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AGENDA

EBS/88/76

CONFIDENTIAL

April 4, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Burundi - Request for Second Annual Arrangement Under
the Structural Adjustment Facility

Attached for consideration by the Executive Directors is a paper on Burundi's request for the second annual arrangement under the structural adjustment arrangement for Burundi which will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on page 36.

Mr. Diogo (ext. 6521) or Mrs. Devaux (ext. 6519) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

BURUNDI

Request for a Second Arrangement Under the
Structural Adjustment Facility

Prepared by the African Department and the
Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and
Treasurer's Departments)

Approved by A.D. Ouattara and S. Anjaria

April 1, 1988

I. Introduction

On August 8, 1986 the Fund approved a three-year arrangement under the structural adjustment facility (SAF) for Burundi in an amount equivalent to SDR 20.1 million and the first annual arrangement thereunder in an amount equivalent to SDR 8.54 million (20 percent of quota), and a stand-by arrangement (covering the period August 8, 1986-March 31, 1988) in an amount equivalent to SDR 21 million under which no purchases were made. The structural adjustment program that Burundi adopted and in support of which the SAF arrangements were approved is described in EBS/86/147. A World Bank structural adjustment credit (SAC) equivalent to SDR 44.04 million (including cofinancing of SDR 16.54 million) was also approved in support of Burundi's adjustment program.

In the attached letter from the Minister of Finance, dated March 24, 1988, the Burundi authorities have requested the second annual arrangement under the SAF in an amount equivalent to SDR 12.8 million (30 percent of quota) in support of the economic and financial program for 1988 outlined in the Memorandum on Economic and Financial Policies (Appendix II). The updated medium-term policy framework paper (PFP) covering 1988-90 and prepared by the authorities with the joint assistance of the staffs of the Fund and the Bank, was transmitted to the Managing Director of the Fund and the President of the World Bank on February 16, 1988 (see Attachment) and will be considered by the Committee of the Whole of the Bank at an early date.

The Fund and World Bank staffs have cooperated in assisting the Burundi authorities in addressing the country's economic and financial problems. At the conclusion of the discussions on the PFP and the

second arrangement under the SAF, the Fund mission ^{1/} overlapped with a Bank appraisal mission for the second SAC in the amount of SDR 45 million over 1988-89, which is expected to be considered by the World Bank's Executive Board before end-May 1988. At the request of the authorities, the Fund and Bank staffs collaborated also in providing technical assistance in monetary and credit policies, areas in which the Government has decided to implement far-reaching reforms under the current program. The proposed program also envisages the implementation of a number of quick-yielding revenue measures and structural tax reforms in line with the recommendations of an FAD technical assistance mission that took place at end-1987.

In concluding the 1987 Article IV consultation (SM/87/260 and SM/87/275) on December 21, 1987, the Executive Board stressed the need for Burundi to reinforce the adjustment effort initiated in 1986, given the projected unfavorable medium-term prospects. A flexible exchange rate policy, a tightening of fiscal policy including better control over government employment together with the rehabilitation of the public enterprises, were considered essential for improving the performance of Burundi's economy, and in particular the Government's financial position.

As of end-March 1988, there are no Fund holdings of Burundi francs subject to repurchase and total Fund credit outstanding amounts to SDR 8.54 million, corresponding to the first loan under the SAF (Table 1). Burundi's relations with the Fund are summarized in Appendix III and with the World Bank group, in Table 2 and Appendix IV. Basic data are provided in Appendix V.

II. Background and Performance Under the First Annual SAF Program

In the first half of the 1980s, Burundi's policies were relatively expansionary and its currency was overvalued. The overall fiscal deficit (on a commitment basis and excluding grants) averaged 12.3 percent of GDP in 1981-85, and total domestic credit increased at an average annual rate of 20 percent. The real effective exchange rate appreciated by 27 percent from 1980 to end-1985. These policies contributed to a low and erratic growth in real GDP, an average rate of inflation of 9 percent, and a deterioration of the external accounts. The deficit in the external current account (excluding official

^{1/} The mission that visited Burundi during January 26-February 12, 1988 comprised Messrs. I. Diogo (head), A. Abdi, Mrs. G. Devaux (all AFR), Messrs. F. Corfmat (FAD), M. Frenkel (ETR), and Ms. B. Quartey (secretary-AFR). Mrs. M. Tyler (ETR), Mr. H. Snoek (CBD) and Ms. Y. Guyon (AFR-secretary) also participated in the mission that initiated discussions of the revised PFP in connection with the 1987 Article IV consultation discussions (July 3-21, 1987).

Table 1. Burundi: Fund Position During Period of Second Annual
Arrangement Under the Structural Adjustment Facility, 1988 1/

	Outstanding at end of first arrange- ment under SAF June 30, 1987	1988			
		Jan.- March	April- June	July- Sept.	Oct.- Dec.
<hr/>					
(In millions of SDRs)					
Transactions under tranche policies (net)	--	--	--	--	--
Transactions under SAF	8.54	--	12.81	--	--
Loans	8.54	--	12.81	--	--
Repayments	--	--	--	--	--
Transactions under special facilities (net)	--	--	--	--	--
Total Fund credit outstanding (end of period)	<u>8.54</u>	<u>8.54</u>	<u>21.35</u>	<u>21.35</u>	<u>21.35</u>
Tranche policies	--	--	--	--	--
Special facilities	--	--	--	--	--
SAF	8.54	8.54	21.35	21.35	21.35
<hr/>					
(In percent of quota)					
Total Fund credit outstanding (end of period)	<u>20</u>	<u>20</u>	<u>50</u>	<u>50</u>	<u>50</u>
Tranche policies	--	--	--	--	--
Special facilities	--	--	--	--	--
SAF	20	20	50	50	50

Source: IMF, Treasurer's Department.

1/ Excluding Trust Fund.

Table 2. Burundi: World Bank Loans and Debt Service, 1986-92

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991	1992
					Projections		
IDA loans (net)	43.1	63.2	64.7	75.6	82.2	92.2	96.5
Disbursements	43.9	63.5	65.2	76.1	83.0	93.4	98.4
Amortization	0.8	0.3	0.5	0.5	0.8	1.2	1.9
Interest payments	1.5	2.0	2.4	3.0	3.5	4.2	5.0

Source: World Bank.

transfers) averaged about 15.4 percent of GDP in 1981-85, and the overall balance of payments registered a large cumulative deficit over the five-year period; consequently, the net reserve position at the end of 1985 was equivalent to 1.3 months of imports of goods and nonfactor services.

Against this background, the Burundi authorities decided in mid-1986 to launch a comprehensive three-year adjustment program that was designed to diversify domestic production and exports, to promote growth, and to improve the medium-term viability of the balance of payments. As principal components of this adjustment and reform program, the Government implemented an exchange rate policy aimed at correcting the past real appreciation of the Burundi franc, removed most quantitative import restrictions, and rationalized the import tariff structure. The program, which also included more appropriate domestic pricing policies, was supported by restrictive domestic financial policies and reforms of public sector resources management, including measures to improve the operations of specific public enterprises. As described in SM/87/260 and in the letter attached to this report, the authorities implemented most of the policy reforms anticipated under the July 1986-June 1987 SAF program. Nevertheless, some important targets under the first annual program were not achieved.

The policy reforms implemented at the start of the program and the effects of favorable weather conditions on domestic agriculture, led to a real GDP growth of 4.4 percent in 1986, which exceeded the program target of 4 percent. The growth in domestic production was broadly based with a strong contribution by food production. Increased domestic food availability, coupled with smaller trader margins for importers due to import liberalization, contributed to a lower rate of domestic inflation. As measured by the average annual increase in the consumer price index, the 1986 inflation rate was about 2 percent, compared with a program estimate of 10 percent. Other favorable results achieved in 1986 included a significant growth in nontraditional exports, which exceeded the initial program expectations.

While the growth and domestic inflation outturn was better than envisaged, the improvements in Burundi's balance of payments did not materialize to the extent targeted under the program. The shortfalls in the external sector targets were mainly attributable to developments in the coffee sector, which accounts for about 85 percent of Burundi's export receipts. Coffee export prices (in SDR terms) and volume in 1986 were both 18 percent lower than estimated under the program, as a result of a combination of transportation difficulties and a stock buildup in anticipation of higher prices by the Burundi Coffee Company. Reflecting

the low coffee receipts and the inability of the Government to take compensatory adjustment measures, the external current account deficit 1/ increased to SDR 129 million (equivalent to 10.2 percent of GDP), compared with the deficit of SDR 115 million envisaged under the program. In addition, medium- and long-term disbursements fell considerably short of program estimates (by SDR 44.7 million), reflecting in part delays in disbursements under the IBRD Special African Facility and, as a result, the overall balance of payments surplus was limited to SDR 14.2 million, significantly lower than the programmed surplus of SDR 57.9 million. Consequently, net international reserves at end-1986 reached SDR 38.2 million, a level equivalent to 2.2 months' imports of goods and non-factor services, compared with a program target of 3.7 months (Table 3).

The developments in the coffee sector also had an adverse impact on the financial operations of the Central Government. During the program year July 1986-June 1987, lower-than-envisaged revenue from taxes on coffee exports--and to a lesser extent, slippages in the implementation of the transactions tax reform and the tax increase on beer--contributed to a revenue shortfall of FBu 9.25 billion, and a reduction in expenditure and net lending by about FBu 4.0 billion (2.6 percent of GDP) was not sufficient to offset the shortfall in revenue (Table 4). Accordingly, the central government overall deficit 2/ amounted to FBu 9.7 billion in 1986/87, equivalent to 6.3 percent of GDP, compared with a programmed deficit of 2.5 percent of GDP. In line with this larger-than-anticipated deficit, the substantial reduction programmed in net bank claims on the Government did not materialize. During the year ended June 1987, net bank claims on the Central Government declined by FBu 1.4 billion compared with a targeted decline of FBu 9.5 billion. Since the Government's net position with the banking system did not decline as sharply as programmed, total domestic credit expansion remained almost flat over the year through June 1987, instead of declining by 26.5 percent as programmed (Table 5). 3/

The economic trends that emerged in the first half of 1987 gained momentum in the second half, with the developments in the Burundi economy being dominated by a steep decline in coffee export prices. The external terms of trade deteriorated by 40 percent in 1987, reflecting primarily the sharp drop in coffee prices (43.3 percent), which led to a steep reduction in government revenue (from indirect taxes) and a decline in the growth rate of real GDP at market prices from 4.4 percent in 1986 to 1.7 percent in 1987. Consequent to the lower level of imports dictated by the sharp decline in export earnings, and the lower

1/ Throughout the report current account deficit excludes official transfers, unless otherwise stated.

2/ Throughout the report the overall fiscal deficit is measured on a commitment basis and excludes grants unless otherwise specified.

3/ SM/87/260 provides more detailed discussions of the performance under the 1986/87 SAF program.

Table 3. Burundi: Selected Economic and Financial Indicators, 1981-90

	1981	1982	1983	1984	1985	1986	1987 Est.	1988 Prog.	1989 Prel. proj.	1990 Prel. proj.
(Annual percentage changes, unless otherwise specified)										
National income and prices										
GDP at constant market prices	10.9	-0.4	3.1	-0.1	7.4	4.4	1.7	4.1	3.9	4.0
Implicit GDP deflator	-5.0	5.8	6.1	17.2	9.2	2.3	1.1	4.3	4.0	4.0
Consumer prices	12.0	5.8	8.3	14.4	3.7	1.8	7.1	6.0	5.0	4.0
External sector (in SDRs)										
Exports, f.o.b.	26.7	21.6	-1.1	12.3	28.5	-2.9	-30.6	12.9	12.2	10.6
Imports, c.i.f.	6.0	41.9	-11.4	6.2	1.7	-6.7	-2.4	5.1	6.4	6.6
Export volume	46.6	7.5	-1.9	-7.9	32.2	-12.6	12.3	4.7	6.8	7.3
Import volume	-3.6	39.9	14.0	2.0	5.5	4.9	-4.5	4.2	4.1	4.0
Terms of trade	-21.4	11.5	-2.0	17.1	0.9	24.9	-39.6	7.0	2.7	0.5
Real effective exchange rate 1/ (depreciation -)	15.2	13.6	-13.1	24.8	-13.3	-18.9	-4.7
Annual average	...	9.7	9.2	-7.5	2.2	-13.3	-13.9
Consolidated Central Government										
Revenue and grants	9.2	10.2	-6.0	31.6	12.3	18.4	-16.2	25.2	13.8	6.4
Revenue	-0.2	21.2	-8.3	32.5	15.6	21.0	-20.5	29.0	15.4	6.7
Total expenditure and net lending (on a commitment basis)	4.3	17.4	25.2	-0.5	-0.1	11.0	15.4	4.8	5.5	-0.1
Money and credit										
Domestic credit 2/ Government 2/ Private sector 2/	43.0 21.4 21.6	13.9 14.3 -0.3	23.7 18.3 5.5	6.7 8.6 -1.9	14.4 8.3 6.1	-3.2 -7.2 4.0	5.8 4.6 1.2	7.9 3.0 4.9	4.7 -2.2 6.9
Money and quasi-money (M2)	25.1	-1.0	26.4	3.8	18.3	4.6	6.0	7.0	7.7	...
Income velocity (GDP/M2)	5.7	6.0	5.2	5.9	5.8	6.0	5.8	5.9	5.9	...
(In percent of GDP, unless otherwise specified)										
External sector										
Current account deficit 3/ Excluding official transfers Including official transfers	-12.6 -2.9	-17.0 -8.6	-19.9 -11.4	-16.2 -8.5	-11.2 -4.3	-10.2 -3.1	-13.0 -7.5	-11.9 -6.1	-10.8 -5.4	-10.4 -5.1
External debt (end of period)	16.1	20.2	29.5	35.8	34.4	39.7	55.4	70.5	80.1	84.3
Debt service ratio 4/	6.0	8.2	16.6	16.7	23.2	26.1	43.8	38.2	34.7	31.4
Consolidated Central Government										
Revenue and grants	18.0	18.7	16.1	18.1	17.3	19.2	15.6	18.1	19.0	18.7
Revenue	13.0	14.9	12.5	14.1	13.9	15.8	12.2	14.5	15.5	15.3
Revenue excluding taxes on coffee	13.0	14.3	12.5	11.9	11.3	12.5	11.8	13.6	14.0	13.9
Expenditure and net lending 5/	24.8	27.6	30.6	25.7	21.5	22.3	25.0	24.2	23.6	21.8
Overall deficit 5/ Excluding grants Including grants	-11.8 -6.8	-12.7 -8.9	-18.1 -14.5	-11.5 -7.6	-7.5 -4.1	-6.5 -3.1	-12.8 -9.4	-9.7 -6.1	-8.1 -4.6	-6.5 -3.1
Domestic bank financing (net)	3.3	2.7	2.8	2.0	1.2	-1.6	0.8	0.5	-0.2	-1.8
Foreign financing (net)	2.6	4.5	9.4	6.7	3.8	4.3	5.6	5.8	-1.8	-2.4
Investment 6/ 7/	16.6	13.9	17.8	18.4	13.6	13.6	19.9	20.0	20.0	20.1
National savings 7/	13.7	5.3	6.4	9.9	9.3	10.1	10.0	11.0	11.1	11.7
Domestic savings 7/	5.4	-1.4	—	4.1	4.7	5.8	7.6	7.2	7.0	7.6
(In millions of SDRs, unless otherwise specified)										
External sector										
Current account deficit before grants	-105.9	-161.4	-188.4	-159.2	-126.2	-129.0	-166.0	-158.2	-161.2	-165.0
Overall balance of payments	-20.7	-29.4	6.5	-1.7	8.9	14.2	-7.2	-1.9	2.2	6.6
Gross official reserves 8/	3.8	1.4	1.2	1.0	1.5	3.4	2.6	3.1	3.6	4.0
Net official reserves 8/	2.9	0.5	0.8	0.8	1.3	2.2	1.8	1.7	1.9	2.4

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ Trade-weighted, December to December.

2/ Expressed in percent of beginning-of-period money stock.

3/ Adjusted for changes in the real effective exchange rates.

4/ Expressed as a ratio of exports of goods and nonfactor services, and private transfers (excluding proposed SAF and stand-by arrangement).

5/ On a commitment basis.

6/ Includes variations in stocks.

7/ Not adjusted for changes in real effective exchange rates.

8/ End of period, in months of imports of goods and nonfactor services.

