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CONFIDENTIAL

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

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

Mr. Bélanger (ext. 8671) is available to answer technical or factual questions relating to this paper.

Att: (1)



INTERNATIONAL MONETARY FUND

BURUNDI

Real Effective Exchange Rate - Information Notice

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

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

Approved by A.D. Ouattara and H.B. Junz

June 23, 1987

The recent evolution of Burundi's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of March 1987, the Burundi franc has depreciated in real effective terms by 10.6 percent since the last occasion on which developments in exchange rate for the Burundi franc were brought to the attention of the Executive Board--the Article IV consultation and the request for a stand-by arrangement and arrangements under the Structural Adjustment Facility on August 8, 1986. ^{1/}

As part of the program under the stand-by arrangement and the Structural Adjustment Facility approved by the Fund in August 1986, Burundi has adopted a policy of adjusting the exchange rate flexibly. Following an initial depreciation of 13 percent in foreign currency terms, at the onset of the program in early July, the Burundi franc was depreciated by 1 percent per month until December 1986. Subsequently, the exchange rate remained unchanged until March 1987, when a 3.5 percent depreciation was implemented. The exchange rate now stands at FBu 161 = SDR 1, corresponding to a cumulative depreciation of 24 percent relative to the SDR from June 1986 through March 1987. The decrease over the same period in the index of real effective exchange rate amounted to 21.4 percent.

In 1986, Burundi's balance of payments situation improved as compared with 1985. The current account deficit (excluding official transfers) was reduced by two percentage points to 13 percent of GDP, as exports were boosted by higher coffee prices and imports were contained, notwithstanding the exchange and trade liberalization undertaken since the second half of 1986. The overall balance of payments recorded a

^{1/} The Chairman's summing up was circulated as SUR/86/80 (August 12, 1986).

surplus of SDR 14.0 million and net reserves increased to a level equivalent to 1.9 months of imports.

However, with coffee prices weakening during 1986, exports failed to reach their anticipated level and the program's balance of payments and fiscal objectives for 1986 could not be achieved. Moreover, as coffee exports in 1987 presently are projected again to be much lower than anticipated in the program, the adjustment path originally envisaged under the program no longer appears feasible and the authorities have requested negotiations of a new program that would take into account the emergence of much less favorable prospects.

Staff Appraisal

In concluding the 1986 Article IV consultation in August 1986, Executive Directors noted with satisfaction the initial depreciation of the exchange rate and the authorities' commitment to follow a flexible exchange rate policy. They believed that such steps should enable the country to strengthen production incentives in the export sector and help achieve a viable balance of payments position over the medium term without import and exchange restrictions. They viewed the Government's package as adequate to strengthen Burundi's external position, increase net official reserves, reduce obstacles to efficient resource allocation, and lay the foundation for sustainable economic growth over the medium term.

Overall, the authorities have implemented most of the measures included in the program. Regular depreciations of the currency have taken place and the real effective exchange rate now stands at a level comparable to that of 1980. Imports were liberalized and exchange restrictions were relaxed as specified in the program. Fiscal expenditures were lower than programmed in 1986, and the Government's liabilities to the banking sector were reduced, although by an amount lower than targeted under the program, given the lower-than-expected increase in revenue from coffee exports. Official net reserves were increased but could not reach the targeted level equivalent to three months' imports.

In view of the continuing deterioration in coffee prices, the staff believes that the policy package adopted in 1986, including the above mentioned flexible exchange rate policy, should be reinforced to make further progress in reducing the external current account deficit.

