The Dynamics of Fiscal Deficits in Burundi: An Exploratory Review

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Abstract: The major objective of this study is to undertake an exploratory review of fiscal deficits in Burundi during the period 1980 – 2017. Burundi emerged from conflict with large state and peacebuilding challenges, and extreme institutional and socio-economic deficits. Many years of conflict affected Burundi's productive capacity, policy and institutional capacity, and the ability to make meaningful public investments. While the country has undertaken various fiscal policy reforms, revenue growth has been lower than anticipated, and little progress has been achieved in improving public expenditure efficiency. Consequently, fiscal deficits remain large as a percentage of GDP. The study approach considers a systematic review of literature, reforms, and trends. Findings indicate that the major factors contributing to the persistently large fiscal deficits in Burundi include the following: low and volatile economic growth, small economic base with low incomes, large informal economy, and dominance of the primary sectors. In addition, conflict and fragility, large expenditure on military and peace operations, as well as dependency on aid have been identified as major determinants of fiscal deficits in Burundi. The authorities in Burundi should put in place strategies for operating a fiscal policy that is consisted with sustainable fiscal balances and maintenance of sustainable levels of public debt in line with the East African Monetary Union convergence criteria. To the best of the authors' knowledge, this is the first paper to provide a systematic review of the fiscal policy trends and reforms in Burundi.

Keywords: Fiscal policy; revenue; expenditure; conflict; Burundi

JEL Classification: E62; E62

1. Introduction

Burundi's macroeconomic performance has been invariably shaped by its failure to emerge from recurring cycles of internal political conflict (Nkurunziza and Ngaruko, 2008). Consequently, Burundi's economy has been characterised by fragility and instability since its independence in 1962. Overall, Burundi remains one of the poorest countries in the world and lags on many human development

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indicators. Poverty is ubiquitous. The World Bank estimates that close to 73 per cent of Burundians lived below the international poverty line of US$1.90 per day in 2014, nearly double the average for Sub Saharan Africa and other low-income countries (World Bank, 2018). With these development challenges, Burundi needs to realign fiscal policy to address growth, fragility, and vulnerability. However, fiscal space has been constrained by a combination of low economic growth, climate change induced natural disasters, and conflict that affected productivity (World Bank, 2018). With a low economic base and high military expenditures, the country has often found itself in fiscal crises, with rising fiscal deficits and large macro-fiscal imbalances (Ndikumana, 2001).

Many years of conflict have affected Burundi's productive capacity, policy and institutional capacity, and the ability to make meaningful public investments. These challenges resulted in an inability to mobilise sufficient revenues, low budget execution capacity, leading to recurring cycles of low growth. With a narrow economic base and limited potential for revenue mobilisation, the country did not have enough fiscal space to meet the large expenditure needs arising out of the large reconstruction needs, often leading the country to rely on inflation tax (Nkurunziza 2005). With weak institutions and governance structures, fiscal policy played a limited role in the resource mobilisation and allocation that would have facilitated a better economic trajectory. Fiscal deficits have traditionally been high in Burundi, although their magnitude has varied widely through the period of analysis. Grants, which averaged 17.3 per cent of GDP during 2010 – 2017, have increasingly played a major role in meeting the financing needs of the country.

Real GDP per capita growth has been low, constrained by low productivity and a high population growth rate. Consequently, improvements in incomes per capita have been minimal. Indeed, absolute real incomes per capita have been declining for the last three decades. Specifically, GDP per capita declined remarkably during the period 1990 – 2005, dropping by 35 per cent to $220 from $ 340 and only recovered slightly until 2014 when it reached a value of $244, before starting to declining again (figure 1). This drop highlights the effects of the conflict which eroded the productive capacity or the country, leading to loss of production bases.

The current account has been deteriorating, reflecting underperformance in the export sector, which is dominated by coffee and other primary commodities. Military expenditure relative to the size of the economy is high and rose substantially during the conflict years during 1990 – 2010.