Table 4. Burundi: Central Government Operations, 1984-1987

	1984	1985	1986	1987 Est.	1986/87 Prog.	1986/87 Prel. 1/
(In billions of Burundi francs)						
Revenue and grants	21.81	24.49	28.99	24.30	40.01	29.76
Revenue	17.04	19.69	23.83	18.94	33.75	24.50
Tax revenue	16.03	18.22	21.21	17.31	31.83	22.54
Income tax	3.88	3.70	4.11	4.21	4.58	3.83
Transactions tax	2.54	2.85	3.50	3.49	3.67	3.66
Tax on beer and soft drinks	3.36	3.76	3.94	4.02	4.79	4.25
Import duties	3.24	3.38	4.28	4.50	4.94	5.35
(Petroleum)	(0.85)	(0.98)	(1.39)	(1.07)	(...)	(...)
(Other imports)	(2.39)	(2.40)	(2.89)	(3.43)	(...)	(...)
Coffee export duties	2.68	3.66	4.96	0.61	13.03	4.83
Other taxes 2/	0.33	0.87	0.42	0.48	0.82	0.62
Nontax revenue	1.01	1.47	2.62	1.63	1.92	1.96
Grants	4.77	4.80	5.16	5.36	6.26	5.26
(Of which SAC)	(—)	(—)	(—)	(0.73)	(—)	(—)
Total expenditure and net lending 3/	30.93	30.33	33.68	38.85	38.18	34.17
Current	13.46	14.83	17.26	20.40	17.71	18.22
Salaries	6.47	7.08	7.81	8.67	8.04	8.34
Goods and services	2.77	3.78	4.25	4.52	4.49	3.74
Transfers and subsidies	1.24	1.80	2.09	2.17	2.04	2.24
Interest	1.55	1.98	2.23	3.02	2.64	3.10
(Foreign)	(0.86)	(1.20)	(1.36)	(1.90)	(...)	(...)
(Domestic)	(0.69)	(0.78)	(0.87)	(1.12)	(...)	(...)
Others 4/	1.43	0.19	0.88	2.02	0.50	0.80
Capital expenditure and net lending	17.47	15.50	16.42	18.45	20.47	15.95
Locally financed (BEI)	3.79	2.90	2.92	4.52	3.04	2.92
Foreign financed	13.68	12.60	13.50	13.93	17.43	13.03
Overall balance (commitment basis)	-9.12	-5.84	-4.69	-14.55	1.83	-4.41
Overall balance (excluding grants)	-13.89	-10.64	-9.85	-19.91	-4.43	-9.67
Change in arrears (decrease -)	-1.41	-1.56	-1.37	2.31	-1.36	-0.77
Overall balance (cash basis)	-10.53	-7.40	-6.06	-12.24	0.47	-5.18
Financing	10.53	7.40	6.06	12.24	-0.47	5.18
External (net)	8.10	5.32	6.48	8.76	9.00	8.21
Drawings	8.91	6.72	8.43	11.01	11.60	10.83
(Of which SAC)	(0.00)	(0.00)	(0.00)	(1.71)	(—)	(—)
Amortization	-0.81	-1.40	-1.95	-2.25	-2.60	-2.62
Domestic (net)	2.43	2.08	-0.42	3.48	-9.47	-3.03
Banking system	1.71	1.63	-1.74	1.17	-9.47	-1.36
Other	0.72	0.45	1.3	2.31 5/	—	-1.67
Memorandum items:						
Nominal GDP	120.50	141.35	150.98	155.36	179.10	153.17
(In percent of GDP)						
Total revenue and grants	18.10	17.33	19.20	15.64	22.34	19.43
Tax revenue excluding coffee	11.08	10.30	10.76	10.75	10.50	11.56
Total expenditure and net lending	25.67	21.46	22.31	25.01	21.32	22.31
Overall deficit (excluding grants)	-11.53	-7.53	-6.52	-12.82	-2.47	-6.31
Overall deficit (including grants)	-7.57	-4.13	-3.11	-9.73	1.00	-2.88

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ The first year program under the structural adjustment facility (SAF) covers July 1986-June 1987.

2/ Including collection of tax arrears.

3/ On a commitment basis.

4/ Including operations financed by the Treasury through the road fund and the special fund from petroleum taxes, and a global adjustment to deficit related to extrabudgetary operations on other government accounts. In 1987, expenditures financed through the road fund and the special fund from petroleum taxes represented FBu 1.07 billion.

5/ Including an exceptional credit of FBu 1.04 billion from a financial institution to finance extra-budgetary investment expenditure.

Table 5. Burundi: Performance Criteria and Benchmarks
Under the 1986/87 Program and Actual Outcome 1/

	1986				1987			
	Sept.		Dec.		March		June	
	Program	Actual	Program	Actual	Program	Actual	Program	Actual
(In billions of Burundi francs; end of period)								
Total domestic credit <u>2/</u>	29.0	30.3	24.0	26.5	22.4	26.4	21.2	28.6
Net credit to Government <u>2/</u>	15.1	15.2	9.8	12.9	7.9	13.0	5.7	15.9
Cumulative reductions of domestic arrears by Government	1.0	...	1.9	1.4 <u>3/</u>	--	...	--	--
(In millions of SDRs; end of period)								
Minimum levels of net official foreign assets (excluding gold)	20.0	18.7	71.0	37.6	72.0	39.3	73.6	30.1
New nonconcessional foreign borrowing contracted or guaranteed by the public sector in the maturity range of:								
0 to 1 year <u>4/</u>	--	--	--	--	--	--	--	--
1 to 12 years	--	--	--	--	--	--	--	--
(In percent)								
	1986		1986/87 <u>5/</u>					
	Program	Actual	Program	Actual				
Ratio of the overall deficit in central government financial operations to GDP (including grants) <u>6/</u>			-0.3	-3.1			1.0	-2.9

Source: Data provided by the Burundi authorities.

1/ Performance criteria are related to the precautionary stand-by arrangement.

2/ Including Stabilization Fund.

3/ The amount of FBu 1.9 billion of outstanding arrears at end-1986 in the program was overstated as it included unpaid expenditures which were committed but not yet delivered or for which no payment orders were issued. All arrears were cleared at end-1986.

4/ Excludes normal commercial credits.

5/ July 1, 1986-June 30, 1987. The deficit/GDP ratios are estimated on the basis of a nominal GDP projected at FBu 179.1 billion for the program, and revised to FBu 153.2 billion.

6/ On a commitment basis.

availability of domestic food crops, the rate of inflation rose to 7.1 percent during the year.

In 1987, a combination of lower revenue and higher expenditure gave rise to an overall fiscal deficit of FBu 19.9 billion (12.8 percent of GDP), and contributed to a buildup of domestic payments arrears amounting to FBu 2.7 billion, including FBu 0.4 billion of amortization arrears. The resulting higher cash deficit (FBu 12.2 billion), coupled with lower-than-programmed net external flows, led to a larger-than-programmed domestic financing from both bank and nonbank sectors. This outcome, which reflected the impact of the lower coffee receipts on the budget--coffee export duties declined to FBu 0.6 billion from about FBu 5 billion in 1986--was compounded by a decline in nontax revenue by about 38 percent due to lower contributions by public enterprises to their debt service payments. In addition, total expenditure and net lending amounted to FBu 38.9 billion, about 15 percent above the 1986 level, as a result of a steep increase in recurrent expenditure, notably higher interest payments due to the adjustment in the exchange rate and higher outlays for wages and salaries due to additional recruitments in the health and education sectors.

Notwithstanding the increase in central government net borrowing from the banking sector, total domestic bank credit in 1987 rose by 5.8 percent of the beginning year stock of broad money. This increase reflected the lower-than-anticipated growth of bank credit to the private sector, which remained basically unchanged over the year, as a result of a lower economic activity. Consistent with this growth in total domestic credit and an increase in broad money by 6 percent, net international reserves recorded a moderate decline.

The external sector outcome in 1987 reflected to a large extent the drop in coffee export receipts and the expansionary domestic fiscal policies. The value of total exports in SDR terms declined by 30.6 percent, as a result of a 38.2 percent decline in export unit values that outweighed a continued increase in volume, particularly of nontraditional exports. Although the volume of imports declined by 4.5 percent during the year, the external current account deficit rose to the equivalent of 13.0 percent of GDP (from 10.2 percent in 1986). Notwithstanding an increase by 60 percent in medium- and long-term loans, the balance of payments recorded a deficit of SDR 7.2 million. As the deficit was financed by a drawdown of reserves, net official reserves at end-1987 amounted to SDR 31.0 million, equivalent to 1.8 months of imports of goods and nonfactor services. Gross official reserves declined somewhat more steeply, from 3.4 months at end-1986 to 2.6 months of imports at end-1987. This outcome was worse than expected at the beginning of the adjustment program when more modest declines in coffee prices and export earnings had been forecast. Moreover, mainly as a result of the lower exports, the external debt service increased to 43.8 percent of export of goods and nonfactor services in 1987, from 26.1 percent in 1986, and compared with an initial program target of 19.6 percent.

III. Medium-Term Objectives and Policies

Against this background and in light of a projected less favorable external environment, the Burundi authorities decided to strengthen the adjustment and reform program initiated in mid-1986 so as to move toward a sustainable growth and a viable external position in the 1990s. As emphasized in the updated PFP, the Government will continue to pursue both the growth strategy and the structural reforms contained in the original PFP. The objectives have been revised, however, in the face of the weaker outlook for coffee and tea prices. They include the following: achieving a real average GDP growth rate of about 4 percent per year during the 1988-91 period, which, given the estimated population growth (about 3 percent) will result in some real growth in per capita income and private consumption; reducing the inflation rate from 7.1 percent in 1987 to about 3.5 percent by 1991; and improving the balance of payments position, by targeting a sustainable current account deficit by 1990, by reducing the external debt service ratio from about 44 percent in 1987 to about 30 percent in 1991, and by building up gross international reserves to the equivalent of four months of imports while limiting the financing gap in the balance of payments to SDR 10.7 million for the period 1988-91. To achieve these objectives, the policy reforms initiated during the first year of the SAF will be expanded and strengthened, particularly those concerning exchange rate and other pricing policies, and public resource management; in the financial sector a comprehensive structural reform will be implemented, leading to a sharp reduction in the Government's role in the determination of interest rates and in selective credit controls. In addition, restrictive domestic financial policies will be implemented over the program period. The overall budget deficit will be limited to 5 percent of GDP by 1991. The sharper decline over the medium term in the budget deficit, compared with the external current account deficit, reflects a gradual shift in investment from the Central Government to the private sector and the public enterprises. The expansion of domestic credit will be limited to a level consistent with the balance of payments and domestic price objectives.

1. External sector policies

A flexible exchange rate policy remains a central element of the Government's program to achieve a structural improvement in the balance of payments over the medium term. The Government will monitor closely the evolution of costs, prices, and the level of net foreign assets and will adjust the exchange rate as necessary to attain the program's external sector targets. In association with a flexible exchange rate policy, the Government is committed to proceeding with the liberalization of the exchange and trade system. The remaining quantitative restrictions on luxury products will be replaced by customs duties in 1988, while restrictions on imports that compete with domestic industries will be phased out by 1990.

The Government is concerned about the problems posed by the high current debt service ratio and has targeted a substantial decline of the ratio over the medium term (Table 6). Accordingly, the authorities intend to restrain new foreign borrowings and continue their moratorium on external borrowings on nonconcessional terms. The authorities also aim at reducing the increase in the debt-to-GDP ratio, which is projected to reach 85 percent in 1991. During the period 1988-91, drawings from medium- and long-term loans are projected to average about SDR 117 million, compared with SDR 99 million during 1986-1987. About 40 percent of total new borrowing is projected to come from the World Bank's SAC and IDA project loans. Other disbursements are expected to come mainly from the Fund's SAF and from various multilateral and bilateral sources. For the successful implementation of the country's external debt strategy, the supervisory capabilities of the recently established external debt committee will be strengthened through improved coordination among all government agencies.

2. Fiscal policies

The Government's fiscal stance in 1988-91 will continue to aim at reducing the overall deficit in order to avoid inflationary pressures and to improve the balance of payments position. Over this period, the overall central government deficit will be reduced to 5 percent of GDP (from 12.8 percent in 1987). To achieve this objective, measures will be adopted to raise progressively noncoffee revenue and to improve the tax system and its administration. As noted in the measures under the 1988 program (see Section IV), the Government has begun implementing the recommendations of the IMF technical assistance mission in the fiscal area with a view to lessening the dependence on coffee export duties and making the tax system more elastic and easier to administer.

Regarding expenditure, the Government will continue prudent spending policies, consistent with its ability to mobilize domestic revenue, the need to limit recourse to bank financing, and the objective of gradually reducing the overall deficit. It will review, with the assistance of the Bank and Fund staffs, the major recurrent expenditure components to ensure that budgetary resources are allocated to pre-determined priorities. In particular, the rising trend in wages and salaries will be reviewed so as to contain such expenditure to appropriate levels. With regard to capital expenditure, the Government has prepared a three-year public investment program (1988-90), which has been reviewed with the World Bank. Within this framework, the Central Government's capital expenditure program will be limited to ongoing viable projects and to new projects that are likely to improve rapidly Burundi's balance of payments and growth prospects.

3. Monetary and credit policies

For the medium term, monetary and credit policies will be determined in light of the objectives set to achieve a viable balance of payments, to moderate domestic inflation, and to generate increased

Table. 6 Burundi: External Debt and Debt Service
Projections, 1987-92

(In millions of SDRs, unless otherwise stated)

	1987 Est.	1988	1989	1990	1991	1992
<hr/>						
Total external debt out- standing (beginning of period) <u>1/</u>	447	539	635	729	821	916
Disbursements	114	119	116	115	119	120
Of which						
From existing commitments <u>2/</u>	(114)	(66)	(44)	(31)	(17)	(6)
From new commitments	(--)	(53)	(72)	(84)	(102)	(114)
Amortization	22	22	22	22	24	25
Total external debt out- standing (end-period) <u>1/</u> <u>3/</u>	<u>539</u>	<u>635</u>	<u>729</u>	<u>821</u>	<u>916</u>	<u>1,012</u>
In percent of GDP	(55.4)	(71.4)	(77.2)	(81.3)	(84.7)	(87.3)
Debt service	<u>36.5</u>	<u>36.1</u>	<u>36.7</u>	<u>36.7</u>	<u>38.3</u>	<u>39.9</u>
Principal	<u>22.4</u>	<u>22.1</u>	<u>22.4</u>	<u>22.2</u>	<u>23.6</u>	<u>25.1</u>
Of which: SAF repayments	(--)	(--)	(--)	(--)	(--)	(1.7)
Interest	14.1	14.0	14.3	14.5	14.7	14.8
Of which: charges	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Debt service ratio <u>4/</u>						
Including IMF	43.8	38.2	34.7	31.4	29.9	28.3
Excluding IMF	42.9	37.3	34.0	30.7	29.2	26.5
<hr/>						
Memorandum item:						
Exports of goods, nonfactor services and private transfers	83.3	94.6	105.7	116.7	128.1	140.9

Sources: Data provided by the Burundi authorities; and staff estimates and projections.

1/ Includes medium- and long-term debt and use of Fund credit.

2/ Existing commitments as of end-1987

3/ Totals may not add up because of rounding.

4/ In percent of exports of goods, nonfactor services, and private transfers.

domestic financial savings. In this context, annual domestic credit ceilings will be set, consistent with the targeted improvement in the net foreign assets position and a prudent rate of monetary growth. Moreover, within the overall domestic credit ceilings, subceilings on net bank credit to the Central Government will be established so that adequate credit can be allocated to the private sector. To ensure adherence to these credit ceilings while improving the efficiency of the financial system, the Central Bank's ability to monitor and to control monetary and credit aggregates will be enhanced in a comprehensive reform of the financial sector including the introduction of new policy instruments.

Over the 1988-89 period, the Government will implement a reform of the financial sector that includes inter alia measures to improve its efficiency and its role in promoting economic activities and in mobilizing domestic savings. A market-determined interest rate policy will be adopted to encourage domestic financial savings, improve credit allocation, and ensure the attainment of the balance of payments objectives in the context of trade and foreign exchange liberalization. The central bank rediscount rates will be rationalized and adjusted in order to allow all other interest rates to be market-determined, and to promote positive real interest rates on deposits. In order to increase competition between banks, public enterprises will be allowed to reduce their deposits with the Central Bank and with specialized deposit institutions such as CADEBU and to invest their deposits in more remunerative assets available.

4. Public enterprises and domestic pricing policies

During 1988-91, the Government, with assistance from the World Bank, will implement structural reforms that will enable the public enterprise sector to improve the efficiency of production and services. In this regard, priority will be given to reinforcing the management capability of the Burundi Coffee Company (the coffee marketing agency) in 1988, by the implementation of measures to improve the marketing and transportation of coffee. In addition, a vast structural reform of the public enterprise sector is being undertaken with the implementation of rehabilitation plans for five priority enterprises, delineation of reform measures for seven others and preparation of diagnosis studies for a third group of enterprises. Enterprises that offer potential for privatization will be identified, and an action plan for their privatization will be prepared. Furthermore, the program will require that all viable public enterprises continue to service the debt contracted on their behalf by the Government.

The Government will continue the policy of market determination of retail prices for locally produced and imported manufactured goods. As for the remaining administered prices, such as petroleum prices and public utility tariffs, the Government will ensure that they reflect actual costs, including the pass-through of exchange rate depreciation

effects. Thus, petroleum prices will be reviewed periodically, taking into account changes in world market, transportation and processing costs, as well as budgetary considerations. The tariffs for water, electricity, utilities, and other services will also be kept under periodic review and adjusted on a timely basis to ensure efficient management and financial viability of the relevant parastatals.

