6	3.1	3.2	2.1	3.2	3.2	2.1	2.1	2.1	2.0	2.1
Project support	10.9	8.4	8.0	9.0	8.9	7.4	9.5	8.2	8.5	8.4	9.1	9.4
Other grants and transfers [2]	5.8	4.8	4.7	6.0	5.9	4.8	4.1	4.2	3.7	3.7	3.0	3.1
Total expenditure	39.8	35.6	33.6	34.6	35.1	30.1	31.9	30.1	29.1	29.0	29.4	29.7
Expense	24.3	21.5	20.9	22.2	21.9	19.6	19.2	18.7	18.1	18.1	16.8	16.9
Compensation of employees	8.6	8.3	8.1	8.0	7.8	7.3	7.0	6.9	6.7	6.7	6.6	6.5
Regularization of compensation arrears [3]	0.7	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchases/use of goods & services	3.3	2.9	2.8	2.8	2.9	2.6	2.7	2.3	2.3	2.3	2.3	2.4
Subsidies and Social benefits	4.7	4.8	4.6	4.5	4.5	4.5	4.3	4.0	4.0	4.0	4.0	4.0
Interest	0.9	1.0	1.0	0.9	0.7	0.9	0.8	1.0	0.9	0.9	0.9	0.9
Of which: Domestic	0.7	0.9	0.8	0.8	0.6	0.7	0.7	0.8	0.7	0.7	0.7	0.7
Other expense	6.1	4.5	4.3	5.9	5.8	4.4	4.3	4.5	4.3	4.3	3.0	3.1
Of which: Domestically financed	0.3	0.4	0.4	0.3	0.3	0.3	0.2	0.3	0.2	0.2	0.0	0.0
Net acquisition of nonfinancial assets	15.5	14.1	12.7	12.4	13.2	10.5	12.7	11.4	11.0	10.8	12.6	12.8
Of which: Domestically financed	3.5	3.7	3.0	2.8	2.5	2.5	2.3	2.0	2.0	2.0	2.4	2.5
Net lending (+) / borrowing (-)	-3.9	-3.5	-2.7	-1.7	-3.7	-1.7	-1.9	-2.5	-1.6	-1.6	-1.9	-1.8
Errors and omissions	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of financial assets[4]	-0.4	-1.0	-1.2	-0.5	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Deposits	-0.3	-0.8	-0.8	-0.1	0.2	0.0	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	0.0	0.0	0.0
Shares and other equity	0.0	-0.2	-0.4	-0.3	-0.2	-0.2	-0.1	0.0	-0.1	-0.1	0.0	0.0
Net incurrence of liabilities	3.0	2.5	1.5	1.2	3.7	1.5	1.8	1.8	1.5	1.5	1.6	1.4
Domestic	2.0	1.0	0.2	0.8	2.1	0.8	1.1	0.9	0.8	0.9	0.9	0.9
Foreign	0.9	1.5	1.4	0.4	1.6	0.7	0.7	0.9	0.6	0.6	0.7	0.5
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.3	0.3
Memorandum items:												
Net domestic financing	2.4	1.8	1.0	1.0	1.8	0.8	1.1	0.9	0.8	0.9	0.9	0.9
Domestic primary deficit	-5.8	-3.9	-3.9	-3.7	-3.6	-4.1	-3.3	-2.3	-1.9	-2.0	-2.0	-2.0
Propoor expenditure	12.4	11.8	11.2	11.2	9.8	8.8	9.0	9.2	9.4	9.4	9.8	10.1
Public debt	39.7	35.6	35.6	35.2	35.2	31.3	31.3	29.6		29.6	28.2	26.6
of which: domestic debt	15.0	13.1	11.6	13.2	14.4	13.3	13.1	12.6		12.4	12.0	11.7
GDP at current market prices (BIF billion)	2,990	3,367	3,566	3,566	3,621	4,169	4,227	4,708	4,785	4,785	5,344	5,923

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] A negative sign denotes a reduction of financial assets.

Table 3. Burundi: Monetary Survey, 2011–14

	2011	2012		2013		2014	
		Prog.[1]	Act.	Prog.[1]	Est.	Prog.[1]	Proj.
	(BIF billion)						
Net foreign assets	63.3	19.5	28.0	50.2	59.7	110.4	112.9
Central bank	26.2	14.1	14.0	26.8	35.7	80.0	81.9
Deposit money banks	37.1	5.4	14.0	23.4	24.0	30.4	31.0
Net domestic assets	771.1	879.9	916.9	1049.9	1043.5	1184.7	1188.6
Domestic credit	887.2	969.6	989.3	1105.3	1052.5	1274.7	1207.5
Net claims on the government	342.4	375.2	354.9	362.3	361.7	389.6	388.6
Of which: on the treasury	355.9	387.3	403.1	409.9	409.9	437.1	436.8
Credit to the economy	544.8	594.4	634.4	743.0	690.8	885.1	818.8
Other items, net (assets = +)	-116.1	-89.7	-72.4	-55.4	-9.0	-89.9	-18.8
M3	834.4	899.4	944.9	1100.1	1103.1	1295.1	1301.5
Foreign currency deposits	162.2	178.2	199.7	233.5	233.1	316.6	316.6
M2	672.1	721.2	745.2	866.6	870.0	978.6	984.9
Currency in circulation	153.2	177.0	173.9	206.0	203.4	242.2	239.9
Local currency deposits	518.9	544.2	571.3	660.6	666.6	736.4	745.0
Demand deposits	331.8	353.8	366.5	421.2	427.5	466.0	474.3
Quasi-money	187.1	190.5	204.8	239.5	239.1	270.4	270.7
	Change as a percentage of beginning period M2						
Net foreign assets	-12.1	-6.5	-5.3	3.1	4.3	6.9	6.1
Central bank	-12.3	-1.8	-1.8	1.7	2.9	6.1	5.3
Deposit money banks	0.2	-4.7	-3.4	1.3	1.3	0.8	0.8
Net domestic assets	19.9	16.2	21.7	18.4	17.0	15.6	16.7
Domestic credit	30.7	12.3	15.2	15.6	8.5	19.5	17.8
Net claims on the government	8.0	4.9	1.9	0.9	0.9	3.1	3.1
Credit to the economy	22.8	7.4	13.3	14.6	7.6	16.4	14.7
Of which: private sector	24.1	6.9	9.9	15.5	8.4	16.4	14.7
M3	7.8	9.7	16.4	21.5	21.2	22.5	22.8
Foreign currency deposits	1.7	2.4	5.6	4.6	4.5	9.6	9.6
M2	6.1	7.3	10.9	16.9	16.7	12.9	13.2
Currency in circulation	2.2	3.5	3.1	4.3	4.0	4.2	4.2
Local currency deposits	3.9	3.8	7.8	12.6	12.8	8.7	9.0
Demand deposits	-1.5	3.3	5.2	7.9	8.2	5.2	5.4
Quasi-money	5.4	0.5	2.6	4.7	4.6	3.6	3.6
Memorandum items:							
Reserve money (12–month percent change)	0.6	26.5	13.7	19.7	18.5	15.5	15.8
Velocity (GDP/M2; end of period)	4.4	4.9	4.9	4.8	4.9	4.8	4.9

Sources: Burundi authorities; IMF staff estimates and projections.

[1] IMF Country Report 13/64.

Table 4. Burundi: Central Bank Accounts, 2011–14

	2011	2012				2013				2014	
	Dec.	Mar.	June	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.
									Est..	Proj.	
	(BIF billion)										
Net foreign assets	26.2	16.9	5.5	28.1	14.0	11.2	17.3	20.8	35.7	40.7	53.1
Assets	411.5	418.0	401.2	431.6	483.8	455.4	426.6	458.2	509.1	538.3	550.5
Liabilities	385.4	401.1	395.8	403.5	469.8	444.1	409.3	437.4	473.4	497.7	497.4
Net domestic assets	185.1	176.5	219.4	191.6	231.3	236.9	261.7	254.3	213.8	216.6	229.7
Domestic credit	299.3	273.9	352.6	303.3	344.5	334.8	341.9	334.3	256.9	259.7	272.8
Net claims on the government	266.5	213.7	228.6	233.1	315.4	297.6	311.9	303.4	241.3	250.4	263.4
Other credit	32.8	60.2	124.0	70.2	22.3	37.3	36.7	36.7	15.6	9.4	9.4
Other items, net (assets = +)	-114.2	-97.4	-133.3	-111.7	-113.2	-97.9	-80.2	-79.9	-43.1	-43.1	-43.1
Reserve money	211.2	193.4	224.8	219.8	245.3	248.2	279.0	275.1	249.5	257.3	282.8
Currency in circulation	153.2	147.4	170.5	162.9	173.9	166.9	180.4	175.4	203.4	202.0	222.0
Bank reserves	34.9	22.9	27.8	0.0	39.9	45.8	57.0	65.7	67.0	68.5	70.3
Cash in vault	16.9	18.1	20.7	54.4	24.4	22.3	25.4	25.6	-15.7	18.6	19.9
Other nonbank deposits	6.2	5.0	5.9	2.6	7.2	13.2	16.3	8.4	-5.2	-31.7	-29.5
Memorandum items:											
Net foreign assets of BRB (US$ million)	19.2	12.1	3.8	19.1	9.1	7.3	11.2	13.5	23.2	25.0	33.1

