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Statement by Mr. Charleton and Ms. Alvarez on Burundi
(Preliminary)
Executive Board Meeting 06/64
July 14, 2006

We thank the staff for the informative and insightful set of papers, including the Selected Issues paper, which was instructive on the long-term issues impacting growth in Burundi. We also thank Messrs Ngumbullu and Nintunze for their comprehensive Buff.

The Burundi authorities have made commendable progress in implementing its PRGF-supported program. The country is emerging from decades of political instability and recurrent civil conflicts, which severely weakened institutional and productive capacity. The key policy challenges going forward following the successful implementation of policy reforms are to place the economy on a path of high sustainable growth and raise spending on social sectors and infrastructure. Additionally, public financial management must be strengthened and obstacles to private sector investment removed with a sense of urgency.

Growth in 2005, while lower than the programmed amount, is expected to improve in 2006 with continued strength in the service sectors and strong recovery in coffee output. Inflation was significantly reduced on account of tightened monetary policy and renewed public confidence and is expected to decelerate further after the central bank strengthens monetary policy instruments and bank financing of the budget is limited. All the end-June and end-December 2005 quantitative performance criteria were met, with one temporary exception which was promptly dealt with.

Fiscal Policy and Reform

Successful implementation of the program in 2006 could mean the economic turnaround for Burundi but the authorities must maintain the momentum. The authorities' plan to further improve the macroeconomic environment and deepen financial and structural reforms should put the economy on a sustained growth path. Fiscal policy in 2006 will focus on a shift in expenditures from security to social services and poverty reduction, enhanced public financial management and the clearing of government's domestic arrears. We welcome the

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commitment to limit budget recourse to financing from the banking system as this will create more room for bank financing to the private sector.

The pressing social needs of the country must be addressed urgently or the twin objectives of macroeconomic stability and meeting the MDGs will remain elusive. We support the staff recommendation for a full costing of all social initiatives to ensure consistency with the budget. The strengthening in public financial management that has already started with donor assistance must be pursued single-mindedly so as to ensure improved budget execution, financial control, and public procurement. Measures to modernize and strengthen revenue administration, including customs, must also be sustained.

Monetary Policy

Monetary policy is critical to achieving the program's inflation target and the progress made to date on firming up the monetary policy provides assurances of continuing success in this regard. We are encouraged by the authorities' commitment to clear domestic arrears and introduce treasury bills by September 2006, which will further strengthen liquidity management. We urge follow-through with strengthening of financial sector supervision and enforcement of prudential regulations. Furthermore, while the authorities took action on the recommendations of the safeguards assessment, there is still a need to eliminate other weaknesses in the central bank's internal operations in an effort to modernize its operations.

Structural Reform

We welcome the strong progress made in implementing reforms in the fiscal, monetary and exchange areas. While improvement in Burundi's social conditions has been uneven and reforms are still at an early stage, there has been notable progress. We urge the authorities to maintain the pace of administrative reform and liberalization, while pressing ahead with privatization. In particular, we consider privatization of the coffee sector key to a revival of the private sector. While we understand the authorities' gradualist approach, we think it is important to press ahead with this as quickly as possible. We agree with the staff that competition at all levels of the coffee sector is necessary to attracting much needed investment and private financing.

Given the authorities' demonstrated commitment to reform and the strength of the reforms, *we support completion of the third and fourth reviews under the PRGF*; approval of the authorities' request for waivers of two performance criteria and modification of another; extension of the PRGF arrangement; and extension of additional interim assistance under the enhanced HIPC Initiative. The staff have indicated that satisfactory assurances from other creditors are in place for the latter.

We wish the authorities well in their endeavors.