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November 10, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Burundi - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Burundi, which will be brought to the agenda for discussion on a date to be announced. A proposed decision appears on page 24.

Mr. Diogo (ext. 6521) or Mrs. Devaux (ext. 6519) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

BURUNDI

Staff Report for the 1987 Article IV Consultation

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Central Banking, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by A.D. Ouattara and E. Brau

November 9, 1987

I. Introduction

The 1987 Article IV consultation discussions with Burundi were held in Bujumbura during July 3-21, 1987. Burundi's representatives included the then Minister of Finance, the Minister at the President's Office in charge of Planning, 1/ the former Vice Governor of the Bank of the Republic of Burundi (the central bank), and other senior officials concerned with economic and financial management. The staff representatives were Mr. I. Diogo (head-AFR), Mrs. M. Tyler (ETR), Mrs. G. Devaux (AFR), Messrs. F. Corfmat (FAD) and H. Snoek (CBD), and Ms. Y. Guyon (secretary-AFR). Mr. P. Isenman, Director for the East African Region, and Mrs. M. Freire (both IBRD) took part in the discussions of the revised rolling policy framework paper (PFP), which could serve as the basis for negotiating the second annual arrangement under the structural adjustment facility (SAF). Following the change of government that took place on September 3, 1987, additional discussions were held during September 29-October 2, 1987 with Burundi's representatives to the Bank/Fund Annual Meetings. These discussions are reflected in the consultation reports.

Considerable progress was made in discussions of a revised and extended PFP for the period 1988-90. An agreement could not be reached on some of the policy recommendations relating in particular to fiscal, credit, interest rate, and exchange rate policies. At the request of the authorities, technical assistance is being provided by the Fiscal Affairs and Central Banking Departments on some of the issues. It is expected that, following these technical assistance missions, negotiation of the PFP can be concluded and the second annual SAF program put in place toward the end of the year.

1/ A new cabinet was appointed on October 1, 1987.

The last Article IV consultation with Burundi was concluded by the Executive Board on August 8, 1986 (EBM/86/134). At that time, Directors commended the authorities for their decision to implement a comprehensive adjustment program that, together with the World Bank-supported structural reform program, would help reverse the recent deterioration in Burundi's financial situation. Specifically, they noted the Government commitment to follow a flexible exchange rate policy that would help strengthen production incentives in the export sector, liberalize imports and achieve a viable balance of payments position over the medium term, without recourse to import and exchange restrictions. They viewed the Government decision to reduce further the overall fiscal deficit as an essential step to achieving an overall improvement in its financial position. They noted that the increase in the structure of interest rates that the authorities have implemented would encourage a rational utilization of domestic credit and savings, reduce Government recourse to foreign borrowing and related rising debt service payments.

Burundi is on the standard 12-month consultation cycle and continues to avail itself of the transitional arrangements of Article XIV. There are no Fund holdings of Burundi francs subject to repurchase. Summaries of Burundi's relations with the Fund and the World Bank Group are provided in Appendices I and II, respectively.

II. Recent Economic Developments

1. Background

Economic activity in Burundi rebounded in 1985 following a period of low and erratic growth of real gross domestic product (GDP). Real GDP grew by about 7.4 percent compared with an average real growth rate of about 1 percent during the period 1982-84 (Table 1). Value added in the primary sector and crop processing activities in the manufacturing sector rose sharply. An ample supply of food crops, combined with stagnating import prices, contributed to a reduction in the domestic inflation rate to 3.7 percent, about one third the average rate of inflation during 1982-84. The financial operations of the Central Government also improved, and the consolidated overall deficit, 1/ as a ratio to GDP, was reduced to 7.5 percent from an average of 14.1 percent during 1982-84. These developments contributed to lowering the external current account deficit 2/ from 17.8 percent of GDP during 1982-84 to 11.8 percent of GDP in 1985. The overall balance of payments, which had recorded deficits during most of the preceding years, registered a surplus of about SDR 9 million, and net international reserves rose to

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1/ Measured throughout the paper on a commitment basis and excluding grants, unless otherwise indicated.

2/ Unless otherwise stated, the current account deficit excludes public transfers.

Table 1. Burundi: Selected Economic and Financial Indicators, 1981-87

	1981	1982	1983	1984	1985	1986 Est.	1987 Proj.
	(Annual percentage changes, unless otherwise specified)						
National income and prices							
GDP at market prices (constant prices)	10.9	-0.4	3.1	-0.1	7.4	4.4	1.7
Implicit GDP deflator	-5.0	5.8	6.1	17.2	9.2	2.3	8.0
Consumer prices	12.0	5.8	8.3	14.4	3.7	1.8	8.0
External sector (in SDRs)							
Exports, f.o.b.	26.7	21.6	-1.1	12.4	32.5	-0.9	-30.8
Imports, c.i.f.	6.0	41.9	-11.4	6.2	1.6	-6.6	-0.1
Export volume	46.6	7.5	-1.9	-7.2	32.3	-14.9	15.7
Import volume	-3.6	39.9	14.0	12.2	1.8	-4.1	2.2
Terms of trade	-21.4	11.5	-2.0	28.0	0.2	19.8	-38.8
Real effective exchange rate 1/ (depreciation -)	15.2	13.6	-13.1	24.8	-13.3	-18.9	...
Annual average	...	9.7	9.2	-7.5	2.2	-13.3	...
Consolidated Central Government							
Revenue and grants	9.2	10.2	-6.0	31.6	12.3	18.4	-7.1
Revenue	-0.2	21.2	-8.3	32.5	15.6	21.0	-17.8
Total expenditure and net lending (on a commitment basis)	4.3	17.4	25.2	-0.5	-0.1	7.7	6.9
Money and credit							
Domestic credit 2/	43.0	13.9	23.7	6.7	14.4	-0.5	14.2
Government 2/	21.4	14.3	18.3	8.6	8.3	-4.5	12.9
Private sector 2/	21.6	-0.3	5.5	-1.9	6.7	4.0	1.3
Money and quasi-money (M2)	25.1	-1.0	26.4	3.8	18.3	10.1	19.0
Income velocity (GDP/M2)	5.7	6.0	5.2	5.9	5.8	5.7	5.2
	(In percent of GDP, unless otherwise specified)						
External sector							
Current account deficit							
Excluding official transfers	-12.6	-17.0	-19.9	-16.4	-11.8	-10.4	-12.9
Including official transfers	-2.9	-8.6	-11.4	-8.6	-4.9	-4.0	-6.7
External debt (end of period)	16.1	20.2	29.5	36.2	35.5	35.6	41.3
Debt service ratio 3/	6.0	8.2	16.6	21.2	21.2	22.1	36.9
Consolidated Central Government							
Revenue and grants	18.0	18.7	16.1	18.1	17.3	19.2	16.2
Revenue	13.0	14.9	12.5	14.1	13.9	15.8	11.8
Revenue excluding taxes on coffee	13.0	14.3	12.5	11.9	11.3	12.5	11.5
Expenditure and net lending 4/	24.8	27.6	30.6	25.7	21.5	22.3	21.7
Consolidated overall deficit 4/							
Excluding grants	-11.8	-12.7	-18.1	-11.5	-7.5	-6.5	-9.9
Including grants	-6.8	-8.9	-14.5	-7.6	-4.1	-3.1	-5.5
Domestic bank financing (net)	3.3	2.7	2.8	2.0	1.5	-0.3	2.1
Foreign financing (net)	2.6	4.5	9.4	6.7	3.8	4.3	3.4
Investment 5/	16.6	13.9	17.8	18.4	14.1	10.6	...
National savings	13.7	5.3	7.4	10.0	9.3	6.6	...
Domestic savings	5.4	-1.4	1.5	4.2	4.8	2.6	...
	(In millions of SDRs, unless otherwise specified)						
External sector							
Current account deficit	-24.6	-161.4	-188.4	-159.2	-131.9	-131.1	-166.0
Overall balance of payments	-20.7	-29.4	6.5	-1.7	8.9	18.8	2.2
Gross official reserves 6/	3.8	1.4	1.2	1.0	1.4	3.3	3.4
Net official reserves 6/	2.9	0.5	0.8	0.8	1.3	2.4	2.6

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ Trade-weighted, December to December.
2/ Expressed in percent of beginning-of-period money stock.
3/ Expressed as a ratio of exports of goods and nonfactor services, and private transfers (excluding proposed SAF and stand-by arrangement).
4/ On a commitment basis.
5/ Includes variations in stocks.
6/ End of period, in months of imports of goods and nonfactor services.

the equivalent of 1.3 months of imports of goods and nonfactor services at the end of 1985.

Against this background of relative improvement in economic and financial performance, the Government decided, in mid-1986, to implement policy reforms designed to encourage growth and the diversification of production and exports, domestic savings, and efficient resource allocation. The authorities' reform program was supported by an IBRD Structural Adjustment Credit (SAC), a stand-by arrangement in the amount of SDR 21 million covering the period August 8, 1986-March 31, 1988, 1/ and a loan of SDR 8.4 million under the SAF covering the period July 1, 1986-June 30, 1987.

2. Performance under the adjustment program

In the context of the Fund- and Bank-supported adjustment program, Burundi implemented a comprehensive reform program that affected financial and external sector policies, resource allocation, and investment. The Government adopted an exchange rate policy aimed at correcting the past real effective appreciation of the Burundi franc and at preventing any new real appreciation. Moreover, the authorities liberalized the exchange and trade system by removing quantitative import restrictions, except on a limited list of items, and the import tariff structure was substantially modified to rationalize the tariff system and reduce effective protection. 2/ Under the program, the Government raised the limits on transfers of foreigners' earned incomes, rents, profits, and dividends. 3/ To improve external debt management, a committee was set up to monitor new external debt contracting with a view to ensuring that all new borrowing, except for normal import-related trade credits, was for viable investment projects and on concessional terms.

The Government initiated measures to improve the operations of the public enterprise sector. During 1986, four loss-making enterprises were closed down. In addition, an administrative service in charge of

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1/ The stand-by arrangement was essentially precautionary in nature.

2/ The duties on luxury goods have been set at 100 percent compared with a range of 30-250 percent previously; duties on other manufactured products have been set at 50 percent compared with a range of 15-100 percent previously; and those on food products at 25 percent as against 5-100 percent previously.

