IMF Country Reports 20/224

Burundi: Request for Debt Relief Under the Catastrophe Containment and Relief Trust-Press Release; Staff Report; and Statement by the Executive Director for Burundi

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 20/224

BURUNDI

July 2020

REQUEST FOR DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BURUNDI

In the context of the Request for Debt Relief Under the Catastrophe Containment and Relief Trust, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 20, 2020 following discussions held with the Burundi authorities that took place through June 20–23, 2020. Based on information available at the time of these discussions, the staff report was completed on July 14, 2020.
- A **Statement by the Executive Director** for Burundi.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Burundi*

*Also included in the Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Approves US$ 7.6 Million Debt Relief to the Republic of Burundi Under the Catastrophe Containment and Relief Trust

FOR IMMEDIATE RELEASE

- The IMF Executive Board approved debt relief under the Catastrophe Containment and Relief Trust to provide US$ 7.63 million (SDR 5.48 million) over the next 3 months, and potentially up to US$ 24.97 million (SDR 17.96 million) over the next 21 months.
- IMF debt relief will help free up resources for public sector health needs including other emergency spending and help mitigate the balance of payments shock posed by the COVID-19 pandemic.
- Given the risks ahead, it will be important to ensure close cooperation with multilateral organizations and donors and ensure adequate budget allocations toward health and other priority spending.

Washington, DC – JULY 20, 2020 The Executive Board of the International Monetary Fund (IMF) today approved a grant under the IMF's Catastrophe Containment and Relief Trust (CCRT) to cover Burundi's debt service falling due to the IMF from July 21, 2020 to October 13, 2020, the equivalent of US$ 7.63 million (SDR 5.48). Additional relief covering the period from October 14, 2020 to April 13, 2022 will be granted subject to the availability of resources in the CCRT, potentially bringing total relief on debt service to the equivalent of US$24.97 million (SDR 17.96). The debt service relief will help free up resources for public sector health needs including other emergency spending and help mitigate the balance of payments shock resulting from the COVID-19 pandemic.

The pandemic is affecting Burundi through an evolving domestic outbreak and economic spillovers from the global and regional environment. Economic growth projections for 2020 have been revised down by 5.3 percentage points to -3.2 percent in 2020. The pandemic has exacerbated preexisting economic challenges and creates significant external financing needs in 2020 and 2021, mainly as a result of lower exports, elevated imports needs, and reduced remittances inflows. The pandemic has also created sizable fiscal financing needs, which will have to be met mainly from external sources.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The COVID-19 pandemic is having an adverse economic impact on Burundi, creating exceptional fiscal and balance of payments needs. The economy has slowed sharply. The authorities have implemented containment measures consistent with their pandemic response plan that focuses on strengthening the health care system, the social safety net, and parts of the road network to facilitate access to sick people.

"The IMF's debt service relief under the Catastrophe Containment and Relief Trust will free up public resources to help address the pandemic. The authorities are committed to using the additional resources to address the COVID pandemic in a transparent manner and have committed to undertake and publish an ex-post audit of COVID-related spending. It will be important to reprioritize fiscal spending for health and other priority social spending as needed.

``Looking ahead, it will be important to resume Article IV consultations with the Fund. Further improvement of data provision and coverage will be key for policy development and engaging with multilateral agencies and donors.''

More information

IMF Lending Tracker (emergency financing request approved by the IMF Executive Board)
https://www.imf.org/en/Topics/imf-and-covid19/COVID-Lending-Tracker

IMF Executive Board calendar
https://www.imf.org/external/NP/SEC/bc/eng/index.aspx

BURUNDI

July 14, 2020

REQUEST FOR DEBT RELIEF UNDER THE CATASTROPHE CONTAINMENT AND RELIEF TRUST

Approved By
David Robinson (AFR) and Chad Steinberg (SPR)

An IMF team consisting of Messrs. Weisfeld (head), Bouhga-Hagbe and Allen (all AFR), and Ms Muthoora (ICD) held discussions with the Burundi authorities by videoconference during June 20–23, 2020. Ms Kwizera (Resident Representative Office) supported the team, and Ms. Ourigou helped produce the report.

CONTENTS

Burundi faces exceptional balance of payments needs from the impact of COVID-19 and has requested support under the Catastrophe Containment window of the CCRT.