IV. The Program for 1988

Consistent with these medium-term objectives, the Government has decided to implement appropriate structural reform and adjustment policies in 1988 to help achieve: (i) a real GDP growth rate of 4 percent; (ii) a reduction in the rate of domestic inflation to about 6 percent; (iii) a lowering of the external current account to SDR 158 million and a strengthening of gross international reserves to attain a three-month import coverage (Table 7). At the heart of the strategy to realize the above objectives, the Government will emphasize demand management policies that will aim primarily at reducing the size of the overall central government deficit and the related bank financing requirements, so as to provide adequate credit to the private sector, especially to the manufacturing and agro-processing public enterprises that are being rehabilitated under the proposed World Bank SAC program, with the aim of increasing efficiency of production, in particular for nontraditional exports to neighboring countries.

1. External sector policies

Under the program for 1988, the Government aims at lowering the external current account deficit of the balance of payments from 13 percent of GDP (adjusted for change in the effective exchange rate) in 1987 to 11.9 percent. Export earnings, which declined by 31 percent in 1987, are projected to rebound by about 13 percent, thereby helping to achieve this target. Earnings from coffee exports are expected to rise by 9.1 percent, reflecting increases of 2.2 percent in volume and 6.8 percent in prices, and will account for 70 percent of total export earnings, compared with an average share of about 84 percent during 1984-86. The share of nontraditional exports, which averaged about 6 percent during 1984-86, will rise to some 14 percent, largely as a result of the Government price liberalization and exchange rate policies. Taking into account the Government's estimated likely inflows of public official transfers (SDR 77 million) and net capital (SDR 79.3 million), corresponding to SDR 106 million of drawings on medium- and long-term loans (of which more than one half will come from existing commitments), total imports are targeted to grow by 5.1 percent, with volume increasing by 4.2 percent, in line with the Government's target for real GDP growth. In accordance with these projections, the overall balance of payments is estimated to record a deficit of about SDR 2 million and gross international reserves would amount to SDR 54.3 million, compared with SDR 43.4 million at end-1987.

Table 7. Burundi: Balance of Payments 1984-92 1/

(In millions of SDRs)

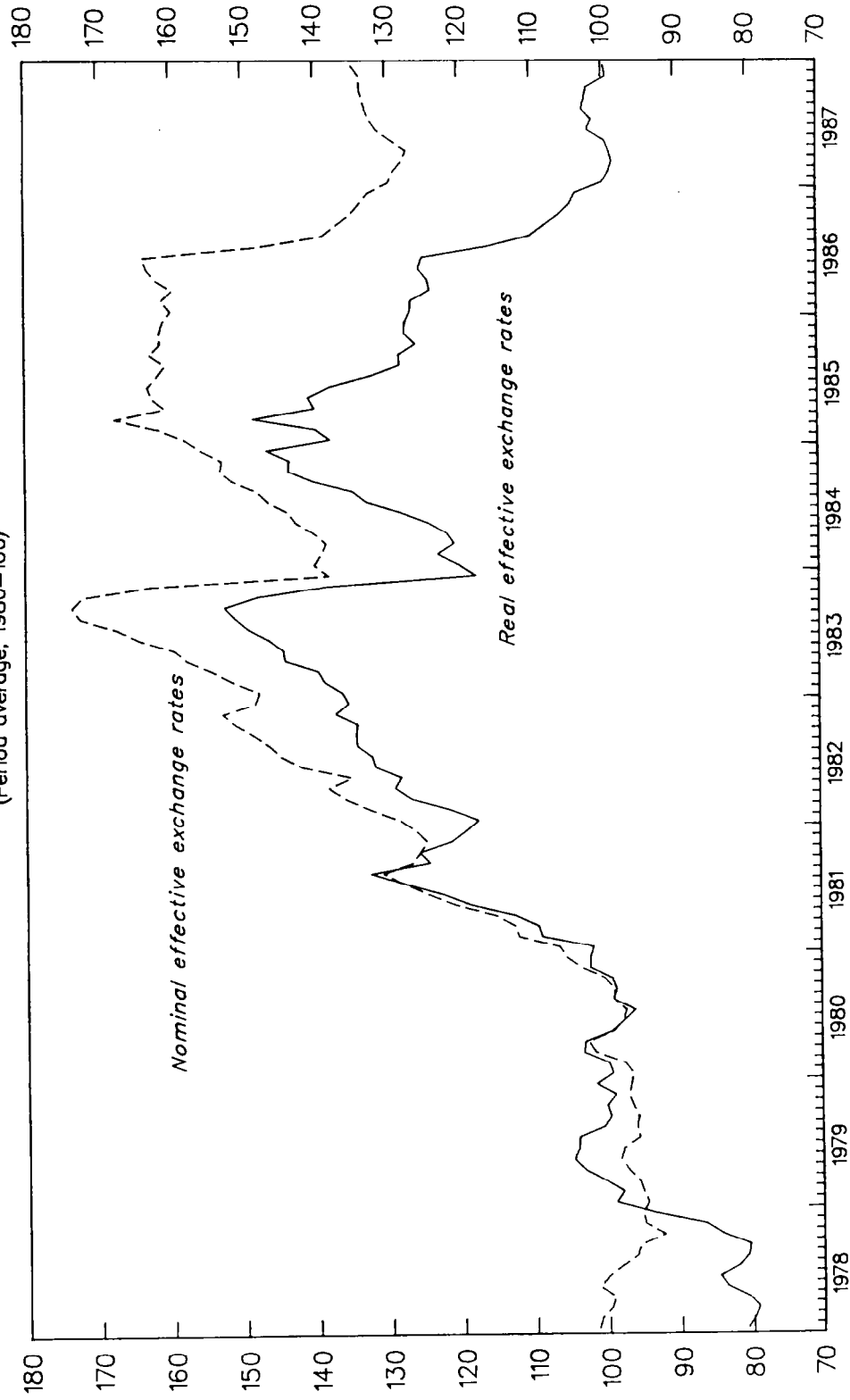
	1984	1985	1986	1987 Est.	1988 Prog.	1989	1990	1991	1992
						Projections			
Current account	-83.1	-49.1	-39.5	-95.8	-81.2	-81.2	-81.7	-82.4	-82.0
Trade balance	-93.8	-58.4	-50.8	-78.9	-76.0	-76.0	-77.3	-79.4	-80.9
Exports (f.o.b.)	85.7	110.2	107.0	74.3	83.9	94.1	104.0	114.2	125.7
Of which: coffee	(70.9)	(93.7)	(89.9)	(53.8)	(58.7)	(63.5)	(67.1)	(70.3)	(73.7)
Imports (f.o.b.)	-179.5	-168.6	-157.8	-153.2	-159.8	-170.1	-181.4	-193.5	-206.6
Official from customs	-158.7	-165.9	-157.8	-152.1	-159.8	-170.1	-181.4	-193.5	-206.6
Other imports 2/	-20.8	-2.7	—	-1.1	—	—	—	—	—
Services (net)	-71.5	-75.5	-82.1	-90.2	-88.2	-91.8	-94.9	-97.4	-99.5
Nonfactor services (net)	-45.2	-44.8	-37.8	-40.3	-39.6	-42.0	-43.8	-45.2	-46.2
Factor services (net)	-26.3	-30.7	-44.3	-49.9	-48.6	-49.7	-51.0	-52.0	-53.1
Transfers (net)	82.2	84.8	93.4	73.3	83.0	86.6	90.3	94.2	98.2
Private transfers	6.1	7.6	3.9	3.2	6.0	6.5	7.0	7.6	8.2
Official transfers	76.1	77.2	89.5	70.1	77.0	80.1	83.3	86.6	90.1
Capital account	82.1	60.3	58.3	90.5	79.3	83.3	88.3	87.3	86.1
Direct investment	0.9	0.5	2.6	1.1	1.2	1.5	2.0	2.2	2.4
Medium- and long-term									
official loans (net)	79.1	55.6	56.8	91.1	83.9	87.6	92.8	95.1	95.2
Disbursement	88.0	72.4	75.4	113.5	106.0	110.0	115.0	118.7	120.3
Amortization	-8.9	-16.9	-18.6	-22.4	-22.1	-22.4	-22.2	-23.6	-25.1
Short-term capital	2.1	2.5	0.5	-0.9	-2.8	-1.8	-1.5	-3.5	-4.0
Deposit money banks	—	1.7	-1.6	-0.9	-3.0	-4.0	-5.0	-6.5	-7.5
Errors and omissions	-0.6	-2.3	-4.6	-1.8	—	—	—	—	—
Overall balance	-1.7	8.9	14.2	-7.2	-1.9	2.2	6.6	4.9	4.1
Financing (- increase									
in assets)	1.7	-8.9	-14.2	7.2	1.9	-7.2	-12.2	-4.9	-5.1
Use of Fund credit	(-4.8)	(—)	(8.5)	(—)	(12.8)	(5.6)	(—)	(—)	(—)
Other reserves (net)	(6.5)	(-8.9)	(-22.7)	(7.2)	(-10.9)	(-12.8)	(-12.2)	(-4.9)	(-5.1)
Financing gap	—	—	—	—	—	5.1	5.6	0.0	1.0
Memorandum items:									
Current account before									
grants	-159.2	-126.2	-129.0	-166.0	-158.2	-161.2	-165.0	-169.0	-172.0
Net official reserves (end-									
period)	15.1	24.0	38.2	31.0	29.0	36.3	48.4	53.3	58.5
In months of imports	0.8	1.3	2.2	1.8	1.7	1.9	2.4	2.5	2.6
Gross official reserves (end-									
period)	20.7	27.8	57.6	43.4	54.3	67.1	79.3	84.2	89.3
In months of imports	1.0	1.5	3.4	2.6	3.1	3.6	4.0	4.0	4.0
Export volume growth	-7.9	32.2	-12.6	12.3	4.7	6.8	7.3	7.8	8.2
Volume of coffee exports									
(tons)	25,401	33,838	28,781	29,848	30,500	31,415	32,357	33,328	34,328
Average unit value of coffee									
exports (SDR/kg)	2.79	2.77	3.18	1.80	1.92	2.02	2.07	2.11	2.15
Import volume growth	2.0	5.5	4.9	-4.5	4.2	4.1	4.0	4.1	4.1
Percentage change in import									
unit value	4.1	-3.7	-11.0	2.3	0.8	2.2	2.5	2.5	2.5
Percentage change in terms of									
trade	17.1	0.9	24.9	-39.6	7.0	2.7	0.5	-0.8	-0.7

Sources: Data provided by the Burundi authorities; and staff estimates.

1/ Total may not add up to sum, because of rounding.

2/ Relates to an adjustment for the difference between the value of imports as recorded in customs data and recorded external financing of imports.

CHART
BURUNDI
TRADE WEIGHTED NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978-87
(Period average, 1980=100)



Source: IMF Information Notice System.

The authorities will implement a flexible exchange rate policy during the program period to supplement restrictive financial policies designed to help contain aggregate demand and imports. As a first step, the Burundi franc was depreciated by 10 percent in local currency terms on February 25, 1988, which more than offset the appreciation of the real effective exchange rate that had occurred since March 1987, when the flexible management of the exchange rate was interrupted (see Chart). The Government will also implement additional periodic adjustments of the real effective exchange rate during 1988. Before the end of 1988, the Government will review its exchange rate policy in light of its objectives regarding the external current account, the minimum level of net international reserves, as well as the need to ensure the competitiveness of Burundi nontraditional exports to regional markets and to strengthen incentives for major export crops and the financial position of the marketing agencies.

The Government will continue to liberalize the import system. Quantitative restrictions on imports of certain categories of luxury products were removed in January 1988, and the remaining restrictions will be removed by end-June 1988. As for restrictions on imports competing with domestic production, the Government will prepare with assistance from the World Bank a timetable for the elimination of those imposed for the protection of VERRUNDI (glass products) and ONAPHA (pharmaceuticals) in April 1988 and for textile production, by December 1988. Agreement on these timetables is part of the Government's undertaking under the second SAC program. It is expected that the liberalization of this category of imports will be completed by 1990, concurrently with completion of the rehabilitation program for these enterprises.

The Government has also decided to reduce the time required to process requests for licenses from 15 days to 5 working days for import licenses that have been granted automatically since 1986. Moreover, starting in April 1988, foreign residents who have invested in productive activities will not be required to make a deposit of FBu 10 million in order to become importers.

After reviewing the results of the implementation of the first stage of the tariff reform initiated in 1986, the Government in consultation with the World Bank has launched the second phase of the reform. In this framework, the new nominal rates applicable will lower the average effective tariff rate from 50 percent to 45 percent for manufactured goods (except for luxury items subject to a tariff rate of 100 percent, and for essential items subject to a tariff rate of 15 percent), and maintain the average rate at 25 percent and 20 percent, respectively, for food products and intermediate and capital goods.

The projected rise in exports, combined with the Government's decision effectively to refrain from contracting new external loans on commercial terms, will help reduce the debt service ratio from 44 percent in 1987 to 38 percent of exports of goods and nonfactor services

and private transfers in 1988. In light of the authorities' objective of lowering the debt service over the medium term, they are taking steps, with assistance from the United Nations Conference on Trade and Development (UNCTAD), to strengthen the monitoring capacity of the debt committee through appropriate staff training and material support to gather relevant data. In addition, the Government will increase the coordination of new debt contracting among various ministries.

2. Policies affecting resource allocation and investment

The Government intends to continue the price liberalization process initiated under the first SAF program with the aim of increasing competition among local producers of import substitution goods and among importers and traders of these products. In this connection, the beer company (BRARUDI) has been allowed to freely set its ex-factory prices. The Government is also pursuing a pricing policy for petroleum products that ensures that retail prices adequately cover costs, including the pass-through effects of the exchange rate adjustments proposed under the program while taking into account the need for budgetary revenue. The Government is continuing its policy of periodic adjustments of public utility prices, in particular the tariffs on water and electric power consumption, which were raised in February 1988 on average by 12.5 percent in order to cover the costs of operation and generate an adequate return on investments.

The sharp downturn in 1987 in world market prices of Burundi's major export, coffee, has severely limited the Government's ability to grant further price increases to producers. However, the share of world market prices passed on to producers has increased from 47.8 percent in 1986 to 56 percent in 1988; it had reached 70 percent in 1987 as world market prices collapsed. The share received by producers of tea is projected to decline from 51 percent in 1987 to 36 percent in 1988 as the marketing company eliminates the loss incurred in 1987 and generates a modest profit to ensure the company's contribution to financing the expansion of plantations and the program of modernization of processing plants being undertaken jointly with the European Development Fund (FED). The Government will keep these prices under review and, jointly with the World Bank, will study appropriate steps that might be required to achieve savings in processing and marketing costs of these crops, thereby allowing further increases in producer prices.

Under the proposed Bank SAC II program, the Government will, first, improve public enterprise management, by assigning clear objectives and responsibilities; introduce rigorous accounting procedures; and set up monitoring systems to measure performance and grant premia for productivity gains. Second, the Government will reduce its participation in the sector through the privatization or closure of nonviable enterprises. Viable enterprises will be required to service an increasing share of their existing debt. The Government will not create any new public enterprise unless there is no demonstrated private sector interest and feasibility studies indicate that the proposed unit has an

adequate rate of return. Third, the Government will continue, with World Bank assistance, the rehabilitation/closure process initiated during the first year under the SAF arrangement.

Five priority enterprises will be rehabilitated as follows:

(i) CADEBU (savings institution), which has benefited from a stable deposit base as the sole recipient of resources arising from implementation of the compulsory savings scheme and has been exempted from paying the going rates on savings deposits, will lose its monopoly position in the forced savings scheme; like all other financial institutions, it will be subject to the proposed liberalization of interest rates. In light of CADEBU's difficult financial situation, the Government has decided to suspend all credit operations until the implementation of a rehabilitation plan that will be prepared in June 1988.

(ii) For ONAPHA, whose production of pharmaceuticals cannot compete with imports because of high costs, the Government has decided to eliminate all budgetary transfers for current operations and investment, and to look for private sector participation in its rehabilitation to be implemented by July 1988.

(iii) The Government has decided to remove all subsidies to OTRABU (goods transportation) and to privatize it partially under a rehabilitation plan which is to be implemented by June 1988.

(iv) For OTRACO, which provides a public transportation service, the rehabilitation plan to be prepared in March 1988, and implemented by June 1988 includes improvements in cost recovery through a tariff increase. It is expected, however, that the enterprise will continue to need some budgetary support.

(v) For VERRUNDI, an action plan will be defined when studies currently under preparation are completed; the implementation of the performance contract, which will address the company's debt problem together with measures to improve its financial accounts and management, will start in December 1988.

The Government has selected additional enterprises to be included in the second phase of the rehabilitation program: EPIMABU, ONC, and ONIMAC (trading companies) will be consolidated into one enterprise. Other units to be rehabilitated include Minoterie de Muramvya (flour mill), Laiterie Centrale de Bujumbura (dairy products), REGIDESO (water and electricity), and COTEBU (textiles). Rehabilitation plans will be prepared during April-November 1988, and implementation will start in May 1989.

In view of the importance of coffee in the economy, and the difficulties experienced in this sector during the first year SAF program, the Government has also decided to strengthen the marketing capabilities

of the Burundi Coffee Company (BCC). With World Bank assistance, two foreign experts will be recruited in 1988, one for marketing and the other for transportation problems. In addition, steps will be taken to develop the BCC's ability to follow trends in world market prices, improve the skills of BCC staff dealing with marketing issues, facilitate transportation of coffee through Tanzania and explore alternative routes, and rationalize the cost structure of the coffee sector so as to improve its viability and increase its contribution to the budget. The Government will also ensure that deposits to be used by the Coffee Stabilization Fund for maintaining adequate producer prices will be restored to their statutory level of FBu 1 billion.