3/ As a first step, the limits on immediate transfers were raised from 30 percent to 40 percent for wages and salaries; from 0 percent to 40 percent for rental income on old buildings; from 40 percent to 45 percent and 30 percent to 40 percent for dividends relating to industrial and agricultural enterprises, and commercial and service enterprises, respectively; and from 30 percent to 40 percent for remuneration of nonresident beneficiaries.

public enterprises (SCEP) has been set up to coordinate public enterprise operations, and oversee the rehabilitation program of the sector. The Government also abolished the price control system, and public utility tariffs, which continue to be set administratively, are being reviewed periodically to ensure cost recovery. The Government also raised the producer prices of coffee and tea, Burundi's main export crops, and granted premia for higher quality output.

The Government has adopted a new investment code that eliminated guaranteed access to the local market; removed, with some exceptions, the exemption of import duties on equipment and industrial imports; extended benefits of the code to small enterprises; and guaranteed the repatriation of foreign capital investments approved under the code. Through these provisions, the Government sought to limit potential revenue loss to the budget, while, at the same time, ensuring adequate incentives to private investors.

On the fiscal front, the Government revamped the structure and rates of selected indirect taxes. The transaction tax was replaced by a single stage turnover tax, and the consumption tax on beer was converted from a specific tax into an ad valorem tax. In the monetary sector, the Government introduced a more flexible interest rate policy, promoting positive real interest rates, and also lowered the banking system's net claims on the Government so as to allow an expansion of credit to the private sector.

To some extent, the results achieved in 1986 were favorable. Real GDP is estimated to have grown by 4.4 percent, which, although below the post-drought recovery growth rate in 1985, was more robust than the performance during 1982-84. The primary sector, and food crop production activities in particular, made the strongest contribution to the increase in real GDP, followed by construction activities in the secondary sector, and public services in the service sector. Increased food crop availability and a reduction of traders' profit margins contributed to further lowering the rate of domestic inflation to about 2 percent.

Although growth and inflation performance was better than anticipated, the improvement in Burundi's external and financial position did not materialize to the extent estimated under the stand-by arrangement and SAF programs. The external current account deficit, instead of decreasing by SDR 17.2 million as envisaged under the program, remained virtually unchanged at SDR 131.1 million (Table 2). This could be attributed to a less favorable than programmed performance of coffee exports owing to transportation difficulties and the lack of an

Table 2. Burundi: Balance of Payments, 1982-87

(In millions of SDRs)

	1982	1983	1984	1985	1986 Prog.	1986 Actual	1987 Prog.	1987 Rev. proj.
Current account	-161.4	-188.4	-159.2	-131.9	-114.7	-131.1	-148.7	-166.0
Trade balance	-116.9	-120.5	-117.5	-81.7	-40.0	-64.6	-71.0	-95.0
Exports, f.o.b.	77.1	76.3	85.7	113.6	156.0	112.6	144.6	77.9
Imports, c.i.f. (customs data)	-194.0	-171.8	-182.4	-185.4	-196.0	-173.1	-215.6	-172.9
Other imports 1/	--	-25.0	-20.8	-9.9	--	-4.1	--	--
Services (net)	-51.2	-73.5	-47.8	-57.8	-81.4	-70.4	-84.7	-74.7
Nonfactor services	-27.5	-48.9	-21.5	-25.6	-50.3	-25.7	-56.9	-29.0
Receipts	13.1	17.0	13.1	9.2	15.0	9.4	15.0	9.1
Payments	-40.6	-65.9	-34.6	-34.8	-65.3	-35.1	-71.9	-38.1
Project-related services	(-19.9)	(-43.8)	(-15.0)	(-11.8)	(...)	(-11.0)	(...)	(-12.4)
Other	(-20.7)	(-22.1)	(-19.6)	(-23.0)	(...)	(-24.1)	(...)	(-25.7)
Factor services (net)	-23.7	-24.6	-26.3	-32.2	-31.1	-44.7	-27.8	-45.7
Interest payments	(-4.1)	(-5.2)	(-8.6)	(-11.6)	(-9.1)	(-11.5)	(-10.1)	(-13.6)
Other	(-19.6)	(-19.4)	(-17.7)	(-20.6)	(-22.0)	(-33.2)	(-17.7)	(-32.1)
Private transfers (net)	6.7	5.6	6.1	7.6	6.7	3.9	7.0	3.7
Capital account	131.5	184.2	158.1	142.7	172.6	150.9	174.5	168.2
Official transfers	80.0	80.0	76.1	77.0	77.9	86.5	79.8	79.1
Direct investment	1.3	0.4	0.9	1.5	2.1	1.3	2.7	1.3
Medium- and long-term official loans (net)	42.1	100.4	79.1	55.0	100.3	59.1	92.9	87.8
Disbursements	46.2	106.8	88.0	71.0	120.1	75.4	115.5	107.7
Of which: IBRD Structural Adjustment Credit	(--)	(--)	(--)	(--)	(23.0)	(13.8)	(23.0)	(24.8)
Amortization	-4.1	-6.4	-8.9	-16.0	-19.8	-16.3	-22.6	-19.9
Short-term capital	6.6	4.0	1.3	7.6	7.7	5.2	-0.9	--
Monetary capital	1.5	-0.6	0.7	1.6	--	-1.2	--	--
Errors and omissions	2.5	10.7	-0.6	-1.9	--	-1.0	--	--
Overall balance	-27.4	6.5	-1.7	8.9	57.9	18.8	25.8	2.2
Memorandum items:								
Change in net official reserves (- indicates increase)	27.4	-6.5	1.7	-8.9	-57.9	-18.8	-25.8	-2.2
Outstanding net official reserves	10.3	16.8	15.1	24.0	81.3	42.8	107.1	45.0
In months of imports	0.5	0.8	0.8	1.3	3.7	2.4	4.5	2.6
Outstanding gross official reserves	28.3	26.9	20.7	27.7	84.9	57.7	110.8	59.9
In months of imports	1.4	1.2	1.0	1.4	3.9	3.3	4.7	3.4
Debt service as a percentage of exports of goods and non-factor services, and private transfers	8.5	16.6	21.2	21.2	16.3	22.1	19.6	36.9
Current account/GDP 2/	-17.0	-19.9	-16.4	-11.8	-10.6 3/	-10.4	-13.9 3/	-12.8
Volume of coffee exports (in tons)	29,367	28,118	25,401	33,838	34,000	28,281	35,919	29,100
Average unit price of coffee exports (SDR/kg)	2.34	2.36	2.79	2.85	3.88	3.39	3.30	1.83

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ Relates to an adjustment for the difference between the value of imports as recorded in customs data and the recorded external financing (see SM/87/...).

2/ GDP in Burundi francs converted into SDRs at rates necessary to maintain the real effective exchange rate constant at the 1982 level.

3/ The program targets for the ratio of the current account to GDP for 1986 and 1987 were set at minus 10.6 percent and minus 13.9 percent, respectively, with the GDP in Burundi francs converted into SDRs at the average official exchange rate.

appropriate marketing strategy on the part of the marketing agency, the Burundi coffee company (BCC). 1/

Net capital inflows (including official transfers) amounted to SDR 150.9 million compared with a program projection of SDR 172.6 million. Multilateral medium- and long-term loan disbursements were SDR 41.2 million lower than estimated, notwithstanding receipts of SDR 13.8 million in respect of the IBRD Structural Adjustment Credit, and higher official transfers, owing to lower disbursements of other medium- and long-term loans. The overall balance of payments surplus of SDR 18.8 million recorded in 1986 was SDR 39.1 million below the program target. The resulting level of net international reserves of SDR 42.8 million was equivalent to 2.4 months of imports of goods and nonfactor services, compared with a target of 3.7 months. While, as a ratio to GDP, the stock of external debt was lower than estimated under the program, the less favorable export performance resulted in a debt service ratio of 22.1 percent compared with a target of 16.3 percent.

Developments in the external sector also had an adverse impact on the financial operations of the Central Government. As a ratio to GDP, the overall deficit of 6.5 percent exceeded the program target of 4.2 percent (Table 3). Given the need to finance the larger deficit, the Government was able to reduce its net indebtedness to the banking system by only FBu 1.1 billion compared with a reduction of FBu 5.7 billion anticipated under the program. This outcome was caused mainly by the impact of the lower-than-projected receipts from taxes on coffee exports on government revenue. 2/ Other tax revenue, including, in particular, receipts from import taxes and from taxes on beer consumption, was also lower than anticipated, reflecting a delay in increasing the tax on beer and a reduction in the value of imports, owing to the quantitative restrictions that were in place prior to the start of the program, and a relatively slower-than-anticipated adjustment of the exchange rate.

Total expenditure and net lending (on a commitment basis) were FBu 2 billion lower than envisaged under the program, owing to a reduction in capital expenditure and net lending. This, however, was not large enough to offset the shortfall in government revenue.

1/ The program estimated that, given the suspension of the International Coffee Organization export quota in February 1986 and the 28 percent increase in coffee producer prices granted at the start of the 1986/87 crop season, Burundi would export 34,000 tons of coffee (compared with an ICO annual quota of 28,200 tons) at an average price of SDR 3.88 per kg, for a total receipt of SDR 131.8 million. Burundi actually exported 28,281 tons of coffee at an average unit value of SDR 3.39 per kg.

2/ Coffee export duties increased by only FBu 1.3 billion (less than 1.0 percent of GDP), compared with a program estimate of FBu 6.28 billion (4.2 percent of GDP).