Economic growth remains volatile due to dependence on the widely fluctuating agricultural sector, which constitutes about 46 per cent of GDP. Earlier studies have highlighted the country's vulnerability to exogenous shocks related to commodity exports, rain-fed agriculture, and volatile foreign aid (World Bank, 2013; Lim and Rugwabiza, 2009). However, Burundi's measured agricultural sector is dominated by coffee, and the volatility in coffee prices account for recent variations in growth, export performance and government receipts, which affect government finances. As an example, it is estimated that the 2005 drought limited real GDP growth to only 0.9 per cent (World Bank 2014). However, the economy has been more diversified recently, with the service sector, which accounts for 37 per cent of GDP, beginning to recover mainly due to growth in public services and, to a lesser extent, in the transport and trade sub-sectors. Burundi's industrial sector, which contributes about 17 per cent of GDP, is dominated by agricultural processing.

Despite the return of steadier growth and increases in external financing, large fiscal deficits (including grants) persisted, averaging 18 per cent of GDP during 2010 - 2017. Revenue raising efforts remained erratic even as the government increased spending on service delivery and expanded the public service. The situation was often not helped by policy inconsistencies and reversals, including failure to streamline tax subsidies and to broaden the tax base. To restore the fiscal base and improve tax collection, the Burundi Revenue Authority (OBR) was established in 2009. Further reforms intended to strengthen budget transparency and integrity included the creation of a court of audit, adoption of modern budget laws, and introduction of a single treasury account. These reforms, discussed in greater detail in the following section, were expected to improve fiscal outcomes and transparency in fiscal management in Burundi. The rest of the paper is structured as follows: section two discusses the fiscal policy reforms in Burundi. Section three presents the trends of fiscal deficits during the period 1980-2016. Section 4 discusses the determinants of fiscal deficits. Section five concluded.

2. Fiscal Policy Reforms in Burundi

The authorities in Burundi have undertaken various reforms intended to improve the fiscal position of Government. These reforms have focused on creating fiscal space for growth-enhancing investment by improving revenue and expenditure management, as well as overall budgetary quality and credibility. These reforms started with the structural adjustment program which broadly sought to improve production incentives by opening up the economy to market forces, promote private sector development, and increase the efficiency of fiscal policy. Five areas were targeted, and these included: public expenditure management; public enterprise reform; trade, industrial, and credit policies; agriculture; and labour policy and the social sectors. Second generation reforms included improving efficiency in expenditure and raising more domestic revenue.

2.1. The Structural Adjustment Program

The coffee boom starting in the early to mid-1970s had led to a period of relatively good performance and growth. During this period, Burundi also benefitted from increased foreign aid. However, starting in 1981, Burundi's economy faced serious economic and financial difficulties. Terms of trade shocks, caused by a decline in international coffee prices, oil price increases and weak capacity to oversee any meaningful adjustment policies, led to large budget deficits and a deteriorating balance of payments position (World Bank, 1988).

Faced with growing macro-fiscal imbalances, the Government took some adjustment measures at the end of 1983. The Burundi Franc was depreciated by 30 per cent against the U.S. dollar; producer prices of the main export crops were increased significantly; some tax rates were raised; public wages were frozen; and an effort was made to control both recurrent and capital expenditures policies (World Bank, 1988). In recognition of the serious economic consequences that could result from failure to correct the financial imbalances, the Government embarked in 1985 on the preparation of a major program of economic reforms. The program aimed at redressing the main financial imbalances, accelerating economic growth, diversifying the country's productive base, and reducing the economy's dependence on coffee.

With the assistance of the World Bank and the International Monetary Fund, preparation for the first Structural Adjustment Program began in May 1985, and the first measures were implemented in mid-1986. The government adopted a wide-ranging set of economic reforms broadly consistent with three major objectives: (i) reducing the budget deficit (ii) maintaining a sustainable balance of payments position; and (iii) containing inflation to about 5-6 per cent a year; and (iv) increasing credit to the private sector. The medium-term structural adjustment program was geared towards rationalising the incentive system through liberalisation of the economy and improving efficiency in resource allocation and utilisation.

With these reforms, the government aimed to achieve an average real GDP growth of 4 per cent per year, based on improved agricultural performance and expansion of the industrial sector. The domestic savings rate was expected to increase from 4 per cent in 1982-85 to 6-7 per cent during 1986-90, and the private sector was expected to emerge as the new engine of investment and growth. In the process, the Government implemented major changes in trade and industrial policies and took important steps to strengthen public expenditure management and rehabilitate the public enterprise sector.