The Government is finalizing the next Five-Year Plan (1988-92). For the first three years under the plan, the core public investment program would amount to FBu 63 billion, of which central government investments would amount to FBu 54.2 billion. The projects included in the government investment program were reviewed by the World Bank, which ascertained that most projects were viable and could be financed with foreign resources obtained on concessional terms. During 1988 the Government will prepare, with assistance from the World Bank, a comprehensive public expenditure program for 1989-91 that will include the recurrent costs of the proposed capital outlays, particularly in the areas of education, health, agriculture, and transportation. In this context, the Government will also conduct a census of the existing civil service force to assess the appropriateness of its quality and size and its system of recruitment. Particular attention will be given to assessing the impact that the government project of expanding universal primary education to all school children has had on the size of the civil service, through the required recruitment of teachers. The annual tranche of the public expenditure program, including ordinary expenditure, will be implemented as a consolidated budget on a trial basis in 1989.

Pending preparation of this comprehensive expenditure program, the Government has decided to limit its capital investment outlays in 1988 to FBu 19.33 billion, 46 percent of which is concentrated on projects in the agricultural sector; 23 percent in transportation; 14 percent for social sectors (education and health); and 13 percent in mining and energy. The sectoral distribution of the program and its financing are considered appropriate by the World Bank.

3. Financial policies

To achieve the external targets of the program while containing inflationary pressures, the Government intends to pursue cautious fiscal and credit policies that will supplement the proposed exchange rate policy and contain aggregate demand and imports.

a. Fiscal policies

The authorities have decided to reduce the deficit of central government operations from FBu 19.91 billion in 1987 (12.8 percent of GDP) to FBu 16.30 billion in 1988 (9.7 percent of GDP). With the achievement of this target, the Government will liquidate, through cash payments, FBu 1.6 billion in arrears--more than one half the domestic arrears of FBu 2.7 billion accumulated in 1987 mostly on expenditure on goods and services. As shown in Table 8, taking into account the arrears reduction, the overall cash deficit will be financed by net drawings on external loans (FBu 9.49 billion), including use of SAC counterpart funds, and recourse to the banking sector (FBu 0.80 billion), and the nonbanking sector mainly through the subscription to treasury bills (Fbu 1.62 billion). To achieve these objectives, the authorities will be implementing in 1988 a combination of measures to increase revenue and to contain the rate of growth of total expenditure and net lending.

Under the program, total revenue will increase by FBu 5.49 billion (3.25 percent of GDP), of which discretionary measures will contribute FBu 2.40 billion (1.4 percent of GDP) through measures to broaden the tax base, increase beer taxation, and accelerate collection of tax arrears. Taxes and levies on non-oil imports will rise by Fbu 1.70 billion, reflecting the liberalization of imports of luxury items previously banned, the extension of the statistical tax of 4 percent to all imports except those covered by the Vienna Convention, and the limitation of customs duty exemptions, as well as the change in exchange rate. In an effort to better control the granting of customs duty exemptions, the authorities have set up a committee that will review all exemptions requests, and make recommendations to the Minister of Finance, who alone will henceforth have the power to authorize relief from customs duty payments, in contrast with the past practice where most ministerial departments could grant such exemptions. The Government has also decided to maintain retail prices of petroleum products at their present level, with the result that, given the downward trend of world prices of petroleum products, tax revenue from this source will be maintained at the 1987 level.

Two structural reform measures are included with their timetable among those indicated in Table 9. First, the base of the transaction tax will be broadened to include activities in the service sector (telecommunications), construction work and activities in the food-processing sector. Moreover, the collection of the transaction tax on imported goods will be advanced to the stage at which imports clear customs rather than at the present stage of the first sale on the domestic market. This reform is designed to accelerate revenue collection by limiting lags between imports and sales of taxable goods, but more importantly, the change will ensure a clear identification and control of the tax base. In addition, a deduction mechanism will remove the current cascading effect of the tax, and a threshold limit will establish the minimum taxable turnover. Second, the statistical tax of

Table 8. Burundi: Central Government Operations, 1985-1992

	1985	1986	1987 Est.	1988 Prog.	1989	1990	1991	1992
	Projections							
	(In billions of Burundi francs)							
Revenue and grants	24.49	28.99	24.30	30.42	34.68	36.86	39.29	41.96
Revenue	19.69	23.83	18.94	24.43	28.23	30.08	32.19	34.52
Tax revenue	18.22	21.21	17.31	21.85	25.44	27.06	28.94	31.02
Income tax	3.70	4.11	4.21	4.33	4.70	5.17	5.59	6.01
Transactions tax	2.85	3.50	3.49	3.90	5.12	5.54	5.96	6.42
Tax on beer and soft drinks	3.76	3.94	4.02	4.69	5.07	5.48	5.89	6.34
Import duties	3.38	4.28	4.50	6.13	6.85	7.55	8.02	8.61
Petroleum	0.98	1.39	1.07	1.00	1.00	1.00	1.00	1.00
Other imports	2.40	2.89	3.43	5.13	5.85	6.55	7.02	7.61
Coffee export duties	3.66	4.96	0.61	1.49	2.61	2.71	2.82	2.93
Other taxes ^{1/}	0.87	0.42	0.48	1.31	1.09	0.61	0.66	0.71
Nontax revenue	1.47	2.62	1.63	2.58	2.79	3.02	3.25	3.50
Grants	4.80	5.16	5.36	5.99	6.45	6.78	7.10	7.44
Of which SAC	(—)	(—)	(0.73)	(0.43)	(—)	(—)	(—)	(—)
Total expenditure and net lending ^{2/}	30.33	33.68	38.85	40.73	42.97	42.94	42.77	43.53
Current	14.83	17.26	20.40	21.40	22.62	23.70	24.50	25.43
Salaries	7.08	7.81	8.67	9.44	10.01	10.51	10.93	11.31
Goods and services	3.78	4.25	4.52	4.91	5.30	5.67	6.01	6.34
Transfers and subsidies	1.80	2.09	2.17	2.49	2.64	2.77	2.88	3.04
Interest	1.98	2.23	3.02	3.71	3.77	3.88	3.70	3.72
Foreign	1.20	1.36	1.90	2.46	2.44	2.52	2.57	2.62
Domestic	0.78	0.87	1.12	1.25	1.33	1.28	1.13	1.10
Others ^{3/}	0.19	0.88	2.02	0.85	0.90	0.95	0.98	1.02
Capital expenditure and net lending	15.50	16.42	18.45	19.33	20.35	19.24	18.27	18.10
Locally financed (BEI)	2.90	2.92	4.52	3.98	4.19	4.12	4.08	4.07
Foreign financed	12.60	13.50	13.93	15.35	16.16	15.12	14.19	14.03
Overall balance (commitment basis)	-5.84	-4.69	-14.55	-10.31	-8.29	-6.08	-3.48	-1.57
Overall balance (excluding grants)	-10.64	-9.85	-19.91	-16.30	-14.74	-12.86	-10.58	-9.01
Change in arrears (decrease -)	-1.56	-1.37	2.31	-1.60	-1.10	0.00	0.00	0.00
Overall balance (cash basis)	-7.40	-6.06	-12.24	-11.91	-9.39	-6.08	-3.48	-1.57
Financing	7.40	6.06	12.24	11.91	9.39	6.08	3.48	1.57
External (net)	5.32	6.48	8.76	9.49	10.07	8.66	7.67	6.96
Drawings	6.72	8.43	11.01	12.04	1.90	11.49	10.69	10.19
Of which SAC	(0.00)	(0.00)	(1.71)	(2.25)	(3.19)	(3.15)	(3.60)	(3.60)
Amortization	-1.40	-1.95	-2.25	-2.55	-2.83	-2.83	-3.02	-3.23
Domestic (net)	2.08	-0.42	3.48	2.42	-0.68	-2.58	-4.19	-5.39
Banking system	1.63	-1.74	1.17	0.80	-0.68	-2.58	-4.19	-5.39
Other	0.45	1.32	2.31	1.62	0.00	0.00	0.00	0.00
Memorandum items:								
Nominal GDP	141.35	150.98	155.36	168.56	182.31	197.19	212.35	228.57
	(In percent of GDP)							
Total revenue and grants	17.33	19.20	15.64	18.05	19.02	18.69	18.50	18.36
Tax revenue excluding coffee	10.30	10.76	10.75	12.08	12.52	12.35	12.30	12.29
Total expenditure and net lending	21.46	22.31	25.01	24.16	23.57	21.78	20.14	19.04
Overall deficit (excluding grants)	-7.53	-6.52	-12.82	-9.67	-8.09	-6.52	-4.98	-3.94
Overall deficit (including grants)	-4.13	-3.11	-9.37	-6.12	-4.55	-3.08	-1.64	-0.69

Sources: Data provided by the Burundi authorities; and staff estimates.

^{1/} Including collection of tax arrears: FBu 0.92 billion in 1988; and FBu 0.73 billion in 1989.

^{2/} On a commitment basis.

^{3/} Include global adjustment to deficit related to extrabudgetary operations on other government accounts.

Table 9. Burundi: Estimated Impact of Revenue Measures in 1988

(In billions of Burundi francs)

1.	<u>Transaction Tax:</u>	
	Broadening of the tax base to services, construction, and bakeries effective September 1, 1988	0.21
2.	<u>Tax on beer and carbonated beverages:</u>	
	(a) Increase in the specific rate of FBu 5 per bottle effective March 31, 1988	0.35
	(b) Taxation of BRAGITA effective July 1, 1988	0.32
3.	<u>Customs duties and taxes on imports:</u>	
	(a) Statistical tax of 4 percent applicable to all imports except those under the Vienna Convention, effective June 1, 1988	0.25
	(b) Limitation of customs duty exemptions, effective March 31, 1988	0.35
	Impact of above discretionary measures (1 to 3):	1.48
4.	<u>Collection of tax arrears</u>	0.92
	Global impact of discretionary measures (1 to 4):	2.40
5.	<u>Impact of the automatic expansion of the tax base</u> (including impact of the exchange rate depreciation)	1.26
	Total increase in tax revenue (excluding coffee)	3.66
6.	<u>Increase in coffee tax revenue</u>	0.88
	Total increase in tax revenue	4.54

Sources. Data provided by the Burundi authorities; and staff estimates.

4 percent on imports will be extended to all imports except diplomatic imports, and exemptions from other import duties will be sharply reduced. The Government will reinforce the valuation control on imported goods; it will also establish a system of appropriate quotas for diplomatic imports in order to eliminate abuses of exemptions that would result in revenue losses.

To contain the Central Government's financing requirements at the programmed level, the authorities are committed to holding the increase in total expenditure and net lending to about 5 percent in 1988. Current expenditure will rise from FBu 20.40 billion to FBu 21.40 billion, with increases of 8.9 percent for the wage bill (FBu 9.44 billion), 8.6 percent for goods and services (FBu 4.91 billion), and 14.7 percent for transfers and subsidies. The level of the wage bill reflects the financial impact of unfreezing the civil service promotions that have been blocked since 1986, and takes into account the regularization of hirings for the priority Ministries of Education and Health. It does not include any general increases in the wage rate which has been kept unchanged since 1984. However, the wage bill target implies that the level of civil service staffing will be stabilized at its end-January level (26,700 employees) and that new teaching staff recruitments planned for 1988 will be deferred until the Government has completed, in consultation with the World Bank, a comprehensive review of its overall employment policy under the Public Expenditure Program (PEP), particularly in the education and health sectors. The projected rises in outlays for goods and services, as well as in transfers (foreign scholarships and a subsidy to OTRACO, one of the public enterprises being rehabilitated), take into consideration the impact of the exchange rate depreciation and the cost of increased recurrent expenditure. However, outlays related to local scholarships will be limited to their 1987 level. The program will not involve any extrabudgetary outlays through the Road Fund and the Special Fund for petroleum products (FBu 1.07 billion in 1987) as expenditure and revenue of these funds have been integrated into the 1988 budget.

To prevent the Government from exceeding the programmed levels for recurrent expenditure, and to avoid accumulating new domestic arrears, the Minister of Finance, pursuant to Article 6 of the 1988 Budget Law, will set cumulative quarterly targets for these outlays which have to be observed by all spending ministries.

Capital outlays and net lending will amount to FBu 19.33 billion, showing an increase by 5 percent over 1987, which takes into account the impact of the proposed exchange rate adjustments in 1988 and the likelihood that, consistent with past trends, the rate of project implementation during the first year of the new Five-Year Plan will be slow. The sectoral distribution of the investment program as described above (see Section 2, page 20) is consistent with the Government's development priorities and objectives, with capital grants and foreign loans that can be mobilized on concessional terms and with the resources from budgetary revenue to finance the local counterpart.

b. Monetary and credit policies

The Government will implement a credit and monetary policy that is consistent with the balance of payments objective while allowing for adequate credit to the productive sectors. Total domestic credit will rise by about 8 percent of the initial stock of broad money, with the growth in the banking system's net claims on the Government being limited to 3 percent, and credit to the economy rising by 5 percent. The increase in credit to the economy, combined with the programmed reduction in government payments arrears by FBu 1.6 billion in 1988, equivalent to 6 percent of the initial stock of broad money, will adequately cover the financing needs of the private sector (Table 10).

Taking into account the projected moderate decline in net foreign assets, broad money supply is targeted to increase by 7 percent in 1988, somewhat below nominal GDP growth rate of 8 percent. This restrictive monetary and credit policy stance will be essential to limit the rate of increase in domestic prices to about 6 percent. This inflation target takes into account the expected increase in output, the impact of increases in the beer tax and tariffs on water and electric power consumption, as well as the programmed exchange rate adjustments on the consumer price index.

In line with its new policy to promote more private sector participation in investment, the Government will initiate a major reform of monetary and credit policies to improve the mobilization and allocation of resources. Direct controls, administered interest rates, and selective credit controls, such as preferential interest and discount rates for priority sectors and other regulations to direct credit to predetermined priority sectors, will be removed, and monetary policy will instead rely more on market-related mechanisms for the control of credit expansion.

During the first phase of the reform, planned for the second quarter of 1988, the Government will liberalize a number of interest rates, and start holding treasury bill auctions on a regular basis. The maximum rates for non-rediscountable credit (for details see SM/87/275, Table 23) and the minimum rate on demand deposits will be freed from administrative control. The banks will thus start competing for nonrediscountable loans and introduce a risk premium for higher-risk clients, thereby improving the allocation of resources. At the same time, elimination of the minimum rate on demand deposits will improve their financial situation. The treasury bill auctions that will start concurrently with this change in interest rate policy, will be open to financial institutions as well as the nonbank sector, and aim at mopping up excess liquidity and at providing alternative investment instruments for financial savings. At a later stage, the bills will provide the Central Bank with a vehicle to conduct open market operations. During the program period, the funds obtained through the auctions of treasury bills that are in excess of the programmed net bank financing of the deficit will be used to reduce the Central Bank's outstanding advances

Table 10. Burundi: Monetary Survey, 1985-89

(In billions of Burundi francs)

	1985	1986	1987	1988	1989
Net foreign assets	2.78	5.78	4.82	5.64	6.08
Domestic credit	28.47	27.70	29.18	31.30	32.65
Net claims on Government	15.80	14.06	15.23	16.03	15.40
Claims on the private sector	12.67	13.64	13.95	15.27	17.25
Money and quasi-money	24.19	25.29	26.80	28.68	30.90
Coffee Stabization Fund deposit	0.30	1.19	0.53	1.00	1.00
Medium- and long-term liabilities	1.62	1.41	0.96	0.56	0.13
SDR allocation	1.68	2.08	2.21	2.74	2.74
Other items (net)	3.46	3.51	3.50	3.96	3.96

Sources: Data provided by the Burundi authorities; and staff estimates.

to the Government. The Central Bank will take the auction rate into account in setting the level of deposit and lending rates remaining under administrative regulations. It is expected that during the course of the reform program, the key interest rate on 12-month time deposits, which is currently set at 7 percent, will remain positive in real terms, with the rate of inflation projected to be 6 percent in 1988 and 5 percent in 1989. Other measures to be taken at this stage of the reform will allow public enterprises that hold large balances with the central bank to place their funds in the most profitable manner, and will permit workers participating in the compulsory savings scheme to hold their savings at the financial institution of their choice rather than with the public savings institution, CADEBU.

In the second stage of the reform, during September 1988-July 1989, all interest rates will gradually be left to market forces, and credit policies will be reformed by the adoption of more indirect control mechanisms. In September 1988, all minimum deposit rates will be eliminated, with the exception of the rate on passbook savings (see SM/87/275, Table 22). The number of discount rates of the Central Bank will be reduced from 15 to 3: a preferential low rate for coffee exports, a middle rate for other exports, and a normal rate for central bank refinancing for other activities. Corresponding to these three discount rates, the number of maximum lending rates on rediscountable credit will also be reduced to three. The Government will further reduce the number of discount and maximum lending rates from three to two each, by end-1988. The reform policy will culminate in July 1989 with the complete market determination of all lending and deposit rates.