Table 3. Burundi: Central Government Operations, 1982-87

	1982	1983	1984	1985	Stand-by 1/ Program 1986	Prel. 1986	Stand-by 1/ Program 1987	Est. 1987	SAF 2/ Program July 1986/ June 1987	Est. July 1986/ June 1987
	(In billions of Burundi francs)									
Revenue and grants	17.64	16.57	21.81	24.49	35.16	28.99	36.75	26.93	40.44	30.11
Revenue	14.03	12.86	17.04	19.69	29.37	23.83	30.02	19.60	34.18	24.50
Tax revenue	12.57	11.85	16.03	18.22	27.57	21.21	28.16	17.40	31.83	22.54
Income tax	3.28	3.18	3.88	3.70	4.30	4.11	4.60	3.36	4.58	3.83
Transactions tax	1.39	2.07	2.54	2.85	4.20	3.50	3.24	3.50	3.67	3.66
Tax on beer and soft drinks	3.52	3.16	3.36	3.76	4.49	3.94	4.94	4.27	4.79	4.25
Import duties	3.20	2.77	3.24	3.38	4.63	4.28	5.78	5.41	4.94	5.35
Coffee export duties	0.57	—	2.68	3.66	9.94	4.96	7.74	0.61	13.03	4.83
Other taxes	0.61	0.67	0.33	0.87	0.77	0.68	0.90	0.25	0.82	0.62
Nontax revenue	1.46	1.01	1.01	1.47	1.80	2.62	1.86	2.20	2.35	1.96
Grants 3/	3.61	3.71	4.77	4.80	5.79	5.16	6.73	7.33	6.26	5.61
Total expenditures and net lending 4/	25.98	31.52	30.93	30.33	35.68	33.68	40.88	35.99	38.61	37.37
Current	13.28	13.25	13.46	14.83	17.26	17.26	18.18	19.87	19.72	18.22
Salaries	5.92	6.03	6.47	7.08	7.85	7.81	8.24	8.44	8.17	8.34
Goods and services	3.03	2.30	2.77	3.78	4.26	4.25	4.70	4.70	4.89	3.74
Transfers and subsidies	1.12	1.26	1.24	1.80	1.98	2.09	2.11	2.47	2.33	2.24
Interest	0.45	0.85	1.55	1.98	2.69	2.23	2.60	3.04	3.38	3.10
Other 5/	2.76	2.81	1.43	0.19	0.48	0.88	0.53	1.22	0.95	0.80
Capital expenditure and net lending	12.70	18.27	17.47	15.50	18.42	16.42	22.70	16.12	17.65	16.30
Locally financed (BEI)	4.50	4.29	3.79	2.90	3.02	2.92	3.05	2.92	2.16	2.92
Foreign financed 6/	8.20	13.98	13.68	12.60	15.40	13.50	19.65	13.20	15.49	13.38
Overall balance (commitment basis)	-8.34	-14.95	-9.12	-5.84	-0.52	-4.69	-4.13	-9.06	1.83	-7.26
Change in arrears (decrease -) 7/	1.49	2.41	-1.41	-1.56	-1.86	-1.37	--	—	-1.36	-0.77
Overall balance (cash basis)	-6.85	-12.54	-10.53	-7.40	-2.38	-6.06	-4.13	-9.06	0.47	-8.03
Financing	6.85	12.54	10.53	7.40	2.38	6.06	4.13	9.06	-0.47	8.03
External (net)	4.27	9.70	8.10	5.32	8.05	6.48	10.04	5.62	9.00	8.21
Drawings	4.59	10.27	8.91	6.72	10.27	8.43	12.92	8.56	11.60	10.83
Amortization	-0.32	-0.57	-0.81	-1.40	-2.22	-1.95	-2.88	-2.94	-2.60	-2.62
Domestic (net)	2.58	2.84	2.43	2.08	-5.67	-0.42	-5.91	3.44	-9.47	-0.18
Banking system	2.15	2.88	1.71	1.63	-5.67	-1.08	-5.91	2.58	-9.47	-2.04
Other	0.43	-0.04	0.72	0.45	--	0.66	—	0.86	—	1.86
Memorandum items:										
Nominal GDP	94.10	102.90	120.50	141.30	151.00	151.00	165.80	165.80	158.40	158.40
	(In percent of GDP)									
Total revenue and grants	18.7	16.1	18.1	17.3	23.3	19.2	22.2	16.2	25.5	19.0
(Revenue excluding coffee)	(14.3)	(12.5)	(11.9)	(11.3)	(12.9)	(12.5)	(13.4)	(11.5)	(13.4)	(12.4)
Total expenditure and net lending	27.6	30.6	25.7	21.5	23.6	22.3	24.6	21.7	24.4	23.6
Overall deficit including grants 4/	-8.9	-14.5	-7.6	-4.1	-0.3	-3.1	-2.5	-5.5	1.0	-4.6
Overall deficit excluding grants 4/	-12.7	-18.1	-11.5	-7.5	-4.2	-6.5	-6.6	-9.9	-2.8	-8.1

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ The stand-by arrangement (SBA) covers 1986 and 1987.
2/ The first year structural adjustment facility (SAF) loan covers July 1986-June 1987.
3/ Include SAC and STABEX earmarked to BEI.
4/ On a commitment basis.
5/ Includes global adjustment to deficit related to extrabudgetary operations on other government accounts.
6/ Includes outlays financed with "crédit-relais" (1.08 in 1985 and 0.22 in 1986).
7/ Actual amount of bona fide verifiable arrears.

As a result of the larger overall deficit and the related smaller reduction in net bank claims on the Government, domestic credit was only 0.5 percent lower than in 1985, compared with a reduction of 17 percent targeted under the program. In line with these developments, the mid-term review of the stand-by arrangement could not be completed because the end-September and end-December 1986 performance criteria relating to total domestic credit, net credit to the Government, and the minimum levels of net foreign asset holdings were not met. More importantly, it became apparent that the targets set under the program for 1987 could not be attained.

3. Developments in 1987 and medium-term prospects

a. Developments in 1987

The balance of payments in 1987 is dominated by the sharp deterioration in the terms of trade. These are projected to decline by nearly 40 percent, reflecting mainly the expected fall in coffee prices by some 46 percent from the exceptionally high level recorded in 1986. While export volume is expected to increase by nearly 16 percent, in particular because of tea, cotton and manufactures, this increase will only partly offset a decrease by 40 percent in average unit prices, and export earnings are projected to fall by over 30 percent to SDR 78 million. With import payments projected to increase only fractionally, the current account deficit is now expected to widen to SDR 166 million, SDR 17.3 million larger than originally targeted under the program. The latter assumed a decline in coffee prices of only 15 percent in 1987, while volume was estimated to be 23 percent higher than presently projected.

Net capital inflows are now forecast to increase by 11 percent to SDR 168.2 million, SDR 6 million lower than assumed under the program. The increase in 1987 is to be accounted for in a large part by higher disbursements under the IBRD SAC. Based on the above developments, the overall balance of payments is projected to be in virtual equilibrium compared with a projected surplus of SDR 25.8 million under the program. Reflecting the projected larger net capital inflows, net international reserves at the end of 1987 will cover the equivalent of 2.5 months of imports of goods and nonfactor services. The debt service ratio would rise to nearly 37 percent.

The less favorable external sector developments will again be reflected in a weaker financial position for the Central Government in 1987. The overall deficit in the central government operations is estimated to increase to 10 percent of GDP in contrast to the 1987 program target of 6.6 percent of GDP. As a ratio to GDP, a revenue shortfall from the program's estimates equivalent to 6.3 percent will be only partially offset by a level of total expenditure and net lending 3 percentage points of GDP below the level anticipated in the program. Export duties on coffee are estimated to be limited to about 0.4 percent of GDP against a program estimate of 4.7 percent, while noncoffee tax revenues are projected to be 2.2 percentage points of GDP lower than anticipated under the program. Among other major categories of fiscal revenue, taxes on income and profits will be lower, owing to relatively weaker economic activity and tax administration difficulties, while the projected reduction in the transaction tax reflects increasing exemptions.

The lower total expenditure and net lending relative to the program target will stem mainly from a reduction by some 4 percentage points of GDP in capital expenditure and net lending that will more than offset a current expenditure level projected at about 1 percentage point of GDP above the program estimates. Interest payments, extrabudgetary outlays on special accounts, and transfers and subsidies will all be higher than initially programmed. Outlays on wages and salaries are projected to rise by 8 percent in 1987 (0.4 percent of GDP), even before account is taken of the impact on the budget of the recruitment of new teachers slated for the latter part of the year. The resulting larger overall deficit will entail an increase in bank financing, a development that would run counter to the program requirement that the Government reduce its indebtedness to the banking system by FBu 5.91 billion (equivalent to 22 percent of broad money at the start of the period).

On the basis of these developments, the benchmarks and targets set under the first annual program (July 1, 1986-June 30, 1987) supported by the structural adjustment facility have not been met (Table 4). Specifically, the overall deficit of the central government operations (including grants) amounted to FBu 7.26 billion (4.6 percent of GDP) compared with a targeted surplus of FBu 1.83 billion (1.0 percent of GDP). The quantitative benchmarks set for the period September 1986 to June 1987 for domestic credit, net credit to the Government, the quarterly minimum level of net official foreign asset holdings, as well as the ratio of the overall deficit in central government operations relative to GDP, have all been exceeded. Throughout the period, however, the Government achieved the targeted reduction in domestic arrears and refrained from contracting or guaranteeing nonconcessional loans in the maturity ranges of 0 to 1 year and 1 to 12 years, as stipulated by the program. In addition, the Government observed the qualitative benchmarks relating to structural policy reforms, except in cases where discussions with the World Bank have not been completed (Table 5).

b. Medium-term outlook

The analysis in this section is based on two scenarios that alternatively assess Burundi's external prospects, in case a new program is not put in place and there is a relaxation of the adjustment effort, or with a continuation of appropriate adjustment policies. In case the adjustment program is relaxed, and based on the latest World Economic Outlook estimates for export prospects and import prices, Burundi's balance of payments position is likely to remain weak beyond the 1980s (Table 6). Export projections would continue to be dominated by

Table 4. Burundi: Performance Criteria and Benchmarks
Under the 1986/87 Program and Actual Outcome

	1986				1987			
	Sept.		Dec.		March		June	
	Program	Actual	Program	Actual	Program	Actual	Program	Actual
	(In billions of Burundi francs; end of period)							
Total domestic credit	29.0	30.3	24.0	27.2	22.4	26.4	21.2	28.5
Net credit to Government 1/	15.1	15.2	9.8	13.5	7.9	13.0	5.7	15.6
Cumulative reductions of domestic arrears by Government	1.0	...	1.9	1.4 2/	--	...	--	--
	(In millions of SDRs; end of period)							
Minimum levels of net official foreign assets (excluding gold)	20.0	28.6	71.0	42.1	72.0	42.3	73.6	27.7
New nonconcessional foreign borrowing contracted or guaranteed by the public sector in the maturity range of:								
0 to 1 year 3/	--	--	--	--	--	--	--	--
1 to 12 years	--	--	--	--	--	--	--	--

(In percent)

	1986		1986/87 4/	
	Program	Actual	Program	Actual
Ratio of the overall deficit in central government financial operations to GDP (including grants) 5/	-0.3	3.1	1.0	-4.6

Source: Data provided by the Burundi authorities and staff estimates.