These reforms were largely successful. The overall financial position of the government improved with revenues increasing by about 20 per cent in nominal terms and expenditures by 9 per cent. Subsequently, the overall deficit (on a cash basis and excluding capital grants) declined from 9.4 per cent of GDP in 1985 to 7.5 per cent in 1986. The balance of payments position improved as well, with the current account deficit reducing to 5.6 from 7.4 per cent of GDP per cent. However, coffee exports were adversely affected by lower-than-expected average prices and by transportation and marketing problems which prevented Burundi from exporting all its coffee production. Therefore, overall improvements in the external position were less favourable than envisaged under the Government's program. Foreign exchange reserves increased to 2.5 months of imports at the end of 1986, nearly twice the level at end-1985, but lower than the 4.5 months estimated under the program. The debt service ratio, as a proportion of exports of goods and non-factor services and private transfers, rose to 22.1 per cent, compared with the 16.3 per cent programmed, reflecting the weaker export performance rather than an increase in short-term debt.

In addition, the necessary steps were taken to improve the management of public expenditures. The first three-year rolling public expenditure program (PEP) was prepared in 1988, and the capacity to prepare and appraise projects was strengthened with World Bank support. The PEP focused on three pillars, meant to improve the overall environment for macroeconomic and fiscal policy management. These were: (i) accelerate the preparation of a comprehensive PEP (1989-91), paying attention to the economic justification of major projects and the adequate allocation of recurrent expenditures to priority programs; (ii) move into a single consolidated budget and improve the accounting system of the Ministry of Finance; and (iii) strengthen the project implementation and follow-up process.

2.2. Tax Policy Reforms in Burundi

The major reform in Burundi's reforms involved creating a semi-autonomous revenue authority (SARA). Subsequently, the Burundi revenue authority, officially known as the Office Burundais des Recettes (OBR), was established in 2009 by an act of parliament, under Article 6 of Law Number 1/11. Although the OBR is the agent for tax collection, the Ministry of Finance determines the tax policy. In the same year, the VAT was introduced, replacing the transactions tax (Ndoricimpa 2017). At the same time, a number of reforms were undertaken within the OBR in the years that followed its creation. These included: investment in IT systems, efforts to widen the tax base, and a drive to professionalize customs operations at the borders. With these actions, the creation of the tax authority was immediately successful. By 2012, taxes collected by the revenue authority rose to more than USD 350 million, 75 per cent more than in 2009 in real terms. Consequently, the contribution of tax revenues to GDP was 16.7% against 13.8% in 2009 (Holmes 2013).

2.3. Budgetary and Expenditure Reforms

The budgetary and expenditure reforms started with the adoption of the interim poverty reduction strategy paper in 2003, supported jointly by the World Bank and the International Monetary Fund. At the time, Burundi was emerging from conflict with huge state and peacebuilding challenges, and extreme institutional and socio-economic deficits. Focus was on promoting peace and good governance, reintegrating victims of conflict, ex-combatants, and their families; promoting sound economic growth to reduce poverty; expanding access to basic social services; prevention and mitigation of HIV/AIDS and other sexually transmitted diseases (STDs); and advancing the role of women in development (World Bank 2004).

Building on the interim PRSP, the first poverty reduction paper was published in 2006. While the implementation of the first PRSP brought remarkable progress in terms of macroeconomic stability and access to basic social services, the general pace of economic growth remained low and did deliver the expected poverty reduction dividend. In addition, the repercussions of the 2009 international economic and financial crisis greatly frustrated the efforts of the government, which had been forced to contend with previous shocks – the 2006-2007 energy crisis and the sharp rise in prices of staples from 2007-2009 –whose effects were still felt (World Bank 2007). A second PRSP was published in 2012 with a focus on growth and job creation as a basis for future poverty reduction programs (World Bank 2012). The development of the Growth and Poverty Reduction Strategy Papers, as well as focus on implantation of the Millennium Development Goals (MDGs) marked a significant turning point in the formulation of spending plans and constituted the basis of the first Priority Action Plan (PAP 2007-2010) for short-term and medium-term development (GoB, 2011).

The authorities in Burundi enacted a budget law in 2008. Rules on commitments were tightened and exception public spending procedures, which were used widely in the past, were brought under control. With these developments, most of the existing extra-budgetary accounts were closed or integrated into standard budget documents. The level of unreported extra-budgetary expenditures does not exceed 5 per cent of total expenditures. Consequently, budget execution rates improved significantly, rising from 81.4 per cent in 2006 to 97.6 per cent in 2013, with development spending showing the largest improvement, increasing from 45.9 per cent in 2006 to 85.4 per cent in 2013 (World Bank 2015).