Change in credit policies will be implemented concurrently with the reform of interest rate policy. As an initial step, the authorities will abolish the system of prior authorization of all loans that extend the banking system's exposure to a single client above FBu 10 million. The current system excludes all credit below this threshold from the control of credit expansion; it is also redundant with respect to other existing credit control instruments including the rediscount policy and the ratio of medium-term loans relative to the banks' loan portfolios. Following the elimination of the prior authorization, the Government will supplement existing control instruments with reserve requirements. As the present situation does not appear to require strong controls over credit to the private sector, the reserve requirements will initially be set at a low level. In addition, in order to ensure that the reserve requirements do not adversely affect profitability, the financial institutions will be given the option of satisfying the requirement through treasury bills subscription in a manner consistent with the programmed limits on net bank financing of the targeted overall deficits. The proposed reform will be applied to all financial institutions, including the public savings institution (CADEBU), which has benefited from a stable deposit base in the past by receiving deposits from the existing compulsory savings scheme applicable to all workers in Burundi, and has been allowed to remunerate time and savings deposits at interest rates lower than those at commercial banks.

4. Benchmarks

To monitor progress during the second annual arrangement under the SAF, the following structural and financial benchmarks will apply: (a) increasing the resources of the Coffee Stabilization Fund to the statutory level of FBu 1.0 billion by December 1988; (b) recruiting two experts by April 1988 to provide technical assistance to the Burundi Coffee Company in the areas of marketing and transportation; (c) introducing the reform of interest rate and credit policies during the period April-December 1988; (d) introducing the second phase of the tariff reform in January 1988; (e) replacing quantitative restrictions on luxury imports by customs duties during April-June 1988; observing (f) quarterly ceilings on domestic credit and on bank net claims on the Government; (g) minimum quarterly levels of net international reserves; (h) zero limit on new nonconcessional foreign borrowing contracted or guaranteed by the public sector with a maturity range of 0-12 years, excluding normal import credits of less than one year; and (i) the standard clauses regarding the exchange and trade system. These benchmarks for the program are summarized in Table 11 and other policy actions under the SAF program are shown in Table 12.

To secure the objectives and targets of the program, the Government has implemented a set of measures before Board consideration of Burundi's request for the second annual arrangement under the SAF. They comprise: (i) the initial adjustment of the exchange rate; (ii) the increase in the tax on beer; (iii) the creation of the committee to control exemptions from import duties; (iv) the setting of quarterly ceilings for expenditure commitments in line with the targeted overall fiscal deficit; (v) the reduction of domestic arrears by FBu 400 million; (vi) the implementation of the first phase of decontrol of interest rates and selective credit instruments; and (vii) the increase by 12.5 percent in water and electric power tariffs.

V. Staff Appraisal

In adopting a structural reform and financial adjustment program in 1986 with the support of the World Bank's SAC, together with a stand-by arrangement and the first annual SAF loan from the Fund, the Government of Burundi sought to reverse the erratic and low rates of economic growth and to strengthen the external position to a sustainable level over the medium term. The medium-term policies put in place stressed measures designed to achieve rationalization and efficiency in the production sector by removing impediments to growth. An appropriate exchange rate policy, a liberalization of the exchange and trade restrictions, a restructuring of tariffs to reduce effective protection, and a reform of the public enterprise sector were put in place to help bring about a diversification of production and exports.

Table 11. Burundi: Benchmarks for the Second Annual Program
Under the Structural Adjustment Facility (Jan.-Dec. 1988)

	1987 Dec. Prel.	1988 March June Sept. Dec. Program			
A. <u>Quantitative Financial Benchmarks</u> (In billions of Burundi francs; at end of period)					
Domestic credit	29.18	31.46	29.95	33.00	31.30
Net claims on the Government	15.23	16.23	16.23	16.13	16.03
Cumulative cash reductions in government domestic arrears	...	0.40	0.80	1.20	1.60
(In millions of SDRs)					
Minimum levels of net official reserves (excluding gold)	30.4	24.4	18.4	23.4	28.4
Nonconcessional foreign borrowing contracted or guaranteed by the public sector in the maturity range of:					
0 to 1 year <u>1/</u>	--	--	--	--	--
1 to 12 years	--	--	--	--	--
B. <u>Structural Benchmarks</u>					
<u>Actions</u>	<u>Timing</u>				
1. Restoration of the level of resources of the Coffee Stabilization Fund to its statutory level of FBu 1 billion	During the program period				
2. Hiring of two qualified experts to provide technical assistance to BCC	April 1988				
3. Preparation of the PEP for the 1989-90 period	December 1988				
4. Implementation of credit and interest rate policy:					
1st phase	April 1, 1988				
2nd phase	September 1, 1988				
3rd phase	December 1, 1988				
5. Replacement of quantitative restrictions on all luxury items by customs tariff	End-June 1988				
6. Introduction of the second phase of customs tariff	January 1988				

Source: Memorandum on Economic and Financial Policies for 1988.

1/ Excludes normal trade financing.

Table 12. Burundi: Timetable for the Implementation of Policy Actions
Included in the Second-Year of the SAF Program

Measures	Timing
1. <u>External sector</u>	
a. Implementation of an appropriate flexible exchange rate	During the program period.
b. Second phase of tariff reform	January 1, 1988
c. Reduction in processing time of import licenses to five working days	March 31, 1988
d. Replacement of restrictions on imports of luxury products by custom duties	January-June 1988
2. <u>Pricing policy</u>	
a. Maintaining present retail prices of petroleum products and subsequent adjustment in light of increase in import cost	During the program period.
b. Increase in water and electricity tariffs by 12.5 percent	Before March 31, 1988
3. <u>Public enterprise sector</u>	
a. Negotiation of rehabilitation performance contracts with CADEBU, ONAPHA, OTRACO, OTRABU, and VERRUNDI	June 1988 July 1988
b. Hiring of two experts to assist BCC in marketing and transportation problems	April 1988
c. Nomination in Dar es Salaam of a BCC staff member and a custom officer	June 1988
d. Implementation of rehabilitation programs for the above enterprises	Before December 1988
e. Acquisition of an information system for coffee price quotations	Before December 1988

Table 12. Burundi: Timetable for the Implementation of Policy Actions
Included in the Second-Year of the SAF Program (continued)

Measures	Timing
4. <u>Fiscal policies</u>	
a. Increase by FBu 5 per bottle in specific tax on beer and soft drinks	March 31, 1988
b. Creation of a committee to control import duty exemptions, chaired by the Ministry of Finance	March 31, 1988
c. Notification of the quarterly ceilings on expenditure commitments to other ministries	March 31, 1988
d. Reduction of domestic arrears according to the timetable set in the memorandum on economic and financial policies	During the program period
e. Preparation of PEP	By end-April 1988
f. Extension of the statistical tax (4 percent) to all imports excluding diplomatic exemptions	June 1988
g. Definition of a public employment policy in the context of a Public Expenditure Program	Before end-June 1988
h. Extension of transaction tax to telecommunications, construction works, and bakeries	September 1988
i. Levy of the transaction tax at the import stage	September 1988
j. Implementation of a system of deductions to eliminate the cascade effects of the transaction tax and definition of a turnover threshold for its application	September 1988
k. Revision of the income tax	December 1988
l. Limiting the increase in the wage bill, containing the size of the civil service to employees on the payroll at January 31, 1988	During the program period.
5. <u>Money and credit policies</u>	
a. Issuance of Treasury bills through auctions to finance the government deficit (FBu 800 million through the banking system, and FBu 1.62 billion from the nonbank sector), reduce central bank net claims on the Government and absorb excess liquidity in the economy	From April 1, 1988
b. Abolition of issuance of investment bonds	From April 1, 1988

Table 12. Burundi: Timetable for the Implementation of Policy Actions
Included in the Second-Year of the SAF Program (concluded)

Measures	Timing
c. Elimination of the prior authorization for loans of FBu 10 million or more extended to a single borrower	April 1, 1988
d. Elimination of maximum interest rate on nonrediscountable loans and of minimum rate on demand deposits	April 1, 1988
e. Authorization to public enterprises to place their deposits in most profitable manner	April 1, 1988
f. Institution of a reserve requirement	April 1, 1988
g. Reduction of the number of rediscount rates from five to three	September 1, 1988
h. Institution of three maximum lending rates applicable to commercial bank loans and corresponding to the three rediscount rates	September 1, 1988
i. Elimination of all deposit rates except minimum rate (currently 7 percent) on passbook savings accounts	September 1, 1988
j. Modification of the medium-term lending ratio	September 1, 1988
k. Reduction of the number of rediscount rates from three to two	December 31, 1988
l. Full liberalization of all lending and deposit interest rates	July 1989

During the first year of the three-year program, the economy posted significant gains in terms of real GDP growth and price stability. The results in the financial area, however, fell short of the Government's targets, owing largely to external developments in the coffee sector, which, albeit more favorable than in 1985, fell short of the Government's expectations. These developments were further compounded by the technical weakness of the coffee marketing agency in shipping and selling Burundi's main export in a timely manner. In 1987, the deterioration in the external environment gained momentum, and the lack of flexibility in adapting policies to limit the adverse impact of these factors on the economy resulted in Burundi's failure to achieve the first-year program benchmarks and targets relating to the external current account, the level of international reserves, the deficit in the financial operations of the Central Government, the associated reduction in the banking system's net claims on the Government, domestic credit, and nonaccumulation of domestic arrears.

Taking these developments into account and recognizing that medium-term prospects are likely to continue to be difficult until the mid-1990s, the Burundi authorities have decided to strengthen the adjustment and structural reform program with a view to achieving the revised objectives and targets contained in the updated policy framework paper covering the period 1988-90, the program for the second annual arrangement under the SAF and a second SAC program from the World Bank.

The adjustment and reform program encompasses most policy areas. However, it emphasizes in particular the reform of the public enterprise sector, the strengthening of fiscal policy, and the reduction in government intervention in the determination of interest rate and selective credit policies.

The reform of the public enterprises, with assistance from the World Bank, will strengthen the performance of this sector, its contribution to value added and exports, and reduce its reliance on budgetary transfers for current operations and investments. The elimination of government intervention in the pricing and managerial decisions of these enterprises will strengthen their autonomy and foster competition. The process will be aided by the further reduction in effective protection through tariff reform, while the flexible exchange rate policy will enable the sector to expand capacity utilization and increase the share of Burundi's nontraditional exports in regional markets.

In the financial area, the lower-targeted deficit in central government operations in 1988 is consistent with the reduction in the external current account deficit. The revenue and expenditure measures envisaged by the Government are adequate to achieve the targeted reduction in the overall deficit. The level of domestic bank financing of the deficit for 1988 will lead to lower domestic credit expansion that will be consistent with the balance of payments objectives, while providing adequate credit to the private sector and permitting an

expansion in money supply that is compatible with the program's domestic inflation objective.

More importantly, however, the structural improvements to be undertaken with respect to the transaction tax and the extension of the statistical tax on imports will help the Government's efforts to diversify its revenue away from taxes on coffee exports and to increase noncoffee revenue by the equivalent of 2 percent of GDP by 1991, as envisaged in the Government's policy framework paper. The timely implementation of these reforms, combined with the envisaged reduction in customs duty exemptions and the improvement of tax administration and enforcement, are essential to helping the Government achieve the program's fiscal targets in 1988. In addition, for the first time, the Government will prepare a comprehensive public expenditure program, including all recurrent and capital outlays, that will help rationalize investment decisions by taking into account the recurrent costs of proposed capital projects, provide a global measure of the Government's role in the economy, and assess its impact on the external position, particularly external indebtedness. In addition, under the public expenditure program, the Government will review its employment policy and the impact of projects in the social sectors, notably the education sector, on the size of the civil service and the wage bill.

The major structural reform of credit and interest rate policies will result, over the period April 1988-July 1989, in a complete liberalization of credit and interest rate policies, with the commercial banks competing freely for private sector deposits and basing their lending decisions on profitability and risk, rather than on administrative directives. The private sector, and in particular, the public enterprise sector and participants in the compulsory savings scheme, will be free to place their funds in the most remunerative manner, including new investment instruments such as treasury bills. The Central Bank will be able to focus on overall monetary policy and rely more on indirect control mechanisms to influence monetary expansion and credit policies. It will thus be able to promote a sound and high-quality banking system through more frequent auditing and inspection of financial institutions. These reforms will contribute to strengthening private sector initiatives regarding investment and production decisions unfettered by excessive administrative regulations.

The staff considers that the adjustment policies and measures outlined in the authorities PFP for 1988-90 and in their Memorandum on Economic and Financial Policies for 1988 represent strong efforts aimed at reducing impediments to Burundi's goal of achieving a sustainable rate of economic growth and a viable external position. Taking into account the highly concessional terms of debt incurred since 1986 and projected for the medium term, the staff expects that, with continued prudent debt management, the sharp increase in the debt-to-GDP ratio during the program period should not result in unsustainable debt service. Consequently, the staff believes that the policies under the program will enable Burundi to maintain orderly relations with its

creditors including the Fund in a context of increased liberalization of exchange and trade restrictions. On the basis of staff projections, these policies will also virtually eliminate the need for exceptional financing by mid-1990. Accordingly, the staff recommends approval of the authorities request for the second annual arrangement under the structural adjustment facility.

Burundi imposes an exchange restriction on foreign remittances of profits, dividends, and other income pertaining to international transactions which is subject to approval by the Fund under Article VIII, Section 2(a). In the light of the substantial progress made by Burundi toward the elimination of this restriction, the staff recommends that the restriction be approved until the completion of the next Article IV consultation with Burundi or December 31, 1988, whichever is earlier.

VI. Proposed Decisions

In view of the above, the following draft decisions are proposed for adoption by the Executive Board:

(i) Second annual arrangement under the structural adjustment facility

1. The Government of Burundi has requested the second annual arrangement under the structural adjustment facility.
2. The Fund has appraised the progress of Burundi in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper (EBD/88/--).
3. The Fund approves the arrangement set forth in EBS/88/76.

(ii) Exchange system

In the circumstances of Burundi, the Fund approves the restriction on foreign remittances of profits, dividends, and other income pertaining to international transactions until the completion of the next Article IV consultation with Burundi or December 31, 1988, whichever is earlier.

Bujumbura, February 16, 1988

Mr. Michel Camdessus
Managing Director
International Monetary Fund

Mr. Barber Conable, President
International Bank for Reconstruction
and Development
Washington, D.C. 20431

Dear Sirs:

I am pleased to submit the attached document entitled, "Medium-Term Macroeconomic Policy Framework," which outlines the broad policy orientations adopted by the Government of Burundi for the period 1988-90. Their implementation will make it possible to ensure economic growth with internal stability and a viable external position over the medium term. The Government of Burundi hopes that on the basis of these general policies it will be able to count on the International Monetary Fund, the World Bank, and the international community to support its structural reform and adjustment efforts.

The Government would, therefore, appreciate it if the Fund and the Bank would distribute this document as widely as possible so as to help mobilize the financial assistance required to achieve the chosen objectives.

Sincerely yours,

/s/

Pierre Binoba
Minister of Finance

Burundi - Structural Adjustment Facility
Second Annual Arrangement

Attached hereto is a letter dated March 24, 1988 from the Minister of Finance of the government of Burundi, together with an updated policy framework paper (EBD/88 , / /88), requesting from the Fund the second annual arrangement under the three-year structural adjustment arrangement, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangement in accordance with the following provisions and subject to the Regulations of the administration of the structural adjustment facility:

1. The second loan in the amount equivalent to SDR 12.8 million is available for disbursement at the request of Burundi.
2. Before approving the third annual arrangement, the Fund will appraise the progress of Burundi in implementing the policies and reaching the objectives of the program supported by the second annual arrangement, taking into account primarily:
 - (a) the indicators specified in paragraph 26 of the memorandum annexed to the attached letter,
 - (b) imposition of intensification of restrictions on payments and transfers for current International transactions,
 - (c) introduction of multiple currency practices,
 - (d) conclusion of bilateral payments agreements which are inconsistent with Article VIII, and
 - (e) imposition or intensification of import restrictions for balance of payments reasons.
3. In accordance with paragraph 4 of the attached letter, Burundi will provide the Fund with such information as the Fund requests in connection with the progress of Burundi in implementing the policies and reaching the objectives supported by the second annual arrangement.
4. In accordance with paragraph 5 of the attached letter, Burundi will consult with the Managing Director of the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the managing Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Burundi or of representatives of Burundi to the Fund.

Bujumbura, March 24, 1988

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. On August 8, 1986, the International Monetary Fund approved Burundi's request for a loan in the amount of SDR 8.54 million (20 percent of quota) for the first annual program (July 1, 1986-June 30, 1987) under the three-year arrangement supported by the International Monetary Fund's structural adjustment facility. At the same time, the Fund approved a stand-by arrangement in the amount of SDR 21.0 million (49 percent of quota). Burundi made no purchases under the stand-by arrangement that covers the period July 1, 1986-March 31, 1988. With few exceptions, the Government has implemented all the structural reform and adjustment measures contained in the program. However, the performance with respect to growth and domestic stabilization anticipated in the initial program were not achieved in 1987, owing to a 40 percent deterioration in the terms of trade, whose impact on the Central Government's financial position could be offset only partially. Accordingly, the targets for the balance of payments, international reserves, the overall deficit of the Central Government's financial operations, total credit to the economy, and the reduction in the banking system's net claims on the Government were not achieved. As projected, however, by the end of the first annual program (June 30, 1987), the Government had eliminated all domestic payments arrears and had contracted no new loan commitments on nonconcessional terms.

