

## **Evolution of the Exchange Rate Regime**

Founded in May 1964, the BRB has maintained the exchange rate regime set up by the Belgian trusteeship until February 1965. This scheme was based on a dual exchange rate:

- First official parity rate of BIF with the Belgian franc applied to the operations of a particular economic interest, such as exports, imports of basic necessities or foreign currencies for the state spending.
- Secondly, a free variable rate according to fluctuations in the currency market, applied to other transactions.

Faced with the serious drawbacks of this regime, particularly in the price fixing, it soon became apparent that a reform of the exchange rate regime is required. This scheme has evolved as follows:

### **A. Monetary Reform February 1965**

A single exchange rate was set at 1.75 BIF for 1 Belgian franc on February 11, 1965.

The Belgian franc continued to serve as reference currency for the calculation of exchange price of other officially listed currencies until April 21, 1970, date in which the BIF was attached to the USD with the official parity of 87.50 BIF for a dollar.

### **B. International Monetary crisis 1971-1973**

Burundi could not escape the consequences of the international monetary crisis which was marked by the gold convertibility of the dollar decided on August 15, 1971 by the United States.

The almost generalized practice of floating exchange rates subsequent to this crisis was the basis for negotiations leading to the Washington Agreement of December 18, 1971 particularly concerning a devaluation of the U.S. dollar of 8.57 pc. The BIF was maintained at the nominal parity 87.50 BIF for 1 dollar, a devaluation of same magnitude as the currency of attachment.

The new international monetary crisis of early 1973 which led to a new devaluation of the USD of 10 pc did not affect the Burundian currency. Indeed, the Government decided on 22 February 1973 to maintain the gold parity of the BIF. Consequently, the parity of the BIF against the dollar went from 87.50 to 78.75 for 1 USD.

### **C. Monetary Adjustment of May 3, 1976**

The new USD / BIF parity set on 22 February 1973 was maintained for three years. A new parity was arrested at 90 BIF for 1 USD as of 3 May 1976, roughly at the rate in effect before February 1973. This measure qualified of "monetary adjustment" meets the need to restore a realistic rate of BIF against the currencies of major trading partners.

The correction of the exchange rate is also justified by the adjustments that had neighboring countries and that resulted in disruption of border trade detrimental to Burundi.

### **D. Devaluation of 23 November 1983 and attachments of the BIF to SDR**

The deteriorating economic and financial situation of 1982 and 1983 which manifested mainly by large fiscal deficits and balance of payments leading to a dramatic decline in foreign exchange reserves led to consider adopting a policy of economic stabilization. The Central Bank then suggested as a prerequisite for policy changes in the exchange rate regime.

In fact, 23 November 1983, the Burundian franc was the subject of a devaluation of 30 per cent and was attached to the Special Drawing Right at the rate of 122.7 BIF for 1 SDR. Given the continued rise of the dollar against other major currencies for nearly four years, the attachment to this currency had induced a significant appreciation of the BIF.

#### **E. Easing of exchange rate policy**

The new exchange rate was maintained until 10 July 1986, the date from which intervened, in the framework of the Structural Adjustment Programme (SAP), a series of successive adjustments to gradually correct appreciation of the real effective exchange rate of the BIF compared to its 1980 level that the adjustment of November 1983 had not resolved.

The comprehensive program of economic recovery adopted from the second half of 1986 included among other measure, the implementation of a flexible exchange rate policy that tend to better reflect the real value of the currency in order to facilitate adjustment of external position. Thus, after a July 15, 1986 devaluation of 14.9 pc (1 SDR = 141 BIF) came a series of monthly adjustments of lesser magnitude which continued until March 1987 which brought one DTS to 161 BIF.

Adjustments have resumed 25 February 1988 with a first slip by 10 pc (1 SDR = 177.1 BIF). Thus, on 1 August 1988, the DTS / BIF parity stood at 201 BIF for 1 DTS.

Other adjustments that have occurred have led the BIF to 273.1 BIF for 1SDR on 9 August 1991.

#### **F. Pegging the BIF to a basket of currencies**

Since April 1992, the BIF is no longer attached to the SDR. Its rate against the U.S. dollar is determined by the evolution of a basket of currencies (ECU, USD & Japanese Yen).

The BIF continued to slide to stand at 261.4057 a SDR in late December 1991.

The various adjustments made during 1993 (7 pc), 1995 (12 pc), 1996 (9 pc) and 1997 (15 pc) brought the BIF to 408.4 against 264.4 for 1 USD at 31 December 1993.

Thereafter, the BIF was adjusted from 25.8 pc in 1998 and 9 per cent in 1999.

Ultimately, the price of BIF stood at 505.2 and 629.0 BIF for 1USD respectively at 31 December 1998 and 31 December 1999.

#### **G. Establishment of a dual exchange rate regime in November 1999**

The freezing of international financial cooperation and the decline in export revenues constituting the negative impact of the socio-political crisis known in Burundi since 1993.

The difficult economic situation characterized by the lowest exchange reserves following the socio-political crisis compounded by the freezing of financial cooperation level in November 1999 led to the introduction of a dual exchange rate regime. Thus the Bank of the Republic of Burundi decided to set up a second window for sale and purchase of foreign exchange by commercial banks.

Importers of staple products were served at the counter of the BRB called the first wicket. For other products, currencies were bought at the counters of commercial banks (or the second window) to a freely negotiated rate. Therefore, the problems of managing two windows required an appropriate solution.

## **H. Reform of the exchange rate in July 2000**

To correct the distortions caused by the system of multiple exchange rate system and proceed with the unification of the three exchange rates (1st window, second window and the parallel market rates), it was introduced a foreign exchange auction market. The participants in this market are the BRB that sold as well as commercial banks and exchange bureau bought who purchase.

At the start of this market, July 4, 2000, the BIF has been adjusted by 15 per cent and the rate increased from 653.2 to 753.7 BIF for 1 USD. In principle, the market was held once a week.

At the close of each auction session, it emerged a rate that served as a reference for all transactions.

Over time this market has undergone adjustments described below:

### **April 2009: Symmetric Auctions Forex Market (MESD) replaces the MED**

- This market is held in the BRB every working day;
- the BRB decides on the amount of its participation to purchase or sell currencies;
- Clear marginal price is applied to all bids and serves as reference to the BRB and approved intermediaries in the determination of exchange rate applicable to transactions of the day.

### **March 2012:**

- The MESD is held now twice a week( Tuesdays and Fridays);
- The currencies are allotted at the rates offered;
- Reference rate is the weighted average rate calculated on basis of operations of purchase and sale of foreign currency handled the previous day by commercial banks.

### **February 2013**

- The MESD bids must be accompanied by supporting documents of projected needs in the week;
- The margins applicable to operations of purchase and sale of foreign currency must be contained within a floor / ceiling of 1% around the reference price published by the Central Bank;
- Reference rate is the weighted average rate calculated on basis of operations of purchase and sale of foreign currency handled the previous day by commercial banks.

### **April 2013: Establishment of MID**

- the MESD is replaced by the MID (Interbank foreign exchange market) which is held every working day instead of two days per week and is localized;
- exchange offices are no longer authorized to buy foreign currency from the banking system;
- any bank in excess liquidity is required to sell its currency only on the MID;
- Reference rate is the weighted average rate calculated on basis of operations of purchase and sale of foreign currency handled the previous day by commercial banks.