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

Table 5. Burundi: Balance of Payments, 2011–16

	2011	2012		2013		2014		2015	2016
		Prog.	Prel.	Prog.	Est.	Prog.	Proj.	Proj.	
	(US$ million)								
Current account	-322.8	-386.9	-433.3	-423.3	-632.2	-478.2	-643.7	-689.5	-707.1
(excluding official transfers)	-603.4	-652.6	-756.0	-657.4	-849.3	-684.3	-843.5	-880.1	-898.0
Trade balance	-647.7	-697.9	-751.5	-636.0	-820.6	-669.7	-823.1	-861.7	-931.1
Exports, f.o.b.	124.0	129.8	134.7	106.0	86.8	119.2	99.9	109.4	116.4
Of which: coffee	75.6	77.7	70.0	41.2	23.5	49.9	34.0	38.8	40.1
Imports, f.o.b.	-771.7	-827.7	-886.2	-742.0	-907.4	-788.9	-923.0	-971.1	-1047.5
Of which: petroleum products	-164.0	-172.2	-143.3	-146.1	-193.7	-146.3	-196.7	-193.9	-194.9
Services (net)	-99.3	-103.4	-118.7	-135.3	-152.8	-132.8	-149.0	-153.8	-109.8
Income (net)	-19.0	-16.3	-9.0	-11.7	-10.8	-10.1	-9.2	-8.6	-7.3
Current transfers (net)	443.1	430.7	446.0	359.7	352.2	334.3	337.6	334.5	341.1
Of which: official (net)	280.6	265.6	322.7	234.0	217.2	206.1	199.8	190.7	190.9
Capital account [1]	258.4	223.1	223.1	187.9	257.7	231.0	250.9	295.1	327.0
Financial account	151.7	137.1	181.2	235.4	374.5	229.3	392.7	386.0	370.3
Direct investment	3.4	2.6	0.6	68.0	68.0	71.4	71.4	75.0	78.7
Other investment	148.3	134.5	180.6	167.4	306.5	157.9	321.3	311.0	291.6
Assets	-46.8	-21.6	-48.7	-38.9	-44.1	-80.8	-62.7	-71.8	-70.2
Liabilities	195.2	156.1	229.3	206.3	350.6	238.7	383.9	382.8	361.8
Errors and omissions	-122.6	0.0	39.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-35.3	-26.8	10.7	-0.1	0.0	-17.9	-0.2	-8.4	-9.9
Financing (increase in assets = –)	35.3	26.8	-10.7	0.1	0.0	0.1	0.1	0.1	0.1
Of which: change in official reserves	36.7	26.2	-13.2	-14.9	-17.4	-32.4	-28.8	-36.4	-34.4
Fund Purchases and loans	20.4	15.4	15.4	15.1	15.2	15.2	15.3	7.7	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	17.8	0.0	8.3	9.8
	(Percent of GDP, unless otherwise indicated)								
Memorandum items:									
Current account	-14.7	-16.3	-18.5	-16.0	-23.0	-16.5	-21.3	-21.2	-20.1
Gross official reserves									
US$ million	296	269	309	324	326	356	355	391.4	425.8
Months of imports	3.3	3.3	3.3	3.8	3.5	4.0	3.6	3.7	3.9
PV of external debt (percent of exports of GS)	196	187	187	226	226	220	220	212	209
Government external debt (percent of GDP)	24	21	21	19	19	18	18	17	16
Coffee price (US cents per lb)	273	188	188	138	134	133	124	134	131
Oil (US$/barrel)	104	105	105	102	104	98	101	95	91
Nominal GDP (US$ million)	2,196	2,372	2,342	2,643	2,743	2,898	3,015	3,257	3,521

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, 2013–25

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
							Projections						
Fund obligations based on existing credit													
(SDR million)													
Principal	3.2	10.6	12.5	13.0	12.0	12.5	11.3	8.6	6.0	3.4	1.5	0.0	0.0
Charges and interest	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit													
(SDR million)													
Principal	3.2	10.6	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	0.0	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	3.2	10.6	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	9.9	11.0	8.4	7.2	6.8	5.8	5.0	3.7	2.4	1.5	0.8	0.1
Percent of debt service[1]	19.4	53.8	55.7	48.7	47.5	47.0	42.3	43.9	37.9	29.1	21.7	13.8	2.8
Percent of gross official reserves	1.5	4.5	5.0	4.8	3.7	3.6	3.1	2.8	2.1	1.4	0.8	0.4	0.1
Percent of GDP	0.2	0.5	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.2	0.1	0.1	--
Percent of quota	4.1	13.7	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	94.8	94.2	86.7	73.8	61.8	49.3	37.6	26.4	17.5	11.1	6.6	4.1	3.6
Percent of exports of goods and services	101.3	88.6	75.0	47.2	36.7	26.6	18.5	11.8	7.1	4.1	2.2	1.2	1.0
Percent of debt service[1]	582.8	480.1	380.2	272.9	241.5	184.1	134.0	103.6	73.4	50.0	31.5	22.4	19.6
Percent of gross official reserves	44.0	40.5	34.1	26.8	19.0	14.0	9.8	6.6	4.1	2.4	1.2	0.7	0.6
Percent of GDP	5.2	4.8	4.1	3.2	2.5	1.9	1.3	0.9	0.5	0.3	0.2	0.1	0.1
Percent of quota	123.1	122.4	112.7	95.8	80.2	64.0	48.8	34.3	22.7	14.4	8.5	5.3	4.6
Net use of Fund credit (SDR million)	6.8	-0.6	-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	10.0	5.0	--	--	--	--	--	--	--	--	--	--
Repayments and repurchases	3.2	10.6	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)	141.7	162.5	177.9	242.2	262.3	288.2	316.8	348.1	383.6	423.1	465.5	512.4	564.8
Debt service (US$ million)	24.6	30.0	35.1	41.9	39.8	41.7	43.7	39.7	37.1	34.4	32.4	28.2	28.2
Gross official reserves (US$ million)	326	355	391	426	506	548	597	627	665	705	839	908	984
Nominal GDP ((US$ million)	2,743.3	3,015.2	3,256.5	3,521.2	3,810.1	4,134.9	4,482.6	4,842.3	5,247.3	5,679.5	6,166.2	6,693.7	7,286.0
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	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, 2009–13

(percent, unless otherwise indicated)

	2009 Dec.	2010 Dec	2011 Mar	2011 Jun	2011 Sept	2011 Dec	2012 Mar	2012 Jun	2012 Sep	2012 Dec.	2013 Mar.	2013 Jun	2013 Sep
Capital Requirement													
Capital requirement over weighted assets (solvency ratio)	19.1	19.7	21.7	20.7	20.0	19.8	19.8	18.9	19.7	20.2	21.1	21.8	19.9
Core capital (Tier 1 capital) over weighted assets	15.5	16.9	18.9	18.1	17.6	17.3	17.3	16.6	17.5	18.0	18.9	19.6	17.8
Quality of assets													
Nonperforming loans (percent of total gross loans granted)	13.0	10.0	8.8	7.6	7.3	7.7	8.1	7.3	8.0	8.7	9.6	10.1	9.9
Provisions (percent of nonperforming loans)	88.7	87.6	90.5	90.6	81.9	83.3	76.7	83.1	78.0	77.8	72.8	74.5	78.8
Nonperforming loans net of provisions (percent of capital)	5.4	4.3	2.8	2.6	5.0	4.9	7.1	5.0	6.7	7.1	9.4	8.7	7.3
Large exposures (percent of capital)	28.2	28.6	25.8	27.3	21.7	23.5	20.8	23.4	20.8	22.9	23.8	22.4	23.3
Profitability rates													
Return on assets	2.6	2.5	1.0	1.9	2.9	3.2	0.7	1.1	1.5	1.5	0.3	0.8	1.2
Return on equity capital	22.8	21.8	6.7	13.2	20.3	23.0	4.6	8.0	10.2	10.5	2.0	5.0	7.6
Net interest (percent of gross results)	207.0	191.3	168.3	164.8	165.7	175.6	176.9	184.9	192.7	197.8	204.1	275.7	86.9
Costs excluding interest (percent of gross outturn)	172.3	143.4	101.4	100.0	121.4	114.0	128.6	112.1	153.7	241.0	199.1	248.7	77.7
Liquidity													
Liquid assets (percent of all loans granted)	91.4	90.5	77.7	55.8	49.5	59.5	56.0	45.8	26.7	52.6	52.5	52.8	58.0
Liquid assets (percent of short-term commitments)	168.8	153.5	133.0	91.2	79.4	93.1	88.6	70.8	74.2	85.5	103.9	86.6	90.4

Source: Burundi authorities.

Appendix I. Letter of Intent

Bujumbura, February 6, 2014

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

Dear Ms. Lagarde:

On January 27, 2012, the Executive Board of the International Monetary Fund (IMF) approved a new three-year arrangement under the Extended Credit Facility (ECF) in favor of the Republic of Burundi. This arrangement is intended to support our medium-term program and to strengthen macroeconomic stability, expedite growth, and reduce poverty. Under this arrangement, the government of Burundi and an IMF mission recently assessed implementation of the program as part of the fourth review of the arrangement. This review focused on the implementation of the program during the period from April 1st, 2013 to September 30, 2013, as well as on the economic and financial prospects and measures to be implemented in 2014.

Burundi faces a particularly difficult environment, marked by the massive influx of refugees from the eastern part of the Democratic Republic of the Congo, and those expelled from Tanzania and Uganda. These influxes put additional pressures on public finances in a context where they were already weakened by declining budget support and high tax expenditures coming from tax exemptions. However, significant efforts have been made to mobilize revenue, which are now covering an increasing share of budgetary spending.

Measures aiming to strengthen tax administration helped mitigate the effects of these shocks on domestic revenues to a level higher than programmed, thus contributing to the successful implementation of the program at end-September 2013. All performance criteria and indicative targets have been observed, including the indicative target on pro-poor expenditures, which were shielded from the compression of expenditures and delays in the disbursement of budget support. However, the Government remains firmly committed to implement the program and preserve the sustainability of public finances and debt, while boosting economic growth. Furthermore, the government intends to maintain prudent budgetary and monetary policies to anchor inflationary expectations.

In light of the appreciable progress in implementing the program supported by the ECF arrangement, the government is requesting completion of the fourth review, setting of new performance and indicative criteria for September 2014, as well as the fifth disbursement of SDR 5 million under the ECF arrangement.

The government is convinced that the policies defined in this MEFP are sufficient for the attainment of the program objectives and are consistent with the orientations of the second-generation Poverty Reduction and Growth Strategy Paper (PRSP-II). It also stands ready to adopt any additional measures that may be required for this purpose. The government will consult with the IMF in advance of the adoption of such measures and/or of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations.

The government will provide the IMF with the necessary information to ensure the implementation and regular monitoring of the program. That information as well as arrangements for monitoring implementation of the program and the performance criteria, quantitative targets, and structural benchmarks are detailed in the Technical Memorandum of Understanding, which is also attached to this letter. We expect the fifth review based on the end-March 2014 performance criteria to be completed by the latest July 31, 2014, and the sixth review based on the September 2014 performance criteria to be completed by the latest January 31, 2015.