2. In view of the less favorable external developments of 1987 and the projected difficult medium-term outlook, the Government has decided to reinforce its program of structural reforms and financial adjustment in 1988 so as to prevent any deterioration in its economic and financial position while reducing financial imbalances and eliminating the bottlenecks which hamper growth. Accordingly, the Government has revised the medium-term policy framework paper, with the assistance of Fund and World Bank staffs, which describes the broad thrust of macro-economic and structural adjustment policies and the likely external financing requirements, together with the available sources for such financing. The Government of Burundi will cooperate closely with Fund and Bank staffs with a view to monitoring economic and financial developments in Burundi, and the medium-term policy framework will be updated annually.

3. The economic and financial program described in the attached memorandum is broadly in line with the revised medium-term macroeconomic policy framework. It outlines the objectives and policies the Government will pursue in 1988. In support of these objectives and policies, the Government of Burundi requests from the Fund the second annual arrangement supported by the structural adjustment facility.

4. The Government of Burundi will provide any information the International Monetary Fund may require for purposes of assessing progress in policy implementation and the performance with respect to the program targets. The Government of Burundi is convinced of the need to continue with the medium-term adjustment effort, and in this context would appreciate whatever technical and financial assistance it may receive from the Fund.

5. The Government of Burundi believes that the policies and measures set forth in this program are adequate to achieve the program targets in 1988, but it will take any further measures that may become appropriate for this purpose. The Government will consult the Managing Director of the Fund on the adoption of any measures that may be appropriate at its own initiative or whenever the Managing Director requests such consultations.

Sincerely yours,

/s/

Pierre Binoba
Minister of Finance

BURUNDI

Memorandum on Economic and Financial Policies

1. The structural adjustment program on the basis of which a disbursement of SDR 8.54 million was made available to Burundi under the first annual arrangement under the Fund's structural adjustment facility (SAF) enabled the country in 1986 to launch reforms aimed at reducing the domestic and external imbalances that have characterized its economy in recent years. Although difficulties inherent in the country's landlocked position, exacerbated by technical inadequacies in the marketing and transportation of coffee (our major export), have prevented full achievement of the Government's targets, the results obtained in 1986 in the areas of economic growth, inflation, balance of payments and government finance represent a substantial improvement over the 1985 outcomes. These results have been achieved through measures implemented by the Government with a view to improving resource allocation, and particularly encouraging private investment through an appropriate and flexible exchange rate policy, liberalization of exchange and trade arrangements, and strengthening of incentives to expand and diversify exports.

2. Gross domestic product (GDP) grew by 4.4 percent in 1986. Much of this expansion is in the agricultural sector, where the sustained output of the food crop sector contributed to reducing the rate of inflation from 3.7 percent in 1985 to around 2 percent in 1986. In the area of government finance, the ratio of the overall deficit of government financial operations (on a commitment basis, excluding grants) to GDP fell from 7.5 percent in 1985 to 6.5 percent in 1986. This relative improvement in the Government's financial position enabled it to pay the arrears accumulated under the ordinary budget and to reduce the amount of the banking system's outstanding net claims on the Government. Despite a stagnation in export receipts in SDR terms, the balance of payments current account deficit remained practically unchanged in absolute terms, and, as a ratio to GDP, declined from 11.2 percent in 1985 to 10.2 percent in 1986, following the contraction in aggregate demand which contributed to a 6.7 percent reduction in imports. As capital inflows remained unchanged from 1985, the overall balance of payments recorded a surplus of SDR 14.2 million. Consequently, net official reserves at the end of 1986 reached a level equivalent to 2.2 months' imports, as compared to 1.3 months in 1985.

3. However, these favorable results did not extend into 1987, as the poor performance of coffee exports contributed to a slowdown in the growth of GDP, while the rate of inflation picked up (7.1 percent). The current account deficit widened to 13 percent of GDP and, despite a significant increase in net inflows of capital (SDR 32.2 million), the overall balance of payments posted a deficit of SDR 7.2 million. Despite the decline in net foreign assets, money supply rose by 6 percent owing to domestic credit expansion (5.8 percent of the money supply).

This reflected essentially the Government's recourse to the banking system (4.6 percent of the money supply) to finance the deficit in its overall operations which rose from 6.5 percent of GDP in 1986 to 12.8 percent in 1987. The cash deficit amounted to 11.3 percent of GDP as the Government accumulated domestic arrears estimated at FBu 2.7 billion, including arrears on amortization of about FBu 0.4 billion. The balance of payments and government finance outcomes can be largely attributed to the sharp drop in coffee export earnings (down SDR 36.1 million) linked to a decline in world prices, and to difficulties in transportation and marketing of exports. The magnitude of the shortfall did not allow the Government to take adequate compensatory measures to offset the resulting deterioration in its financial situation.

4. In these circumstances, the Government was unable to reach all the targets under the financial program for the period from July 1, 1986 to June 30, 1987 that benefited from the support of the IMF's Structural Adjustment Facility (SAF). At end-June 1987, the overall deficit of central government operations (including grants) reached a level equivalent to 4.6 percent of GDP instead of a surplus of 1 percent of GDP; outstanding domestic credit (FBu 29.3 billion) exceeded the programmed amount by FBu 8.1 billion, and the banking system's net claims outstanding on the Government (FBu 16.6 billion) were nearly three times the projected amount. The level of net official reserves (SDR 31 million) amounted to less than one half of the program target. However, the Government fully cleared its domestic payments arrears and did not contract any loans on commercial terms. Regarding the program structural benchmarks, most import licenses were granted automatically, the limits on transfers of foreign remittances were raised in two stages, the first phase of the import tariff structure reform was implemented, water and electricity tariffs were increased, and the rehabilitation program for five designated public enterprises was initiated. However, the elimination of restriction on luxury imports was delayed, and the Government has reached an understanding with the World Bank that the liberalization of quantitative restrictions on import competing with local manufactures will be synchronized with the completion of the rehabilitation program for the public enterprises producing these goods.

5. Taking into account these results, which clearly show that the process of economic reform remains vulnerable to exogenous factors such as the world price of coffee and uncertainties regarding transportation routes, the Government reaffirms its commitment to continue with its adjustment and structural reform policies. To this end, it has revised the first medium-term macroeconomic framework, under which, during the period from January 1, 1988 to December 31, 1990, it plans to continue the reforms initiated during the first year of the structural adjustment program (July 1986-June 1987), while strengthening economic and financial management. For these purposes, the Government has adopted a financial program for the period from January 1 to December 31, 1988, in support of which it is requesting a loan under the second year of the structural adjustment facility. The targets of this annual program are

to achieve a GDP growth rate of about 4 percent, to contain price increases to 6 percent and to raise the level of gross official reserves to the equivalent of 3.1 months of imports of goods and nonfactor services, which implies an overall balance of payments deficit of SDR 2 million and a current account deficit of SDR 158 million. The Government believes, however, that more favorable export developments in 1988-89 could help in increasing the level of official reserves to the levels targeted in the Government PFP (paragraph 46). To achieve these targets, the Government will implement the policies set out below in Sections I (External Sector Policies), II (Policies on Investment, Domestic Prices and Reform of the Public Enterprises), III (Financial Policy), and IV (Credit and Interest Rate Policy). Execution of the program will be guided by specific benchmarks which will make it possible, where appropriate, to examine in consultations with the management of the International Monetary Fund such measures as may prove necessary to achieve the Government's targets. These benchmarks are examined in Section V.

I. External Sector Policies

6. The program's current account and balance of payments objectives will be achieved in the context of increased liberalization of the exchange and trade system. A sustainable improvement in Burundi's economic and financial position calls for diversification of production and exports so as to reduce the impact of climatic fluctuations and world commodity prices on the management of the economy. With this in mind, the Government will continue its flexible exchange rate policy, the first effects of which were already apparent in 1986, with a significant increase in the volume of exports of manufactures (particularly beer, metalworks, fibro-cement, and cigarettes) to regional markets. Although manufactures continue to account for a relatively small proportion of total exports, an appropriate exchange rate policy will make it possible for the reforms currently under way in this sector to increase the utilization of installed capacity for export to regional markets and to improve the external position. At a microeconomic level, the exchange rate policy should make it possible to improve coffee, tea, and cotton marketing operations, which are currently hampered by falling world market prices. By end-December 1987, the resources of the Fonds d'Egalisation des Prix du Café (Coffee Price Stabilization Fund) amounted to only FBu 527 million, or 53 percent of the resources earmarked by law for its operations, and the Government believes that an appropriate exchange rate policy would enable the Fund to carry out its function of stabilization of producer prices without transfers from the budget. The Government also believes that its exchange rate policy will facilitate adjustment of its external position. (The elements of this policy, the modalities for its implementation, and the requisite level are described in my cable of February 25, 1988 and in my letter of March 24, 1988).

7. The Government, in agreement with the World Bank, will continue its policy of tariff reform intended to reduce the effective protection of enterprises whose activity requires high levels of raw materials imports while keeping such protection in place for certain industries producing intermediate goods from local raw materials. In this framework, and starting in January 1988, the new rates applicable will be as follows:

(i) manufactures, 45 percent instead of 50 percent;

(ii) food products, 25 percent;

(iii) intermediate goods and other primary products, 20 percent instead of 15 percent.

8. Consistent with its policy of liberalizing the exchange system, the Government will maintain the higher ceilings applicable to transferable amounts in the various income categories in place in 1988 for the benefit of foreign residents. Furthermore, with a view to restoring confidence to foreign private partners, the administrative procedures governing these transfers will be made more transparent and less cumbersome and the time required for effective execution will be shortened. The Government has decided to keep in place the policy of automatically granting import licenses except for those cases covered by paragraph 23 of the Medium-Term Economic and Financial Policy Framework and to rely on adjustment policies as well as an active, flexible exchange rate policy to achieve its international reserves objectives. In this light, the time required for the issuance of import licenses will be reduced from about two weeks to five working days.

9. Regarding imports of luxury goods, the Government has decided to remove the existing restrictions and to replace them with appropriate customs duties without any possible exemptions. Import licenses for some of these goods are being granted freely since January 1988 and most of these goods will be covered by end-June 1988.

10. Regarding the management of public debt, which is expected to rise to the equivalent of 88 percent of GDP in 1991, the Government's objective is to bring down the cost of debt service from 44 percent of exports of goods and nonfactor services in 1987 to 38 percent in 1988 and 30 percent in 1991. To this end, the Government will borrow only on concessional terms, with the exception of normal trade credits. The Government intends to strengthen the authority of the debt committee so as to ensure better debt monitoring. With this concern in mind, the Government has requested technical assistance from UNCTAD in training staff and acquiring the proper equipment to gather all relevant data on debt. The Ministry of Finance, which chairs the debt committee, will also ensure that the ministries authorized to negotiate foreign loan contracts make available, before signing any contract, all information regarding the nature of the loan, the maturity date, grace period, and interest rate. In assessing the desirability of signing any proposed loans, the committee must take into account the ceilings set under the

program for various categories of borrowings, the projected debt service burden, and the fiscal prospects for providing the local counterpart of the debt.

II. Policies on Investment, Prices and Management of the Public Enterprises

A. Public investment policy

11. The Government has prepared a public investment program for 1988-1992 in consultation with the World Bank. To reduce the vulnerability of export earnings to the vicissitudes of climate and transportation, as well as to fluctuations in the world market prices of *primary commodities*, in its new development plan the Government will intensify the agricultural sector's contribution to the improvement of the external position by developing import substitution crops such as wheat and oleaginous plants, without, however, sacrificing the balance between food production and export production. It will also press forward with the development of the transport infrastructures, which will make it possible to ensure that programs to increase exports actually contribute to the desired improvement in the balance of payments.

12. With this in view, and taking into account the greater fiscal prudence required by less favorable trends in government revenue, the Government's investment expenditure has been set at FBu 19.33 billion for 1988. These investment outlays are compatible with the financing available from project-related capital grants (FBu 5.56 billion) and external loans obtained on concessional terms (FBu 9.79 billion), from government revenue (FBu 1.30 billion) and counterpart funds from the World Bank's SAC (FBu 2.68 billion). In allocating these investments, priority will be given to projects in the agricultural and industrial sectors, energy and water, roads, transportation and telecommunications. The Government will take the necessary steps to limit these investments to actual disbursements of external loans on concessional terms, capital grants, and local counterpart funds from government revenue. These investments will also be compatible with the balance of payments targets, and in particular with the need to avoid any increase in the already heavy burden of external debt service. In order to integrate the whole range of government operations into a comprehensive framework that is conducive to better control and assessment of their scope, the Government will include these investment expenditures in a Public Expenditure Program (PEP), whose 1989 annual tranche will be used as a consolidated test-budget.

B. Prices policy

13. Since the implementation of the financial program in 1986, the Government has striven to liberalize the prices of locally made or imported products, except as regards so-called monopoly and strategic

products, on whose prices ceilings may be imposed in the event of shortage or speculation. In this context, the Government has confirmed the provisions of Ministerial Ordonnance No. 750/218 of May 28, 1987, authorizing the brewery to set the prices of beer and carbonated beverages freely in light of market conditions. It expects that this measure will encourage sales of beer, which will also have a positive effect on tax receipts.

14. In accordance with the guidelines contained in the framework paper, the Government reviewed the price structure of petroleum products to take into account the evolution in import costs linked to world prices and exchange rate adjustments. Although these costs have been declining since the end of 1987 and are projected to continue their downward trend, the Government has decided to maintain the retail prices at the present levels, which cover all the costs and allow the Government to at least maintain the fiscal revenue from petroleum products at the 1987 level. The Government will periodically review these prices, taking into account world prices, exchange rate policy and budget revenue requirements.

15. The Government has decided to raise water and electricity consumption tariffs so as to ensure that they cover production costs and generate the rate of return agreed with the World Bank and the African Development Bank. Accordingly, these tariffs have been increased by 12.5 percent, effective March 31, 1988.

16. Regarding producer prices, the Government has decided to establish a price policy for export crops which will take into account both the evolution of the rural price index and the necessary incentives to guarantee the quality of production on which the improvement of export performance will depend in the medium term. With this in mind, the Government is counting on the recommendations/guidelines of the coffee sector project, to be initiated in April 1988 with financial assistance from the World Bank, to implement an appropriate policy in this sector. In the meantime, in view of the evolution of world prices, producer prices for export crops will remain unchanged for the coming crop season (1988/89).

C. Public enterprise sector

17. With the creation of the Service Chargé des Entreprises Publiques (SCEP) (Department of Public Enterprises), the closure of AGRIBAL (agriculture), SUPOBU (fisheries), SOMEBU (research) and SOBEDEV (marketing) enterprises, and the reintegration into the Central Government of the Office National de Tourisme (ONT), the Pharmaceutical and Veterinary Laboratory (LAPHAVET) and the Centre de Promotion Industrielle (CPI), the Government has resolutely embarked on a reform of the public enterprise sector which, upon completion, will make it possible to increase the efficiency of the production units, and their contribution to the growth and diversification of exports. The second phase of this reform, which concerns the rehabilitation of five priority enterprises, namely

CADEBU (banking), ONAPHA (pharmaceutical products), OTRABU, OTRACO (transportation), and VERRUNDI (glass products), should lead to the negotiation of performance contracts, stipulating the nature of the individual rehabilitation programs to be carried out before the end of the year, according to the timetable indicated in the attached Table.

18. Besides this reform program, the Government is concerned with improving the marketing of coffee by the Burundi Coffee Company (BCC). In order to permit this enterprise to have better control over the full range of operations entailed in coffee exporting, the Government has decided to use outside assistance to recruit, in consultation with the World Bank, two experts in April 1988, one for marketing and the other for transportation problems. It is also considering:

a. acquiring an information system which will enable the BCC to monitor price quotations for coffee on world markets, which will provide it with information it currently lacks;

b. continuing to organize, with the World Bank assistance, internal training courses for the BCC officials responsible for marketing operations;

c. increasing to two the number of BCC officials in Dar es Salaam responsible for receiving and shipping coffee, and assigning a customs official to the port, as of June 1988, to carry out verifications required for processing export licenses so as to improve customs statistics;

d. continuing discussions at the highest level so that the Tanzanian Railways Corporation (TRC) can continue making bloc-trains available to Burundi as and when needed for the conveyance of coffee from Kigoma to Dar es Salaam;

e. Rationalizing the cost structure of OCIBU and BCC to improve the viability of the sector and to increase the resources allocated to producers and to the budget;

f. harmonizing the responsibilities and operations of BCC and OCIBU, so that OCIBU's concern with reducing the costs of coffee storage does not necessitate an acceleration in deliveries to BCC, particularly at times of favorable crops. This leads to high storage costs for BCC, and to inadequate storage that causes rapid deterioration of the coffee and significant loss in its value.

