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Burkina Faso: Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Deletion of Performance Criteria—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Burkina Faso

In the context of second review under the three-year arrangement under the Poverty Reduction and Growth Facility, requests for a waiver of nonobservance of a performance criterion, and deletion of performance criteria, the following documents have been released and are included in this package:

- The staff report for Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, Requests for Waiver of Nonobservance of Performance Criterion, and Deletion of Performance Criteria, prepared by a staff team of the IMF, following discussions that ended on April 2, 2008, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 12, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World Bank debt sustainability analysis.
- A Press Release summarizing the views of the Executive Board as expressed during its June 30, 2008 discussion of the staff report that completed the review.
- A statement by the Executive Director for Burkina Faso.

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

Letter of Intent sent to the IMF by the authorities of Burkina Faso*
Memorandum of Economic and Financial Policies by the authorities of Burkina Faso*
Technical Memorandum of Understanding*
Poverty Reduction Strategy Paper
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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BURKINA FASO

Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Waiver of Nonobservance of Performance Criterion, and Deletion of Performance Criteria

Prepared by the African Department
(In consultation with other departments)

Approved by Thomas Krueger and Tessa van der Willigen

June 12, 2008

- **PRGF Arrangement:** The three-year PRGF arrangement was approved on April 23, 2007, with access of SDR 6.02 million. On January 9, 2008, the Executive Board approved SDR 9.03 million additional access (15 percent of quota), to help address the impact of higher oil prices and the adverse shock to cotton. Outstanding loans amount to SDR 27.23 million (45.2 percent of quota).

- **Program Review:** This report recommends completion of the second review of the PRGF arrangement based on Burkina Faso's performance and understandings reached on the macroeconomic and structural program.

- **Mission:** March 19–April 2, 2008, in Ouagadougou. The mission met with Minister of Finance and Economy Jean-Baptiste Compaoré; Central Bank of West African States (BCEAO) National Director Bolo Sanou, other ministers and senior officials, and representatives of the private sector, labor unions, nongovernmental organizations, and development partners. The mission overlapped with the FSAP and a World Bank mission.

- **Staff team**: Messrs. Funke (head), Basdevant, Gottschalk, Yartey (all AFR) and Zejan (resident representative). Mr. Tall (OED) attended the meetings.

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Appendices

List of Acronyms

BCEAO	Bank of West African States
CPIA	Country Policy and Institutional Assessment
DSA	Debt Sustainability Analysis
FSAP	Financial Sector Assessment Program
ICAC	International Cotton Advisory Committee
LTO	Large Taxpayer Office
MCC	Millennium Challenge Corporation
MEFP	Memorandum of Economic and Financial Policies
MTO	Medium Taxpayer Office
NPV	Net present value
PC	Performance criterion
PFM	Public financial management
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
REER	Real effective exchange rate
SOFITEX	Société Burkinabè des Fibres Textiles
SONABHY	Société Nationale Burkinabè d'Hydrocarbures
SONABEL	Société Nationale D'Électricité du Burkina
SSA	Sub-Saharan Africa
VAT	Value added tax
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook

Executive Summary

Though the external environment is difficult, fiscal developments and structural policies were broadly in line with program targets.

Economic developments: Adverse terms of trade shocks and weather conditions in 2007 slowed GDP growth to 4 percent, and growth is expected to remain below trend in 2008. Because of both oil and food price developments, inflation increased significantly in early 2008, reaching 7.7 percent (year-on-year) in April, and is expected to stay high until the domestic and international price pressures abate.

Program performance: All quantitative performance criteria (PCs) were met. The indicative floor on social expenditures was not achieved, mainly because of capacity weaknesses in implementing capital expenditures, which the government is addressing. The implementation of the tax and customs administration agenda was broadly in line with the program. Staff supports the authorities' request for a waiver for the nonobservance of a continuous structural PC on sending notification letters within one week to late and nonfilers of tax returns, as the substance of the measure was achieved. Staff also proposes to transform this PC as well as the PC on non-accumulation of domestic arrears into indicative targets, while modifying other conditionality in the tax reform area with the objective of supporting a well-sequenced reform agenda.

Priorities: The authorities need to adjust to a more challenging economic outlook. The program includes measures to consolidate progress in tax and customs administration and reform tax policy. Medium-term fiscal consolidation needs to be a priority, as the risk of debt distress is rising. Further structural reforms, especially in the cotton and financial sectors, will also be important. In the cotton sector, priorities include following-through on plans to find a strategic partner for the largest ginning company (SOFITEX) and working with the World Bank on improving productivity of cotton production. In the financial sector, better managing financial risks related to cotton financing, reducing constraints to bank lending, and strengthening microfinance supervision will be key.

Risks: Risks relate mainly to a further deterioration of the external environment, e.g., continued increases in food and oil prices, which could also jeopardize social peace, and further delays in raising domestic revenue.