The Burundi 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 this fourth [sic] 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

February 6, 2014

I. INTRODUCTION

1. Burundi's economic and financial program, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF), aims to consolidate economic and political gains, promote inclusive economic growth, contain inflation, and strengthen policies designed to combat endemic poverty in rural and urban areas. This Memorandum supplements the December 2011, July 2012, January 2013, and August 2013 MEFPs. It reports on implementation of the program's quantitative targets and structural benchmarks through end-September 2013 and defines the economic policies and reforms the government intends to implement in 2014 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 continues to be vulnerable to the lingering effects of external shocks associated with commodity prices and recurrent slippages in tax revenue collection. The social situation has weakened further with the massive influx of refugees, weighing on budget expenditure and exacerbating political tensions. The combined effects of these shocks and the country's social fragility threaten to derail the significant progress made thus far. Moreover, because the country's tax base is narrow, the worsening terms of trade and markedly lower levels of direct budgetary support cannot be wholly offset by the increased mobilization of domestic resources. Consequently, Burundi still needs technical and financial 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 great strides Burundi has made, particularly with regard to good governance, peace consolidation, and improved public access to social services. In order to give greater substance to the promises made during the Geneva conference, the government organized two sectoral conferences in July and October 2013. The targeted sectors are in line with the pillars of the PRSP-II and pertain to (i) transport infrastructure, information and communication technologies (ICT), (ii) energy, (iii) private-sector and tourism development, (iv) governance, rule of law and gender, (v) education, (vi) health, and (vii) environment, water and sanitation. Despite this progress, the government is aware that much remains to be done in these areas. The authorities have therefore requested political support and additional resources to promote sustainable economic growth, curb unemployment, and reduce endemic poverty.

II. ECONOMIC DEVELOPMENTS AND IMPLEMENTATION OF THE ECONOMIC PROGRAM IN 2013

4. Macroeconomic developments are largely in line with program projections. GDP growth is expected to improve modestly from 4 percent in 2012 to 4.5 percent in 2013, likely as a result of investments in infrastructure, particularly transport and hydroelectric dams. Inflation, however, is moderating slowly owing to the lingering effects of rising food and fuel prices, and weak agricultural production over the past year.

5. The external current account (including transfers) deteriorated markedly, reaching a deficit of approximately 23 percent of GDP compared to 18.5 percent in 2012, despite slight mitigation of the effects of terms of trade deterioration in previous years. Imports rose by about 2.5 percent, while exports fell sharply by more than 35.5 percent, largely reflecting the decline in coffee exports. Gross official reserves crept up to the equivalent of 3.5 months of imports in 2013.

6. Monetary policy remained prudent in 2013. The Bank of the Republic of Burundi (BRB) thus kept its refinancing rate indexed to the interest rate of 13-week treasury paper (*bons du Trésor*) plus 3 percentage points. The required reserve ratio was maintained at 3 percent and money market interventions were limited. The average refinancing rate for this period was 11.7 percent. The BRB kept the required reserve ratio at 3 percent and limited its interventions in the money market. Monetary and credit growth in the private sector was moderate at around 17 and 9 percent, respectively. Monetary policy witnessed an innovation with the creation of a Monetary Policy Committee that publishes quarterly reports, together with a monetary policy statement, announcing the monetary authority's future intentions to the public. The goal is to enhance the transparency and credibility of monetary policy. In response to the steep depreciation in the Burundi franc at end-2012 and in early 2013, the BRB intervened in the foreign exchange market, adopted a foreign exchange regulation easing policy by eliminating restrictions on cash withdrawals from foreign exchange accounts, encouraged banks to supply the interbank market with foreign exchange, continues to monitor liquidity conditions and stands ready to intervene depending on market conditions.

7. With respect to public finances, domestic resource mobilization improved significantly following the implementation of corrective actions designed to offset revenue losses posted in the first half of the year. Tax revenue is expected to reach about FBu 556 billion at end-December 2013, up 3 percent compared to 2012. This good revenue performance is largely due to improved economic activity, as evidenced by the surge in the value added tax (VAT) and the gradual reinstatement of taxes on petroleum products. Expenditure was brought down to fit into the available resource envelope. Thus, the overall deficit should be in line with projections in 2013. At end-December 2013, the overall budget deficit (cash basis, non-HIPC grants included) is estimated at 2 percent of GDP. The tax burden decline to 12.9 percent of GDP, primarily as a result of the further elimination of excise duties on petroleum products in the first half of the year.

8. The downward trend of the wage bill relative to GDP continued. It was 7 percent of GDP in 2013, down 0.8 percentage points of GDP compared to 2012. The roll-out of payroll software (OPEN PRH) made it possible to expunge ghost workers from the payroll. The new OPEN PRH system

considerably reduces pay processing times, thereby minimizing payment arrears. Broader access will guarantee better control over payroll, which is one of the government's largest budget items.

9. Program implementation is satisfactory overall. By end-September 2013, all the quantitative performance criteria had been met. All indicative targets were also reached, including, for the first time, that of pro-poor expenditure. Significant progress has also been made in implementing structural measures.

10. Progress in the area of public finances continues to be consolidated. In addition to three expenditure commitment controllers (*contrôleurs des engagements de dépenses*—CED) in the ministries of education, health, and agriculture, the government has assigned ten others in other sectoral ministries; thus, 74 percent of the budget is covered by the rationalized expenditure chain (*chaîne rationalisée de la dépense*). The expenditures of ministries without CEDs will be managed by a central CED. However, in order for the CEDs to be fully functional, their capacities will need to be strengthened and the Integrated Government Finance Management System (*Système d'Information Intégré pour la Gestion des Finances Publiques* – SIGEFI) will need to be reconfigured to take account of the decentralization of the expenditure chain. The audit on outstanding arrears, estimated at FBu 90 billion and attributable to extrabudgetary spending on a vehicle fleet and goods and services for the army, and education and health, is underway. An arrears clearance plan will also be developed once the audit office has examined all supporting documents to confirm the final amount of the arrears. The cash-flow management committee has been bolstered, but its work is hampered by the unpredictability of budget grant disbursements. Lastly, the law amending the VAT and the law establishing the tax procedures code have been enacted. The government is continuing its efforts to make a lasting impact on revenue. In addition to strengthening the administrative capacity of the Burundi Revenue Authority (OBR) and its campaign to raise taxpayer awareness, the government intends to make the process of moving goods with Tanzania and Rwanda smoother by creating one-stop border posts, thereby boosting foreign trade.

11. Efforts to improve debt management continue. Two successive World Bank missions developed, jointly with Burundian authorities, an action plan for implementing debt management reforms in response to the results of the Debt Management Performance Assessment (DeMPA). This means that the government publishes a quarterly report on public debt every three months, along with a portfolio analysis. These publications are available on the Ministry of Finance website. A third IMF mission is expected to visit Bujumbura in April to help finalize the new law on debt. As part of the restructuring of the Ministry of Finance and Planning for Economic Development (*Ministère de Finances et de la Planification pour le Développement Economique*—MFPDE), a modern unit in charge of debt management was created.

12. In the context of the financial system reform, the Central Bank is continuing to implement projects designed to modernize the financial sector, one of the components of the Financial Sector Development Project. To this end, the Central Bank will: (1) strengthen supervision of banks, non-bank financial institutions, and microfinance institutions; (2) modernize payment systems (ACH/RTGS, electronic banking, and central securities depository) through enhanced IT infrastructure; and (3) implement an automated banking system as well as the legal and institutional framework of the payment system. Significant progress has been made on all aspects of financial sector modernization, particularly the legal framework. In fact, the draft law on the national payment

system went to the Council of Ministers on April 4, 2012. It was returned to the Office of the Second Vice President of the Republic for corrections and amendments. Discussions are ongoing to analyze the legal text on payment systems as a law rather than a decree. Lastly, the legal framework will be complemented by the implementation of participation agreements to be signed by all participants.

13. In the area of bank supervision, guidelines on business continuity management were adopted and transmitted by the BRB to the banking sector with strict instructions that they be implemented by no later than June 30, 2014. The bank supervision unit was restructured to include the financial stability function. Preparation of the risk-based supervision methodology and the detailed risk-based supervision manual as well as the attendant draft circular are being finalized. Final migration by commercial banks towards adopting the International Financial Reporting System (IFRS) is being completed. Quality control of reporting and any adjustments needed will be carried out on the basis of the first three monthly reports. With a view to aligning bank supervision practices and assessing the probable risk of systemic pan-African bank crises (Ecobank Burundi, FinBank, DTB Burundi, KCB Bank Burundi, and CRDB Bank Burundi), BRB supervisors have already participated in joint inspection missions with supervisors from the Central Bank of Kenya during on-site inspections of the KCB and DTB, the parent companies of KCB Bank Burundi and DTB Burundi, respectively. Further, in December 2012, supervisors from the Central Bank of Nigeria were accompanied by supervisors from the BRB in conducting an inspection mission of FinBank, a subsidiary of Access Bank.

14. Observations made by the IMF and the National Bank of Belgium were incorporated into the amended draft banking law, which was circulated to the profession for comment. This law will also constitute a legal framework for microfinance activities, the National Postal Administration (*Régie Nationale des Postes*), and payment services (including mobile and electronic banking). A draft regulation on payment systems and another on commercial agents in bank operations and payment services are being finalized to expand the payment systems legal framework. 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 emanate.

15. In accordance with the recommendations concerning 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 between the central bank and the ministry of finance has been prepared to ensure gradual implementation of the recommended safeguards.

16. In the coffee sector, the government plans to pursue its program of privatizing washing stations, 41 of which were sold to domestic and international private investors in two bidding procedures, while ensuring that coffee growers have access to reserved shares in keeping with the government's commitment (25 percent of the capital). Following the adoption by Parliament of the law governing privatization, the 76 remaining washing stations will be subject to a new bidding process in 2014 once their values have been reviewed. 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.

17. 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 thus

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.

III. ECONOMIC AND POLITICAL OUTLOOK FOR 2014

A. Macroeconomic framework

18. The uncertainties weighing on the global economy pose a major challenge for program implementation. Factors such as the slowdown in global economic activity—especially in Europe, Burundi's strategic partner, where economic growth remains weak—, the return of refugees from neighboring countries, and sociopolitical tensions in the sub-region, particularly the Democratic Republic of the Congo (DRC), all pose downside risks with the potential to affect the level of economic activity, external accounts, and public finances in Burundi.