STAFF APPRAISAL

1. Economic impact. COVID-19 is having an adverse economic impact on Burundi. The pandemic is affecting Burundi through an evolving domestic outbreak and economic spillovers from the global and regional environment, including from the containment measures introduced in trading partners and neighboring countries. Economic growth projections for 2020 have been revised down by 5.3 percentage points to -3.2 percent in 2020. The pandemic has exacerbated pre-existing economic challenges and creates an external financing need of 4.7 percent of GDP in 2020 and 2021, mainly as a result of lower exports in line with lower foreign demand due to lower global growth and transportation bottlenecks from containment measures in other countries; elevated imports needs related in part to the planned fiscal spending aimed at responding to the pandemic; and reduced remittances inflows. The pandemic has also created a fiscal financing need of 6.9 percent of GDP, which will need to be met mainly from external sources.

2. Public health-related and macroeconomic policies. The authorities have quarantined travelers from affected countries, stopped providing entry visas, and closed the borders except for merchandise trade, humanitarian, and medical travel and transport. The authorities have also developed a pandemic response plan that focuses on strengthening the health care system, the social safety net, and parts of the road network to facilitate access to sick people. Staff expects that the related spending needs will reach at least US$150 million (4.7 percent of GDP). So far, the only financing for this plan is US$5 million from the World Bank. The fiscal space created by the grants provided under the CCRT will be used to help finance this additional spending. In addition, the authorities intend to provide targeted support to hard-hit sectors, at a net cost of US$12 million after budget reprioritization, to be achieved largely by scaling back capital spending. The overall fiscal deficit including grants is expected to reach 9.6 percent of GDP in 2020 (compared to a pre-pandemic projected deficit of 6.1 percent of GDP). Monetary policy remains focused on containing inflation, and regulators will work with banks to enable targeted and time-bound extensions of loan maturities to hard-hit creditors.

3. IMF relations. Burundi currently has no Fund-supported program. The last Article IV consultation with Burundi was concluded by the Executive Board in August 2014. While periodic staff visits have occurred since then, and the authorities have made use of Fund TA, agreement could not be reached on timing of an Article IV consultation. In April the authorities requested emergency assistance through the Rapid Credit Facility and improved data provision substantially. Annex II discusses political and economic developments in recent years.

4. Staff appraisal. Staff supports Burundi's request for debt relief under the CCRT. Burundi meets the income threshold with GNI per capita of US$280 in 2018, well below the threshold of US$1,175, and staff assesses that it faces exceptional BoP needs stemming from the impact of

COVID-19 and is pursuing appropriate macroeconomic policies to address this need. As the authorities' response has been gradual and the risks of COVID-19 are still evolving, further measures may be needed. In this regard, the authorities are requesting grants from donors.

5. Upcoming debt service. Burundi has eligible debt service of SDR 5.48 million falling due for the period from July 21st to October 13, 2020.[1] Debt service falling due in the period from July 21st, 2020 to April 13, 2022 (the maximum potential period of debt service relief, subject to availability of resources and decisions of the Executive Board) amounts to SDR 17.96 million.

[1] Burundi had no debt service to the Fund during April 14 to July 21.