1/ Including Stabilization Fund.
2/ The amount of FBu 1.9 billion of outstanding arrears at end-1986 in the program was overstated as it included unpaid expenditures which were committed but not yet delivered or for which no payment orders were issued. All arrears were cleared at end-1986.
3/ Excludes normal commercial credits.
4/ July 1, 1986-June 30, 1987. The deficit/GDP ratios are estimated on the basis of a nominal GDP projected at FBu 168.7 billion for the program, and revised to FBu 158.4 billion.
5/ On a commitment basis.

Table 5. Burundi: Benchmarks for Policy Implementation under the Structural Adjustment Facility

Policy measures	Program implementation date	Actual date of implementation
1. Liberalization of import and exchange controls		
- Automatic granting of import licenses for all products except glass, textile and pharmaceutical products, and a few luxury items, which will remain subject to temporary controls;	Before August 1, 1986.	July 1986.
- The remaining quantitative restrictions on luxury items will be replaced by import tariffs;	Before end-1986.	Under discussion between World Bank and the Government.
- Review of the restrictions on other products;	Before end-1986.	Under discussion between World Bank and the Government.
- With objective of eliminating or replacing them with appropriate tariffs;	Before end-1987.	Under discussion between World Bank and the Government.
- Increase in the limits on outward foreign remittances.	First increase effective before end-June;	June 1986.
	Second increase effective January 1, 1987.	January 1, 1987.
2. Comprehensive reform of the import tariff structure		
- Consolidation of the import and fiscal duties, and establishment of a new range of tariffs.	Luxury products: 100 percent during 1986-87; manufactured products: 50 percent in 1986; food products: 15 percent during 1986-87; intermediate goods and other primary products: 15 percent in 1986; and equipment goods: 15 percent in 1986;	August 1986.
	Manufactured products: 45 percent in 1987, 40 percent in 1988-89; intermediate goods and other primary products: 25 percent in 1988, 30 percent in 1989; and equipment goods, 25 percent in 1987-89.	Under discussion between World Bank and the Government.
3. Public enterprises		
- Introduction of new tariffs for water and electricity	Before August 1, 1986.	July 21, 1986.
- Launching of rehabilitation program for the priority enterprises (CADEBU, ONAPHA, OTRABU, OTRACO, VERRUNDI)	July 1986.	From August 1986.

Source: EBS/86/147, and data provided by the authorities.

Table 6. Burundi: Balance of Payments, 1984-92,
Under "Relaxed Adjustment" Scenario

(In millions of SDRs)

	1984	1985	1986		1987		1988	1989	1990	1991	1992
			Prog.	Actual	Prog.	Rev. Proj.	Projections				
Current account	-159.2	-131.9	-114.7	-131.1	-148.7	-166.0	-162.1	-168.1	-173.6	-181.2	-188.9
Trade balance	-117.5	-81.4	-40.0	-64.6	-71.0	-95.0	-89.0	-93.8	-99.0	-105.0	-111.6
Exports, f.o.b.	85.7	113.6	156.0	112.6	144.6	77.9	83.0	89.3	94.7	101.9	110.2
Imports, c.i.f. (customs data)	-182.4	-185.4	-196.0	-173.1	-215.6	-172.9	-172.0	-183.1	-193.7	-206.9	-221.8
Other imports	-20.8	-9.9	--	-4.1	--	--	--	--	--	--	--
Services and transfers (net)	-41.7	-50.2	-74.7	-66.5	-77.7	-71.0	-73.1	-74.3	-74.6	-76.2	-78.3
Nonfactor services	-21.5	-25.6	-50.3	-25.7	-56.9	-29.0	-30.8	-32.1	-31.9	-32.7	-34.3
Receipts	13.1	9.2	15.0	9.4	15.0	9.1	9.3	10.5	11.8	13.1	14.1
Payments	-34.6	-34.8	-65.3	-35.1	-71.9	-38.1	-40.1	-42.6	-43.7	-45.8	-48.4
Project-related services	(-15.0)	(-11.8)	(...)	(-11.0)	(...)	(-12.4)	(-12.8)	(-13.7)	(-13.3)	(-13.5)	(-14.0)
Other	(-19.6)	(-23.0)	(...)	(-24.1)	(...)	(-25.7)	(-27.3)	(-28.9)	(-30.4)	(-32.3)	(-34.4)
Factor services (net)	-26.3	-32.2	-31.1	-44.7	-27.8	-45.7	-46.1	-47.2	-48.5	-49.9	-51.4
Interest payments	(-8.6)	(-11.6)	(-9.1)	(-11.5)	(-10.1)	(-13.6)	(-13.4)	(-13.4)	(-13.6)	(-13.7)	(-14.0)
Other	(-17.7)	(-20.6)	(-22.0)	(-33.2)	(-17.7)	(-32.1)	(-32.7)	(-33.8)	(-34.9)	(-36.2)	(-37.4)
Private transfers	6.1	7.6	6.7	3.9	7.0	3.7	3.8	5.0	5.8	6.3	7.5
Capital account	158.1	142.7	172.6	150.9	174.5	168.2	156.2	164.2	160.3	164.2	171.2
Official transfers	76.1	77.0	77.9	86.5	79.8	79.1	80.6	85.8	88.8	91.9	95.1
Direct investment	0.9	1.5	2.1	1.3	2.7	1.3	2.8	3.5	5.4	6.5	7.5
Medium- and long-term loans (net)	79.1	55.0	100.3	59.1	92.9	87.8	72.8	75.4	66.1	65.8	68.6
Disbursements	88.0	71.0	120.1	75.4	115.5	107.7	93.6	96.6	87.6	87.2	90.0
Of which: IBRD Structural Adjustment Credit	(--)	(--)	(23.0)	(13.8)	(23.0)	(24.8)	(--)	(--)	(--)	(--)	(--)
Amortization	-8.9	-16.0	-19.8	-16.3	-22.6	-19.9	-20.8	-21.2	-21.5	-21.4	-21.4
Short-term capital	1.3	7.6	7.7	5.2	-0.9	--	--	--	--	--	--
Monetary capital	0.7	1.6	--	-1.2	--	--	--	--	--	--	--
Errors and omissions	-0.6	-1.9	--	-1.0	--	--	--	--	--	--	--
Overall balance	-1.7	8.9	57.9	18.8	25.8	2.2	-5.9	-3.9	-13.3	-17.0	-18.7
Change in net official reserves (- indicates increase)	1.7	-8.9	-57.9	-18.8	-25.8	-2.2	5.9	6.4	13.3	17.0	18.7
Memorandum items:											
Outstanding net official reserves	15.1	24.0	81.3	42.8	107.1	45.0	39.1	35.2	21.9	4.9	-13.8
In months of imports	0.8	1.3	3.7	2.4	4.5	2.6	2.2	1.9	1.1	0.2	...
Outstanding gross official reserves	20.7	27.7	84.9	57.7	110.8	59.9	54.0	50.1	36.8	19.8	1.1
In months of imports	1.0	1.4	3.9	3.3	4.7	3.4	3.1	2.7	1.9	0.9	0.05
Debt service as a percentage of exports of goods and nonfactor services, and private transfers	21.2	21.1	16.3	22.1	19.6	36.9	35.6	33.0	31.2	28.9	26.6
Export volume (1981 = 100) 1/	97.8	129.4		110.1		127.4	128.8	134.0	138.0	144.3	150.3
(Stand-by program estimates)	(112.0)	(132.0)	(138.6)	(--)	(145.9)	(--)	(153.2)	(160.9)	(169.0)	(177.4)	(186.3)
Volume of coffee exports (In tons)	25,401	33,838	34,000	28,281	35,919	29,100	30,000	30,750	31,500	32,300	33,275
Average unit price of coffee exports (SDR/kg)											
WEO	3.09	3.17	...	3.62	...	1.94	2.07	2.16	2.21	2.29	...
Burundi	2.79	2.85	3.88	3.39	3.30	1.83	1.92	1.99	2.03	2.11	2.19
Import prices 1981 = 100	98.8	98.7		96.1		93.9	96.0	99.1	102.6	106.2	109.9
(Program)	(96.6)	(102.4)	(99.0)		(103.1)		(108.5)	(112.6)	(117.3)	(122.1)	(...)

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ Coffee exports under the stand-by program were defined as originating from the port of Bujumbura. Taking into account severe transportation problems that have been encountered, exports are now defined as actual coffee shipments from the port of Dar es Salaam (Tanzania).

prospects for coffee, and it is assumed that transportation problems to Dar es Salaam would be resolved only gradually. Total coffee shipments would recover to the record levels of 1985 only by 1992 and prices would increase slowly. Following a favorable performance in 1986-87, the rate of growth of nontraditional exports, notably manufactures, would be expected to slow down, hampered by an inappropriate exchange rate policy.

Projections for net capital inflows assume that the level of official transfers would be broadly maintained in real terms over the period 1988-92. On the basis of a survey conducted at the end of 1986 that was updated during the mission, disbursements of concessional loans during 1988-92 are projected to be on average some 15 percent below their 1987 level. Taking into account the projected amortization payments on external debt, net capital inflows during 1988-91 are forecast to be about 4 percent below their 1987 level and then to increase by about 6 percent to SDR 171 million in 1992.

On the basis of the foregoing, imports are projected to grow by only about 1 percent per annum in real terms during 1988-92. The current account deficit would widen from SDR 166 million in 1987 to SDR 189 million in 1992, and the overall balance of payments would record deficits in every year, rising from SDR 6 million in 1988 to SDR 19 million in 1992. Net official reserves would decline in every year to a negative position of SDR 14 million at the end of 1992, while gross official reserves would be virtually depleted by the end of 1992. This probably would result in a reversal of the exchange and trade liberalization measures implemented in 1986 and part of 1987. This scenario clearly represents an unsustainable situation and is not consistent with the Government's objective of achieving a real GDP growth rate of 4 percent annually during the period, originating mainly from the manufacturing sector.

A second scenario served as the basis for discussions with the authorities of the medium-term outlook (Table 7). It assumes that there would be policy changes sufficient to result in an increase in exports that would make their 1992 value about 20 percent higher than in the first scenario, as nontraditional exports would benefit mainly from a more appropriate exchange rate policy. Policy changes would also encourage an average of SDR 19 million a year under World Bank structural adjustment lending, and additional concessional financing that would allow a real increase in imports of about 3 percent per annum over the period, and a building up of gross reserves to a targeted level of four months of imports of goods and nonfactor services. This scenario would be more conducive to the realization of the authorities' growth objectives.