19. Despite these risks, GDP growth is estimated to climb to 4.7 percent in 2014 compared to 4.5 percent in 2013. This recovery is likely to be driven primarily by the secondary and tertiary sectors. Moreover, the start of construction on the hydroelectric dam (Kabu 16) in 2013 and work on the road projects financed through Japanese cooperation and the African Development Bank (AfDB) should support this growth. Agricultural exports, however, are expected to rebound, owing to the cyclical nature of coffee production. Inflation is expected to decline to 7 percent in 2014. The current account deficit in the balance of payments should improve moderately to 21.4 percent of GDP, a decline of more than 4.9 percentage points of GDP compared to the program projection, and an improvement of 1.6 percentage points of GDP compared to 2013, due mainly to a rebound in coffee export revenue. Official foreign reserves are expected to rise slightly to 3.6 months of imports, a reflection of the BRB's limited intervention in the foreign exchange market.

B. Fiscal policy

20. The aim of fiscal policy is to support growth and improve the composition of expenditure with a view to mitigating the effects of shocks on the most vulnerable segments of the population. Total government revenue and expenditure are expected to reach 27.6 percent and 29 percent of GDP, respectively, as a result of expenditure controls and improved revenue collection. The overall fiscal balance deficit (cash basis, including grants) should be contained at 1.6 percent of GDP. Pro-poor expenditure will therefore continue its upward trend to around 9.5 percent of GDP, without jeopardizing fiscal consolidation, and the wage bill will be under control.

21. Total budget revenue (excluding grants) is estimated to be FBu 627.3 billion compared to FBu 558 billion in 2013. This revenue growth will likely be the result of enhanced administrative reforms put in place in previous years, notably those to broaden the tax base, combat fraud and tax evasion, and minimize exemptions. Other initiatives will also boost revenue collection, particularly the introduction of a 10-percent tax on the remuneration of political representatives, the gradual expansion of the use of the tax identification number (TIN), including in the informal sector, and the effects of the excise tax on beer and wine. The creation of one-stop border posts should facilitate regional trade and, in so doing, boost customs revenue. Lastly, the law on the VAT has been

enacted. It aims to broaden the tax base, while reducing the size of the informal sector in the economy. The government will also be seeking IMF technical assistance in drafting an excise code and restructuring the tax exemption system in order to strengthen domestic revenue collection.

22. To meet unforeseen pre-election requirements, the government undertakes to keep such revenue as may potentially be generated through the renewal of telecommunication licenses and the collection of tax arrears from large- and medium-size businesses. Furthermore, a review of the investment code, taking account of the recommendations expected to come out of the joint IMF, IFC, and World Bank mission scheduled in early 2014, is intended to curb the granting of exemptions with the aim of replenishing the Treasury account.

23. Total expenditure in 2014 could rise by 3.4 percent to FBu 1,393.3 billion. This increase, following the 6-percent growth expected in 2013, reflects the need to strengthen economic and social infrastructure. The wage bill is projected to be FBu 322.3 billion, or 6.7 percent of GDP, in response to the human resource requirements in the key sectors of education, health, and agriculture. Overall, domestically-financed capital expenditure is expected to increase to FBu 93.9 billion, or approximately 2.0 percent of GDP, as in 2013.

24. In order to reduce government spending on the management of its vehicle fleet, the government decided to adopt the zero vehicle fleet (*Charroi zéro*) policy. Despite difficulties in implementing this policy, the government will give top priority to capping the cost of the policy with a view to making the necessary resources available to meet the financing requirements of social sectors.

25. In the health sector, the government will continue its policy of free health care for children under five and care for women in childbirth. 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 seeing growing success. In order to sustain it, the government intends to focus on its financing by placing sufficient appropriations in the government budget so that adequate resources can be transferred to hospitals to cover the cost of procedures under the health card program. The necessary decisions will have been made to keep public finances balanced at the level agreed to under the program.

26. In the education sector, the government also intends to continue the program of free primary school tuition and extend it to include higher education, and to expand the number of school cafeterias providing free meals to students. It plans to build new classrooms and hire teachers in order to reduce the teacher-student ratio.

27. In the agricultural sector, the government, in close collaboration with technical and financial partners, plans to combat the high cost of living and eliminate food insecurity. Accordingly, the government has put in place 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*).

28. The government is committed to maintaining 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.

C. Monetary and exchange rate policies

29. Monetary policy will continue to be guided by the pursuit of price stability. The BRB will carefully monitor the growth of inflation and will continue to improve its capacity to forecast this macroeconomic indicator. If inflationary pressures pose no threat to economic activity, the BRB, in consultation with Fund staff, will weigh the possibility of gradually easing monetary policy to provide the economy with the resources needed 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, including identifying instruments that increase the effectiveness of interest rates and other BRB signals.

30. To enhance the effectiveness of the exchange rate policy, the BRB has decided to pursue an active market-making policy for the foreign exchange interbank market and will continue to reduce the frequency and amounts of its interventions in the foreign exchange market to maintain official reserves. In the context of the recently signed monetary union protocol of the East African Community, the central bank remains committed to pursuing a floating exchange rate regime.

31. 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 and will culminate in the assignment of a resident advisor on bank supervision to the BRB. This mission should significantly reinforce the financial system monitoring mechanism, particularly the BRB's bank supervision unit.

D. Structural measures

32. The government continued to consolidate progress in public financial management reforms. Accordingly, it issued the decree on the appointment and legal status of the Receiver General of the OBR, establishing the scope of his responsibility and relationships with the senior government accounting officer (new structural benchmark). The Commissioner General of the OBR also assumes the Receiver General's functions. The government is aware of the need to adapt the responsibility of the senior government accountant granted to the Commissioner General of the OBR, and intends to conform gradually. The government has decided to provide the OBR with the resources it needs to conduct its missions, increasing the OBR's allocation to 3 percent of collected revenue. With respect to the tax on incoming calls, the government has opted to clear the share of proceeds from this tax, accruing to the government budget, from the transit account into the account of the Receiver General of the OBR, now responsible for clearing it into the treasury single account.

33. In the context of strengthening public financial management, 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 modernize the SIGEFI. This modernization should eventually secure the entire expenditure chain, from the establishment of budget appropriations to the payment of

the expenditure from the Public Treasury. The new system should allow the Budget and Treasury to issue statements of expenditure incurred and balances of authorized expenditure and outstanding payments. The SIGEFI should be interconnected with other expenditure chains, particularly the salaries and wages of government officials, and the IT system for monitoring revenue. This integration should help the Treasury establish its balances.

IV. POVERTY REDUCTION AND GROWTH STRATEGY PAPER

34. The PRSP-II, which is a key component of the effort to consolidate peace and kick-start economic growth, is structured around four strategic pillars: (i) strengthening of the rule of law, consolidation of good governance, and promotion of gender equality; (ii) transformation of the Burundian economy to achieve sustained, job-creating growth; (iii) improvement in the accessibility and quality of basic services and strengthening of national solidarity; and (iv) management of land and the environment in keeping with sustainable development principles.

35. To mobilize the political support and resources necessary to finance the priority action program contained in the PRSP-II, the government organized two sectoral conferences in Bujumbura in July and October 2013, following the donor conference in Geneva in October 2012. The government plans to implement the reforms provided for in the PRSP-II to facilitate disbursement of the commitments made in Geneva and thus mobilize all the resources required for effective implementation of the PRSP-II.

36. The government has completed the first report on the progress in implementing priority programs recommend by the PRSP-II. The report conveys the main actions taken in 2012 and points out the challenges to which special attention will need to be paid in order to achieve better performance.

37. To ensure that reliable socioeconomic indicators are regularly available, the government is determined to strengthen its data collection units. All ministries were therefore instructed to set up statistical departments responsible primarily for updating quick result indicators.

38. In addition, the government launched a national survey on household living conditions in December 2013 with a view to updating the household basket and achieving national consumer price index (CPI) coverage. This survey comprises five modules and should be finished in March 2014.

39. In addition, the government launched a national survey on household living conditions with a view to updating the household basket and achieving national CPI coverage.

V. PROGRAM MONITORING

40. "Semiannual reviews of the program by the IMF Executive Board will continue based on the quantitative performance criteria and indicative targets, and structural benchmarks set out in tables I.1 and I.2. These indicators are defined in the attached Technical Memorandum of Understanding (TMU). The half-yearly reviews will be based on the data at end-March and end-September. The fifth program review will be based on the performance criteria for end-March 2014. To ensure the program's success, the authorities will take all the steps necessary to meet the quantitative targets and structural benchmarks agreed to with Fund staff."

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	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Performance criteria										
Net foreign assets of the BRB (floor; US$ million) [2]	31.9	21.1	50.2	Met	17.0	23.2	25.0	33.1	24.4	51.6
Net domestic assets of the BRB (ceiling) [2]	264.8		254.3	Met	225.2	213.8	216.6	229.7	239.2	201.4
Net domestic financing of the government (ceiling) [2]	42.0	52.7	28.6	Met	33.3	47.5	10.7	21.3	32.0	42.7
External payments arrears of the government (ceiling; US$ million) [3]	0.0		0.0	Met	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	Met	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, cumulative from beginning of the program) [3, 4, 5]	28.0		28.0	Met	28.0	28.0	28.0	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	551.0	151.8	267.6	442.9	626.2
Accumulation of domestic arrears (ceiling; cumulative from beginning of calendar year)	0.0		0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0
Reserve money (ceiling)	313.7		275.2	Met	252.0	249.5	257.3	282.8	277.8	283.3
Pro-poor spending (floor; cumulative from beginning of calendar year)	190.0		196.6	Met		270.0	34.5	118.7	189.2	303.6

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.

Table I.2. Burundi: Structural Benchmarks for 2013-14

Proposed measures	Dates	Status	Objective
Public financial management			
Adopt a decree on the appointment and legal status of the Commissioner of the Burundian Revenue Office.	March 30, 2013	Met with delay.	Clarify the division of responsibilities between the commissioner of the OBR and the senior government accountant (pursuant to the Organic Budget Law and Article 6 governing the OBR).
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.	June 30, 2013 New date proposed for end-March 2014	Not met.	Identify and verify the amounts actually due and disputed invoices. Seventeen magistrates from the Court of Auditors have been nominated and six staff from the Ministry of finance assigned to facilitate the audit.
Implement a monthly cash flow plan in line with commitment plans.	March 30, 2013	Met.	Improve budget execution management and avoid end-period arrears.
Put in place a rationalized spending chain with pilots in the Ministries of agriculture ,education, and health, and nominate 10 expenditure controllers in ten ministries.	June 30, 2014		Ensure timely and accurate reconciliation between government accounts and the accuracy of revenues collected.
Implement a program to unify the current data base of civil servants with that form the 2008 census.	September 30, 2014		Reinforce the Ministry of Finance’s management of salaries.
Put in place an interface between the revenue authority (OBR) and the Ministry of Finance.	December 31, 2014		Improve budget execution.

