BUFF/ED/92/74

November 25, 1992

Statement by Mr. Mwananshiku on Burundi
Executive Board Meeting 92/142
November 30, 1992

The economy of Burundi registered encouraging progress under the first annual arrangement in 1991/92 despite the sharp decline in the export price of coffee, the country's principal foreign exchange earner. The authorities have demonstrated commitment to the adjustment process by implementing all the measures as agreed. In the face of a further slump in coffee prices at midyear, they were quick to respond by significantly strengthening the program. As a result, most of the quantitative performance criteria and benchmarks were met.

More importantly, the economy recorded in 1991 a growth in real GDP that was substantially higher than had been targeted under the program, allowing a significant improvement in per capita income. Inflation performance was also broadly satisfactory as the rise in consumer prices was basically on target, thanks to the favorable weather conditions that boosted agricultural production which, in turn, improved the food supply situation in the country. The pursuit of tight demand management policies was also significant in contributing to this outcome.

There was also marked improvement in public finances, reflecting a substantial increase in Government revenue and the exercise of tight control on current expenditure, including, in particular, the containment of wages and salaries and transfers. However, the overall deficit was higher than initially projected owing mainly to the broader coverage of capital outlays that were being financed directly by donors.

Although administrative delays were encountered in the disbursement of foreign assistance resulting in Government's increased recourse to domestic bank credit at the end 1991, overall monetary developments for the year as a whole have been generally satisfactory. The tightening of monetary and credit policies early in 1992 in order to contain the growth of broad money within the prescribed limits was in part in response to those earlier developments.

The external accounts in the first half of 1992 were also broadly within program targets despite the renewed pressure precipitated by the further fall in world coffee prices as already indicated. The prompt response by the authorities, which included a further devaluation of the Burundi franc, was significant in alleviating the pressure on the balance of payments. Notwithstanding the generally unfavorable external environment, the authorities introduced important structural reforms, especially with regard to the external trade system, the exchange and payments system and exchange rate management.

The medium-term prospects remain fundamentally fragile, given the continued high dependence on coffee. The recent collapse in world prices has brought into sharper focus the urgent need to diversify the production and export base. Thus, the 1992/93 program which has been formulated within the revised and extended medium-term strategy not only seeks to strengthen the adjustment process through continued pursuit of prudent financial policies but, perhaps more importantly, aims to address the remaining structural bottlenecks in order to further enhance economic efficiency and a supply response.

The 1992/93 budget has been designed to generate a further substantial surplus on current operations in order to reduce the overall deficit. If the level of foreign financial assistance is disbursed as projected, the Government would be able to make significant repayments to the banking system. To achieve the stated objective, the authorities will limit the growth of expenditure by, among others, curtailing recruitment of personnel, refraining from a general wage increase in 1993, reducing military spending in real terms, limiting transfer payments and subsidies, while increasing the productivity of the capital expenditures within the context of the revised public investment program agreed with the World Bank. On the revenue side, additional measures would be taken, including the strengthening of tax administration, the introduction of an ad valorem tax on tobacco and an increase in taxes on petroleum products. Also, exemptions from import duties will be minimized through the strict enforcement of ministerial authorizations.

Monetary and credit policies have been designed to further reduce inflation and support the attainment of the balance of payments objective. It is intended to allow market forces to play a greater role in the allocation of credit and the Central Bank would, therefore, rely on indirect instruments of monetary control, through the more active use of the Treasury Certificate market, the statutory reserve requirement, refinancing policies and an active interest rate policy. In the case of the latter, the low level of inflation together with the recent observed stagnation in broad money has prompted the authorities to lower the refinancing rate by 1 percentage point as a signal for a general reduction in rates.

As already indicated, the decline in world coffee prices has clouded prospects for the medium-term balance of payments. The anticipation for a slow but steady recovery in prices has underscored the need for continued structural reforms in the coffee sector to increase production, improve quality and increase private sector participation while reducing costs. Furthermore, it is intended to implement a flexible exchange rate policy in order to improve external competitiveness. The authorities are also willing to take additional measures to support the balance of payments whenever deemed necessary. Reflecting the sharp decline in export receipts due to lower coffee prices, the debt servicing ratio is projected to peak in 1992 and decline thereafter. However, based on an enviable track record, Burundi is expected to meet its debt obligations on a timely basis. At the same time, the Government intends to maintain a prudent external borrowing policy, given the fragility of its external position.

In conclusion, the Burundi authorities have demonstrated strong commitment to their adjustment program in the face of an unfavorable external environment and in the context of a rather sensitive political climate as the country moves to a pluralistic system. They have shown willingness to take additional and, often difficult, measures whenever deviations have threatened to derail the program. I am, therefore, confident that the second annual arrangement will be implemented with the same measure of determination. I would, therefore, request Executive Directors to support the proposed decision as it appears on page 14 of the staff report (EBS/92/173).