Table 1. Burundi: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

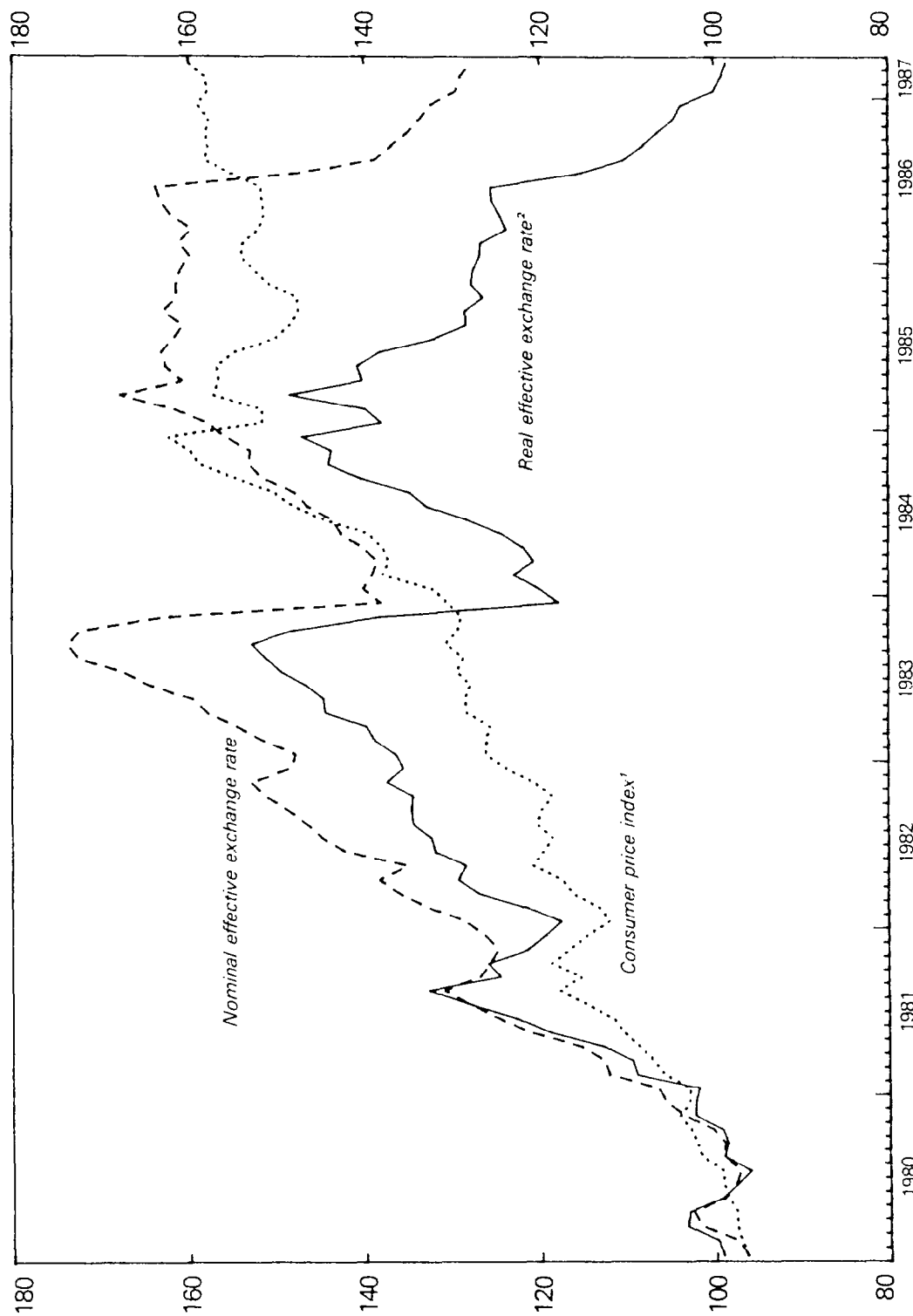
	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	122.0	132.3	92.2	100.0	113.8	115.0
II	129.8	138.5	93.8	100.0	119.3	120.7
III	133.8	146.6	91.2	100.0	119.6	119.3
IV	135.8	150.8	90.1	100.0	121.1	118.6
1983						
I	138.4	151.2	91.5	100.0	125.9	127.5
II	145.2	160.5	90.5	100.0	128.2	129.6
III	151.2	171.2	88.3	100.0	129.6	129.1
IV	134.8	157.7	85.4	89.5	129.6	127.0
1984						
I	121.3	139.2	87.1	76.9	135.8	137.7
II	124.8	142.2	87.8	76.8	140.7	142.1
III	136.1	148.6	91.5	74.3	151.0	149.9
IV	144.9	153.9	94.1	73.0	160.2	157.3
1985						
I	142.1	162.3	87.5	71.6	153.4	156.1
II	139.8	162.0	86.2	72.8	156.0	157.2
III	129.6	161.7	80.1	75.2	148.6	147.2
IV	127.2	161.2	78.9	79.1	150.2	147.8
1986						
I	125.7	160.1	78.5	82.1	153.2	156.2
II	125.1	162.9	76.8	85.1	151.5	152.5
III	111.3	141.0	78.9	76.4	157.0	155.3
IV	104.9	133.6	78.5	72.7	158.2	155.8
1987						
I	99.3	128.7	77.1	72.9	158.7	161.8
Monthly						
1986						
Aug. <u>3/</u>	110.3	138.7	79.4	75.8	158.1	155.9
Sep.	108.1	136.9	78.9	74.7	157.7	155.1
Oct.	106.4	134.9	78.8	74.0	157.9	153.6
Nov.	104.6	133.6	78.3	72.2	157.6	155.8
Dec.	103.8	132.4	78.4	72.0	159.0	157.9
1987						
Jan.	100.0	129.4	77.3	73.4	157.7	162.6
Feb.	99.2	129.0	76.9	73.3	158.2	160.5
Mar.	98.6	127.8	77.2	72.1	160.1	162.1
Percentage change						
Aug. 1986 - Mar. 1987	-10.6	-7.9	-2.9	-4.8	1.3	

Source: Information Notice System.

- 1/ Increases mean appreciation.
2/ Using seasonally adjusted price indices.
3/ Date of latest consideration by Executive Board.



CHART
BURUNDI
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE EXCHANGE RATE
(1980 = 100)



Source: Information Notice System

1. Seasonally adjusted

2. Trade-weighted means of nominal exchange rates deflated by seasonally adjusted relative consumer prices (includes mean adjustment)