Table 7. Burundi: Balance of Payments, 1984-92
Under an "Adjustment" Scenario

(In millions of SDRs)

	1984	1985	1986 Prog.	1986 Actual	1987 Prog.	1987 Rev. Proj.	1988 Projections	1989 Projections	1990 Projections	1991 Projections	1992 Projections
Current account	-159.2	-131.9	-114.7	-131.1	-148.7	-166.0	-179.7	-183.9	-184.9	-188.4	-188.8
Trade balance	-117.5	-81.4	-40.0	-64.6	-71.0	-102.0	-106.5	-109.3	-110.0	-111.8	-110.1
Exports, f.o.b.	85.7	113.6	156.0	112.6	144.6	77.9	84.5	92.8	102.7	114.1	130.7
Imports, c.i.f. (customs data)	-182.4	-185.4	-196.0	-173.1	-215.6	-172.9	-191.0	-202.1	-212.7	-225.9	-240.8
Other imports	-20.8	-9.9	--	-4.1	--	--	--	--	--	--	--
Services and transfers (net)	-41.7	-50.2	-74.7	-66.5	-77.7	-71.0	-73.2	-74.5	-74.9	-76.6	-78.8
Nonfactor services	-21.5	-25.6	-50.3	-25.7	-56.9	-29.0	-30.8	-32.1	-31.9	-32.7	-34.3
Receipts	13.1	9.2	15.0	9.4	15.0	9.1	9.3	10.5	11.8	13.1	14.1
Payments	-34.6	-34.8	-65.3	-35.1	-71.9	-38.1	-40.1	-42.6	-43.7	-45.8	-48.4
Project-related services	(-15.0)	(-11.8)	(...)	(-11.0)	(...)	(-12.4)	(-12.8)	(-13.7)	(-13.3)	(-13.5)	(-14.0)
Other	(-19.6)	(-23.0)	(...)	(-24.1)	(...)	(-25.7)	(-27.3)	(-28.9)	(-30.4)	(-32.3)	(-34.4)
Factor services (net)	-26.3	-32.2	-31.1	-44.7	-27.8	-45.7	-46.2	-47.4	-48.8	-50.3	-51.9
Interest payments	(-8.6)	(-11.6)	(-9.1)	(-11.5)	(-10.1)	(-13.6)	(-13.5)	(-13.6)	(-13.9)	(-14.1)	(-14.5)
Other	(-17.7)	(-20.6)	(-22.0)	(-33.2)	(-17.7)	(-32.1)	(-32.7)	(-33.8)	(-34.9)	(-36.2)	(-37.4)
Private transfers	6.1	7.6	6.7	3.9	7.0	3.7	3.8	5.0	5.8	6.3	7.5
Capital account	158.1	142.7	172.6	150.9	174.5	168.2	175.2	183.7	179.3	183.2	190.3
Official transfers	76.1	77.0	77.9	86.5	79.8	79.1	80.6	85.8	88.8	91.9	95.1
Direct investment	0.9	1.5	2.1	1.3	2.7	1.3	2.8	3.5	5.4	6.5	7.5
Medium- and long-term loans (net)	79.1	55.0	100.3	59.1	92.9	87.8	91.8	94.4	85.1	84.8	87.6
Disbursements	88.0	71.0	120.1	75.4	115.5	107.7	112.6	115.6	106.6	106.2	109.0
Of which: IBRD Structural Adjustment Credit	(--)	(--)	(23.0)	(13.8)	(23.0)	(24.8)	(19.0)	(19.0)	(19.0)	(19.0)	(19.0)
Amortization	-8.9	-16.0	-19.8	-16.3	-22.6	-19.9	-20.8	-21.2	-21.5	-21.4	-21.4
Short-term capital	1.3	7.6	7.7	5.2	-0.9	--	--	--	--	--	--
Monetary capital	0.7	1.6	--	-1.2	--	--	--	--	--	--	--
Errors and omissions	-0.6	-1.9	--	-1.0	--	--	--	--	--	--	--
Overall balance	-1.7	8.9	57.9	18.8	25.8	2.2	-4.4	-0.1	-5.6	-5.2	1.4
Memorandum items:											
A. Change in net official reserves (- indicates increase)	1.7	-8.9	-57.9	-18.8	-25.8	-2.2	4.4	0.1	5.6	5.2	-1.4
B. Outstanding net official reserves	15.1	24.0	81.3	42.8	107.1	45.0	40.6	40.5	34.9	29.7	31.1
In months of imports	0.8	1.3	3.7	2.4	4.5	2.6	2.1	2.0	1.6	1.3	1.3
C. Outstanding gross official reserves	20.7	27.7	84.9	57.7	110.8	59.9	55.5	55.4	49.8	44.6	45.9
In months of imports	1.0	1.4	3.9	3.3	4.7	3.4	2.9	2.7	2.3	2.0	1.9
D. Outstanding gross official reserves after financing prev. year's reserve target	--	--	--	--	--	59.9	68.3	77.0	76.1	80.3	92.0
E. Gross official reserves target	--	--	--	--	--	72.7	77.1	81.7	85.5	90.6	96.4
In months of imports	--	--	--	--	--	4.0	4.0	4.0	4.0	4.0	4.0
F. Required increase in gross reserves to meet target = Financing gap (E-D)	--	--	--	--	--	12.8	8.8	4.7	9.4	10.3	4.4
Debt service as a percentage of exports of goods and nonfactor services, and private transfers	21.2	21.1	16.3	22.1	19.6	36.9	35.1	32.1	29.4	26.6	23.6
Export volume 1/ 1981= 100	97.8	129.4		110.1		127.4	131.3	139.3	149.7	161.6	178.4
(Stand-by program estimates)	(112.0)	(132.0)	(138.6)		(145.9)		(153.2)	(160.9)	(169.0)	(177.4)	(186.3)

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ Coffee exports under the stand-by program were defined as originating from the port of Bujumbura. Taking into account severe transportation problems that have been encountered, exports are now defined as actual coffee shipments from the port of Dar es Salaam (Tanzania).

III. Report on the Discussions

Against this background, the discussions focused on production, financial, and exchange rate policies that would contribute to strengthening the external position over the medium term while improving the prospects for sustained economic growth.

1. Production policies

Under the Fifth Economic and Social Development Plan (1983-87) now in its final year, the Burundi Government has devoted large resources to investments in the agriculture sector. Consequently, the economy's capacity for producing and processing export crops, namely coffee, tea, and cotton, has sharply increased. While noting this progress, the mission observed that the Plan's impact on the diversification of the production base has been less significant. Thus, traditional cash crops continue to dominate Burundi's exports, and earnings are greatly affected by weather conditions, transportation bottlenecks, and fluctuations of world prices for primary commodities. The importance of putting in place suitable policies to achieve a diversified production is heightened in the mission's view by the weak medium-term prospects for coffee. The authorities recognized the need to broaden and diversify the country's economic base so as to lessen the impact of exogenous factors on economic growth. In this light, they indicated that under the new five-year plan being prepared, agro-based import-substitution projects will be emphasized without sacrificing the necessary balance between food crops and export products. In addition, the plan also will stress infrastructure projects that will alleviate the transportation bottlenecks that have hampered export shipment in the past.

In the public enterprise sector, the Government is confident that the rehabilitation program will increase output in these productive units for local and regional export markets. Recognizing the crucial role of pricing policies in promoting an efficient allocation of resources, the authorities stated that they have taken further steps to liberalize pricing policy in the industrial sector. The beer brewing company, BRARUDI, is now allowed to freely set the sale price of its products, taking into account market-related factors. The Government also stated its intention to review public utility tariffs, and the rates for water and electric power will be examined with the World Bank before the end of the year, with a view to ensuring cost recovery and a reasonable return on investment.

Regarding major export crops, the mission inquired about the Government's commitment to periodically review producer prices to ensure that they continue to provide adequate incentives for increased quality output, at a time when world market prices are declining. The authorities indicated that the current levels of producer prices appear to be adequate and that there is no evidence to suggest that producers are unwilling to sell at the prevailing prices. In addition, they stressed that in 1986, coffee producers were granted a price increase of 28 percent in nominal terms while domestic inflation abated to just about 2 percent. They considered that a continuing moderation of domestic inflation would ensure that producers' purchasing power is maintained. They did not consider it appropriate, at this time of sharply lower world market prices, to grant any additional price increase to coffee producers that could lead to an expansion of coffee plantation acreage at the expense of food crop cultivation. The same position holds for cotton prices that have been kept unchanged since 1986 when world market prices collapsed. The authorities indicated that they will continue, however, to monitor all producer prices very carefully, and, in that connection, they were looking forward to a study commissioned by the French Caisse Centrale de Coopération Economique (CCCE) on various aspects of coffee production, which could serve as the basis for future pricing policy in the sector.

2. Financial policies

Transportation difficulties, combined with an inappropriate marketing strategy, prevented Burundi from realizing in 1986, the full windfall gains emanating from the exceptional rise in world market prices for coffee, which would have contributed to a sharp improvement in the Government's financial position. The mission noted that while no discretionary revenue measure was taken to limit the impact of these factors, even noncoffee-based revenues, as a ratio to GDP, were lower than the program's estimates. The mission was concerned by these structural weaknesses and recommended measures to strengthen the share of noncoffee revenue in total receipts and to moderate the upward trend in the share of current outlays so as to devote a rising proportion of revenue to investment expenditures, which will help achieve the Government's development objectives.

Among the revenue measures, the mission suggested that the newly established transaction tax be extended to the service sector. The mission also proposed that the second stage of the tariff reform launched last year be implemented, with further adjustments of the duty rates for various categories of imports. In this connection, the mission felt that the prevailing high duty rates applicable to luxury products could be replaced by excise taxes. Finally, the mission recommended that direct income taxation could be rationalized with a reduction in the number of tax brackets and a simplification of the system of deductions and exemptions.

Regarding outlays, the mission suggested that the Government take steps to contain the rate of increase in the wage bill mainly by reviewing and tightening recruitment policy. The mission emphasized that the recruitment-induced rise in the wage bill, while no wage increase has been awarded since 1980 to civil servants already on the job, is leading increasingly to a low morale problem for the existing staff.