Table 1. Burundi: Selected Economic Indicators, 2014–25

	2014	2015	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
			Est.	Est.	Est.	Est.	Pre-Covid	Proj.	Pre-Covid	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)													
Output, prices, and exchange rate														
Real GDP	4.3	-3.9	-0.6	0.5	1.6	1.8	2.1	-3.2	2.1	3.1	2.0	2.1	2.3	2.6
GDP deflator	5.2	21.3	1.0	11.4	-2.9	-0.7	5.7	8.0	5.3	4.9	3.6	3.7	3.6	3.6
CPI (period average)	4.4	5.6	5.6	16.6	-2.8	-0.7	5.6	7.6	5.2	5.6	3.6	3.6	3.6	3.6
CPI (end of period)	3.7	7.1	9.6	10.5	-5.9	5.1	6.0	8.3	4.6	3.4	3.7	3.6	3.6	3.6
Terms of trade (- =deterioration)	14.6	-27.4	8.4	-1.4	2.1	6.5	5.9	22.7	2.1	1.9	-1.0	-1.5	-1.5	-1.8
Money and credit														
Broad Money (M2)	9.8	5.0	11.7	16.2	21.0	27.9	20.9	16.6	19.8	20.0	15.6	13.4	10.1	8.1
Credit to non-government sector	7.4	-3.8	-0.3	-6.5	13.0	11.1	7.8	3.5	7.5	7.1	4.7	4.9	5.0	5.3
M2/GDP (percent)	20.1	18.1	20.1	20.9	25.6	32.3	37.4	36.1	41.4	40.0	43.8	46.9	48.7	49.5
NPLs (percent of total loans)	12.9	18.6	14.5	14.7	9.2	5.6	...	...	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)													
Central government budget														
Revenue and grants	23.4	14.9	14.7	18.2	19.0	21.8	21.9	21.8	21.9	22.0	22.3	22.4	22.5	22.7
of which : grants	8.5	3.3	2.3	5.1	4.3	4.4	4.5	4.9	4.5	5.0	5.3	5.1	5.1	5.1
of which : revenue	14.9	11.5	12.4	13.1	14.7	17.4	17.4	16.9	17.4	17.0	17.1	17.2	17.4	17.6
Expenditure	27.1	22.1	21.5	23.0	25.8	30.0	28.0	31.4	27.8	30.7	27.5	27.1	26.2	25.6
Expense	20.2	18.1	16.3	15.5	19.0	20.1	18.9	23.0	18.8	22.5	18.7	18.3	17.5	16.8
Net acquisition of non-financial assets	6.9	4.0	5.3	7.5	6.7	9.9	9.0	8.3	9.0	8.2	8.9	8.8	8.8	8.7
Primary balance	-3.3	-6.7	-6.2	-4.1	-6.1	-7.8	-3.3	-6.7	-3.2	-5.9	-2.6	-2.6	-1.8	-1.2
Overall balance	-3.7	-7.2	-6.8	-4.8	-6.8	-8.3	-6.1	-9.6	-5.9	-8.7	-5.2	-4.8	-3.7	-2.9
Excluding grants	-12.2	-10.6	-9.1	-9.9	-11.0	-12.7	-10.6	-14.4	-10.4	-13.7	-10.5	-9.9	-8.8	-8.0
Net domestic borrowing	2.2	6.7	6.2	4.9	5.4	6.0	5.5	5.5	5.3	5.3	4.9	4.6	3.4	2.6
Net foreign borrowing	1.5	0.5	0.5	0.0	0.5	1.8	0.6	1.3	0.6	0.6	0.3	0.2	0.3	0.2
Unidentified financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.8	0.0	2.8	0.0	0.0	0.0	0.0
Public debt														
Public gross nominal debt	36.2	38.1	44.0	44.7	50.5	57.4	59.7	65.1	61.5	68.8	70.4	71.4	71.2	70.2
of which : external public debt	19.6	17.2	17.2	16.1	16.4	17.8	17.5	21.7	16.9	23.4	22.3	21.3	20.6	19.9
domestic public debt	16.6	20.9	26.8	28.6	34.1	39.6	42.2	43.4	44.5	45.5	48.1	50.1	50.6	50.3
Investment and savings														
Investment	18.3	17.3	17.8	18.3	18.8	19.3	19.3	17.5	19.4	18.5	19.0	19.5	20.0	20.5
Public	2.1	3.0	3.9	5.6	5.0	5.0	4.5	4.2	4.5	4.1	4.4	4.4	4.4	4.4
Private	16.2	14.3	13.8	12.7	13.7	14.3	14.8	13.3	14.9	14.4	14.6	15.1	15.6	16.1
Savings	-1.2	-3.4	4.2	3.3	4.3	1.4	2.4	-2.1	2.9	-0.5	2.8	3.4	3.9	4.4
Public	-1.7	-4.2	-2.8	0.8	-1.7	-3.3	-1.6	-5.4	-1.4	-4.6	-0.8	-0.4	0.7	1.5
Private	0.5	0.8	7.1	2.5	6.0	4.7	4.0	3.3	4.3	4.1	3.6	3.8	3.2	2.9
External sector														
Exports (goods and services)	7.2	5.5	6.4	8.1	9.0	9.9	9.9	9.5	10.1	9.6	10.2	10.3	10.3	10.3
Export volume growth (goods, in percent)	34.8	-2.8	19.4	31.5	14.2	-3.3	-0.7	-13.2	2.7	1.1	11.8	6.0	4.2	4.2
Imports (goods and services)	37.1	32.3	25.4	29.0	30.6	36.8	35.6	37.7	35.4	37.4	35.6	35.5	35.5	35.5
Import volume growth (goods, in percent)	1.7	-19.3	-12.5	18.9	14.4	19.5	0.5	14.7	2.2	2.3	-3.8	1.8	2.2	2.4
Trade Balance (goods and services)	-29.9	-26.8	-19.0	-20.9	-21.6	-26.8	-25.7	-28.2	-25.3	-27.7	-25.4	-25.2	-25.2	-25.2
Current account balance (incl. grants)	-19.5	-20.7	-13.5	-15.0	-14.5	-17.9	-16.9	-19.6	-16.4	-19.0	-16.2	-16.1	-16.1	-16.1
Current account balance (excl. grants)	-24.0	-21.7	-13.5	-15.0	-14.5	-17.9	-16.9	-19.6	-16.4	-19.0	-16.7	-16.6	-16.6	-16.6
Gross international reserves														
In millions of US$	317.3	136.4	95.4	101.6	70.3	113.4	113.4	113.4	113.4	113.4	113.4	113.4	113.4	113.4
In months of next year imports	3.6	2.1	1.2	1.3	0.7	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0	0.9
Memorandum items:														
Official Current transfer	4.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Official Capital transfer	3.9	2.3	2.3	5.1	4.3	4.4	4.5	4.6	4.5	4.6	4.6	4.6	4.6	4.6
GDP at current market prices														
In billions of Burundi Francs	4,388	5,116	5,134	5,753	5,679	5,741	6,191	5,999	6,657	6,488	6,858	7,262	7,702	8,186
In billions of US$	2.8	3.3	3.1	3.3	3.2	3.1	3.2	3.1	3.4	3.3	3.4	3.5	3.7	3.9
GDP per capita (Nominal US$)	286	319	295	306	285	270	273	264	276	267	270	273	277	281
Population (million)	9.9	10.2	10.5	10.9	11.2	11.5	11.9	11.9	12.2	12.2	12.6	13.0	13.4	13.8