The introduction of the Integrated Financial Management Information System (IFMIS) in 2006 improved budget monitoring and internal control systems. Following these reforms expenditure commitments were aligned with projected cash flows with the setting up of commitment ceilings for each line ministry on a quarterly basis. Internal budgetary controls were further improved in 2012 with the appointment of controllers of committed expenditures in three pilot ministries, including in health, education, and agriculture (World Bank 2013).

Authorities in Burundi gradually introduced the Medium-Term expenditure framework (MTEF), aligning the PRSP priorities to the budget. Starting in 2011, the central MTEFs consistent with the macroeconomic framework are used in the preparation of the budget. This involves making three-year forecasts of fiscal aggregates on a rolling annual basis through the central MTEF and Medium-Term Budgetary Framework (MTBF). As a result of these initiatives, the composition of public expenditure has significantly improved toward priority sectors, including education, health, and agriculture (World Bank 2013). Medium-term budgeting was introduced through the 2012 Decree on Budgetary Governance, based on three documents: The Medium-Term Budgetary framework (MTBF), the Medium-Term Financial Framework (MTEF) and the Background to the Budget (UNICEF, 2017). Table 2 summarises the key fiscal policy reforms undertaken in Burundi since 1980.

On the basis of the extensive reform agenda that was undertaken by Burundi authorities, the country was awarded in January 2009 HIPC debt relief worth USD 832 million (Specker et al. 2010). Despite these reforms, many challenges for prudent fiscal management remain, especially in the area of cash management, public accounting, and external budget control. The Treasury Single Account was introduced starting from 2010, starting a process of consolidating and unifying government's banking arrangements to ensure that transfers are easily traceable, and enabling the Ministry of Finance to monitor the government's cash flows better. However, the process of effectively integrating all relevant accounts and of creating safeguards against the creation of new separate accounts was much slower, limiting progress on short-term cash management (World Bank 2013). As a result, weaknesses persist in the execution and control of the expenditure chain, with significant accumulation of arrears (IMF 2014). While a consolidated Government statement is prepared annually, with information on revenue and expenditure, the public accounting information remains weak with account balances often incomplete.

Table 1. Summary of Key Fiscal Policy Reforms in Burundi

Year	Reform
1985	Burundi embarks on structural adjustment program
1988	First Public Expenditure Program (PEP) prepared
2003	Interim Poverty Reduction Strategy Paper (PRSP) prepared
2006	First Poverty Reduction Strategy Paper (PRSP) prepared
2006	Integrated Financial Management Information System (IFMIS) introduced
2007	First Priority Action Plan (PAP) prepared
2008	Budget law enacted
2009	Burundi Revenue Authority established
2009	VAT law enacted
2010	Treasury Single Account (TSA) introduced
2011	Medium-Term expenditure framework (MTEF) introduced
2012	Second Poverty Reduction Strategy Paper (PRSP) prepared

Source: Author review of literature

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3. Fiscal Deficit Trends in Burundi

Fiscal deficits have varied widely during the period of study, but the trends provided in figure 2 suggest four distinct periods of note. The first period corresponds to the ten years during 1980 – 1990. The second period corresponds to the six years during 1991 – 1995. The third period corresponds to the five years during 1996 – 2000. The fourth period corresponds to the period during 2001 – 2017.

The period during 1980 – 1989 represents Burundi's best performance. Fiscal deficits, which averaged 15 per cent of GDP during this period, were low and stable. At the same time, GDP performance was high but volatile, reaching 12 per cent between 1981 and 1985. During this time, fiscal deficits were contained partly due to a slowdown in public investments, as well as due to the structural adjustment measures undertaken starting from 1983 (World Bank 1988). Overall, the government financial position improved with expenditures declining from 31 per cent of GDP in 1980 to 25 per cent in 1988. Consequently, the fiscal deficit declined to 7 per cent of GDP from 14 per cent of GDP over the same period.

During the period 1991 – 1996, fiscal deficits widened rapidly as government expenditure accelerated. This period coincided with the onset of the civil war in 1993 which led to a rise in peace and military spending to an average of 3.8 per cent of GDP from an average of 2.9 per cent of GDP during 1985 – 1990. At the same time, the civil conflict led to near total destruction of the social and economic infrastructure. Owing to the effects of conflict, real economic growth rates were negative and averaged -3.2 per cent during that period.