In response to the mission's suggestions, the authorities recognized the need to strengthen and diversify the budget revenue base so as to ensure that government operations are not excessively influenced by exogenous factors, including the world market price for coffee. In that connection, they expressed interest in the revenue measures recommended by the mission. They felt, however, that a broader review of the tax system might be called for before new measures are adopted that could help lower the projected deficit for 1987 and strengthen the Government's financial position over the medium term. They have requested technical assistance from the Fund to help them conduct this review and evaluate the impact of the proposed revenue measures on the economy. They intend to implement the recommendations of the technical assistance mission in the context of the 1988 budget.

Regarding expenditure trends and, in particular, the impact of the recruitment policy on the wage bill, the Government intends to undertake a comprehensive review of its employment policy in connection with the Public Expenditure Program (PEP) covering the next three years, which will be prepared with World Bank assistance and become effective in 1988.

With the view to encouraging domestic savings, the Government raised the interest rate structure in 1986 in such a way that time and savings deposit rates became positive in real terms, in relation to the projected annual inflation rate. As discussed earlier, actual inflation turned out to be much lower than anticipated, and, given inconsistencies in the interest rate structure--in particular, the decision to increase only marginally the Central Bank's discount rate on coffee credit--the banks preferred rediscounting such credits rather than taking new time deposits, and converted such maturing deposits into demand deposits. Taking these developments into account, on May 1, 1987, the Government reduced interest rates to about the levels prevailing prior to the rise in August 1986. In particular, the key 12-month savings deposit rate was lowered from 12 percent to 7 percent.

The mission stressed that the Government's interest rate policy was also designed to support the balance of payments objective. Current projections indicate that the balance of payments objectives for 1987 may not be reached, and that the external position is likely to remain weak over the medium term. Moreover, the rate of inflation, which had reached 6.5 percent on a year-to-year basis at end-May, is likely to exceed 7 percent on an annual average basis for 1987 as a whole, leading again to possible negative real rates on time and savings deposits. The mission noted that these developments underscore the need for the authorities to keep interest rate levels under close review, and implement adjustments that could be required to support the balance of payments objective, and to preserve incentives to invest in domestic financial assets. The mission also indicated that, to alleviate the administrative burden on the central bank, which currently sets 19 different individual interest rates, the bank's role could be limited to setting the discount rate on coffee credit, the most sensitive rate for the deposit money banks, while other deposit and lending rates will be determined freely by the market.

In acknowledging the mission's concerns, the Government reiterated its objective of increasing domestic savings through appropriate policies, including interest rate policy. In this connection, it indicated that developing trust and confidence of savers in the banking system and expanding access can play as important a role as promoting positive real interest rates. The authorities stated that they are planning to introduce treasury bills, to be subscribed through auctions which could help absorb excess liquidity and also provide valuable indications of a market-related interest rate level. As for limiting the number of interest rates determined administratively by the central bank, the Government expressed the wish to study the mission's recommendation, preferably with Fund technical assistance, before a final decision is made, in light of the sensitive nature of credit to the coffee sector in Burundi.

3. External policies

The Burundi franc has been adjusted periodically since July 1986 with the result that, by mid-March 1987, the real effective exchange rate has been depreciated by 15 percent. The flexible management of the exchange rate has been stopped since then, and as of end-August 1987, the real effective exchange rate has appreciated by about 5 percent in line with rising domestic prices. Unless reversed again, this development is likely to lead to a further weakening of Burundi's external position over the medium term, taking into account the adverse impact of the projected sharp deterioration of Burundi's terms of trade on its financial position. Furthermore, it is estimated that under present circumstances, both the coffee and tea marketing agencies are likely to record losses that could require budgetary transfers. The mission observed that these developments warrant further adjustments of the exchange rate.

While the authorities expressed concern at these prospects, they argued that the weaker-than-programmed external position was the result of optimistic balance of payments projections, and not the result of expansionary policies. The authorities did not appear ready to take any offsetting measures that would help improve the financial position of the marketing agencies or the budget.

In a related area, the mission noted that government revenue was enhanced in 1986 in part because, by keeping retail prices of petroleum products unchanged at a time of lower world market prices, the Government absorbed into the budget the margin between lower import costs and unchanged prices at the pump. As oil prices have been rising recently, the mission indicated that maintaining retail prices at the same level could result in a reduction in government revenue from oil products taxation at a time when overall government fiscal revenue is declining. The mission proposed that, through a modest adjustment of retail prices for petroleum products that would reflect the pass-through of the exchange rate depreciations since mid-1986, the authorities could maintain revenue from oil products taxation at the 1986 level. The Government, however, felt that an increase in retail prices of petroleum products would not be consistent with the objective of promoting price stability. The mission emphasized that the pricing policy for these products should not lead to the Government subsidizing consumption of petroleum products. To guard against such a prospect, the authorities would need to keep developments on the world oil markets under close review and be prepared to implement appropriate price adjustments as warranted by higher import costs.

The mission reviewed various aspects of the Government's policy of liberalization of exchange and trade restrictions. Under this policy, the Government has raised in two stages the limits on transfers of foreign-earned incomes, dividends, and profits. The most recent increase was implemented in January 1987, at a time when official international reserves were declining. As the weakening trend of the balance of payments persisted during the year, there are indications that some aspects of the trade and exchange liberalization process may have been set back. In particular, it appears that import licenses are being granted more slowly than previously. While the authorities did not confirm these indications, they left open the possibility of slowing down the liberalization process if developments on the world coffee markets continue to weaken the external position. The mission stressed that an appropriate exchange rate policy would obviate the need to reverse the liberalization process.

The mission also inquired about difficulties encountered by some foreign firms, in particular oil distribution companies, following the Government's decision to implement a policy of "Burundization" of the economy, which reserves a number of activities exclusively for Burundi nationals. The authorities indicated that they considered it legitimate that Burundi nationals should play an increasingly active role in the economy, including domestic trading activities of oil products for which they have now been granted a monopoly position. However, the authorities indicated that foreign oil companies continued to have valid import licenses and thus far have not expressed any wish to sell their assets to local interests. They further stressed that current Burundi legislation provides for full repatriation of the sales proceeds of capital assets for all approved foreign concerns that have complied with their fiscal obligations toward the Government. They assured the mission that there are no plans to retract from this regulation even as it may apply to foreign oil distribution firms.

IV. Staff Appraisal

Economic and financial performance in Burundi improved to some extent in 1986 compared with the results achieved in previous years. The results achieved in 1986, however, fell short of the targets under the stand-by arrangement program concerning the overall deficit of the central government financial operations, the associated reduction in the banking system's net claims on the Government, the external current account deficit, the overall surplus of the balance of payments, and the net international reserve holdings. Despite record high world market prices for coffee, receipts from coffee exports were adversely affected by transportation problems and stock building by the marketing agency in anticipation of yet better prices. In addition, some policy reform measures were either implemented with delay (the reform of the transaction tax) or not implemented at all (the increase in the beer tax), thus reducing or eliminating the anticipated impact on the financial position of the Government. But above all, the implementation of the financial program revealed that, with the exception of interest rate policy where commercial banks were successful in forcing changes in policy, there was a very limited administrative capacity to adapt policies to evolving circumstances.

Thus, despite the transportation difficulties encountered in 1986, the transportation bottlenecks have not yet been fully addressed and the managerial capacity of the marketing agency still needs to be strengthened. On the fiscal front, lower government revenue did not elicit prompt and effective offsetting measures, either through raising additional revenue or through making appropriate reductions in the Government's current outlays. Indeed, while revenue has been below target, some expenditure categories, including the wage bill, have been on, or even above targeted levels. In particular, recruitment into the civil service has continued with the result that the wage bill is rising, while staff already on the job are dissatisfied that their salaries have been frozen since 1980.

The lack of flexibility in policy adaptation is also evident in the authorities' reaction thus far to the weakening situation in 1987. Thus, the overall deficit of the Central Government is projected to be larger than initially estimated, owing to the weaker-than-projected revenue from coffee exports, but no new revenue measures, including an adjustment in retail price of petroleum products to maintain receipts at their 1986 level, have been prepared to mitigate the impact of the coffee revenue shortfall.

In the productive sectors, the authorities' intention to emphasize a diversification of the economic base by introducing or expanding new crops to replace some imports and enlarge the export base is welcome. In light of the projected weaker external prospects over the medium term, the studies of the relevant projects should be completed as soon as possible and the projects initiated without delay. In the manufacturing sector, the reform of the tariff system needs to be continued and strengthened. The rehabilitation of five designated public enterprises with World Bank assistance is expected to reinforce the contribution of the manufacturing sector to value added and diversification of exports. The rehabilitated enterprises are also expected to make a greater contribution to an improvement in government finances, by paying corporate income taxes and shouldering their external debt service.

The relative improvement in the overall financial position of the Central Government in the last two years came about as the result of a better revenue performance, attributable mainly to exceptional increases in export duties on coffee combined with a decline in capital expenditure and net lending; the latter reflected either slow preparation/implementation of development projects or the winding down of major investment projects in the final years of the current development plan. These trends illustrate the main weakness of the financial situation, namely, the relatively lackluster performance of noncoffee revenue and the structural upward bias in current expenditure, under the combined influence of the recruitment-related increase in the wage bill, rising debt service, transfers, and extrabudgetary outlays. A determined effort to address these issues will be required to bring about a sustainable improvement in the overall financial situation.

In this connection, the revenue measures initiated in 1986 need to be expanded and strengthened. Such a process would enable the Government to reduce the share of coffee-based revenue and shield its operations from the fluctuations of revenue derived from coffee exports, which are largely outside government control. On the expenditure side, the Government's recruitment policies would have to be consistent with the need to strike an appropriate balance between wage and nonwage recurrent expenditure, while generating enough savings from fiscal revenue to provide the local counterpart to foreign financing of investment outlays. Such policies will also help achieve an overall deficit position that will not require excessive domestic bank financing.

The authorities need to keep the interest rate structure, and time and savings deposit rates in particular, under close review so as to make the necessary adjustments warranted by price and external sector developments. In order to achieve a more efficient allocation of credit and improve the efficiency of the central bank, the Government should reduce the number of administered interest rates and gradually change monetary policy from direct controls to a more indirect control of the money supply and monetary conditions.

The staff believes that the exchange rate policy implemented by the authorities during 1986 and part of 1987 contributed to improving the efficiency of production and strengthening the external position, in part, through increasing nontraditional exports. In light of the projected deterioration in Burundi's external terms of trade through the 1980s and the resulting weakening external position, the staff considers that the authorities should continue implementing a flexible exchange rate policy, taking into account developments in the external current account and the international reserve objective.