Sources: Burundi authorities; and IMF staff estimates and projections.

Table 2. Burundi: Balance of Payments, 2014–25
(Percent of GDP)

	2014	2015	2016	2017	2018	2019	2020		2021		2022	2023	2024	2025
			Est.	Est.	Est.	Proj.	Pre-Covid	Proj.	Pre-Covid	Proj.	Proj.	Proj.	Proj.	Proj.
Current account	-19.5	-20.7	-13.5	-15.0	-14.5	-17.9	-16.9	-19.6	-16.4	-19.0	-16.2	-16.1	-16.1	-16.1
(excluding official transfers)	-24.0	-21.7	-13.5	-15.0	-14.5	-17.9	-16.9	-19.6	-16.4	-19.0	-16.7	-16.6	-16.6	-16.6
Trade balance	-23.0	-21.5	-14.4	-16.7	-17.7	-21.9	-21.0	-23.0	-20.7	-22.8	-20.8	-20.7	-20.8	-20.8
Exports, f.o.b.	4.6	3.7	4.0	5.2	5.7	5.8	5.8	5.5	6.0	5.5	6.0	6.2	6.2	6.3
Of which: coffee	1.9	1.2	1.5	1.1	1.3	1.2	1.2	1.0	1.3	1.1	1.2	1.2	1.2	1.2
gold	...	...	0.5	1.8	1.8	2.1	2.3	2.3	2.2	2.3	2.5	2.5	2.5	2.4
Imports, f.o.b.	-27.6	-25.2	-18.5	-21.9	-23.4	-27.7	-26.8	-28.5	-26.7	-28.3	-26.9	-26.9	-27.0	-27.1
Of which: petroleum products	-5.9	-6.7	-3.4	-3.8	-4.8	-5.2	-4.7	-3.1	-4.4	-3.1	-3.6	-3.8	-3.9	-4.0
Services (net)	-6.9	-5.3	-4.6	-4.2	-3.9	-4.9	-4.8	-5.2	-4.5	-4.9	-4.5	-4.5	-4.5	-4.4
Income (net)	-0.2	-0.1	0.0	0.0	0.2	0.3	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.0
Of which: interest on public debt	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4
Current transfers (net)	10.7	6.2	5.5	5.9	6.9	8.7	8.6	8.4	8.6	8.6	9.2	9.2	9.2	9.1
Of which: Workers' remittances	1.6	1.2	0.7	0.6	1.0	1.3	1.3	1.0	1.3	1.0	1.0	1.0	1.0	1.0
Of which: Official (net)	4.5	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.5	0.5
Capital account[1]	3.9	2.3	2.3	5.1	4.3	4.4	4.5	4.6	4.5	4.6	4.6	4.6	4.6	4.6
Financial account	13.1	4.8	6.8	6.0	6.4	6.6	12.4	12.5	12.0	12.2	11.4	11.4	11.4	11.5
Direct investment	2.9	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment	8.2	3.3	6.8	6.0	6.4	6.6	12.4	12.5	11.9	12.2	11.4	11.4	11.4	11.5
Assets	-0.4	-0.6	-0.3	-2.8	-2.0	-1.8	-2.5	-2.4	-2.4	-2.2	-2.3	-2.4	-2.4	-2.4
Liabilities	8.6	3.9	7.1	8.8	8.3	8.4	14.9	14.8	14.4	14.4	13.7	13.8	13.9	13.9
Errors and omissions	2.4	8.3	3.3	4.2	2.9	8.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.1	-5.3	-1.2	0.3	-0.9	1.5	0.0	-2.5	0.0	-2.2	-0.1	0.0	0.0	0.0
Financing (increase in assets = –)	0.1	5.3	1.2	-0.3	0.9	-1.5	0.0	2.5	0.0	2.2	0.1	0.0	0.0	0.0
Of which: change in official reserves	0.1	5.6	1.3	-0.2	1.0	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.9	0.0	0.4	0.1	0.0	0.0	0.0
Debt Cancellation/CCRT grants[2]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.4	0.1	0.0	0.0	0.0
Rescheduling of debt service and arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Unidentified BOP financing	...	...	...	...	...	...	0.0	1.6	0.0	1.9	0.0	0.0	0.0	0.0