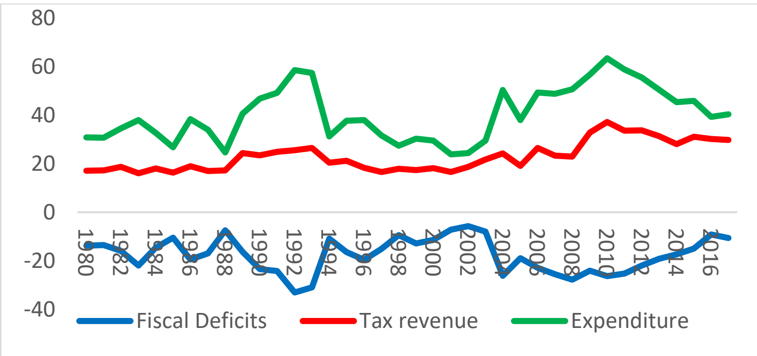

Figure 1. Trends in Government Revenue, Expenditure, and Deficits (% GDP)

Source: Author construction using World Bank, IMF, and ICTD datasets

During the period 1995 – 2000, the fiscal position improved somewhat, even as revenues declined from 21 per cent of GDP in 1995 to 18 per cent in 2000. The decline in revenues was offset by a corresponding decline in expenditures from 38 per cent of GDP in 1995 to 30 per cent, with the overall effect being that the overall government fiscal balance improved by five percentage points from -16 per cent of GDP to -11 per cent of GDP.

During the period 2001 - 2017, the fiscal deficit widened considerably despite improved revenue performance. The Arusha Peace agreement signed in 2000 had led to a period of relative peace following a debilitating conflict. However, new fiscal pressures soon emerged including efforts to resettle and reintegrate refugees (IMF 2014). At the same time, increased expenditure pressures arose from government efforts to demobilize and reintegrate former combatants into the national security forces as well as a reconstruction agenda that focused on poverty reduction and social service delivery (Ndoricimpa 2017). Consequently, current expenditure on salaries increased as the civil service expanded. Between 2005 and 2010 expenditure on salaries increased by more than 80 per cent in real terms as the number of civil servants increased by more than 50 per cent (IMF 2011). Efforts to increase revenues did not match the increase in expenditure, despite efforts to widen the tax base and improved tax revenue effort. The fiscal deficit excluding grants widened from 11 per cent of GDP in 2008 to 27 per cent of GDP in 2008, before starting to decline as the country embarked on fiscal consolidation reforms.

4. The Determinants of Fiscal Deficits in Burundi

The main drivers of fiscal deficits in Burundi are related to the conflict and the political turmoil that perpetuated large military and security expenditures and to the structure of the economy with a large informal economy and low per capita incomes. These factors can be summarized as structural factors, policy and institutional factors, and the effects of civil war. In a persistently fragile political, economic, and social environment, military expenditures have necessarily and historically been high in Burundi, crowding out investments in the rest of the sectors. While this meant that economic growth was much slower, it also resulted in increased reliance on official development assistance to meet the investment gaps in the social sectors and basic infrastructure (Nielsen and Madani 2010). With a low economic base, sources of domestic revenue were always meagre. These factors largely explain the evolution of fiscal balances in Burundi.

In the 1980s and early 1990s, Burundi experienced large budget deficits. In the ten-year period Between 1980 - 1989 fiscal deficits averaged 15 percentage points of GDP. During the ten-year period between 1990 – 1999 fiscal deficits decreased, averaging 19.58 percentage points of GDP, with these deficits reaching 33.1 percentage points of GDP in 1992 before gradually declining and reaching 12.87 per cent in 1999. To meet higher spending, the government authorities often resorted to higher monetary financing of the deficit and keeping interest rates artificially low to ease government borrowing from the banking sector (IMF 1997). The monetization of the deficit often added upward pressure on prices, which were already under pressure from supply-side constraints due to bottlenecks in production and international trade.