Tax policy			
Submit a law on the VAT to parliament.	June 30, 2013	Met with delay. Law approved on July 24.	Establish legal framework governing the collection of VAT.
Debt management			
Prepare a quarterly report on domestic debt forecasting with a view to improving budget and cash management.	March 30, 2013	Met.	Make debt management a key element of the government's budgetary process and of cash requirements planning in line with World Bank recommendations.
Submit a new law on debt management to parliament.	December 31, 2013. New date March 31, 2014	Technical assistance now planned for November 2013.	Establish a legal framework governing public debt.
Central bank and Treasury safeguard measures			
Each quarter, submit a report on reserve operations to the General Council of the BRB.	March 30, 2013	Met	Improve BRB Board of Directors supervision of reserves management.
Put in place a monitoring framework and calendar of regular meetings of the coordination committee of the Ministry of Finance and the central bank regarding the implementation of monetary and fiscal policy and the recommendations concerning public financial management, including from the special audit of large disbursements on behalf of the government processed by the BRB during June 30, 2011-March 31, 2012.	September 30, 2013	Met	Implement a monitoring framework to ensure that the safeguard recommendations are met.

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.

QUANTITATIVE PROGRAM TARGETS

A. 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).

B. 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.

C. 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.

D. 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.

E. 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-March 2014 is 1624.55.

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.

F. 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

February 18, 2014

FOURTH REVIEW UNDER THE EXTENDED CREDIT FACILITY—JOINT BANK-FUND STAFF DEBT SUSTAINABILITY ANALYSIS

Approved By
Roger Nord and Dhaneshwar Ghura (IMF) and Marcelo Giugale and Jeffrey D. Lewis (World Bank)

Prepared by the staffs of the International Monetary Fund and the World Bank.

This low-income debt sustainability analysis (LIC DSA) updates the joint IMF/IDA DSA from February 14, 2013, reflecting the most recent macroeconomic developments. This updated DSA indicates that Burundi continues to be assessed at a high risk of debt distress. Both baseline public and external DSA suggest Burundi's public sector debt is sustainable given the current size and evolution of the debt stock. Compared to the 2012 DSA assessment, overall public debt sustainability improves modestly. Debt sustainability remains highly sensitive to shocks, due mainly to the narrow export base. The public DSA suggests that Burundi's overall public sector debt sustainability indicators are projected to improve in the medium and long run. However, the large downside risks and the vulnerability of the indicators to shocks point to the need for prudent fiscal and debt policies, and for structural reforms to promote private sector-led growth and exports diversification.[1]

[1] The DSA has been produced jointly by Bank and Fund staffs. The fiscal year for Burundi is January to December.

BACKGROUND

1. **The Debt Sustainability Analysis update indicates that Burundi continues to have a high risk of debt distress**. Nonetheless, the update of the debt sustainability analysis (DSA) using the uniform 5 percent discount rate in line with the recent Board decision shows some improvements.[1] While Burundi's assessment of high risk of debt distress remains, the PV of external debt-to-GDP and debt-to-government revenue ratios have improved and are now below their assessment thresholds (Figures 1 and 2 and Tables 1–4). The DSA update suggests that Burundi has limited borrowing space, underscoring that loans should continue to be highly concessional given its narrow export base.[2]

2. **Burundi is a weak policy performer for the purpose of determining the debt burden thresholds under the Debt Sustainability Framework (DSF).** Burundi's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) has improved slightly in recent years. However, the performance is still low, and the average for the last three years—3.14 on a scale of 1 to 6—puts Burundi in the group of weak policy performer.[3]

3. **At end-2012, Burundi's public and publicly guaranteed external debt stood at US $487 million or 22.3 percent of GDP.** Burundi's stock of external debt has declined significantly since 2009 as a result of the debt relief under the enhanced Highly Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). About 90 percent of Burundi's outstanding nominal external PPG debt is owed to multilateral creditors, with bilateral creditors accounting for the remainder.

[1] On October 11, 2013, the Executive Boards of the IMF and the World Bank approved the reform of the discount rates presented in SM/12/271, resulting in a unique, unified 5 percent rate to be applied both to DSAs and to the calculation of the grant element (Board Decision N. 15462-(13–97)).

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

[3] A score below 3.25 corresponds to a poor policy performance, according to the LIC Debt Sustainability Framework (DSF).

Text Table 1. Burundi: Stock External Debt, end-2012
(Millions of US dollars)

	Nominal	Percent of Total	Percent of GDP
Total Debt	487	100	22.3
Multilateral	440	90.4	20.1
Bilateral	46	9.6	2.1
Paris club	0	0.0	0.0
Non-Paris club	46	9.6	2.1
Commercial	0	0.0	0.0

Sources: Burundi authorities; and Bank-Fund staff estimates.

UNDERLYING ASSUMPTIONS

4. **While growth estimates remained at the levels projected in the 2012 DSA, other macroeconomic developments in 2012–13 underperformed the previous estimates and projections, mainly due to external shocks.** Trade deficit exceeded initial projections by about 3 percentage points of GDP in 2012 and 5 percentage points in 2013, as the terms of trade deteriorated by about 38 percent cumulatively in 2012–13. Coffee, which accounts for about two-thirds of exports, experienced a decline in international prices by about 30 percent during 2012–13. The import coverage of gross international reserves remained broadly unchanged from previous projections. Inflation is slightly higher than projections for 2013 mostly owing to the domestic supply shocks. The overall budget deficit widened by 1.3 and 0.3 percentage points of GDP compared to the 2012 DSA mainly owing to lower grants and weaker revenue performance.

5. **The macroeconomic outlook has been revised accordingly.** The average medium-term (2013–18) GDP growth is revised slightly downward compared to the 2012 DSA, although the long-term growth is broadly kept unchanged as the growth outlook remains unaltered. Due to this revision, *i.e.* lower nominal GDP base in the medium term, the size of the economy is also projected to be smaller in the long run, implying a lower level of sustainable debt. As the decline in coffee prices is projected to continue in 2014, medium-term exports growth was also revised downward.

Prices are expected to bottom out towards the middle of the decade; thus, long-run growth is kept broadly unchanged compared to the 2012 DSA.[4] Combined with oil price projections, which are higher, in the near term, than those in the 2012 DSA, the trade deficit is projected to be more pronounced in the medium term. Central government revenue projections have also been adjusted downward reflecting the permanent losses induced by the 2013 new income law and negative impact of the various shocks to economic activities. Financial assistance from donors, all types considered, is assumed to decline from about 20 percent of GDP in 2012 to 13 percent in the long run.[5]

6. Risks to the macroeconomic outlook stem mostly from the fragile social and security situation and the external environment. The protracted Euro Area debt crisis and the decelerating economic growth in emerging markets are likely to engender negative spillovers through the trade and investment channels. Uncertainty in donor support also poses risks. Despite the projected easing of oil and food international prices, uncertainty remains. Moreover, the recent influx of refugees continues to weigh heavily on the social and economic situation. Other socio-political developments are highly unpredictable in the run-up to the 2015 elections.

EXTERNAL DSA

7. **Under the baseline scenario, one indicator breaches the policy threshold during the medium term**. The PV of debt-to-exports ratio, although gradually declining, is projected to stay above the 100 percent policy threshold until around 2020. The debt service-to-exports ratio slightly and temporarily breaches the threshold. These projected developments are mostly due to Burundi's narrow export base and the relatively limited export potential at this time. In contrast, the PV of debt-to-GDP ratio, the PV of debt-to-revenues ratio, and the debt service-to-revenue ratio are expected to remain well below the indicative policy dependent thresholds throughout the projection period. Moreover, those indicators are somewhat stabilizing in the medium term and show a declining trend in the long run, indicating an improvement of the debt sustainability profile in the long run (Text Table 2, Figure 1 and Table 1). This stems from the intention of the authorities to

[4] In the medium and long terms, coffee prices are assumed to increase by 5 percent per year (which corresponds broadly to the average of the last two decades). Also, coffee production is assumed to expand by 5 percent per year, reflecting the expected outcome of the on-going reforms in the sector.

[5] Financial assistance from donors includes budget support, project loans and grants, humanitarian assistance, technical assistance, and financing related to elections and regional conflicts.

pursue sound macroeconomic and prudent debt policies. The combination of such policies is expected to alleviate debt burden indicators. The reduction of debt burden is a key pillar of the program currently implemented by the government and supported under the IMF's Extended Credit Facility (ECF).

Text Table 2. Burundi: Summary of Baseline External Debt Sustainability Indicators

(percent)

	Indicative Thresholds	2013	2023	2033
PV of debt to GDP	30	13.4	5.8	2.7
PV of debt to exports	100	248.5	78.4	32.0
PV of debt to revenue	200	101.9	44.3	20.9
Debt service to exports	15	8.3	5.1	2.2
Debt service to revenues	25	3.4	2.9	1.4

Sources: Burundi authorities; and Bank-Fund staff estimates.

8. **Alternative scenarios and stress tests highlight the high vulnerability of the debt sustainability profile to adverse shocks.** Under a scenario of combined adverse shocks on GDP growth, exports, and FDI flow, the debt indicators worsen significantly compared to the baseline scenario; four of the debt indicators breach the threshold in the medium term and return broadly close to the baseline in the long run.[6] However, under a scenario that assumes continuation of policies during the last ten years, two indicators breach the threshold; most indicators would double compared to that under the baseline scenario and would not improve even in the long run.[7] These results underscore the need to foster a sound macroeconomic environment that would promote

[6] The combination of shocks assumes that, during 2014–15, GDP growth, export growth, USD GDP deflator and non-debt creating flows will be at their historical averages minus one-half standard deviation.

[7] The historical scenario assumes that, throughout the projection period, key macroeconomic variables will stay at their respective average during the last ten years. The some economic variables in 2009 were adjusted as Burundi benefited from the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative during that year.

growth, export diversification, and inflow of foreign direct investment, and to continue the reform measures to avoid returning to policies in the past.[8]

9. **All scenarios suggest that Burundi's narrow export base is the most significant factor that contributes to the vulnerability of Burundi's debt sustainability.** The PV of debt-to-exports ratio remains above the policy threshold of 100 percent in the baseline, historical, and stress tests scenarios. Although, the trend declines in the long term, the ratio stays stubbornly high, particularly under the historical scenario.