Sources: Burundi authorities; and IMF staff estimates and projections.

[1] Based on preliminary information provided by donors.

[2] Under the tranching approach, the Fund will only provide CCRT debt service relief for a period of six months from April 14, 2020 up to October 13, 2020, with any further tranches of debt service relief—up to the overall cap of two years—being committed only once sufficient resources have been secured.

Table 3. Burundi: Projected Payments to the IMF, July 21st, 2020 to April 13, 2022

Description	Schedule Date	Total Amount Due (In SDRs)	Total amount (In percent of quota)	Cumulative amount (In percent of quota)
PRGT Repayment (ECF)	23-Jul-20	500,000	0.32	0.32
PRGT Repayment (ECF)	24-Jul-20	660,000	0.43	0.75
PRGT Repayment (ECF)	31-Jul-20	660,000	0.43	1.18
PRGT Repayment (ECF)	6-Aug-20	400,000	0.26	1.44
PRGT Repayment (ECF)	7-Aug-20	100,000	0.06	1.51
PRGT Repayment (ECF)	21-Aug-20	500,000	0.32	1.83
PRGT Repayment (ECF)	2-Sep-20	500,000	0.32	2.16
PRGT Repayment (ECF)	10-Sep-20	500,000	0.32	2.48
PRGT Repayment (ECF)	17-Sep-20	500,000	0.32	2.81
PRGT Repayment (ECF)	18-Sep-20	660,000	0.43	3.23
PRGT Repayment (ECF)	30-Sep-20	500,000	0.32	3.56
Total for the year 2020		**5,480,000**		
PRGT Repayment (ECF)	22-Jan-21	500,000	0.32	3.88
PRGT Repayment (ECF)	26-Jan-21	660,000	0.43	4.31
PRGT Repayment (ECF)	5-Feb-21	400,000	0.26	4.57
PRGT Repayment (ECF)	9-Feb-21	100,000	0.06	4.64
PRGT Repayment (ECF)	22-Feb-21	500,000	0.32	4.96
PRGT Repayment (ECF)	2-Mar-21	500,000	0.32	5.29
PRGT Repayment (ECF)	10-Mar-21	500,000	0.32	5.61
PRGT Repayment (ECF)	17-Mar-21	500,000	0.32	5.94
PRGT Repayment (ECF)	18-Mar-21	660,000	0.43	6.36
PRGT Repayment (ECF)	30-Mar-21	500,000	0.32	6.69
PRGT Repayment (ECF)	23-Jul-21	500,000	0.32	7.01
PRGT Repayment (ECF)	26-Jul-21	660,000	0.43	7.44
PRGT Repayment (ECF)	6-Aug-21	400,000	0.26	7.70
PRGT Repayment (ECF)	9-Aug-21	100,000	0.06	7.77
PRGT Repayment (ECF)	20-Aug-21	500,000	0.32	8.09
PRGT Repayment (ECF)	2-Sep-21	500,000	0.32	8.42
PRGT Repayment (ECF)	10-Sep-21	500,000	0.32	8.74
PRGT Repayment (ECF)	17-Sep-21	500,000	0.32	9.06
PRGT Repayment (ECF)	30-Sep-21	500,000	0.32	9.39
Total for the year 2021		**8,980,000**		
PRGT Repayment (ECF)	21-Jan-22	500,000	0.32	9.71
PRGT Repayment (ECF)	4-Feb-22	400,000	0.26	9.97
PRGT Repayment (ECF)	9-Feb-22	100,000	0.06	10.04
PRGT Repayment (ECF)	22-Feb-22	500,000	0.32	10.36
PRGT Repayment (ECF)	2-Mar-22	500,000	0.32	10.69
PRGT Repayment (ECF)	10-Mar-22	500,000	0.32	11.01
PRGT Repayment (ECF)	17-Mar-22	500,000	0.32	11.34
PRGT Repayment (ECF)	30-Mar-22	500,000	0.32	11.66
Total for the year 2022		**3,500,000**		
Grand total		**17,960,000**		