The staff views the liberalization of the exchange and trade system implemented by Burundi as a welcome step. The higher limits on transfers of foreign earned incomes, rents, profits, and dividends are comparable to the levels prevailing prior to intensification of restrictions in 1983-84. The staff is of the opinion that the recent decline in international reserves, stemming from terms of trade developments, should not lead the authorities to reverse the process of liberalization of the trade and exchange system; the authorities should be encouraged to continue the reform program with assistance under the second annual Structural Adjustment Program and the next World Bank SAL program. In view of Burundi's actions to liberalize the exchange system, Executive Board approval is recommended for the remaining restrictions on payments and transfers for current international transactions subject to approval under Article VIII that arise from limits on profits, dividends, and other transfers of income abroad.

It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

V. Proposed Decision

The following decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Burundi's exchange measures subject to Article VIII, Section 2, and in concluding the 1987 Article XIV consultation with Burundi, in the light of the 1987 Article IV consultation with Burundi conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Burundi maintains the restrictive exchange measures described in SM/87/--- in accordance with Article XIV, Section 2, except the exchange restrictions on foreign remittances of profits, dividends, and other income pertaining to international transactions, which are subject to approval by the Fund under Article VIII, Section 2(a). The Fund grants approval for the retention of these restrictions until the earlier of March 31, 1988, or the date of the Fund's approval of a second-year arrangement under the Structural Adjustment Facility for Burundi.

BURUNDI - Fund Relations
(As of September 30, 1987, amounts in SDRs unless otherwise indicated)

I. Membership Status

(a) Date of membership: September 28, 1963
(b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: 42.7 million
(b) Total Fund holdings of currency: 33.56 million (78.58 percent of quota)
(c) Fund credit: SDR 8.54 million (20 percent of quota)
Of which: Structural Adjustment Facility SDR 8.54 mil ion
(d) Reserve tranche position: 9.16 million
(e) Current operational budget (maximum use of currency): None
(f) Lending to the Fund: None

III. Stand-By Arrangements, Structural Adjustment Arrangement, and Special Facility

(a) Current stand-by arrangement:

Date of arrangement	Duration	Total amount	Utilization
August 8, 1986	18 months	SDR 21.0 million	--

(b) Previous stand-by arrangements approved in 1965, 1966, 1967, 1968, 1970, and 1976

(c) Structural Adjustment Facility

First annual arrangement	Total amount	Amount
August 8, 1986	SDR 27.1 million	SDR 8.54 million

(d) Special facility: CFF, approved in 1979

IV. SDR Department

(a) Net cumulative allocation: 13.70 million
(b) Holdings: 0.08 million (0.60 percent of net cumulative allocation)

V. Administered Accounts

(a) Trust Fund loan:
(i) Disbursed: 18.57 million
(ii) Outstanding: 6.75 million
(b) SFF Subsidy Account: None

BURUNDI - Fund Relations (continued)

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange System

The Burundi franc is pegged to the SDR at the rate of FBu 161.00 = SDR 1.

Burundi maintains restrictions on payments and transfers for current international transactions subject to Article VIII, Section 2.

VIII. Last Article IV Consultation

The staff report on the 1986 Article IV consultation (EBS/86/119) and the report on recent economic developments (SM/86/177) were discussed by the Executive Board on August 8, 1986. The following decision was taken:

1. The Fund takes this decision relating to Burundi's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1986 Article XIV consultation with Burundi, in the light of the 1986 Article IV consultation with Burundi conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Burundi maintains the restrictive exchange measures described in EBS/86/119 in accordance with Article XIV, Section 2, except the exchange restrictions on foreign remittances of profits, dividends, and other income pertaining to international transactions which are subject to approval by the Fund under Article VIII, Section 2(a). The Fund grants approval for the retention of these restrictions until the completion of the first review under the stand-by arrangement for Burundi set forth in EBS/86/119, Supplement 2, or December 31, 1986, whichever is earlier.

BURUNDI - Fund Relations (concluded)

IX. Technical Assistance

1982 - Experts on foreign exchange, research, bank supervision and audit
1983 - Experts on foreign exchange, research, bank supervision and audit (up to August)
1984 - Experts on foreign exchange, research, bank supervision and audit (up to September)
1985 - Two follow-up FAD missions in June and October to discuss the tax report completed in 1984
1986 - Expert on research (from May)
1987 - Expert on research (up to August)

X. Resident Representative: None

BURUNDI - Relations with the World Bank Group
(As of September 30, 1986)

A. Statement of Bank Loans and IDA Credits

Loan or Credit Number	Year	Borrower	Purpose	Amount In millions of U.S. dollars (less cancellations) Bank	IDA 1/	Undisbursed
One loan 2/ and 14 credits fully disbursed				4.8	93.03	
1049 BU	1980	Burundi	Urban development	--	15.00	3.87
1058 BU	1980	Burundi	Telecommunications	--	7.70	0.75
1154 BU	1981	Burundi	Nickel exploration	--	4.00	0.10
1165 BU 3/	1981	Burundi	Kirimiro Rural Development	--	19.30	5.68
1192 BU	1982	Burundi	Integrated Rural Development/Ngozi III	--	16.00	8.29
1230 BU	1982	Burundi	Local Construction Industry	--	4.40	0.75
1358 BU	1983	Burundi	Third Education	--	15.80	2.53
1419 BU	1983	Burundi	Ruzizi II Regional	--	15.00	9.20
1456 BU	1984	Burundi	Third Technical Assistance	--	5.10	3.67
1583 BU	1985	Burundi	Fourth Highway	--	18.10 4/	15.53
1593 BU	1985	Burundi	Power Transmission and Distribution	--	12.30 4/	11.48
1620 BU	1985	Burundi	Second Forestry	--	12.80 4/	11.16
1625 BU	1985	Burundi	Rural Water Supply	--	9.50 4/	8.48
1705 BU	1986	Burundi	Structural Adjustment	--	15.00	10.27
A017 BU	1986	Burundi	Structural Adjustment	--	16.20	9.57
Total				4.8	279.23	101.33

BURUNDI- Relations with the World Bank Group (continued)
(As of September 30, 1987)

Loan or Credit Number	Year	Borrower	Purpose		Amount In millions of U.S. dollars (less cancellations) Bank	IDA 1/	Undisbursed
	Of which: has been paid				(4.8)	(0.58)	
	Total now outstanding				--	278.65	
	Amount sold:			2.97			
	Of which: has been repaid			(2.97)			
	Total now held by Bank and IDA				--	278.65	
	Total undisbursed						101.33

B. Statement of IFC Investments

Year	Obligor	Type of Business	In millions of U.S. dollars Loan	Equity	Total
1981	Verreries du Burundi	Glass containers	4.8	0.8	5.6
Total gross commitments less cancellations, terminations, repayments, and sales			4.8	0.8	5.6
Total commitments now held by IFC			4.8	0.8	5.6
Total undisbursed			0.1	0.1	0.2

Source: World Bank.

1/ Prior to exchange adjustments.
2/ Extended in 1957 to the Belgian Trust Territory of Ruanda-Urundi for the improvement of the Bujumbura-Muramvya road and the expansion of the lake port of Bujumbura. The loan, which was guaranteed by the Kingdom of Belgium, has been fully repaid.
3/ Including a NORAD grant participation of US$5.8 million.
4/ U.S. dollar value at signing date.
5/ Not yet effective.

BURUNDI - Relations with the World Bank Group (continued)

The Government requested Bank assistance to prepare and implement a program of structural adjustment. A SAL program was appraised in November 1985 and approved by the Executive Board of the World Bank on May 22, 1986.

The main policy reforms to be carried out under SAL I are the following:

(i) a reform of the incentive system to encourage export and efficient import-substitution industries, and to discourage uneconomical investments. This would include the elimination of the current import controls, and review of the tariff structure, the abolition of price controls and the revision of the investment code to promote projects with an acceptable internal rate of return and positive impact on balance of payments and value added;

(ii) an adjustment of the agricultural pricing system to provide adequate incentives for export crops and a reorganization of the institutions in the agricultural sector;

(iii) a rationalization of the public expenditure program. Under SAL I, the size of the public investment program will be determined as a function of likely resource availabilities and adjustment needs, in the context of a three-year public expenditure program. The institutional capacity to prepare and appraise development projects will be strengthened;

(iv) a reform of the public enterprise sector. With Bank assistance, the Government will prepare an action plan, including closure and divesiture of three enterprises and preparation of rehabilitation programs for five others during the first phase of the SAL.

Project implementation is on the whole satisfactory. The disbursement rate of 27 percent in fiscal year 1982-84 is above the average for countries of the eastern and southern Africa regions. While the SAL operation and the IMF program will focus on stabilization measures and on the redressing of major macroeconomic imbalances, the lending program continues to assist the Government through infrastructure and human resources projects which will have a long-term impact on production or will improve the equity of income distribution. In the agriculture sector, the projects are geared to intensify coffee production and quality (Ngozi, Kirimiro projects), develop technical packages and extension services to intensify and diversify food crop production (Agriculture Muyinga, fiscal year 1987, BURUNDI - Relations with the World Bank Group (concluded)

and Research and Services, fiscal year 1988), protect and encourage more efficient use of land (Second Forestry Project, fiscal year 1986), and improve water supply (fiscal year 1986). The recently approved Rural Water Supply Project will establish a new system of cost recovery for rural water supply systems. In human resources, priority is given to the design of a program to control population growth through a health and population project (fiscal year 1988), and continuing assistance to primary and basic secondary education and training (Third Education Project, fiscal year 1983), as well as technical assistance to public sector management (Third Technical Assistance Project, fiscal year 1984). Under the First Urban Project, the Bank has helped the Government to establish a new urban policy, including cost recovery, while the recently identified Secondary Centers Projects will assist in improving communal organization and finance, promote artisans, and generate off-farm employment in rural areas. In the transport sector, Bank projects will contribute to lower the high cost of transportation of products to and within Burundi. Finally, in the energy sector, projects and sector work are assisting actions in key areas of forestry sector management, reduction ln the cost of oil imports, and improvement in the power transmission network and power planning.

In addition to the SAC preparation, the economic work includes a study on employment generation with a particular focus on rural areas, an analysis of the financial sector (fiscal year 1987), ways to increase the efficiency of the public sector, and a country economic memorandum which will assess long-term socio-economic development issues and prospects. As to sector work, the emphasis will be on agriculture, education, and energy.