PUBLIC DSA

10. **Public debt indicators, including external and domestic, are expected to gradually improve under the baseline scenario**. The improvement is due primarily to a decline in the public sector borrowing requirement, reflecting the widening of the revenue base and the gradual decline in government spending in the post reconstruction period. The ratios of the PV of public debt to GDP and public debt to revenues remain low, reflecting Burundi's reliance on grants and highly concessional loans to finance reconstruction and poverty reduction.

11. **However, public debt indicators are highly vulnerable to shocks.** Under a shock scenario that combines a lower GDP growth and a larger primary deficit, the PV of debt-to-GDP ratio is projected to enlarge by 6 percentage points (above the baseline scenario) throughout the projection period, and the PV of debt-to-revenue ratio by about 20 percentage points.[9] These results underscore the need for prudent fiscal policy and avoidance of past unsustainable borrowing policies. A swift adoption and implementation of a strategy based on the recent Debt Management Performance Assessment (DeMPA) would be crucial. The debt service to revenue ratio is not significantly affected by alternative scenarios and shocks because additional borrowing is expected to be on highly concessional terms.

[8] In the event the assumption on coffee production does not materialize and the country falls back into a fragility trap, the debt indicators would significantly worsen.

[9] The scenario assumes that, in 2013-14, GDP growth and primary balance will be at their historical average minus one-half standard deviation.

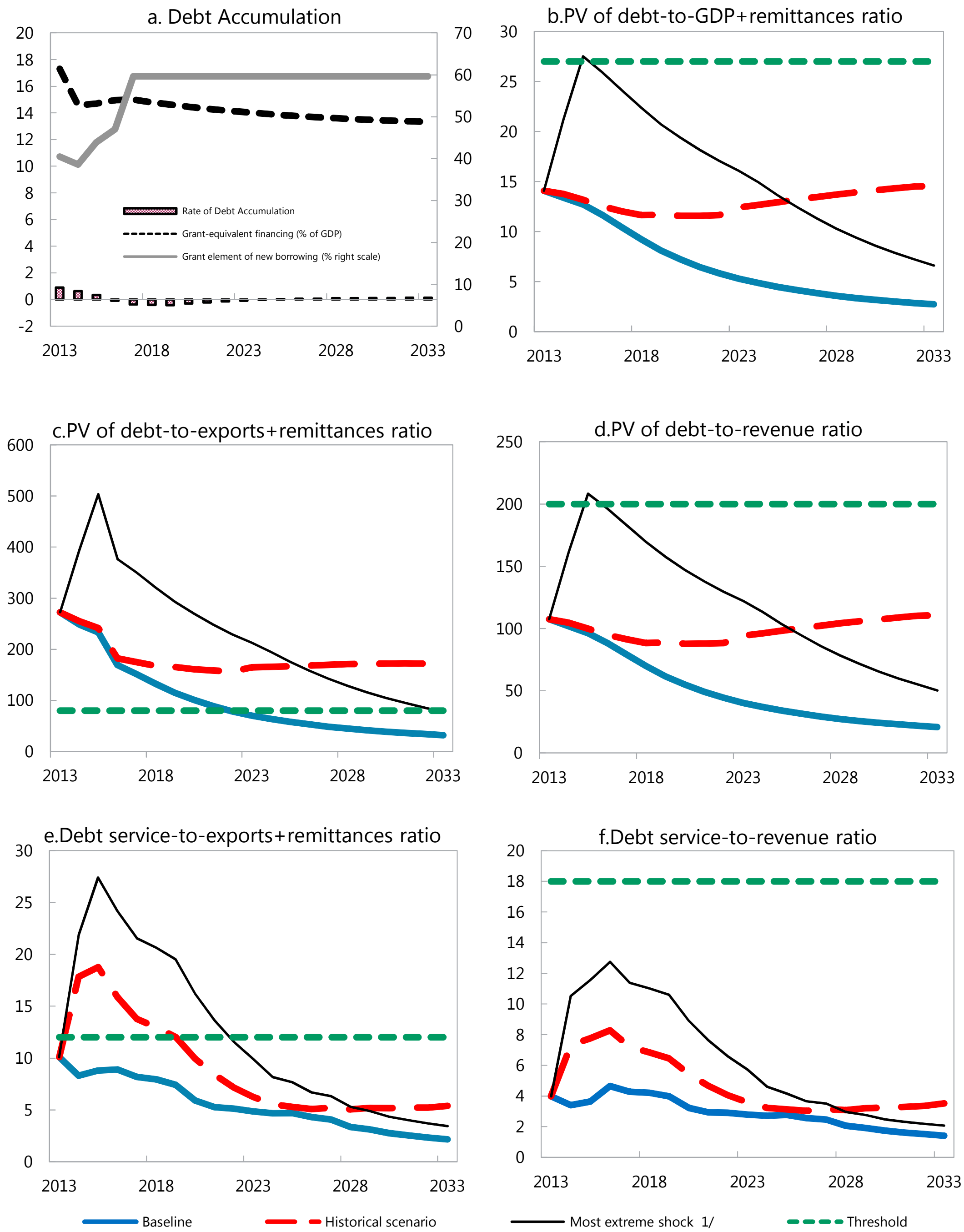
CONCLUSION

12. **Based on this LIC-DSA, staffs are of the view that Burundi continues to face a high risk of debt distress**. The debt sustainability indicators improved slightly compared to the 2012 DSA. However, the classification remains unchanged, considering that, as in the 2012 DSA, the PV of debt-to-export ratio remains above the policy threshold under the baseline.

13. **Based on this high risk classification and on the vulnerabilities shown through the alternative and stress tests scenarios, Burundi should pursue sound macroeconomic and prudent debt policies.** In particular, the analysis points to the importance of enlarging export base and diversifying export markets. This would include swift implementation of reforms in the coffee sector and unlocking export potential in other sectors (mining, tea, horticulture, and tourism). It would also be essential to continue sound policies as policy reversals are shown in the analysis as having serious hindering effect on debt sustainability. Finally, given the high risk of debt distress and the vulnerabilities, staffs encourage the authorities to continue to seek maximum concessionality in their external financing, with all nonconcessional borrowing regularly reviewed, monitored, and reported to ensure full transparency and sound governance. Staffs encourage the authorities to finalize the new law on public debt, which would provide an overreaching debt legal framework and help determine the objective, the strategy, the signing authority, and other aspects of debt management. The strengthening of debt management practices now underway is a good step towards reinforcing debt sustainability. Staffs encourage the authorities to expedite the implementation of the World Bank DeMPA mission assessment to facilitate putting in place a comprehensive medium-term debt strategy.

The authorities broadly share staffs' assessment

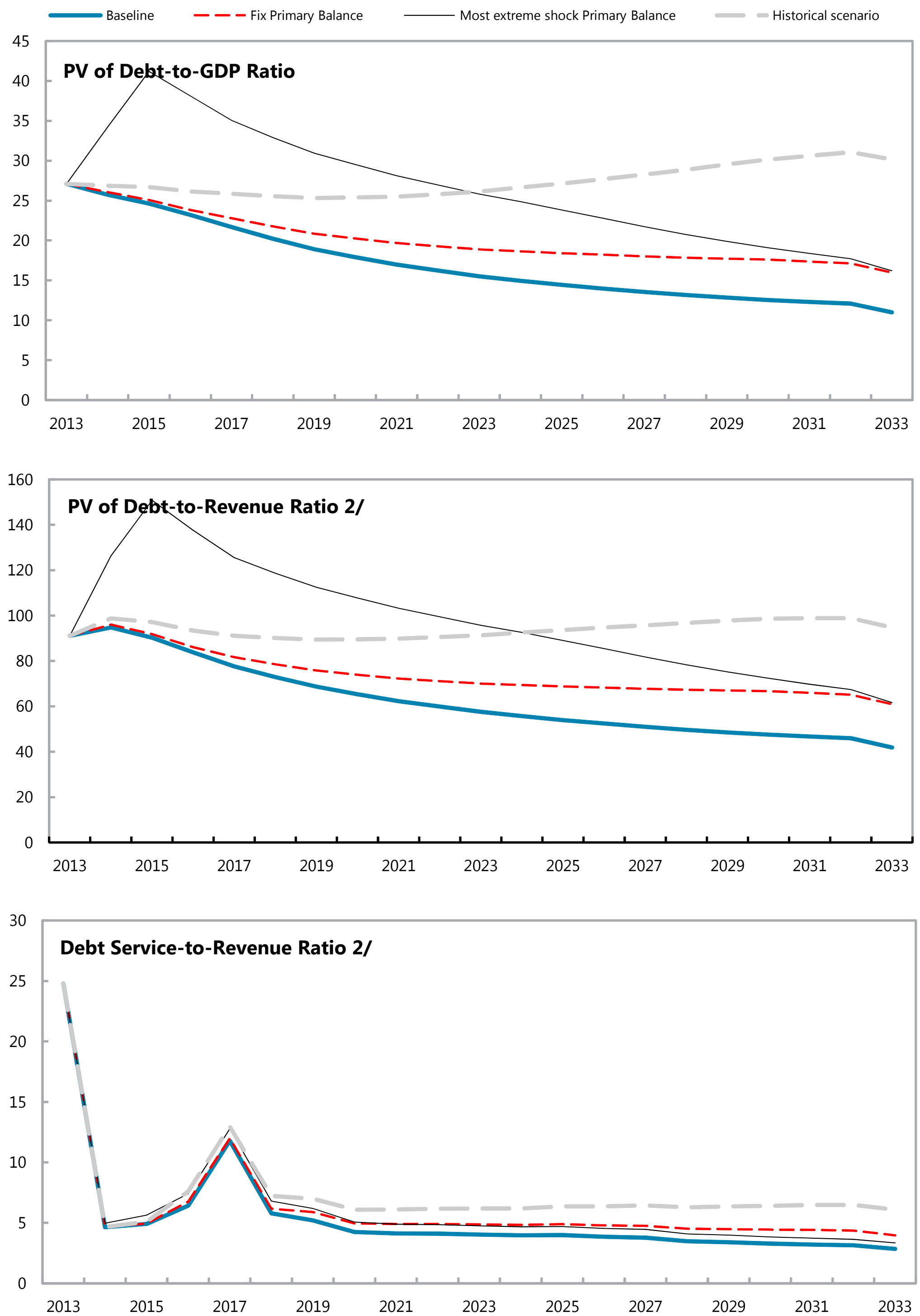
Figure 1. Burundi: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2013-2033 1/



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

1/ The most extreme stress test is the test that yields the highest ratio in 2023. In figure b. it corresponds to a Non-debt flows shock; in c. to a Non-debt flows shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Figure 2.Burundi: Indicators of Public Debt Under Alternative Scenarios, 2013–2033 1/



Sources: Burundi authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2023.
2/ Revenues are defined inclusive of grants.