Burundi embarked on compressive structural adjustment policies in 1991 aimed at strengthening economic performance and restoring macroeconomic stability. However, the reforms were short lived as the country plunged yet again into political turmoil following the assassination of President Ndadaye in 1993. The macroeconomic instability that followed led to a sharp pressure on prices, with inflation increasing from 7 per cent in 1990 to 31 per cent in 1999 and remained in double digits up to 1998. Military expenditure, which had averaged 3 per cent as a percentage of GDP during 1980 – 1989 rose and averaged 4.77 per cent during 1990 - 1999. The dire macroeconomic situation was exacerbated starting in 1996 when Burundi's regional neighbouring countries and the international community imposed a total economic embargo on the country following a military coup. By the year 2010, the fiscal deficit had soared to 26.10 per cent, mainly on account of high military expenditures, low economic growth, and a limited base for domestic revenue mobilisation.

The Government's prudent fiscal policy led to the reduction of fiscal deficit to about 14.2 per cent of gross domestic product (GDP) on average during the five years from 2013 to 2017. According to the World Bank (2018), a series of measures contributed to this performance, including the improvement of the allocation of the budget (efficiency) toward growth and poverty reduction sectors and progress toward controlling the size of the wage bill (civil services and army forces) and purchases of goods and services through the budget. In a context of gradually declining aid, another important measure was domestic revenue mobilisation reforms through the creation of the Burundi Revenue Office (Office Burundais des Recettes, OBR). Monetary and exchange rate policy by the Central Bank were also critical to keep the inflation in check and promote exchange rate flexibility to mitigate the impact of shocks on the economy (World Bank, 2018).

Ndikumana (2001) argues that Burundi runs high public deficits because of the low tax base and institutional weaknesses that constrain tax revenue mobilisation. Moreover, conflict and ethnic tensions disrupt economic activity, eroding the tax base, lead to misallocation of the budget, including increased expenditures on the military and security sectors, and weaken state capacity, and drive including in fiscal policy management. These factors lead to the deterioration of fiscal deficits Ndikumana (2001). Figure 3 shows that fiscal deficits have been procyclical, reducing during economic downturns, and rising during the period of positive economic growth.

Growth has been consistently low, and this has affected fiscal policy in Burundi. Unfortunately, Burundi's immediate post-colonial history was dominated by military dictatorships. During the period 1960 – 2000, Burundi's GDP per capita fell from about 620 dollars to 370, signifying the debilitating effects of conflict. Consequently, Burundi remains one of the poorest countries in the world and lags its East African neighbours. Average per capita consumption is only US$270 per year, placing Burundi at the bottom of the low-income category (World Bank 2018). Poor governance has suffocated innovation and entrepreneurship, frustrating sector development and diversification of the economy. Moreover, the creation of state-owned public enterprises that were badly governed created additional layers of corruption, bureaucratic expansion, and predation that benefited from the public resources, which affected budget deficits (Nkurunziza and Ngaruko 2002).

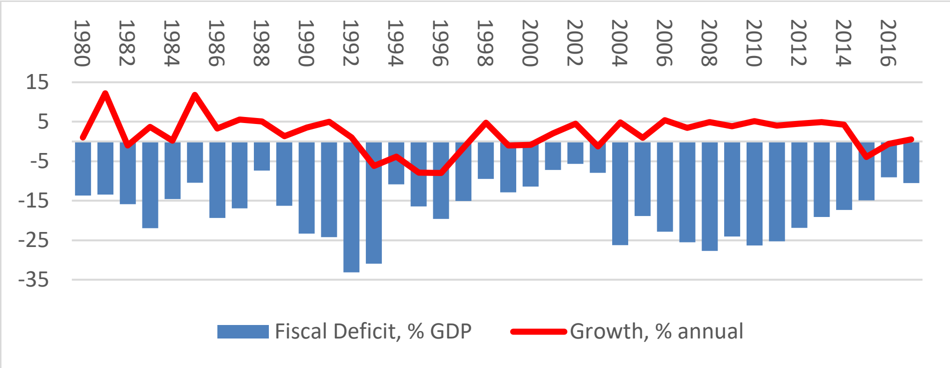

Figure 2. Fiscal Deficits And Growth In Burundi, % GDP

Source: Author Construction Using World Bank, IMF, and ICTD Datasets

The Ministry of Finance and Economic Development Planning oversees fiscal policy development and implementation. The budget is the main tool for fiscal policy implementation as it lays down the revenue and expenditure plans and priorities, as well as sources of revenue. One of the major challenges in Burundi has been the management of public expenditures. According to Ndikumana (2001), fiscal policy in Burundi has been shaped by three factors: the structure of the economy, policy and institutional factors, and the effects of civil war.