BURUNDI - Basic Data

Area, population, and GDP per capita

Area	27,834 square kilometers
Population:	
Total (1986)	4.8 million
Growth rate	2.7 percent
GDP per capita (1986)	SDR 235

	1982	1983	1984	1985	1986 Prel.
National accounts 1/	(In billions of Burundi francs)				
Gross domestic product at 1980 factor cost	84.7	88.1	87.8	94.4	97.9
Primary sector	50.3	52.5	50.6	55.6	57.6
Secondary sector	11.5	11.9	12.1	12.8	13.6
Tertiary sector	22.9	23.7	25.1	26.0	26.7
Gross domestic product at current market prices	94.1	102.9	120.5	141.3	151.0
Imports of goods and nonfactor services	23.3	28.5	29.5	29.1	25.5
Total supply of resources					
Total use	117.4	131.4	150.0	170.4	176.5
Exports of goods and nonfactor services	9.0	10.1	12.3	15.5	13.5
Domestic demand					
Private consumption	77.2	82.5	94.4	112.2	122.1
Public consumption	18.2	20.4	21.1	22.8	24.8
Gross fixed capital formation 2/	13.1	18.4	22.2	19.9	16.0
Resource gap	-14.3	-18.4	-17.2	-13.6	-12.0
	(As percent of GDP at market prices)				
Gross fixed capital formation	13.9	17.8	18.4	14.1	10.6

1/ Including the subsistence sector.
2/ Including changes in stocks

BURUNDI - Basic Data (continued)

	1982	1983	1984	1985	1986 Prel.
Annual rate of growth and prices			(Changes in percent)		
Real GDP 1/	-2.0	4.0	-0.3	7.5	3.8
GDP deflator	5.8	6.1	17.2	9.2	2.3
Consumer price index 2/	5.8	8.3	14.4	3.7	1.8
Central government operations			(In billions of Burundi francs)		
Revenue plus grants	17.64	16.57	21.81	24.49	28.99
Revenue	14.03	12.86	17.04	19.69	23.83
Capital grants 3/	3.61	3.71	4.77	4.80	5.16
Expenditure and net lending 4/ 5/	25.98	31.52	30.93	30.33	33.68
Current	13.28	13.25	13.46	14.83	17.26
Capital and net lending	12.70	18.27	17.47	15.50	16.42
Overall deficit (-) 5/	8.34	-14.95	-9.12	-5.84	-4.69
Change in expenditure arrears (decrease -)	1.49	2.41	-1.41	-1.56	-1.37
Overall deficit (cash basis)	-6.85	-12.54	-10.53	-7.40	-6.06
Financing	6.85	12.54	10.53	7.40	6.06
Foreign (net)	4.27	9.70	8.10	5.32	6.48
Domestic (net)	2.58	2.84	2.43	2.08	-0.42
Banking system	2.15	2.88	1.71	1.63	-1.08
Other	0.43	-0.04	0.72	0.45	0.66
			(As percent of GDP)		
Revenue	14.9	12.5	14.1	13.9	15.8
Capital grants 3/	3.8	3.6	4.0	3.4	3.4
Current expenditure 5/	14.1	12.9	11.2	10.5	11.4
Capital expenditure and net lending 4/ 5/	13.5	17.8	14.5	11.0	10.9
Total expenditure and net lending 5/	27.6	30.6	25.7	21.5	22.3
Overall deficit (commitment basis)	-8.9	-14.5	-7.6	-4.1	-3.1
Overall deficit (cash basis)	-7.3	-12.2	-8.7	-5.2	-4.0

1/ At factor cost.
2/ Cost of living index for households in Bujumbura (base 100 in 1980).
3/ Including foreign grants passed on to public enterprises.
4/ Including externally financed off-budget expenditures and on-lending of the Central Government and foreign capital grants passed on to public enterprises.
5/ On a commitment basis.

BURUNDI - Basic Data (continued)

	1982	1983	1984	1985	1986 Prel.
	(In millions of Burundi francs)				
Money and credit					
Foreign assets (net)	922	2,008	1,884	2,787	6,464
Domestic credit	20,500	24,202	25,520	28,474	28,357
Government (net)	9,541	12,389	14,090	15,796	14,712
Credit to economy	10,959	11,813	11,430	12,678	13,645
Money and quasi-money	15,592	19,709	20,449	24,189	26,626
Other items (net) 1/	5,830	6,501	6,955	7,072	8,195
	(As percent of GDP)				
Credit to Government (net)	10.1	12.0	11.7	11.2	9.7
Credit to economy	11.6	11.5	9.5	9.0	9.0
Money and quasi-money	16.6	19.2	17.0	17.1	17.6
Balance of payments	(In millions of SDRs)				
Current account (excluding public transfers)	-161.4	-188.4	-159.2	-131.9	-131.1
Merchandise	-116.9	-120.5	-117.5	-81.7	-64.6
Exports, f.o.b.	77.1	76.3	85.7	113.6	112.6
Of which: coffee	(68.7)	(66.5)	(70.9)	(96.4)	(95.8)
Imports, c.i.f.	-194.0	-171.8	-182.4	-185.4	-173.1
Other imports	—	-25.0	-20.8	-9.9	-4.1
Services (net)	-51.2	-73.5	-47.8	-57.8	-70.4
Private transfers (net)	6.7	5.6	6.1	7.6	3.9
Capital account	131.5	184.2	158.1	142.7	150.9
Official transfers	80.0	80.0	76.1	77.0	86.5
Medium-term and long-term (including direct investment)	43.4	100.8	80.0	56.5	60.4
Short-term and monetary capital	8.1	3.4	2.0	9.2	4.0
SDR allocation	--	--	--	--	--
Errors and omissions	2.5	10.7	-0.6	-1.9	-1.0
Overall balance	-27.4	6.5	-1.7	8.9	18.8

1/ Includes net deposits of the Coffee Equalization Fund, medium- and long-term loans, and SDR allocations.

BURUNDI - Basic Data (continued)

	1982	1983	1984	1985	1986 Prel.
	(As percent of GDP, unless otherwise indicated) 1/				
Gross official reserves					
(in months of imports)	1.4	1.2	1.0	1.4	3.3
Exports, f.o.b.	8.1	8.0	8.8	10.2	8.9
Imports, c.i.f. (customs data only)	-20.5	-18.1	-18.8	-16.6	-13.8
Current account (excluding official transfers)	-17.0	-19.9	-16.4	-11.8	-10.4
Overall balance	-2.9	0.7	-0.1	0.8	1.5
Debt service 2/	(In millions of SDRs)				
Debt service payments	8.2	16.4	22.2	27.6	27.8
Of which: to IMF	(1.2)	(4.9)	(4.8)	(--)	(--)
Amortization	4.1	11.2	13.6	16.0	16.3
Of which: Fund repurchases	(--)	(4.8)	(4.7)	(--)	(--)
Interest payments	4.1	5.2	8.6	11.6	11.5
Of which: Fund charges	(1.2)	(0.1)	(0.1)	(--)	(--)
Debt service ratio (in percent) 3/	8.5	16.6	21.2	21.2	22.1
Of which: use of Fund credit	(1.2)	(5.0)	(4.6)	(--)	(--)

1/ GDP in Burundi francs converted into SDRs at rates necessary to maintain the real effective exchange rate constant at the 1982 level.
2/ Medium- and long-term public and publicly guaranteed debt.
3/ Debt service payments as a percentage of receipts from exports of goods and nonfactor services and private transfers.

BURUNDI - Basic Data (concluded)

Social and Demographic Indicators	
Population characteristics (1985)	
Life expectancy at birth (years)	47
Mortality rate (percent)	1.9
Infant mortality rate (percent)	1.3
Education	
Enrollment rates (primary education -- percent)	62
Health 1981 (in thousands)	
Population per physician	32.1
Population per nurse	10.3

Burundi--Statistical Issues

1. Outstanding statistical issues

a. Government finance

The government finance data published in IFS differ from those in the GFS Yearbook mainly because of a more limited coverage. The latest comprehensive data in the GFS Yearbook refer to 1981. The data for 1982 through 1986 have been reported by the GFS correspondent for publication in the 1987 GFS Yearbook. The coverage of these data is, however, incomplete; the classification of revenue and expenditure and lending by economic type is not sufficiently detailed; the functional classification of expenditure and the classification of financing by type of debt investment are missing; and as for previous years, no debt data have been provided.

Government arrears are presently defined in Burundi as the difference between expenditures committed and paid. Payment orders are not recorded. This definition tends to result in an overestimation of government arrears. The authorities have been urged to establish accounting procedures for recording payment orders in order to have a more correct estimation of arrears.

b. Monetary accounts

The authorities have made changes in the reporting system for IFS, and the staff has been working with the authorities to improve the new presentation of banking statistics. The staff discussed with the authorities the remaining problems as well as further improvements to the reporting system during the 1987 Annual Meetings.

c. Balance of payments

Burundi does not report balance of payments data to the Bureau of Statistics. A technical assistance mission in the field of balance of payments statistics visited Burundi in November 1986. The report of the mission, which was sent to the authorities in May 1987, emphasized the need for setting up a system for the collection and compilation of balance of payments data that would be consistent with the Fund's Balance of Payments Manual. Specifically, there is a need for (a) making regular coverage, valuation, classification, and timing adjustments to the exchange record data for exports and imports to bring them to a transactions basis; (b) collecting data on transactions of national and foreign airlines, on foreign aid, on foreign borrowing, on direct investment enterprises, and on stocks of external assets and liabilities; (c) compiling data on insurance and transportation services; and (d) grossing up transactions relating to the import of electricity.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Burundi in the September 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque de la République du Burundi, which during the past year have been provided on a timely basis.

Status of IFS Data

		Latest data in September 1987 IFS
Real Sector	- National Accounts	1986
	- Prices	March 1987
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	December 1986
	- Financing	December 1986
	- Debt	December 1986
Monetary Accounts	- Monetary Authorities	February 1987
	- Deposit Money Banks	February 1987
	- Other Financial Institutions	January 1987 1/
Interest Rates	- Discount Rate	January 1987
	- Bank Lending/Deposit Rates	January 1987
	- Bond Yields	February 1987
External Sector	- Merchandise Trade: Values	
	Exports	February 1987
	Imports	March 1987
	Coffee Export Prices	February 1987
	- Balance of Payments	n.a.
	- International Reserves	July 1987
	- Exchange Rates	July 1987

1/ Incomplete data for February 1987.