Table 1.: External Debt Sustainability Framework, Baseline Scenario, 2010-2033[1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2010	2011	2012			2013	2014	2015	2016	2017	2018	2013-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**22.5**	**23.4**	**22.3**			**18.5**	**17.4**	**16.6**	**15.3**	**13.7**	**12.2**		**7.5**	**4.7**	
of which: public and publicly guaranteed (PPG)	22.5	23.4	22.3			18.5	17.4	16.6	15.3	13.7	12.2		7.5	4.7	
Change in external debt	1.3	0.9	-1.1			-3.8	-1.0	-0.8	-1.3	-1.6	-1.5		-0.6	-0.1	
Identified net debt-creating flows	-0.4	2.3	0.5			-0.1	-0.2	-0.4	-0.8	-1.4	-1.5		-2.8	-1.4	
Non-interest current account deficit	**12.2**	**14.6**	**18.4**	**7.9**	**7.8**	**22.9**	**21.2**	**21.0**	**19.9**	**17.9**	**17.2**		**15.1**	**16.9**	17.1
Deficit in balance of goods and services	34.6	34.0	37.2			35.5	32.2	31.2	29.6	27.5	26.4		22.9	23.3	
Exports	8.9	10.3	9.3			5.2	5.4	5.5	6.9	6.9	7.0		7.5	8.6	
Imports	43.5	44.3	46.5			40.7	37.6	36.6	36.4	34.4	33.4		30.5	31.9	
Net current transfers (negative = inflow)	-23.0	-20.2	-19.0	-20.3	4.2	-12.8	-11.2	-10.3	-9.7	-9.5	-9.2		-7.7	-6.4	-7.3
of which: official	-17.3	-12.8	-13.8			-7.9	-6.6	-5.9	-5.4	-5.4	-5.2		-4.4	-3.6	
Other current account flows (negative = net inflow)	0.5	0.7	0.3			0.3	0.2	0.1	0.1	0.0	-0.1		-0.2	0.0	
Net FDI (negative = inflow)	**-10.0**	**-10.6**	**-16.6**	**-6.1**	**7.3**	**-22.3**	**-20.8**	**-20.8**	**-20.1**	**-18.8**	**-18.1**		**-17.5**	**-18.1**	-18.4
Endogenous debt dynamics 2/	**-2.6**	**-1.6**	**-1.3**			**-0.7**	**-0.7**	**-0.6**	**-0.6**	**-0.6**	**-0.5**		**-0.4**	**-0.3**	
Denominator: 1+g+r+gr	1.1	1.1	1.1			1.2	1.1	1.1	1.1	1.1	1.1		1.1	1.1	
Contribution from nominal interest rate	0.1	0.1	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.0	
Contribution from real GDP growth	-0.9	-0.9	-0.9			-0.9	-0.8	-0.8	-0.8	-0.7	-0.7		-0.4	-0.3	
Contribution from price and exchange rate changes	-1.7	-0.8	-0.6			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**1.7**	**-1.4**	**-1.6**			**-3.7**	**-0.8**	**-0.5**	**-0.6**	**-0.2**	**0.0**		**2.1**	**1.3**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	16.9			14.1	13.4	12.7	11.6	10.4	9.2		5.3	2.7	
In percent of exports	...	...	180.7			272.6	248.5	233.0	169.2	151.2	132.3		70.1	32.0	
PV of PPG external debt	**...**	**...**	**16.9**			**14.1**	**13.4**	**12.7**	**11.6**	**10.4**	**9.2**		**5.3**	**2.7**	
In percent of exports	**...**	**...**	**180.7**			**272.6**	**248.5**	**233.0**	**169.2**	**151.2**	**132.3**		**70.1**	**32.0**	
In percent of government revenues	**...**	**...**	**108.1**			**107.5**	**101.9**	**96.4**	**88.3**	**78.9**	**69.9**		**40.2**	**20.9**	
Debt service-to-exports ratio (in percent)	**1.3**	**2.2**	**5.3**			**10.1**	**8.3**	**8.8**	**8.9**	**8.2**	**8.0**		**4.9**	**2.2**	
PPG debt service-to-exports ratio (in percent)	**1.3**	**2.2**	**5.3**			**10.1**	**8.3**	**8.8**	**8.9**	**8.2**	**8.0**		**4.9**	**2.2**	
PPG debt service-to-revenue ratio (in percent)	**0.8**	**1.4**	**3.2**			**4.0**	**3.4**	**3.6**	**4.6**	**4.3**	**4.2**		**2.8**	**1.4**	
Total gross financing need (Millions of U.S. dollars)	46.8	91.2	55.0			30.2	27.3	24.7	15.9	-11.2	-17.1		-125.5	-137.2	
Non-interest current account deficit that stabilizes debt ratio	10.9	13.6	19.5			26.7	22.3	21.8	21.3	19.5	18.7		15.7	17.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.1	4.2	4.0	4.1	0.9	4.5	4.7	4.8	5.0	5.2	5.4	4.9	5.9	7.0	6.4
GDP deflator in US dollar terms (change in percent)	8.8	3.9	2.5	8.4	8.5	12.1	4.9	3.1	3.0	2.9	3.0	4.8	2.5	2.3	2.4
Effective interest rate (percent) 5/	0.3	0.6	0.5	0.7	0.2	0.7	0.8	0.9	1.0	1.0	1.1	0.9	1.1	0.8	1.0
Growth of exports of G&S (US dollar terms, in percent)	52.3	25.1	-3.1	21.5	25.6	-35.1	14.6	9.5	36.2	8.3	9.9	7.2	10.0	11.4	10.4
Growth of imports of G&S (US dollar terms, in percent)	76.0	10.2	12.0	26.6	32.2	2.4	1.7	5.2	7.5	2.1	5.4	4.1	6.0	8.4	8.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	40.5	38.6	43.9	47.0	59.6	59.6	48.2	59.6	59.6	59.6
Government revenues (excluding grants, in percent of GDP)	14.5	16.5	15.6			13.1	13.1	13.2	13.2	13.2	13.2		13.2	13.2	13.2
Aid flows (in Millions of US dollars) 7/	490.9	513.5	467.9			474.0	437.0	481.4	530.4	578.5	619.3		878.1	1995.6	
of which: Grants	460.9	487.7	423.0			456.3	422.1	459.3	510.4	561.7	601.0		850.9	1930.6	
of which: Concessional loans	30.0	25.8	44.9			17.7	14.9	22.1	20.1	16.8	18.2		27.1	65.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			17.3	14.6	14.7	15.0	15.0	14.8		14.1	13.3	13.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			94.7	94.1	95.0	96.6	98.8	98.8		98.8	98.7	98.7
Memorandum items:															
Nominal GDP (Millions of US dollars)	2029.2	2196.1	2341.8			2743.3	3015.2	3256.5	3521.2	3810.1	4134.9		6166.2	14773.0	
Nominal dollar GDP growth	14.3	8.2	6.6			17.1	9.9	8.0	8.1	8.2	8.5	10.0	8.6	9.5	8.9
PV of PPG external debt (in Millions of US dollars)			368.3			389.3	406.7	416.7	413.8	400.5	384.9		329.8	410.2	
(PVt-PVt-1)/GDPt-1 (in percent)						0.9	0.6	0.3	-0.1	-0.4	-0.4	0.2	-0.1	0.1	0.0
Gross workers' remittances (Millions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	16.9			14.1	13.4	12.7	11.6	10.4	9.2		5.3	2.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	180.7			272.6	248.5	233.0	169.2	151.2	132.3		70.1	32.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	5.3			10.1	8.3	8.8	8.9	8.2	8.0		4.9	2.2	

Sources: Burnundi authorities; and IMF 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.

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 generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

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 2. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–2033

(In percent)

	Projections							
	2013	2014	2015	2016	2017	2018	**2023**	2033
PV of debt-to GDP ratio								
Baseline	15	14	13	12	11	9	**5**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	15	14	13	13	12	12	**12**	15
A2. New public sector loans on less favorable terms in 2013-2033 2	15	14	14	13	12	11	**7**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	15	14	14	12	11	10	**6**	3
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	15	14	14	13	12	10	**6**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	15	15	14	13	12	10	**6**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	15	22	28	26	24	23	**16**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	15	20	24	22	21	19	**13**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	15	19	18	17	15	13	**8**	4
PV of debt-to-exports ratio								
Baseline	281	256	239	174	155	136	**72**	32
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	281	262	247	186	178	170	**165**	170
A2. New public sector loans on less favorable terms in 2013-2033 2	281	263	252	188	171	152	**93**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	281	257	241	175	157	137	**72**	33
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	281	317	354	259	233	205	**113**	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	281	257	241	175	157	137	**72**	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	281	400	510	381	354	324	**214**	77
B5. Combination of B1-B4 using one-half standard deviation shocks	281	377	454	338	312	283	**182**	68
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	281	257	241	175	157	137	**72**	33
PV of debt-to-revenue ratio								
Baseline	111	105	99	90	81	72	**41**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	111	107	102	97	93	90	**95**	111
A2. New public sector loans on less favorable terms in 2013-2033 2	111	108	104	98	89	81	**53**	36
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	111	107	102	94	84	74	**43**	22
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	111	109	107	99	89	79	**47**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	111	111	108	99	89	78	**45**	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	111	164	211	199	185	171	**123**	50
B5. Combination of B1-B4 using one-half standard deviation shocks	111	149	180	169	156	143	**100**	42
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	111	148	139	128	114	101	**58**	30

