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CONFIDENTIAL

February 1, 1985

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

There is attached for the information of the Executive Directors an information notice on a change in the real effective exchange rate of the Burundi franc.

If Executive Directors have technical or factual questions relating to this paper, they should contact Mr. G. G. Johnson, ext. 8671.

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 other departments)

Approved by G. E. Gondwe and W. A. Beveridge

January 31, 1985

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 November 1984 the Burundi franc has appreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Burundi's rate policy--the 1984 Article IV consultation in February 1984. The appreciation is estimated to have amounted to 14.5 percent.

Recognizing the need to contain growing pressures on the balance of payments and to strengthen price incentives for exports, the authorities devalued the Burundi franc by almost 23 percent in November 1983, delinked it from the U.S. dollar, and pegged it to the SDR at the rate of FBu 122.7 = SDR 1. This action brought the real effective exchange rate of the Burundi franc at end-1983 below the level attained at end-1981 when the external position of Burundi, with a current account deficit equivalent to about 3.5 percent of GDP, was considered to be broadly sustainable. The devaluation was not, however, supported by appropriate demand-management and pricing policies. Fiscal policies remained expansionary with the deficit on government operations estimated at the equivalent of 10 percent of GDP, requiring a high recourse to central bank financing. Inflation, as measured by the rise in the consumer price index, accelerated to an estimated 14 percent in 1984, nearly double the rate recorded in 1983. This increase brought the real effective exchange rate back to a level not far short of the peak recorded in 1983.

The balance of payments has weakened in recent years, with sizable deficits in the current account and increasing debt service payments. In 1983 a tightening of import and exchange controls produced a small overall surplus, but in 1984 the overall position was again in deficit. Official gross reserves are estimated to have declined to the equivalent of five weeks' imports, compared to a level representing nine weeks of imports at the end of the preceding two years.

Staff Appraisal

The real effective appreciation of the Burundi franc, which results from inflationary pressures generated by the fiscal imbalance, exacerbates the already difficult balance of payments situation. Exchange rate adjustment is needed to correct the external imbalance, promote Burundi's nontraditional exports, reinforce incentives to producers of coffee, tea, and cotton, and increase revenue accruing to the budget from the export sales of these crops. Article IV consultation discussions are scheduled to be held with Burundi in February. Action to redress the fiscal imbalance and the structural deficit in the external accounts will be the focal points of the discussions.

Table. Burundi: Real Effective Exchange Rate and Related Series

(Indexes: 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)
<u>Quarterly</u>						
1979						
I	99.9	99.9	100.0	100.0	87.1	87.8
II	104.1	102.0	102.1	100.0	90.8	91.4
III	101.7	99.5	102.2	100.0	93.3	93.3
IV	100.3	99.3	100.9	100.0	94.5	93.1
1980						
I	100.6	99.6	101.1	100.0	97.6	98.2
II	99.4	100.1	99.3	100.0	98.3	99.3
III	98.1	98.2	99.8	100.8	100.8	100.9
IV	101.9	102.1	99.7	100.0	103.2	101.4
1981						
I	103.8	107.9	96.2	100.0	102.0	102.4
II	117.5	115.7	101.5	100.0	109.9	111.4
III	127.1	122.0	104.1	100.0	115.6	115.7
IV	121.4	117.7	103.2	100.0	116.6	114.4
1982						
I	122.4	122.8	99.6	100.0	114.7	115.0
II	128.8	127.2	101.2	100.0	118.8	120.7
III	132.3	132.8	99.6	100.0	118.9	119.3
IV	135.3	135.2	100.1	100.0	121.3	118.6
1983						
I	137.9	132.7	103.9	100.0	127.3	127.5
II	140.6	136.9	102.7	100.0	127.5	129.6
III	145.8	142.9	102.0	100.0	128.6	129.1
IV	131.5	129.5	101.7	89.5	130.0	127.0
1984						
I	118.9	112.3	105.9	76.9	137.4	137.7
II	119.7	112.5	106.4	76.8	139.7	142.1
III	129.1	114.5	112.7	74.3	149.4	149.9
<u>Monthly</u>						
Feb. <u>3/</u>	121.4	112.1	108.2	76.6	140.6	139.3
March	118.2	111.2	106.3	78.0	138.6	137.8
April	117.4	111.8	105.0	77.6	137.4	140.4
May	119.1	112.9	105.5	76.4	138.5	141.1
June	122.6	112.8	108.7	76.3	143.1	144.7
July	125.9	113.7	110.7	74.8	146.2	148.4
August	127.8	114.1	112.0	74.5	148.5	149.0
Sept.	133.7	115.8	115.4	73.4	153.5	152.4
Oct.	136.9	116.3	117.8	72.8	157.4	154.2
Nov.	139.0	115.7	120.1	73.8	161.0 <u>4/</u>	
Percentage change						
February 1984- Nov. 1984	14.5	3.2	10.9	-3.7	14.5	

Source: Information Notice System.

