

EBS/86/119
Correction 2

CONFIDENTIAL

August 12, 1986

To: Members of the Executive Board
From: The Acting Secretary
Subject: Burundi - Staff Report for the 1986 Article IV Consultation
and Request for Stand-By Arrangement

The following corrections have been made in EBS/86/119 (7/3/86):

Page 4, Table 2: for "Investment 13.3, 15.0, 19.5, 18.2, 15.9, 19.2, 21.6"
read "Investment (including changes in stocks)
16.6, 14.3, 23.0, 18.2, 15.5, 15.7, 19.2"

Domestic savings: for "5.4, -1.0, 8.3, 4.4, 5.0, 10.8, 9.5"
read "5.4, -1.0, 8.3, 4.2, 3.5, 7.2, 7.1"

A corrected page is attached.

Att: (1)

The Fund and Bank staff have had extensive discussions both at headquarters and jointly with the authorities in Bujumbura, in a coordinated effort to arrive at a consistent diagnosis of Burundi's economic problems and the identification of appropriate adjustment policies. Following these efforts, on May 22, 1986, Burundi obtained a structural adjustment credit (SAC) of US\$50 million, of which US\$15 million will be financed from IDA funds and the remainder from the special facility for sub-Saharan Africa and from special joint financing from Japan and Switzerland. This credit will support a structural adjustment program, under which the major policy changes are related to (i) the public investment program; (ii) the rehabilitation of the public enterprise sector; and (iii) reforms of the import tariff system, and domestic pricing and industrial incentive policies. The authorities have expressed interest in the use of resources under the Fund's structural adjustment facility (SAF) and the Fund staff is currently discussing this matter with them, including preparation of the policy framework paper in conjunction with the Bank staff.

Burundi continues to avail itself of the transitional arrangements of Article XIV, Section 2. Summaries of Burundi's relations with the Fund and the Bank are presented in Annexes IV and V, respectively. Annex VI contains the relevant statistical data and a note on statistical issues.

II. Recent Economic Developments

Burundi's economic and financial situation weakened markedly during the three years 1982-84. Over this period, which ended with a severe drought, real gross domestic product (GDP) recorded a small decline (Table 2). On a commitment basis, as a ratio to GDP, the overall deficits in central government operations (including grants) averaged 12 percent during 1982-83 before declining to 7.8 percent in 1984, compared with 6.8 percent in 1981. There was a net accumulation of domestic arrears, and the cash deficits in central government operations were financed by a rising trend in both foreign borrowing and net indebtedness to the domestic banking system. Serious imbalances also emerged in the public enterprises. Total domestic bank credit and broad money rose more rapidly than real GDP, and the rise in the domestic consumer price index (CPI) accelerated from 5.8 percent in 1982 to 14.4 percent in 1984. Notwithstanding tightened import and exchange controls and a favorable trend in the external terms of trade, the external current account deficit (including official transfers) increased from 3 percent of GDP in 1981 to an average of 8.4 percent during 1982-84. The sizable imbalances in the public sector and in the external current account led to sharply rising trends in the foreign debt and related debt service payments ^{1/}, and to a marked weakening of the overall balance of payments position.

^{1/} Increased from 6 percent in 1981 to 18.2 percent of exports of goods, nonfactor services, and private transfers in 1984.