The two major structural factors that constrain tax revenue mobilisation in Burundi are related to the level of development with low levels of development with low per capita incomes, a large informal economy, and dominance of the primary sectors. In Burundi, incomes are so low that taxation without discouraging consumption, savings, and investment is difficult. With the services sectors dominated by small, informal, and unproductive firms, the manufacturing and agricultural sectors are the key sources of tax revenue. Taxes on good and services, which constitute over 50% of total tax revenue have continued to play a major role (table 3). The experience of Burundi is consistent with recent research which shows that countries that operate closer to their tax potential have high levels of income, large shares of non-agricultural output, smaller shares of rural populations, and low corruption scores (Fenochietto and Pessino, 2013; Mawejje and Sebudde, 2019).

However, the importance of trade taxes is gradually diminishing as domestic taxes start to play an important role. This has been made possible by the reforms, including the institution of the Office Burundais des Recettes (OBR) which is mandated with collecting domestic revenue, improving efficiency and ensuring compliance in tax administration. In addition, the shift of domestic revenue from international trade reflects the effects of trade liberalization characterized by a systematic decline in tariff rates, particularly for products originating from within Burundi's regional trading blocs.

The third factor that contributes to the fiscal revenue crisis in Burundi is the civil conflict which has disrupted economic activity, trade, and led to the erosion of the tax base. The economic sanctions on Burundi following the 1996 military coup had severe effects on government revenue by reducing the volume of international trade. Recent research shows that that government changes during periods of conflict are related to steep rises in the fiscal deficit (Dalyopy 2017). Owing to the prolonged conflict, the authorities usually faced a tradeoff between allocating funds between military expenditures and service delivery Ndikumana (2001). Thus, the conflict and dominance of the military have been an important determinant of fiscal outcomes in Burundi.

5. Conclusion

Burundi emerged from conflict with large state and peacebuilding challenges, and extreme institutional and socio-economic deficits. Many years of conflict affected Burundi's productive capacity, policy and institutional capacity, and the ability to make meaningful public investments. These challenges resulted in an inability to mobilise sufficient revenues, low budget execution capacity, leading to recurring cycles of low growth. With a low economic base and high military expenditures, the country has often found itself in fiscal crises, with rising fiscal deficits and large macro-fiscal imbalances. The country embarked on a reform process, starting with the adoption of the poverty reduction strategies that were meant to better align fiscal objectives to the development needs of the country. Subsequent reforms have focused on improving revenue mobilisation and improving the efficiency of budgets. While these reforms have started to yield some positive results, such as improved revenue collection and congruence in budget execution, challenges still remain, particularly in the execution and control of the expenditure chain, which often result in the accumulation of arrears. Fiscal deficits are linked to the structure of the economy with large informal sectors, large military spending, low levels of development and incomes, weak institutions, a non-diversified economy with a large reliance on commodity exports, as well as weak growth that has characterised the post-conflict period. The authorities in Burundi should put in place fiscal strategies for operating a fiscal policy that is consisted with sustainable fiscal balances and maintenance of sustainable levels of public debt in line with the East African Monetary Union convergence criteria.

Table 3. Burundi Fiscal Operations, % GDP

	2010	2011	2012	2013	2014	2015	2016
Revenue and grants	37.3	35.9	31.4	30.0	26.7	19.5	18.0
Tax revenue	13.7	14.2	13.6	12.3	13.7	12.1	12.3
Taxes on income	4.4	4.4	4.3	3.9	2.8	2.5	2.9
Taxes on goods and services	7.8	8.3	7.9	7.2	8.0	7.6	7.3
Taxes on international trade	1.6	1.5	1.4	1.2	1.1	1.1	0.9
Nontax revenue	0.9	1.1	1.0	0.9	1.7	0.9	1.2
Grants	22.7	20.6	16.9	16.8	13.0	9.4	5.7
Total Expenditures	41.0	39.8	35.1	31.9	30.1	26.7	23.6
Current expenditures	29.0	24.3	21.9	19.2	18.8	18.8	16.1
Compensation of employees	8.6	8.6	7.8	7.0	6.6	6.7	7.2
Development expenditures	12.0	15.5	13.2	12.7	11.4	7.8	7.4
o/w domestically financed	2.0	3.5	2.5	2.3	2.0	2.4	2.5
Fiscal deficit excluding grants	-27.3	-25.6	-21.5	-19.6	-16.4	-14.6	-11.3

Source: IMF and World Bank data

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