

MASTER FILES

ROOM C-120

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SM/84/12
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

February 22, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Burundi - Staff Report for the 1983 Article IV Consultation

The following corrections have been made in SM/84/12 (1/10/84):

Page 4, line 11: for "3.8 percent" read "3.0 percent"

line 12: for "6.0 percent" read "5.4 percent"

Page 5, Table 1, lines 15 and 16: for "Payments arrears (plus increases)"
read "Payments arrears (net increases)"

figures corrected to read: "-698 106 -84 1,540 1,000"

line 17, figures corrected to read: "-2,706 -2,305 -4,639
-6,506 -5,150"

lines 25 and 26: for "Total expenditure including
increase in arrears"

read "Total expenditure including
net increase in arrears"

figures corrected to read: "21.1 19.2 20.0 22.8 19.8"

line 27, figures corrected to read: "-3.6 -2.5 -4.7 -6.5
-5.0"

Corrected pages are attached.

Att: (3)

Other Distribution:
Department Heads

Dar es Salaam and on the rail track across Tanzania. In addition, unit trains were introduced in December 1982. This arrangement has reduced transit time from more than 10 days to only 4 days. Moreover, as a result of several conferences and meetings at a regional level, a unified transit document has been accepted and agreements have been reached concerning road tolls, vehicle weights, and other road regulations on the northern route, which is likely to facilitate cargo movements. It is clear that many additional actions are needed and that even modest improvements in the transport situation may generate sizable returns but will require a regional effort aimed at resolving the transportation problems faced by all Central African landlocked countries.

Burundi's low per capita income and limited unused arable land hamper further growth of production. Industrial and commercial activities are also affected by the small size of the market and trade constraints in neighboring countries. Production is concentrated in a few sectors. Subsistence production accounts for about 42 percent of estimated GDP, while in the modern sector coffee production has an overwhelming influence. Given the level of economic development of the country, private sector initiative has been held back considerably by managerial, technical, and financial limitations. In an effort to mitigate these circumstances, the Government has followed an active investment policy, both through the central government budget and through the enlargement of the public enterprise sector, aimed at eliminating the most visible constraints.

Agricultural export production has risen at an average annual rate of about 11 percent between 1978 and 1983 rising from the equivalent of about 4 percent of GDP to over 7 percent. Output of coffee has fluctuated markedly from year to year around a rising trend, from 17 thousand metric tons in 1975/76 to 35 thousand in 1983/84. The variation reflects shifting weather conditions, delays in the arrival of fertilizers and other chemicals, and the recognized pattern of coffee production, which results in reduced output in the two years following a bumper harvest. Coffee sales have been limited by a quota under the International Coffee Agreement, which rose by only 8 percent between 1979/80 and 1982/83. Moreover, coffee export prices have fallen by about 27 percent between 1979 and 1983. The high output recorded in some years forced the stockpiling of large inventories on various occasions, although these generally were exported within the next export year. Nevertheless, the inventories have created financial difficulties and have hampered the Government's financial planning. In recent years output of cotton and tea has declined, and, with the relaxation of price controls on food items, domestic food production has expanded into areas previously devoted to cotton and tea.

2. Financial developments

The inability of revenue and grants to keep up with the growth of expenditure has resulted in large overall budgetary deficits in recent years. Financial planning has been affected by difficulties in estimating

budget revenue from year to year, partly because of the unanticipated sluggishness of the economy, the persistent weakness of coffee prices, and the appreciation of the currency. Between 1979 and 1983, revenues averaged the equivalent of 12.7 percent of GDP, but the ratio has fluctuated from a high of 14 percent in 1979 to a low of 11.6 percent in 1981, with 12.3 percent being recorded in 1983 (Table 1). On a cash basis, the overall deficit averaged 4.1 percent of GDP between 1979 and 1983. However, since 1982 domestic payments arrears have emerged on an increasing scale, rising from 1.7 percent of expenditure in 1981 to 8.4 percent in 1982 and an estimated 9.3 percent in 1983. Including payments arrears, the overall budgetary deficit has risen from an average of 3.0 percent of GDP in the period 1979-80 to 5.4 percent in the period 1981-83. Foreign financing has averaged about 2 percent of GDP, while domestic financing rose from 1.7 percent of GDP in 1979-80 to 4.0 percent in 1981-83, largely as a result of a rise in payments arrears, with net bank financing rising from 1.5 percent of GDP to 2.0 percent.

Coffee has had a major impact on the trend of revenue and the overall deficit. Coffee revenue fell from 17.2 percent of total revenue in 1979-80 to only 3.1 percent by 1983. Noncoffee revenues have risen from 10.8 percent of GDP in 1979-80 to an estimated 11.9 percent in 1983. Overall expenditures rose by about 29 percent between 1979 and 1982, with the growth almost evenly distributed between current and capital expenditures. The increases in current expenditure are largely explained by the increases in the wage bill, reflecting benefit and general wage increases in 1979 and 1980 and the growth of the public service. Expenditures on other goods and services fell during the last five years, with subsidies and transfers growing by a small amount. In 1983 overall expenditures decreased largely as a result of the reduction of capital outlays, although wages and salaries are also expected to fall, reflecting a tight wage policy and the laying off of daily contract workers.