Table 2. Burundi: Selected Economic and Financial Indicators, 1981-87

	1981	1982	1983	1984	1985 Prel.	1986 Prel. Proj.	1987 Prel. Proj.
(Annual percentage changes; unless otherwise specified)							
National income and prices							
GDP at constant market prices	10.5	-3.2	1.1	0.1	7.7	4.0	4.0
GDP deflator	-6.8	6.6	8.0	15.4	6.0	10.8	7.1
Consumer prices (average)	12.0	5.8	8.3	14.4	3.7	10.0	9.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	26.7	25.0	-5.0	27.8	19.5	35.4	-7.3
Imports, c.i.f.	6.0	41.8	-11.4	6.2	4.3	3.0	10.0
Non-oil imports, c.i.f.	-1.0	53.8	-13.0	3.7	5.4	9.6	11.4
Export volume	46.6	11.6	-15.4	18.6	17.9	5.0	5.3
Import volume	-3.6	32.4	-7.3	9.1	1.5	6.4	5.7
Terms of trade (deterioration -)	-21.4	4.6	17.3	10.8	-1.3	33.3	-15.4
Nominal effective exchange rate (depreciation -) <u>1/ 2/</u>	13.1	12.4	-15.0	3.4	-3.4
Real effective exchange rate (depreciation -) <u>1/ 2/</u>	15.2	14.2	-15.0	23.1	-13.0
Consolidated Central Government							
Revenue and grants	9.2	10.2	-6.0	31.6	13.2	42.4	4.5
Revenue	-0.2	21.2	-8.3	32.5	14.2	50.8	2.2
Total expenditure and net lending (on a commitment basis)	4.3	17.4	25.2	-0.5	--	12.9	14.6
Money and credit							
Domestic credit <u>3/</u>	43.0	13.9	23.7	6.7	14.7	-16.9	-16.1
Government <u>3/</u>	21.4	14.2	18.3	8.6	8.5	-23.5	-22.6
Private sector <u>3/</u>	21.6	-0.3	5.4	-1.9	6.2	6.6	6.5
Money and quasi-money (M2)	25.1	-1.0	26.4	2.3	20.0	7.9	8.0
Velocity (GDP relative to M2)	5.6	5.9	5.1	5.7	5.5	6.1	6.0
Interest rate (annual rate, one- year savings deposit)	7.0	7.0	7.0	7.0	7.0	12.0	12.0
(In percent of GDP)							
Revenue and grants	18.0	19.2	16.5	18.8	18.6	23.1	21.6
Revenue	13.0	15.3	12.8	14.7	14.7	19.2	17.6
Expenditure and net lending (on a commitment basis)	24.2	27.6	31.6	27.2	23.9	23.4	24.0
Consolidated overall deficit (on a commitment basis)							
Excluding grants	-11.8	-13.0	-18.7	-11.9	-8.4	-4.1	-6.4
Including grants	-6.8	-9.0	-15.0	-7.8	-4.4	-0.3	-2.4
Consolidated overall deficit (on a cash basis)	-5.9	-7.4	-12.6	-9.0	-5.7	-1.6	-2.4
Domestic bank financing	3.3	2.8	2.9	1.5	1.3	-3.7	-3.5
Foreign financing (net)	2.6	4.6	9.7	7.0	4.0	5.3	6.0
Investment (including changes in stocks)	16.6	14.3	23.0	18.2	15.5	15.7	19.2
Domestic savings	5.4	-1.0	8.3	4.2	3.5	7.2	7.1
External current account deficit							
Including public transfers	-2.9	-8.5	-8.6	-8.1	-6.4	-3.4	-6.5
Excluding public transfers	-12.6	-17.2	-16.5	-16.1	-14.1	-10.6	-13.9
External debt <u>4/</u>	17.9	20.7	35.0	37.2	36.8	49.5	55.2
Debt service ratio <u>4/ 5/</u>	6.0	7.8	15.4	18.2	19.8	16.3	19.6
Interest payments <u>4/ 5/</u>	2.3	3.6	4.1	6.5	7.8	5.3	6.3
(In millions of SDRs)							
Overall balance of payments	-20.7	-28.4	6.9	-2.7	10.5	57.9	25.8
Gross official reserves	53.2	27.3	26.3	20.7	27.7	84.9	110.8

1/ Trade-weighted.2/ December to December.3/ Expressed in percent of beginning-of-period money stock.4/ Public and publicly guaranteed disbursed debt, including Fund credit, at end of year.5/ Expressed as a ratio of exports of goods and nonfactor services, and private transfers.