III. Fiscal Policies

19. To limit aggregate demand and to reduce pressure on the balance of payments, the authorities have revised the budgetary estimates for 1988, and lowered the central government operations deficit to the equivalent of 9.7 percent of GDP, compared to 12.8 percent in 1987. To attain this

objective, which would avoid excessive recourse to the banking system, the Government has adopted measures to increase revenue and curb the rate of increase in the various categories of expenditure, while reducing the arrears accumulated in 1987. The Government will take appropriate measures to raise revenue to FBu 24.43 billion while limiting total expenditure and net borrowing to FBu 40.73 billion. On the revenue side, the Government has decided:

(i) For the transactions tax

(a) broaden the tax base so as to include services (telecommunications), construction works, and bakeries;

(b) to change the stage at which the tax is levied on imported goods, that is, to the stage at which they are released for consumption;

(c) to introduce deduction mechanisms to avoid the cascade effects of the tax. The provisions of the law regarding exemptions and exonerations will be revised and a turnover threshold will be set for levying the tax. Introduction of these measures, scheduled for September 1, 1988, will increase budget revenue by FBu 210 million.

(ii) For the tax on beer and carbonated beverages

(a) The increase in the specific taxes of FBu 5 per bottle from March 31, 1988 will raise the estimated tax receipts by FBu 345 million. In addition, and starting in June 1988, the taxation of the production of BRAGITA, (Amstel and Primus beers, previously tax exempted) will bring in additional revenue estimated at FBu 320 million.

(iii) For taxes and levies on imports

To enhance the anticipated effects of the second phase of the current reform of customs duties, the Government has decided to implement the following additional measures:

(a) To limit exemptions, relief from duty payment and miscellaneous privileges. A follow-up and surveillance committee will be set up by March 31, 1988 to advise the Minister of Finance on requests for exemptions which he, alone, is empowered to authorize;

(b) To complete liberalization of most luxury item imports by June 1988 which will be taxed at the rates agreed to in the customs tariff reform;

(c) To extend by end-June the statistical tax of 4 percent to all imports, except those made by diplomats and by way of reciprocity, pursuant to the Vienna Convention.

On the administrative side, the Government has decided to tighten controls over customs valuation and, for diplomatic imports, to institute a system of administration based on appropriate quotas, in order to avoid any abuse that might lead to a loss of revenue for the budget.

The implementation of these discretionary measures will raise tax revenue by FBu 1.14 billion taking due account of the impact of the exchange rate adjustment on the value of imports.

(iv) As regards income taxes, government action will focus in particular on:

(a) Improving tax enforcement and collection procedures, particularly for tax arrears by a better allocation of existing resources for these activities. Claims which could be collected in 1988 are estimated at FBu 900 million, out of a total of about FBu 1,650 million;

(b) Revising the schedule of the professional income and earnings tax, including the introduction of a zero bracket and a reduction in the number of rates;

(c) Consolidating income taxation, including rental income and investment income in the base for individual income taxes; and

(d) Revising the provisions of the tax code, in particular those regarding deductible expenses, exemptions and exonerations, as well as the provisions regarding stocks, general overheads, and fixed assets.

These measures (b-d) will be ready by December 31, 1988 to be implemented under the 1989 budget.

To improve the customs administration and the coordination of information on taxpayers between the Customs and Tax Administrations, the Government has decided to complete by end 1988 a study on the introduction of an appropriate data processing system.

The impact of the discretionary measures, combined with improved collection of tax arrears and the broadening of the tax base (including the exchange rate adjustment impact), could produce additional revenue estimated at about FBu 4.5 billion in 1988 over 1987.

20. To attain its objective for the overall deficit, the Government has also decided to slow down the rate of growth of overall expenditure, which will thus rise from FBu 38.85 billion in 1987 to FBu 40.73 billion, for an increase of 4.8 percent. Current expenditure will rise from FBu 20.40 billion to FBu 21.40 billion, with increases of 8.9 percent for the wage bill (FBu 9.44 billion), 8.6 percent for goods and services (FBu 4.91 billion), and 14.7 percent for transfers and sub-

sidies, including scholarships. The level of the wage bill reflects the continuing financial impact of unfreezing promotions which had been blocked since 1986. It takes into account the regularization of hirings by the Ministries of Education and Health, and reflects the Government's decision to stabilize the level of civil service staffing at the level of January 31, 1988, namely 26,701 employees. The wage bill target will not allow for any new recruitment in 1988 until the Government has completed a comprehensive review of its sectoral education policy and its overall employment policy under the Public Expenditure Program. Investment expenditure and net borrowing will amount to FBu 19.33 billion, taking into account the external resources available on concessional terms and the Government's own tax revenue that may be available to provide counterpart funding for external financing.

21. Taking into account the payment of FBu 1.60 billion of arrears included in the program, the overall cash deficit will be financed by net drawings on external loans (FBu 9.49 billion), by the banking sector (FBu 0.80 billion) and the nonbanking sector (FBu 1.62 billion). In order to ensure that execution of the budget does not entail overshooting the deficit limits, the Minister of Finance, pursuant to Article 6 of the 1988 Finance Law, will issue an order establishing the maximum level of quarterly expenditure commitments authorized for the period for each ministry in accordance with the financial plan prepared by the Ministry of Finance. The order will be published before March 31, 1988.

IV. Credit and Interest Rate Policy

22. The program for 1988 sets targets for money and credit which will make it possible to achieve the balance of payments target and ensure sufficient credit for the productive sectors in a context of moderate inflation. Interest rate policy must play an important role in achieving these targets. With a view to liberalizing the economy, the Government has decided to introduce the following reforms.

From April 1, 1988:

a. It will strengthen the role of the monetary authorities and increase control over the deposits banks' liquidity and publicly auction Treasury bills on a regular basis to absorb excess liquidity in the economy and influence the determination of interest rate policy through market-related factors. So as not to increase the banking system's net claims on the Government beyond program targets, the proceeds from the banking sector of these auctions beyond FBu 800 million will be used to reduce the outstanding claims of the BRB on the Government, without however slowing down the projected rate of repayment of these advances. As soon as public auctions of Treasury bills are introduced, the Government will cease to issue investment bonds.

b. It will abolish the prior authorization system and institute a system of reserves requirements;

c. it will eliminate the maximum interest rates on non-rediscountable credits and the minimum interest rate on demand deposits.

d. it will allow public enterprises to place their deposits currently held at the Central Bank, in the most profitable manner.

From September 1, 1988:

e. it will reduce the number of rediscount rates from five to three;

f. the number of maximum lending rates to three, corresponding to the three rediscount rates.

g. it will eliminate all minimum interest rates, except for the minimum rate on passbook savings accounts;

h. the medium-term lending ratio will be revised;

From December 1, 1988:

i. it will reduce the number of discount rates from three to two: a normal rate and a preferential rate.

The Government has decided that the full liberalization of interest rates will be completed by July 1989.

23. To enhance the efficiency of the financial sector and its role in the mobilization of domestic savings, the Government, with the assistance of the World Bank, has decided to set up a Guarantee Fund for small- and medium-sized enterprises. It will also re-examine the Land Code to protect the banks' right of foreclosure on a mortgage to recover their claims. The mutual savings and loan associations (COOPEC), which operate in rural areas, will be recognized as financial institutions subject to banking regulations. CADEBU, the largest savings bank, will receive special attention with a view to solving the financial and administration difficulties it is facing.

24. The new monetary policy adopted by the Government imposes additional responsibilities on the monetary authorities, necessitating a strengthening of management of the central bank and increased control of the banks. With this in view, a program of regular audits of each financial institution will be implemented starting in 1988.

In accordance with the balance of payments targets for 1988, the Government will moderate the expansion of domestic credit by slowing down the rate of increase in net claims of the banking system on the Government, which will allow for adequate credit to the economy. Net

government recourse to the banking system in 1988 will, at most, amount to the equivalent of 3 percent of beginning money stock.

V. Prior Actions and Benchmarks

26. Before Board consideration of the financial program, the following measures will be adopted and the corresponding official documents will be forwarded to the IMF upon issuance:

- a. The initial adjustment of the exchange rate;
- b. Increase in the beer tax;
- c. Creation of the committee to control reduction of exemption from import duties;
- d. Notification of maximum quarterly expenditure commitments compatible with the programmed deficit;
- e. Reduction of arrears by FBu 400 million, corresponding to the first quarter of 1988;
- f. First phase of the interest rate policy described in paragraph 22 (a,b,c, and d);
- g. Increase in the water and electricity tariffs by 12.5 percent.

Execution of the Government's financial program will comply with the following benchmarks:

- (i) Domestic credit, estimated at FBu 29.18 billion at December 31, 1987, will not exceed FBu 31.46 billion at March 31, 1988; FBu 29.95 billion at June 30, 1988; FBu 33.00 billion at September 30, 1988; and FBu 31.30 billion at December 31, 1988.
- (ii) The amount of the banking system's net claims on the Government, estimated at FBu 15.23 billion at December 31, 1987, will not exceed the following levels: FBu 16.23 billion at March 31, FBu 16.23 billion at June 30, FBu 16.13 billion at September 30, and FBu 16.03 billion at December 31, 1988.
- (iii) For the duration of the program the Government will not accumulate any new arrears and will reduce outstanding arrears accumulated in 1987: by FBu 0.8 billion by June 30, FBu 1.2 billion by September 30, and FBu 1.6 billion by December 31, 1988.
- (iv) The Government will not contract nor guarantee an new loans on nonconcessional terms in the 1 to 12 year maturity range. The public sector will not contract any new short-term external loan with a maturity of 1 year or less, except for normal trade credits. For

purposes of the program, the public sector includes the Government, all the public enterprises, the BRB and the other public financial institutions;

(v) Net official reserves, excluding gold, which were estimated at SDR 30.4 million at December 31, 1987, will not fall below SDR 24.4 million at March 31, SDR 18.4 million at June 30, SDR 23.4 million at September 30, and SDR 28.4 million at December 31, 1988;

The structural benchmarks of the program comprise:

(i) During the program period, implementation of measures to increase the resources of the Equalization Fund to the statutory level of FBu 1 billion;

(ii) The introduction of qualified technical assistance starting in April 1988 to strengthen the BCC's marketing capacity and to help overcome the problems involved in conveying coffee to the ports from which it is shipped;

(iii) The preparation of the Public Expenditure Program for the 1989-90 period, to be completed by December 1988, according to the timetable agreed with the World Bank including the preparation of a government policy regarding employment in the civil service, including the education sector, that will be consistent with the Government's medium-term objectives for public finance;

(iv) Implementation of credit and interest rate policy reforms, including the issuance of Treasury bills starting April 1 and during the program period.

(v) Replacement of the quantitative restrictions still applicable to imports of luxury items by customs tariffs during the period January-June 1988.

(vi) The introduction of the second phase of the customs tariff reform as described in paragraph 7 of this Memorandum.

These measures will be implemented in accordance with Table attached.

27. During the program period, the Government does not intend to engage in multiple currency practices, to impose new restrictions and/or to intensify existing restrictions on payments and transfers for current international transactions, to introduce new restrictions or to intensify existing restrictions on imports for balance of payments reasons, or to conclude bilateral payment agreements with Fund members not consistent with the provisions of Article VIII of the Articles of Agreement.

Table Burundi: Timetable for the Implementation of Policy Actions
Included in the Second-Year of the SAF Program

Measures	Date	Agency/Mean of Implementation
1. External sector		
a. Implementation of an appropriate flexible exchange rate	During the program period.	Periodic official notification by the BRB.
b. Second phase of tariff reform	January 1, 1988	Ministry of Finance
c. Reduction in processing time of import licenses to five working days	March 31, 1988	Notification to commercial banks by BRB.
d. Replacement of restrictions on imports of luxury products by custom duties	January-June 1988	Ministry of Finance
2. Pricing policy		
a. Maintaining present retail prices of petroleum products and subsequent adjustment in light of increase in import cost	During the program period	Ministry of Commerce and Industry
b. Increase in water and electricity tariffs by 12.5 percent	Before March 31, 1988	Ministry of commerce and Industry
3. Public enterprise sector		
a. Negotiation of rehabilitation performance contracts with CADEBU, ONAPHA, OTRACO, OTRABU, and VERRUNDI	June 1988 July 1988	SCEP, in consultation with the World Bank.
b. Hiring of two experts to assist BCC in marketing and transportation problems	April 1988	BCC, in consultation with the World Bank
c. Nomination in Dar es Salaam of a BCC staff member and a custom officer	June 1988	BCC and Ministry of Finance
d. Implementation of rehabilitation programs for the above enterprises	Before December 1988	SCEP, in consultation with the World Bank.
e. Acquisition of an information system for coffee price quotations	Before December 1988	BCC, in consultation with the World Bank.

Table Burundi: Timetable for the Implementation of Policy Actions
Included in the Second-Year of the SAF Program (continued)

Measures	Date	Agency/Means of Implementation
4. Fiscal policies		
a. Increase by FBu 5 per bottle in specific tax on beer and soft drinks	March 31, 1988	Ministry of Finance
b. Creation of a committee to control import duty exemptions, chaired by the Ministry of Finance	March 31, 1988	Ministry of Finance
c. Notification of the quarterly ceilings on expenditure commitments to other ministries	March 31, 1988	Ministry of Finance
d. Reduction of domestic arrears according to the timetable set in the letter of intent	During the program period	Ministry of Finance
e. Preparation of PEP	By end-April 1988	Ministry of Finance
f. Extension of the statistical tax (4 percent) to all imports excluding diplomatic exemptions	June 1988	Ministry of Finance
g. Definition of a public employment policy in the context of a Public Expenditure Program	Before end-June 1988	Ministry of Finance, Minister of Civil Service, and in consultation with the World Bank
h. Extension of transaction tax to service, construction works, and bakeries	September 1988	Ministry of Finance
i. Levy of the transaction tax at the import stage	September 1988	Ministry of Finance
j. Implementation of a system of deductions to eliminate the cascade effects of the transaction tax and definition of a turnover threshold for the tax	September 1988	Ministry of Finance
k. Revision of the income tax	December 1988	Ministry of Finance
l. Limiting the increase in the wage bill, containing the size of the civil service to employees on the payroll at January 31, 1988	During the program period	Ministry of Finance
5. Money and credit policies		
a. Issuance of Treasury bills through auctions to finance the government deficit (FBu 800 million through the banking system, and FBu 1.62 billion from the nonbank sector), reduce central bank net claims on the Government and absorb excess liquidity in the economy	From April 1, 1988	BRB and Ministry of Finance
b. Abolition of issuance of investment bonds	From April 1, 1988	BRB and Ministry of Finance

Table Burundi: Timetable for the Implementation of Policy Actions
Included in the Second-Year of the SAF Program (concluded)

Measures	Date	Agency/Mean of Implementation
c. Elimination of the prior authorization for loans of FBu 10 million or more extended to a single borrower	April 1, 1988	BRB
d. Elimination of maximum interest rate on nonrediscountable loans and of minimum rate on demand deposits	April 1, 1988	BRB
e. Authorization to public enterprises to place their deposits in most profitable manner	April 1, 1988	BRB
f. Institution of a reserve requirement	April 1, 1988	BRB
g. Reduction of the number of rediscount rates from five to three	September 1, 1988	BRB
h. Institution of three maximum lending rates applicable to commercial bank loans and corresponding to the three rediscount rates	September 1, 1988	BRB
i. Elimination of all deposit rates except minimum rate (currently 7 percent) on passbook savings accounts	September 1, 1988	BRB
j. Modification of the medium-term lending ratio	September 1, 1988	BRB
k. Reduction of the number of rediscount rates from three to two	December 31, 1988	BRB
l. Full liberalization of all lending and deposit interest rates	July 1989	BRB

BURUNDI - Fund Relations
(As of January 31, 1988, amounts in SDRs
unless otherwise indicated)

I. Membership Status

- | | |
|-------------------------|--------------------|
| (a) Date of membership: | September 28, 1963 |
| (b) Status: | Article XIV |

A. Financial Relations

II. General Department (General Resources Account)

- | | |
|--|---|
| (a) Quota: | 42.7 million |
| (b) Total Fund holdings of currency: | 33.56 million (78.58 per-
cent of quota) |
| (c) Fund credit: | SDR 8.54 million (20 per-
cent of quota) |
| Of which: Structural Adjustment Facility | SDR 8.54 million |
| (d) Reserve tranche position: | 9.16 million |
| (e) Current operational budget
(maximum use of currency): | None |
| (f) Lending to the Fund: | None |

III. Stand-By Arrangements, Structural Adjustment
Arrangement, and Special Facility

- | | |
|-----------------------|------|
| (a) Current stand-by: | None |
|-----------------------|------|

Previous stand-by arrangements approved in 1965, 1966,
1967, 1968, 1970, 1976, and 1986

(b) Structural Adjustment Facility

Total amount:	SDR 20.1 million
First annual arrangement (August 8, 1986)	SDR 8.54 million

- | | |
|-----------------------|-----------------------|
| (c) Special facility: | CFF, approved in 1979 |
|-----------------------|-----------------------|

IV. SDR Department

- | | |
|--------------------------------|--|
| (a) Net cumulative allocation: | 13.70 million |
| (b) Holdings: | 0.04 million (0.26 per-
cent of net cumulative
allocation) |

BURUNDI - Fund Relations (continued)

V. Administered Accounts

- (a) Trust Fund loan:
 - (i) Disbursed: 18.57 million
 - (ii) Outstanding: 5.10 million
- (b) SFF Subsidy Account: None

VI. Overdue Obligations to the Fund: None

B. Nonfinancial Relations

VII. Exchange System

The Burundi franc is pegged to the SDR at the rate of FBu 177.1 = SDR 1 as of February 25, 1988.