Monetary policy has been largely accommodating, although in 1982 and 1983 the monetary authorities increasingly made efforts to limit the Government's access to net bank credit, with the rise in payments arrears being the result. Nonetheless, the growth of net credit to the Government in the last two years has been the most important element in explaining the almost doubling of the net domestic assets of the banking system during 1980-83 (Table 2). During this period net credit to the Government accounted for over 60 percent of the total expansion, with credit to the rest of the economy accounting for about one third and the Coffee Stabilization Fund for the remainder. During the same period money and quasi-money expanded by 10.1 percent per year, or from 13.7 percent of GDP in 1979 to 14.5 percent in 1983, while the banking system's net foreign assets fell to one fifth of their level in 1979.

3. External sector and policies

The Burundi franc was pegged to the U.S. dollar in 1976 at FBu 90 = US\$1.00. Through the end of the 1970s the nominal effective exchange rate

Table 1. Burundi: Summary of Central Government Operations on a Cash Basis, 1979-83

(In millions of Burundi francs)

	1979	1980	1981	1982	1983 <u>1/</u>
Revenue plus grants	12,740	14,683	15,747	16,973	15,470
Revenue	10,451	11,519	11,316	13,637	12,710
Capital grants <u>2/</u>	2,289	3,164	4,431 <u>3/</u>	3,336	2,760
Expenditures <u>4/</u>	16,494	17,791	19,635	21,206	19,472
Current	8,538	9,716	10,481	11,131	11,232
Capital	7,956	8,075	9,154	10,075	8,240
Extrabudgetary accounts <u>5/</u>	350	909	-835	-733	-148
Overall deficit (-)	-3,404	-2,199	-4,723	-4,966	-4,150
Financing					
Foreign (net)	2,227	1,262	1,517	2,502	1,912
Domestic (net)	1,177	937	3,206	2,464	2,238
Banking system	2,452	25	2,704	1,904	2,200
Other	-1,275	912	502	560	38
Memorandum items:					
Payments arrears (net increases)	-698	106	-84	1,540	1,000
Deficit on accrual basis (-)	-2,706	-2,305	-4,639	-6,506	-5,150
	(As percent of GDP)				
Revenue	14.0	12.3	11.6	13.6	12.3
Capital grants <u>2/</u>	3.1	3.4	4.5	3.3	2.7
Current expenditures	11.4	10.4	10.7	11.1	10.8
Capital expenditures	10.6	8.7	9.3	10.1	8.0
Total expenditure	22.0	19.1	20.0	21.2	18.8
Overall deficit (-)	-4.5	-2.4	-4.8	-5.0	-4.0
Memorandum items:					
Total expenditure including net increase in arrears	21.1	19.2	20.0	22.8	19.8
Deficit on accrual basis (-)	-3.6	-2.5	-4.7	-6.5	-5.0

Sources: Ministry of Planning, Ministry of Finance, Bank of the Republic of Burundi; and staff estimates.

1/ Estimates.

2/ Including foreign grants passed on to public enterprises.

3/ Including grant from STABEX of FBu 967 million.

4/ Including externally financed off-budget expenditures of the Central Government and foreign capital grants passed to public enterprises.

5/ Including errors and omissions.

Table 2. Burundi: Summary Monetary Survey, 1979-83

(End of period)

	1979	1980	1981	1982	1983 ^{1/}
(In millions of FBu)					
Net foreign assets	7,459	7,526	4,640	1,323	1,475
Domestic assets	9,352	10,487	15,766	17,307	20,530
Claims on Government (net)	3,687	3,712	6,416	8,320	^{2/} 10,520
Claims on the rest of the economy	6,730	7,321	9,371	9,081	10,310
Of which: export credit	3,034	3,124	4,995	2,780	2,434
Coffee Stabilization Fund deposits	-1,065	-547	-21	-94	-300
Money and quasi-money	10,223	9,861	13,055	12,429	15,039
Money	9,804	9,393	12,000	10,980	12,639
Quasi-money	419	468	1,055	1,449	2,400
(12-month rate of change in percent of money and quasi-money in the base period)					
Net foreign assets	3.5	0.7	-29.3	-25.4	1.2
Domestic assets	42.2	11.1	53.5	11.8	26.0
Claims on Government (net)	27.7	0.3	27.4	14.6	^{2/} 17.7
Claims on the rest of the economy	21.2	5.8	20.8	-2.2	9.9
Money and quasi-money	15.5	-3.5	32.4	-4.8	21.0
(As a percentage of GDP)					
Money and quasi-money	13.7	10.6	13.3	12.4	14.5

Sources: Bank of the Republic of Burundi; and IMF, Treasurer's Department.

^{1/} Projection.

^{2/} Corrected for the balance sheet adjustment at the end of the year, which reclassified, until January 4, 1983, FBu 612.7 million from claims on the Government to miscellaneous assets.