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April 13, 1990

To: Members of the Executive Board
From: The Secretary
Subject: Burundi - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Burundi franc.

Mr. Gilman (ext. 8524) is available to answer technical or factual questions relating to this paper.

Att: (1)

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INTERNATIONAL MONETARY FUND

BURUNDI

Real Effective Exchange Rate - Information Notice

Prepared by the African and the Exchange
and Trade Relations Departments

(In consultation with the Legal Department
and the Research Department)

Approved by Mamoudou Touré and Anupam Basu

April 13, 1990

The recent evolution of Burundi's real effective exchange rate, as measured by the standard index developed in connection with the information notice system is set out in the attached table and chart. Based on this index, as of December 1989, the Burundi franc depreciated in real effective terms by 11.5 percent since the last occasion on which developments in Burundi's exchange rate were brought to the attention of the Executive Board in the context of the 1988 Article IV Consultations (EBS/89/115, 6/5/89) in July 1989.

The Burundi franc has been pegged to the SDR from November 1983. Since the implementation of the SAF-supported program in 1986, Burundi has pursued a flexible management of its exchange rate policy. In this connection, between the first quarter of 1986 and the last quarter of 1988, the nominal exchange rate was devalued by a cumulative 27 percent resulting in a real effective rate at the end of 1988 that was considered appropriate in terms of Burundi's external sector conditions. However, during the first nine months of 1989, the real effective exchange rate appreciated by 10.2 percent over the end-1988 level, reflecting the higher rate of inflation in Burundi vis-à-vis the country's main trading partners. In addition, the international coffee price decline has particularly hit Burundi, as it coincided with a cyclical downturn in the volume of output. To strengthen external competitiveness and export incentives, on November 22, 1989, the franc was devalued by 10 percent; during the following six weeks the franc was depreciated by an additional 5 percent, so that at end-December 1989, the exchange rate was at a level of BFu 232.14 per SDR resulting in a 3.9 percent devaluation in real effective terms over the end-1988 level.

Exchange rate policy and developments in Burundi during the past few years are described in the Staff Report for the 1988 Article IV consultations (EBS/89/115, 6/5/89) which were discussed by the Executive Board on July 19, 1989, at which time, Burundi's request for a third annual arrangement under the structural adjustment facility in support of a program covering calendar year 1989 was approved. On that

occasion, Executive Directors urged the authorities to monitor closely exchange rate developments in order to prevent the erosion of the competitiveness of Burundi's exports.

The staff believes that while Burundi's response to adverse domestic and external developments is in the right direction, the recent depreciation of the currency should be supported by tighter budget and monetary policies. This should help to strengthen export performance and contain inflationary pressures. The next Article IV consultation mission is scheduled for July 1990.

Table 1. Burundi: Real Effective Exchange Rate and Related Series, 1984-89

(Indices: 1980 = 100)