Annex I. Political and Economic Developments

1. **A political crisis in 2015 led to a deterioration in the security situation and strained Burundi's relationship with the international community.** The crisis, while deeply rooted in the history of protracted tension between Burundi's major ethnic groups, was triggered by President Nkurunziza's decision to run for a third term in office, which opposition groups asserted violated the terms of the 2000 Arusha Peace and Reconciliation Agreement that had brought closure to a nearly two-decade long civil war.

2. **In elections held on May 20, 2020, Mr. Evariste Ndayishimiye, the incumbent party's presidential candidate, received 68 percent of the vote with his party also securing a large majority in the Parliament.** Mr. Ndayishimiye and his government took office on June 18, earlier than previously planned following the death of outgoing President Nkurunziza in early June.

3. **The lack of Article IV consultations since 2014 and data weaknesses hamper staff's understanding of economic trends and policies.** While the authorities have recently resumed data sharing in a fashion that is comparable to practices under previous financial arrangements, data coverage and quality remain weak. Nevertheless, staff can glean key trends and policies from available information.

4. **The 2015 political crisis, subsequent withdrawal of most external support and the authorities' policies since then have led to a difficult economic situation marked by low growth, elevated public debt, external imbalances, and banking system fragility.** Aid used to contribute about half of the government's total revenue. Following the events of 2015, donors withdrew all budget support and suspended most project aid. Over 2014-16, aid fell from 8.5 percent to 2.3 percent of GDP.

- **After contracting during the 2015-16 crisis, the economy has recovered only slowly.**[1] With population growth of around 3 percent per year, per-capita GDP has fallen by about 16 percent over the past five years. As a result, poverty has likely grown further (a 2013 survey found that 72 percent of the population lived below the international poverty line). Further, human development indicators remain among the weakest in the world (with Burundi ranking 185th out of 189 countries in the UN Human Development Index). The economy remains heavily focused on low-productivity agriculture (which accounts for about 30 percent of GDP but more than 80 percent of employment).

- **Inflation rose quickly following the crisis but has since been brought down.** Inflation has tracked money growth quite closely in recent years, while food prices, driven in part by the impact of climatic conditions on harvests, are also an important driver of price dynamics. Monetary conditions have been restrictive since 2017, which in combination with substantial

[1] Staff rely largely on World Bank GDP growth estimates. Official growth estimates are higher. The World Bank is providing technical assistance to help assess and resolve the discrepancy.

bank financing of large fiscal deficits implies continued crowding out of credit to the private sector.

- **Fiscal deficits rose sharply, averaging 7 percent of GDP a year during 2015-19, despite cuts to investment and social spending and progress in revenue mobilization, pushing public debt to elevated levels.** With external financing sources drying up, deficits have been financed by borrowing first from the central bank, then from commercial banks, and also through accumulation of arrears to suppliers. Domestic debt is estimated to have risen to 39.6 percent of GDP in 2019 (from 16.6 percent in 2014), while external debt has fallen slightly to 17.8 percent of GDP (from 19.6 percent of GDP). However, data discrepancies suggest that both domestic and external public and publicly guaranteed debt could be underestimated.

- **Large external imbalances have developed, consistent with overvaluation of the exchange rate.**

    - **The real effective exchange rate has appreciated by 18 percent since end-2014** and a parallel market has emerged—the premium was at 55 percent at end-2019, up from near zero in 2014**.** The central bank allocates scarce foreign exchange in a discretionary manner to priority imports such as fuel, fertilizer and medicine.

    - **Despite some import compression, the current account deficit has remained high following the withdrawal of donor budget support** and corresponding reduction in current transfers. Exports have grown only modestly in recent years, due in part to weakening world market prices for coffee and tea, Burundi's traditional main exports.

    - **The financial and capital accounts deteriorated as well.** In particular, FDI inflows appear to have largely stopped.

    - **Foreign currency reserves have dwindled to around one month of imports** (from 4 months of imports in 2014).