Burundi maintains restrictions on payments and transfers for current international transactions subject to Article VIII, Section 2.

VIII. Last Article IV Consultation

The staff report on the 1987 Article IV consultation (EBS/87/260) and the report on recent economic developments (SM/87/275) were discussed by the Executive Board on December 21, 1987. The following decision was taken:

1. The Fund takes this decision relating to Burundi's exchange measures subject to Article VIII, Section 2, and in concluding the 1987 Article XIV consultation with Burundi, in the light of the 1987 Article IV consultation with Burundi conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Burundi maintains the restrictive exchange measures described in SM/87/275 in accordance with Article XIV, Section 2, except the exchange restrictions on foreign remittances of profits, dividends, and other income pertaining to international transactions, which are subject to approval by the Fund under Article VIII, Section 2(a). The Fund grants approval for the retention of these restrictions until the earlier of March 31, 1988, or the date of the Fund's approval of a second-year arrangement under the structural adjustment for Burundi.

BURUNDI - Fund Relations (concluded)

IX. Technical Assistance

- 1982 - Experts on foreign exchange, research, bank supervision and audit
- 1983 - Experts on foreign exchange, research, bank supervision and audit (up to August)
- 1984 - Experts on foreign exchange, research, bank supervision and audit (up to September)
- 1985 - Two follow-up FAD missions in June and October to discuss the tax report completed in 1984
- 1986 - Expert on research (from May)
- 1987 - Expert on research (up to August)

X. Resident Representative: None

BURUNDI--Relations with the World Bank Group

A. Summary statement of Bank loans and IDA credits
(As of December 30, 1987)

<u>Loan or Credit Number</u>	<u>Year</u>	<u>Borrower</u>	<u>Sector</u>	<u>Amount less cancellations (US\$ millions)</u>	<u>Undis- bursed</u>	<u>Closing Date</u>
18 loan(s)/credit(s) closed				113.24		
<u>Credits</u>						
C10490	1980	Burundi	Urban I	15.00	.33	12/31/87
C11650	1981	Burundi	Agriculture	19.30	1.51	06/30/88
C11920	1982	Burundi	Agriculture	16.00	6.73	03/31/87
C13580	1983	Burundi	Education	15.80	.57	06/30/88
C14560	1984	Burundi	Technical Assistance	5.10	3.11	03/31/88
C15830	1985	Burundi	Transportation	18.10	15.12	06/30/89
C15930	1985	Burundi	Power	12.30	8.85	12/31/89
C16200	1986	Burundi	Agriculture	12.80	9.40	09/30/91
C16250	1986	Burundi	Water supply and Sewerage	9.50	6.94	12/31/91
C17050	1986	Burundi	Non-sector specific	15.00	.01	06/30/88
C17950	1987	Burundi	Technical assistance	7.50	7.50	
C18050	1987	Burundi	Telecommunications	4.80	4.80	12/31/93
C18570	1988	Burundi	Agriculture	10.00	10.00	
C18620	1988	Burundi	Health/Population	14.53	14.53	
Total number of credits = 14				175.73	89.40	
Total (net approved) ^{1/}				288.97		
Of which has been repaid to the Bank (amortization and interest)				<u>10.85</u>		
Total now outstanding				278.11		
Total undisbursed					89.40	

^{1/} Total approved, repayments, and outstanding balance represent both active and inactive loans and credits. The approved, cancellation, and disbursement amounts for IDA-6/IDA-7 credits as taken from accounting have been converted to their U.S. dollar equivalents based on the current exchange rate.

BURUNDI- Relations with the World Bank Group (continued)

B. Statement of IFC Investments
(As of December 31, 1987)

<u>Year</u>	<u>Obligor</u>	<u>Type of Business</u>	<u>In millions of U.S. dollars</u>		
			<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1981	Verreries du Burundi	Glass containers	4.7	0.8	5.5
Total gross commitments less cancellations, terminations, repayments, and sales			4.7	0.8	5.5
Total commitments now held by IFC			0.08	1.03	1.1

Source: World Bank.

1/ The IFC loan was fully disbursed and all but US\$80,000 prepaid. In 1986, IFC capitalized US\$250,000 interest for 1986.

BURUNDI - Relations with the World Bank Group (continued)

The Government requested Bank assistance to prepare and implement a program of structural adjustment. A SAL I program was appraised in November 1985 and approved by the Executive Board of the World Bank on May 22, 1986. The second tranche was disbursed in April 1987. A SAL II has been appraised in February 1987 and is scheduled for Board presentation before the end of FY 88.

The main policy reforms carried out under SAL I were the following:

(i) a reform of the incentive system to encourage export and efficient import substitution industries, and to discourage uneconomical investments. This included the elimination of the current import controls and review of the tariff structure, the abolition of price controls and the revision of the investment code to promote projects with an acceptable internal rate of return and positive impact on balance of payments and value added;

(ii) an adjustment of the agricultural pricing system to provide adequate incentives for export crops and a reorganization of the institutions in the agricultural sector;

(iii) a rationalization of the public expenditure program. Under SAL I, the size of the public investment program was determined as a function of likely resource availabilities and adjustment needs. The institutional capacity to prepare and appraise development projects has been strengthened.

(iv) a reform of the public enterprise sector. With Bank assistance, the Government prepared an action plan, including closure and divestiture of three enterprises and preparation of rehabilitation programs for five others during the first phase of the SAL.

SAL II will support continuation of the program initiated under SAL I while addressing new policy areas such as liberalization of the labor and financial markets and poverty alleviation measures.

Project implementation is on the whole satisfactory. The disbursement rate of 27 percent in FY 82-84 is above the average for countries of the eastern and southern Africa region. While the SAL operation and the IMF program focus on stabilization measures and on the redressing of major macroeconomic imbalances, the lending program continues to assist the Government through infrastructure and human resources projects which will have a long-term impact on production or will improve the equity of income distribution. In the agriculture sector, the projects are geared to intensify coffee production and quality (Ngozi, Kirimiro projects), develop technical packages and extension services to intensify and diversify food crop production

BURUNDI - Relations with the World Bank Group (concluded)

(Agriculture Muyinga, FY 87, and Agriculture Services, FY 88, agricultural export project FY 89), protect and encourage more efficient use of land (Second Forestry Project, FY 86), and improve water supply (FY 86). The Rural Water Supply Project establishes a new system of cost recovery for rural water supply systems. In the industrial sector, priority is given to the development of small scale industry (a small scale industry project has been negotiated and is scheduled for Board presentation end-March 1988). In human resources, priority is given to the design of a program to control population growth through a health and population project (approved in December 1987), and continuing assistance to primary and basic secondary education and training (Third Education Project, FY 83, and IV Education Project approved in February 1988) as well as technical assistance to public sector management (Third Technical Assistance Project FY 84, and the Public Enterprise and Economic Management Project approved in FY 87). Under the First Urban Project, the Bank has helped the Government to establish a new urban policy, including cost recovery, while the Secondary Centers Projects (planned for FY 89) will assist in improving communal organization and finance, promote artisans, and generate off-farm employment in rural areas. In the transport sector, Bank projects will contribute to lower the high cost of transportation of products to and within Burundi. In telecommunication, the Bank project will improve the telecommunication system of the country (Telecommunication II FY 87). Finally, in the energy sector, projects and sector work are assisting actions in key areas of forestry sector management, reduction of the cost of oil imports, and improvement in the power transmission network and power planning.

In addition to the SAC preparation, the economic work included a study on employment generation (FY 87) with a particular focus on rural areas, an analysis of the financial sector and a CEM which will assess long-term socio-economic development issues and prospects. In FY 88-89 the focus will be on strengthening efficiency in public expenditure management, assesment of the impact of SAF, and the role of commerce in regional development. As to sector work, the emphasis will be on agriculture, education and energy.

BURUNDI - Basic Data 1/

Area, population, and
GDP per capita

Area	27,834 square kilometers
Population:	
Total (1986)	4.8 million
Growth rate	2.7 percent
GDP per capita (1986)	SDR 235

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prel.	<u>1987</u> Est.
<u>National accounts 2/</u> (In billions of Burundi francs)						
Gross domestic product at 1980 factor cost	84.7	88.1	87.8	94.4	97.9	102.5
Primary sector	50.3	52.5	50.6	55.6	57.6	59.6
Secondary sector	11.5	11.9	12.1	12.8	13.6	14.2
Tertiary sector	22.9	23.7	25.1	26.0	26.7	28.7
Gross domestic product at current market prices	94.1	102.9	120.5	141.3	151.0	155.4
Imports of goods and nonfactor services	23.3	28.5	29.5	27.7	27.5	32.3
Total supply of resources						
Total use	117.4	131.4	150.0	169.0	178.5	187.7
Exports of goods and nonfactor services	9.0	10.1	12.3	15.0	15.6	13.3
Domestic demand						
Private consumption	77.2	82.5	94.4	112.0	117.5	114.0
Public consumption	18.2	20.4	21.1	22.8	24.8	29.5
Gross fixed capital formation 2/	13.1	18.4	22.2	19.2	20.6	30.9
Resource gap	-14.3	-18.4	-17.2	-12.7	-11.9	-19.0

(As percent of GDP at market prices)

Gross fixed capital formation	13.9	17.8	18.4	13.6	13.6	19.9
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1/ Total may not add to sum, because of rounding

2/ Including the subsistence sector.

3/ Including changes in stocks

BURUNDI - Basic Data (continued) 1/

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prel.	<u>1987</u> Est.
<u>Annual rate of growth</u>						
<u>and prices</u>	<u>(Changes in percent)</u>					
Real GDP <u>2/</u>	-2.0	4.0	-0.3	7.5	3.8	4.7
GDP deflator	5.8	6.1	17.2	9.2	2.3	1.1
Consumer price index <u>3/</u>	5.8	8.3	14.4	3.7	1.8	7.1
<u>Central government operations</u>						
	<u>(In billions of Burundi francs)</u>					
Revenue plus grants	17.64	16.57	21.81	24.49	28.99	24.30
Revenue	14.03	12.86	17.04	19.69	23.83	18.94
Capital grants <u>4/</u>	3.61	3.71	4.77	4.80	5.16	5.36
Expenditure and net						
lending <u>5/ 6/</u>	25.98	31.52	30.93	30.33	33.68	38.85
Current	13.28	13.25	13.46	14.83	17.26	20.40
Capital and net lending	12.70	18.27	17.47	15.50	16.42	18.45
Overall deficit (-) <u>6/</u>	8.34	-14.95	-9.12	-5.84	-4.69	-14.55
Change in expenditure						
arrears (decrease -)	1.49	2.41	-1.41	-1.56	-1.37	2.31
Overall deficit						
(cash basis)	-6.85	-12.54	-10.53	-7.40	-6.0	-12.24
Financing	6.85	12.54	10.53	7.40	6.06	12.24
Foreign (net)	4.27	9.70	8.10	5.32	6.4	8.76
Domestic (net)	2.58	2.84	2.43	2.08	-0.42	3.48
Banking system	2.15	2.88	1.71	1.63	-1.08	1.17
Other	0.43	-0.04	0.72	0.45	0.66	2.31
<u>(As percent of GDP)</u>						
Revenue	14.9	12.5	14.1	13.9	15.8	12.2
Capital grants <u>4/</u>	3.8	3.6	4.0	3.4	3.4	3.4
Current expenditure <u>6/</u>	14.1	12.9	11.2	10.5	11.0	13.1
Capital expenditure and net						
lending <u>5/ 6/</u>	13.5	17.8	14.5	11.0	10.9	11.9
Total expenditure and net						
lending <u>6/</u>	27.6	30.6	25.7	21.5	22.3	25.0
Overall deficit						
(commitment basis)	-8.9	-14.5	-7.6	-4.1	-3.1	-9.4
Overall deficit						
(cash basis)	-7.3	-12.2	-8.7	-5.2	-4.0	-7.9

1/ Total may not add up to sum, because of rounding

2/ At factor cost.

3/ Cost of living index for households in Bujumbura (base 100 in 1980).

4/ Including foreign grants passed on to public enterprises.

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

6/ On a commitment basis.

BURUNDI - Basic Data (continued) 1/

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u> Prel.	<u>1987</u> Est.
(In millions of Burundi francs)						
<u>Money and credit</u>						
Foreign assets (net)	922	2,008	1,884	2,787	5,780	4,816
Domestic credit	20,500	24,202	25,520	28,474	27,703	29,181
Government (net)	9,541	12,389	14,090	15,796	14,058	15,228
Credit to economy	10,959	11,813	11,430	12,678	13,645	13,953
Money and quasi-money	15,592	19,709	20,449	24,189	25,292	26,802
Other items (net) 2/	5,830	6,501	6,955	7,072	8,191	7,195
(As percent of GDP)						
Credit to Government (net)	10.1	12.0	11.7	11.2	9.3	9.8
Credit to economy	11.6	11.5	9.5	9.0	9.0	9.0
Money and quasi-money	16.6	19.2	17.0	17.1	16.8	17.3
<u>Balance of payments</u>						
(In millions of SDRs)						
Current account (excluding public transfers)	-161.4	-188.4	-159.2	-126.2	-129.0	-166.0
Merchandise	-97.5	-103.3	-93.8	-58.4	-50.8	-78.9
Exports, f.o.b.	77.1	76.3	85.7	110.2	107.0	74.3
Of which: coffee	(68.7)	(66.5)	(70.9)	(93.7)	(89.9)	(53.8)
Imports, f.o.b.	-174.6	-154.6	-158.7	-165.9	-157.8	-152.1
Other imports	--	-25.0	-20.8	-2.7	--	-1.1
Services (net)	-70.6	-90.7	-71.5	-75.5	-82.1	-90.2
Private transfers (net)	6.7	5.6	6.1	7.6	3.9	3.2
Capital account	131.5	184.2	158.1	137.5	147.8	160.6
Official transfers	80.0	80.0	76.1	77.2	89.5	70.1
Medium-term and long-term (including direct investment)	43.4	100.8	79.1	55.6	56.8	91.1
Short-term and monetary capital	8.1	3.4	2.9	4.7	1.5	-0.6
SDR allocation	--	--	--	--	--	--
Errors and omissions	2.5	10.7	-0.6	-2.3	-4.6	-1.8
Overall balance	-27.4	6.5	-1.7	8.9	14.2	-7.2

1/ Total may not add to sum, because of rounding.

2/ Includes net deposits of the Coffee Stabilization Fund, medium- and long-term loans, and SDR allocations.

BURUNDI - Basic Data (continued) 1/

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u> Prel.
(As percent of GDP, unless otherwise indicated) 2/						
Gross official reserves (in months of imports)	1.4	1.2	1.0	1.5	3.4	2.6
Exports, f.o.b.	8.1	8.0	8.7	9.6	9.5	7.6
Imports, c.i.f. (customs data only)	-20.5	-18.1	-18.6	-16.1	-15.4	-17.4
Current account (excluding official transfers)	-17.0	-19.9	-16.2	-11.2	-10.2	-13.0
Overall balance	-2.9	0.7	-0.2	0.8	1.1	-0.6
<u>Debt service 3/</u>	(In millions of SDRs)					
Debt service payments	8.2	16.4	17.5	28.5	30.5	36.5
Amortization	4.1	11.2	8.9	16.9	18.6	22.4
Of which: Fund repurchases	(--)	(4.8)	(4.7)	(--)	(--)	(--)
Interest payments	4.1	5.2	8.6	11.6	11.9	14.1
Of which: Fund charges	(1.2)	(0.1)	(0.1)	(--)	(0.1)	(0.8)
Debt service ratio (in percent) 4/	8.2	16.6	16.7	23.2	26.1	43.8
Of which: use of Fund credit	(1.2)	(5.0)	(4.8)	(--)	(0.1)	(1.0)

1/ Total may not add to sum, because of rounding.

2/ GDP in Burundi francs converted into SDRs at rates necessary to maintain the real effective exchange rate constant at the 1982 level.

3/ Medium- and long-term public and publicly guaranteed debt.

4/ Debt service payments as a percentage of receipts from exports of goods and nonfactor services and private transfers.

BURUNDI - Basic Data (concluded)

Selected Social and Demographic Indicators

Area: 27,000 Square kilometers

Population (1986)

4.9 million

Rate of growth: 2.8 percent per annum

Population density (1986)

176 per sq. km.

219 per sq. km of arable land

Population characteristics (1984)

Age structure

0-14 years (in percent) 43.8

15-64 years (in percent) 52.5

65 and above (in percent) 3.7

Health (1986)

Life expectancy at birth (years) 47

Infant mortality (age under 1, percent) 12.5

Child death rate (age 1-4, percent) 2.9

Population per physician 23,000

Population per hospital bed 1,616

Access to safe water (1987)

In percent of population: Total 39.0
Urban 92.0
Rural 35.0

Education (1986)

In percent of population: Total 35.0
Urban 95.0
Rural 30.0

Nutrition (1983)

Calorie intake as percent of requirements 102.0
Per capita daily caloric supply 2,271.0

Education (1986)

Percent of primary school enrollment 35.0
Male 64.0
Female 46.0