1/ Increases mean appreciation.

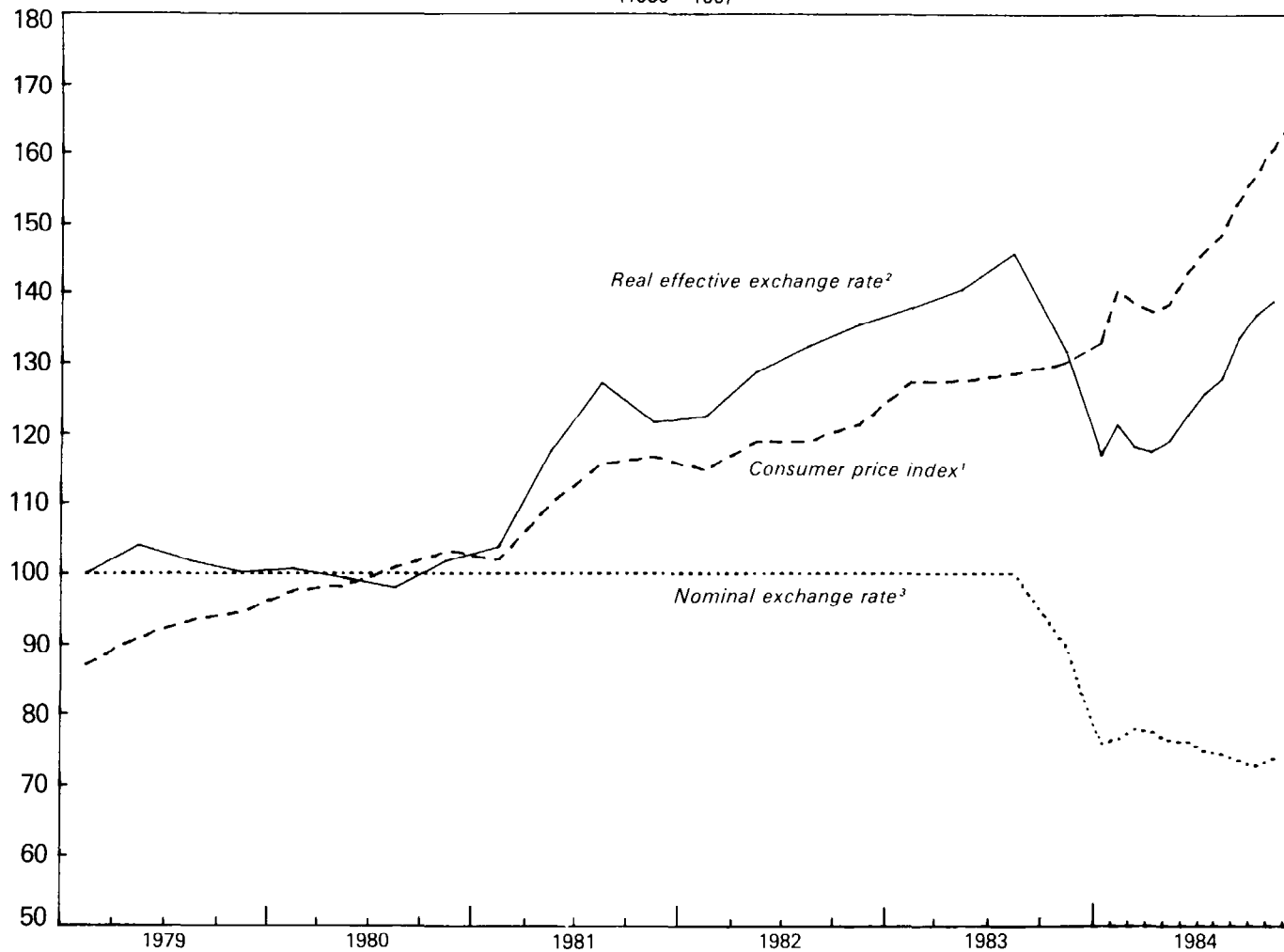
2/ Using seasonally adjusted consumer price indexes.

3/ Date of latest consideration by Executive Board.

4/ Estimate based on extrapolation of the rate of inflation over the preceding six months.



CHART
BURUNDI
REAL EFFECTIVE EXCHANGE RATE
AND RELATED SERIES
(1980 = 100)



Source: Information Notice System.

¹Seasonally adjusted

²Trade weighted index of nominal exchange rate deflated by seasonally adjusted consumer prices, increase means appreciation.

³U.S. dollars per Burundi franc (index).