    - **Sizeable errors and omissions suggest unrecorded foreign exchange inflows,** possibly from under-reported exports, external borrowing, or other inflows. (The Fund is providing limited technical assistance on external sector statistics.)

- **The banking sector has become fragile and contributes little to the financing of the private sector.** Banks' claims on the government have more than doubled, reaching 45 percent of their assets at end-2019, creating an important feedback loop between the health of the government finances and the health of the banking system.

- **The central bank is under-capitalized.** It has accumulated large operating losses since 2017, leading to a drop in its equity to 2.3 percent of assets by June 2019, well below its mandatory minimum of 10 percent of assets.

Appendix I. Letter of Intent

Bujumbura

July 14, 2020

Ms Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Madame Managing Director,

1. The COVID-19 pandemic has had repercussions for many countries around the world and Burundi has not been spared. The number of citizens afflicted by the disease is growing. The economic impact, including from the containment measures in partner countries in general and neighboring countries in particular, is substantial, giving rise to an exceptional balance of payments need. This letter of intent describes our policy commitments for addressing the pandemic and its impacts.

2. Economic impacts include lower economic growth; deterioration of the public finances through the decline in tax revenue and increase in expenditure needed to address the pandemic; the deterioration of the balance of payments through a fall in exports, fall in remittances by migrants, and rise in imports; and difficulties in the banking sector due to unpaid debts. This has led IMF staff to revise their economic growth projections for 2020 to -3.2 percent, against 2.1 percent growth projected before the onset of the pandemic. IMF staff also found that the pandemic creates a need for external financing of 4.7 percent of GDP and a need for budgetary financing of 6.9 percent of GDP, cumulated over 2020 and 2021.

3. We have already taken certain measures to ward off the COVID-19 pandemic. In particular, we have quarantined travelers from affected countries, stopped providing entry visas, and closed the borders except for merchandise trade, humanitarian, and medical travel and transport. Other measures taken include notably the massive COVID-19 testing campaign in the entire country, the intensification of awareness campaigns aimed at preventing and reducing human-to-human transmission and the strengthening of laboratories with COVID-19 diagnostic equipment. In addition, each health facility has been provided with a team responsible for testing COVID-19 and, if necessary, providing supervision and monitoring of persons that may have been infected.

4. Our intentions for addressing the pandemic and its adverse effects comprise the following:

- *Public health measures:* We intend to fully implement our pandemic response plan. The plan aims to strengthen the health care system, the social safety net, and parts of the road network to facilitate access to sick people. To strengthen the health system, we intend to intensify the communication on the risks of COVID-19 and enhance the screening capacity, the equipment of hospitals and health centers, and the stock of drugs. We estimate that the cost of the response plan will reach at least US$150 million (4.7 percent of GDP) cumulatively over 2020 and 2021. With the exception of the already promised US$5 million by the World Bank, we currently do not have cash buffers or credit sources that allow us to make these expenditures. We have already contacted and will continue to contact our development partners to request additional support for our pandemic response plan.

- *Fiscal policy:* In addition to spending on the pandemic response plan, we are considering providing support to hard-hit sectors such as the transport and hotel sectors. The cost of this plan will depend on the evolution of the pandemic, and we intend to meet it largely by reprioritizing the existing budget, with a net financing need of about US$12 million (0.4 percent of GDP) over 2020 and 2021.
- *Monetary and exchange rate policy:* We will continue to gear monetary policy to containing inflation. The economy continues to be constrained by foreign exchange shortages that have necessitated the use of direct intervention by the central bank to ensure financing for critical imports. Given the low level of reserves, there is presently no room to draw down reserves any further to address the external need created by the pandemic. We are however developing a strategy to broaden access to foreign exchange as inflows increase.
- *Financial sector supervision:* We will monitor the impact of the COVID-19 shock on loan performance as part of our efforts to protect financial stability. In particular, we will work with banks to encourage, on a targeted and time-bound basis, an extension of loan maturities to borrowers in hard-hit sectors, applying existing regulation in a flexible manner.
- To face the emerging large budgetary and external financing gaps, and given the large balance of payments need created by the impact of the coronavirus, the Government of Burundi requests grants under the Catastrophe Containment window of the CCRT of SDR17.96 million, equivalent to 11.7 percent of our quota, to cover our debt service to the IMF falling due in the period from July 21st, 2020 to April 13, 2022, or as much as is available from resources. This debt relief will free up budgetary resources to address public health needs and help contain the exceptional balance of payments need resulting from the pandemic.
- We will ensure that the best possible use will be made of the funds provided in the context of COVID-19. The Court of Auditors, in consultation with the development partners concerned, will undertake and publish an ex post audit of expenses related to COVID on the government's website within 9 months after the end of the fiscal year.