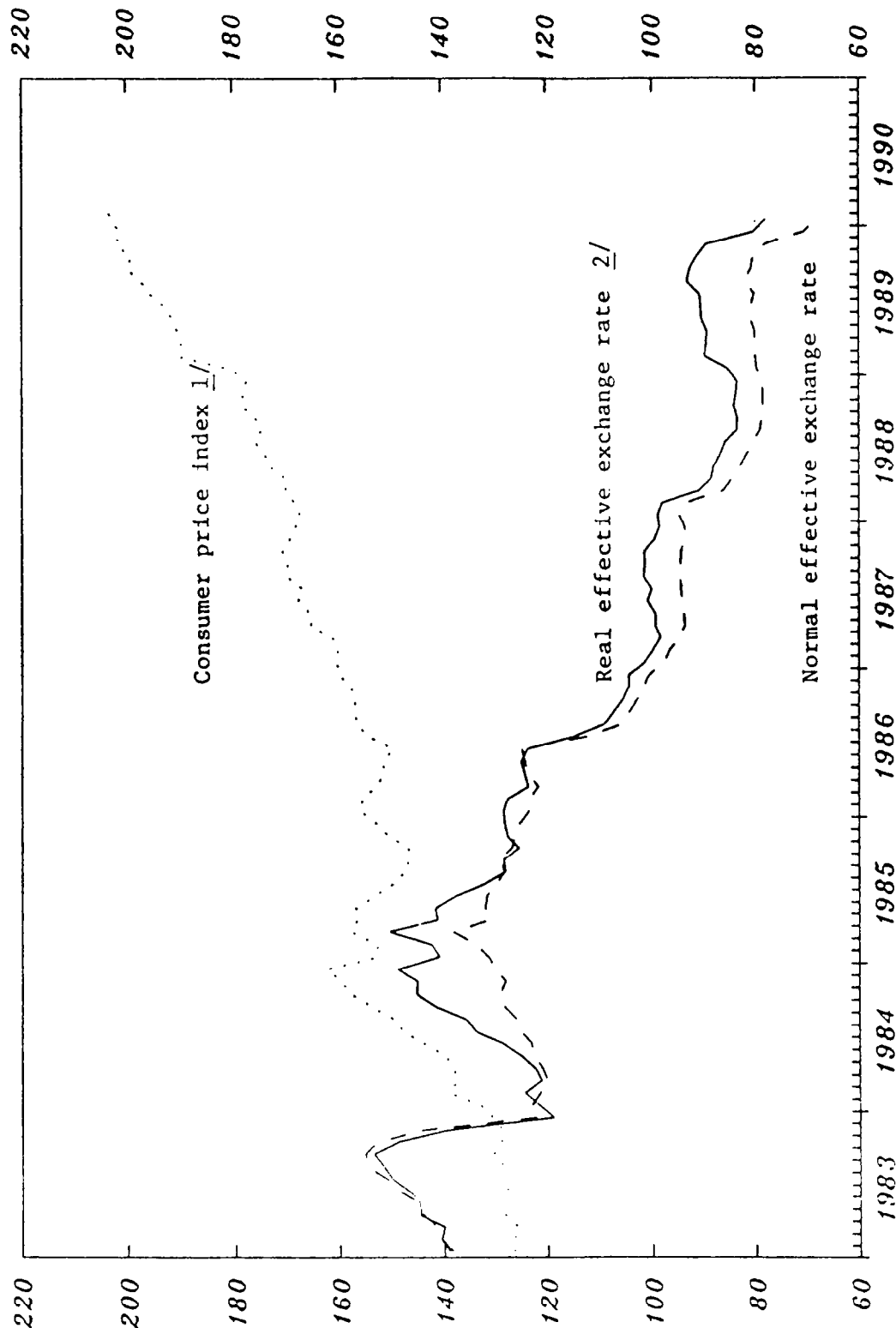
	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1984						
I	122.5	121.5	100.8	76.9	136.3	137.7
II	125.3	122.3	102.5	76.8	140.5	142.1
III	137.0	126.5	108.3	74.3	150.5	149.9
IV	146.4	129.1	113.4	73.0	160.0	157.3
1985						
I	144.5	134.3	107.6	71.6	154.5	156.1
II	140.0	131.5	106.5	72.8	155.5	157.2
III	129.5	129.1	100.3	75.2	147.9	147.2
IV	127.1	126.1	100.8	79.1	150.1	147.8
1986						
I	126.5	122.8	103.0	82.1	154.7	156.2
II	124.4	124.3	100.1	85.1	150.9	152.5
III	110.4	107.4	102.8	76.4	155.9	155.3
IV	104.7	101.6	103.1	72.7	158.1	155.8
1987						
I	99.8	96.3	103.6	72.9	160.4	161.8
II	99.8	93.9	106.2	72.4	166.0	167.8
III	101.0	94.5	106.9	71.3	168.7	168.3
IV	99.8	93.9	106.3	74.9	169.3	166.9
1988						
I	95.9	91.6	104.7	73.9	168.4	169.4
II	87.9	83.1	105.9	66.1	172.2	174.0
III	84.4	79.3	106.4	58.6	175.3	175.2
IV	83.9	78.6	106.7	60.1	177.8	175.1
1989						
I	88.3	79.9	110.5	58.9	186.6	187.5
II	90.2	80.7	111.8	56.8	191.6	193.6
III	92.2	81.0	113.8	56.7	197.4	197.4
IV	87.4	76.3	114.5	54.8	201.4	198.1
1989						
July	90.8	80.2	113.2	56.9	195.6	196.4
August	93.2	81.9	113.7	57.4	197.2	197.5
September	92.6	80.8	114.5	55.8	199.5	198.1
October	92.1	80.4	114.6	57.0	200.7	197.5
November	89.6	78.0	115.0	55.8	202.0	199.2
December	80.3	70.4	114.1	51.7	201.4	197.7
Percentage change						
July 1989 - December 1989	-11.5	-12.2	0.8	-9.1	3.0	0.6

Source: IMF, Information Notice System.

1/ Increase in the index means appreciation.

2/ Using seasonally adjusted price series.

CHART 1
BURUNDI
CONSUMER PRICE AND EFFECTIVE EXCHANGE RATES,
JANUARY 1983-JANUARY 1990
(1980=100)



SOURCE: IMF, Information Notice System.

1/ Seasonally adjusted

2/ Trade-weighted index of normal effective exchange rate deflated by seasonally adjusted consumer prices: increases mean appreciation.