Table 2. Burundi: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013-2033 (concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	10	8	9	9	8	8	**5**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	10	18	19	16	14	13	**6**	5
A2. New public sector loans on less favorable terms in 2013-2033 2	10	19	21	18	17	16	**7**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	10	19	21	18	16	15	**7**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	10	22	28	25	22	21	**10**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	10	19	21	18	16	15	**7**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	10	19	23	22	19	18	**9**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	10	20	24	22	19	18	**9**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	10	19	21	18	16	15	**7**	2
Debt service-to-revenue ratio								
Baseline	4	3	4	5	4	4	**3**	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2013-2033 1/	4	7	8	8	7	7	**4**	4
A2. New public sector loans on less favorable terms in 2013-2033 2	4	8	9	10	9	9	**4**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2014-2015	4	8	9	10	9	8	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/	4	8	9	9	8	8	**4**	2
B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015	4	8	9	10	9	9	**5**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/	4	8	10	11	10	10	**5**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	4	8	9	11	10	9	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/	4	11	12	13	12	11	**6**	2
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	55	55	55	55	55	55	**55**	55

Sources: Burundi authorities; and IMF 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/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
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, 2010-2033

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	39.7	39.6	37.7			31.5	29.8	28.5	26.8	25.0	23.2		17.7	12.9	
of which: foreign-currency denominated	22.5	23.4	22.3			18.5	17.4	16.6	15.3	13.7	12.2		7.5	4.7	
Change in public sector debt	14.7	-0.1	-1.9			-6.2	-1.7	-1.2	-1.7	-1.9	-1.8		-0.8	-1.1	
Identified debt-creating flows	-0.2	1.6	-1.1			-5.8	-1.7	-0.6	-0.8	-1.1	-0.9		-0.6	-0.1	
Primary deficit	2.3	2.5	3.0	-3.8	14.6	1.3	0.7	1.1	0.9	0.3	0.3	0.8	0.3	0.7	0.4
Revenue and grants	37.3	38.7	33.7			29.7	27.1	27.3	27.7	27.9	27.7		27.0	26.2	
of which: grants	22.7	22.2	18.1			16.6	14.0	14.1	14.5	14.7	14.5		13.8	13.1	
Primary (noninterest) expenditure	39.6	41.2	36.7			31.1	27.8	28.4	28.6	28.2	28.1		27.3	27.0	
Automatic debt dynamics	-2.5	-0.8	-3.7			-7.0	-2.3	-1.7	-1.7	-1.4	-1.3		-0.9	-0.8	
Contribution from interest rate/growth differential	-2.6	-4.5	-6.2			-5.6	-2.8	-2.2	-2.0	-1.7	-1.6		-1.0	-0.9	
of which: contribution from average real interest rate	-1.4	-2.9	-4.7			-3.9	-1.4	-0.9	-0.6	-0.4	-0.3		0.0	0.0	
of which: contribution from real GDP growth	-1.2	-1.6	-1.5			-1.6	-1.4	-1.4	-1.4	-1.3	-1.3		-1.0	-0.9	
Contribution from real exchange rate depreciation	0.1	3.6	2.5			-1.5	0.5	0.6	0.3	0.3	0.3		...	...	
Other identified debt-creating flows	0.0	0.0	-0.4			-0.1	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-0.4			-0.1	-0.1	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	0.0	0.0			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	14.9	-1.7	-0.9			-0.5	0.0	-0.6	-0.9	-0.8	-0.8		-0.2	-1.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	32.3			27.1	25.7	24.6	23.2	21.7	20.2		15.5	11.0	
of which: foreign-currency denominated	...	...	16.9			14.1	13.4	12.7	11.6	10.4	9.2		5.3	2.7	
of which: external	...	...	16.9			14.1	13.4	12.7	11.6	10.4	9.2		5.3	2.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.7	11.3	18.2			10.9	6.4	7.2	7.9	9.5	9.8		9.9	9.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	96.0			91.1	94.8	90.2	83.8	77.6	72.9		57.5	41.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	207.2			206.8	195.8	186.6	175.9	164.4	153.3		117.8	83.4	
of which: external 3/	...	...	108.1			107.5	101.9	96.4	88.3	78.9	69.9		40.2	20.9	
Debt service-to-revenue and grants ratio (in percent) 4/	1.8	12.5	36.1			24.8	4.6	4.9	6.4	11.8	5.8		4.0	2.8	
Debt service-to-revenue ratio (in percent) 4/	4.5	29.4	77.9			56.2	9.6	10.1	13.5	25.0	12.2		8.3	5.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-12.4	2.6	5.0			7.6	2.4	2.3	2.6	2.2	2.1		1.1	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.1	4.2	4.0	4.1	0.9	4.5	4.7	4.8	5.0	5.2	5.4	4.9	5.9	7.0	6.4
Average nominal interest rate on forex debt (in percent)	0.3	0.6	0.5	0.7	0.2	0.7	0.8	0.9	1.0	1.0	1.1	0.9	1.1	0.8	1.0
Average real interest rate on domestic debt (in percent)	6.4	-1.2	-10.3	-3.3	8.5	-12.4	-1.7	0.1	0.6	1.8	2.4	-1.5	2.7	2.3	2.8
Real exchange rate depreciation (in percent, + indicates depreciation)	0.3	19.1	12.7	3.7	12.2	-7.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	8.9	6.4	17.3	13.3	9.5	20.7	8.1	6.4	6.0	5.4	5.5	8.7	4.8	4.4	4.6
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	0.1	-0.1	0.1	0.2	-0.1	-0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	...	...	40.5	38.6	43.9	47.0	59.6	59.6	48.2	59.6	59.6	...

Sources: Burundi authorities; and staff estimates and projections.
1/ Central government gross debt is used.
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 generally derived over the past 10 years, subject to data availability.

Table 4. Burundi: Sensitivity Analysis for Key Indicators of Public Debt 2013-2033

	Projections							
	2013	2014	2015	2016	2017	2018	2023	2033
PV of Debt-to-GDP Ratio								
Baseline	27	26	25	23	22	20	16	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	27	27	27	26	26	26	26	30
A2. Primary balance is unchanged from 2013	27	26	25	24	23	22	19	16
A3. Permanently lower GDP growth 1/	27	26	25	23	22	21	16	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	27	26	26	24	23	22	17	13
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	27	34	41	38	35	33	26	16
B3. Combination of B1-B2 using one half standard deviation shocks	27	31	34	32	30	28	22	16
B4. One-time 30 percent real depreciation in 2014	27	31	30	28	26	24	18	12
B5. 10 percent of GDP increase in other debt-creating flows in 2014	27	31	30	27	26	24	19	13
PV of Debt-to-Revenue Ratio 2/								
Baseline	91	95	90	84	78	73	58	42
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	91	99	97	93	91	90	91	95
A2. Primary balance is unchanged from 2013	91	96	92	86	82	79	70	61
A3. Permanently lower GDP growth 1/	91	95	91	84	78	74	60	49
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	91	96	93	87	81	77	64	51
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	91	126	151	138	126	119	96	62
B3. Combination of B1-B2 using one half standard deviation shocks	91	113	124	115	106	100	82	59
B4. One-time 30 percent real depreciation in 2014	91	116	109	101	93	87	67	44
B5. 10 percent of GDP increase in other debt-creating flows in 2014	91	114	108	99	92	87	69	48
Debt Service-to-Revenue Ratio 2/								
Baseline	25	5	5	6	12	6	4	3
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	5	5	8	13	7	6	6
A2. Primary balance is unchanged from 2013	25	5	5	7	12	6	5	4
A3. Permanently lower GDP growth 1/	25	5	5	6	12	6	4	3
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015	25	5	5	7	12	6	4	3
B2. Primary balance is at historical average minus one standard deviations in 2014-2015	25	5	6	16	21	8	5	4
B3. Combination of B1-B2 using one half standard deviation shocks	25	5	6	12	17	7	5	4
B4. One-time 30 percent real depreciation in 2014	25	5	6	7	13	7	5	3
B5. 10 percent of GDP increase in other debt-creating flows in 2014	25	5	6	12	12	7	4	3

Sources: Burundi 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.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under the Extended Credit Facility Arrangement for Burundi and Approves US$7.7 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of Burundi's economic performance under the program supported by the Extended Credit Facility (ECF). The Executive Board's decision, which was taken without a meeting,[1] will allow for the disbursement of an amount equivalent to SDR 5 million (about US$7.7 million), bringing disbursements under the arrangement to an amount equivalent to SDR 20 million (about US$30.9 million). Burundi's three-year ECF arrangement was approved on January 27, 2012 (See Press Release No.12/35).

Burundi's economic recovery continues to gain momentum in the aftermath of the food and fuel shocks. Growth improved at an estimated 4.5 percent in 2013 and is projected at 4.7 percent in 2014, underpinned by the agriculture and construction sectors as well as the implementation of major infrastructure projects, including fiber optics, hydropower, and roads. There are also signs of uptick in tourist arrivals. Headline inflation declined from its peak of 25 percent in March 2012 to about 9 percent at end-2013, in the context of stable monetary and exchange rate conditions, and notable improvements in commercial banks' liquidity. International reserves fell to about 3.5 months of imports following a 38.2 percent cumulative deterioration in the terms of trade during 2012–13.

The implementation of swift corrective measures in July 2013 in response to revenue slippages was instrumental in putting the program back on track. Revenue collections, which also benefitted from the pickup in economic activity, increased by about 6 percent (year-on-year) at end-2013, outperforming program targets, and placing the 2014 budget on a sounder footing. Expenditures were broadly contained.

Program performance was satisfactory. All end-September 2013 performance criteria and indicative targets were observed, including the indicative target on pro-poor expenditure.

[1] The Executive Board takes decisions without a meeting when it is agreed by the Board that a proposal can be considered without convening formal decisions.

Satisfactory progress was made in the implementation of structural reforms. The streamlining of customs procedures at three recently established border posts with Rwanda and Tanzania is expected to ease transportation bottlenecks and lower costs of doing business. Progress was made in enhancing treasury and financial safeguards.

The macroeconomic outlook remains difficult, and external vulnerabilities persist in the context of lower international coffee prices and the narrow export base. Economic activity is projected to improve further in 2014, while the inflation outlook, absent poor harvests, remains favorable, owing to lower projected international food and fuel prices. Policy reversals of recently adopted measures, expenditure pressures in the run-up to the 2015 elections, and slippages in the implementation of structural reforms could jeopardize the macroeconomic outlook.