5. We are working with IMF staff in seeking to maintain broad macroeconomic stability. We are actively seeking additional support from the IMF to face the emerging large budgetary and external financing gaps, including under the Rapid Credit Facility.

6. We authorize the IMF to publish this Letter of Intent and the staff report for the request for financial support under the CCRT.

/s/	/s/
Jean Ciza	Dr. Domitien Ndihokubwayo
Governor	Minister of Finance, Budget, and Development Bank of the Republic of Burundi Cooperation

Statement by Mr. Dumisani Mahlinza, Executive Director for Burundi, and Mr. Tamsir Cham, Advisor to the Executive Director
July 20, 2020

Introduction

1. Our Burundian authorities appreciate the Fund's timely response to their request for debt relief under the Catastrophe Containment and Relief Trust (CCRT). They consider debt relief under the CCRT as critical to creating fiscal space required to tackle the COVID-19 pandemic.

2. Burundi has continued to record positive growth over the last two years, however, the outbreak of the COVID-19 pandemic has severely impacted the outlook. As a result, growth projections for 2020 have been revised downwards by 5.3 percentage points. The contraction in economic activity is underpinned by reduced remittance inflows, lower exports, and economic spillovers from the global and regional environment. The fallout from the pandemic has created sizeable fiscal and external financing needs. Against this background, the authorities request debt service relief under the CCRT in the amount of SDR 17.96 million, to cover debt service to the IMF falling due through to April 13, 2022. The debt relief will free up budgetary resources to address the public health crisis. In parallel, the authorities have submitted a request for emergency financing from the Fund, which is expected to catalyze additional resources from development partners. Further, the authorities have reached out to development partners to seek additional support.

3. To ensure transparent and accountable use of Fund resources, the authorities will undertake an ex-post audit of COVID-19 related spending and publish the results on the government's website within 9 months after the end of the fiscal year.

Impact of the Pandemic

4. The number of infections continues to increase with negative repercussions on various parts of the economy. With the decline in economic activity, the overall fiscal deficit is expected to widen further to 9.6 percent of GDP in 2020 compared to the pre-crisis projection of 6.1 percent of GDP. In addition, foreign reserves remain under pressure due to declining external demand and remittance inflows. As the level of infections increase, the health system will come under immense pressure.

5. The decline in remittances, due to a slowdown in global economic activity will affect household incomes and worsen already high poverty levels. This underlines the importance of an adequately funded COVID-19 response plan to strengthen the social safety net, preserve lives and livelihoods, while safeguarding past gains made towards economic recovery.

Policy Response to the Pandemic

6. Following the outbreak of the pandemic, the authorities took immediate steps to contain the spread of the virus and mitigate the impact on the economy and vulnerable population. Key measures include implementation of quarantine measures for travellers from affected countries, temporary suspension of the issuance of entry visas and border closures. In addition, a massive testing campaign was conducted alongside measures to strengthen the capacity of laboratories and health facilities. At the same time, the authorities have developed a pandemic response plan that focusses on strengthening the healthcare system and the social safety nets, as well as improving the road network. In this regard, they are intensifying public health education, increasing the screening capacity, and enhancing medical supplies.

7. To meet the additional healthcare needs and support the hard-hit sectors of the economy (transport and hotels), the authorities plan to reprioritize spending under the current year's budget. They have also stepped up efforts to seek additional funding from development partners to meet the costs of the COVID response plan, estimated at US$150 million.

8. The Central Bank of Burundi (BRB) has continued to pursue accommodative monetary policy through lower interest rates and liquidity injections to boost credit flows to the private sector. The authorities are working closely with banks to encourage targeted and time-bound extension of loan maturities to borrowers in sectors that have been hard-hit by the pandemic. They will also continue to monitor loan performance to protect financial sector stability.

Relations with the Fund

9. The authorities are committed to enhancing relations with all partners to ensure the growth and development of the country. To this end, they are working with both the IMF and the World Bank to address data deficiencies through technical assistance. They continue to consult with staff and look forward to structured policy dialogue under the regular Article IV Consultations. Further, the authorities look forward to further Fund support under the RCF.

Conclusion

10. The authorities remain committed to ensuring medium term macroeconomic stability and look forward to continued Fund support in this respect. They are confident that support from the Fund will catalyze additional resources from development partners to help alleviate strains on the economy and address their urgent balance of payments needs.