I. RECENT DEVELOPMENTS, PROSPECTS, AND PROGRAM IMPLEMENTATION

1. **Economic developments since mid-2007 were somewhat worse than the first review expected, and near-term prospects are challenging**:

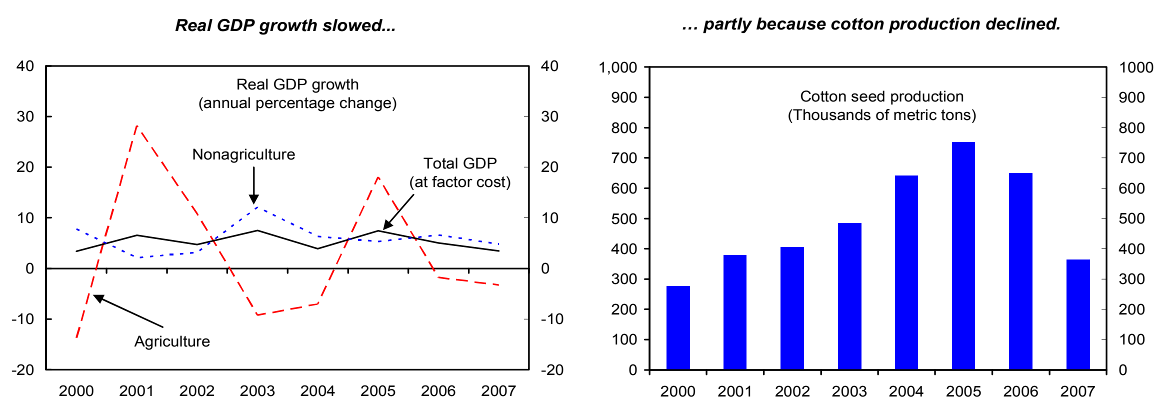
- Real GDP growth eased as cotton production declined by over 40 percent in 2007 (Figure 1) because of late rainfalls, low cotton prices, and a late announcement of producer prices. At the same time, surging oil prices and the strengthening of the euro put pressure on competitiveness. However, growth in other sectors, such as mining and construction, was robust.

- Inflation is rising (7.7 percent year-on-year in April), partly tracking food prices (16.8 percent) (Figure 2).

- The near-term outlook is mixed, in line with projections for the region (Figure 3). While growth should be supported by a rebound in cotton production and the opening of several gold mines, continued high food and oil prices dampen growth prospects. If international food and oil prices stabilize (at a high level), inflation is expected to abate.

- The main risks to the outlook are a deteriorating external environment and the impact of rising food and energy prices on social cohesion.

Figure 1. Burkina Faso: Real Sector Indicators, 2000–2007



Sources: Burkinabè authorities and IMF staff estimates.

2. **On the social and political front, rising food prices led to demonstrations and general strikes, most recently in May**. Due to the lack of well-developed social programs, the government responded with several short-term measures (Box 1).

Box 1: Government Response to Rising Oil and Food Prices

The increase in inflation reflects global commodity price pressures and floods that affected a third of the provinces in Burkina Faso.

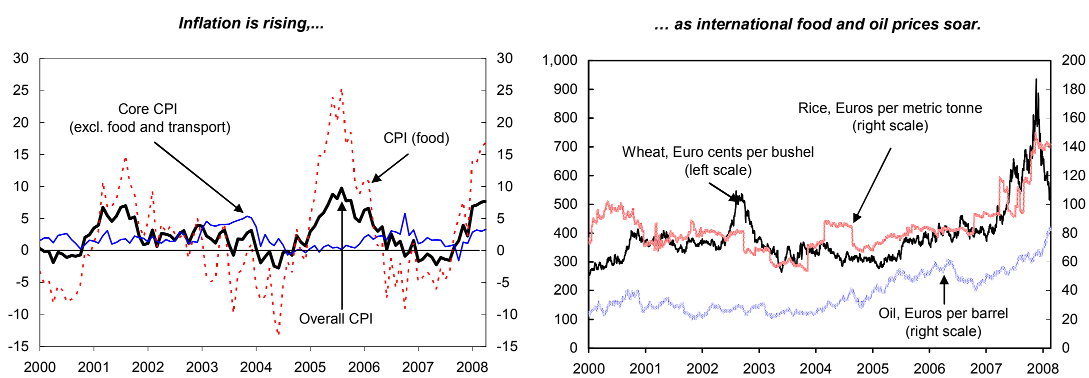
Government Responses:

- Temporary suspension of the automatic oil price mechanism
- Provision of food aid using food reserves
- Temporary exemptions (initially for three months, later extended to six) from custom fees and VAT for a few basic products
- Indicative prices for these goods based on import prices and "reasonable" margins.

Economic Impact:

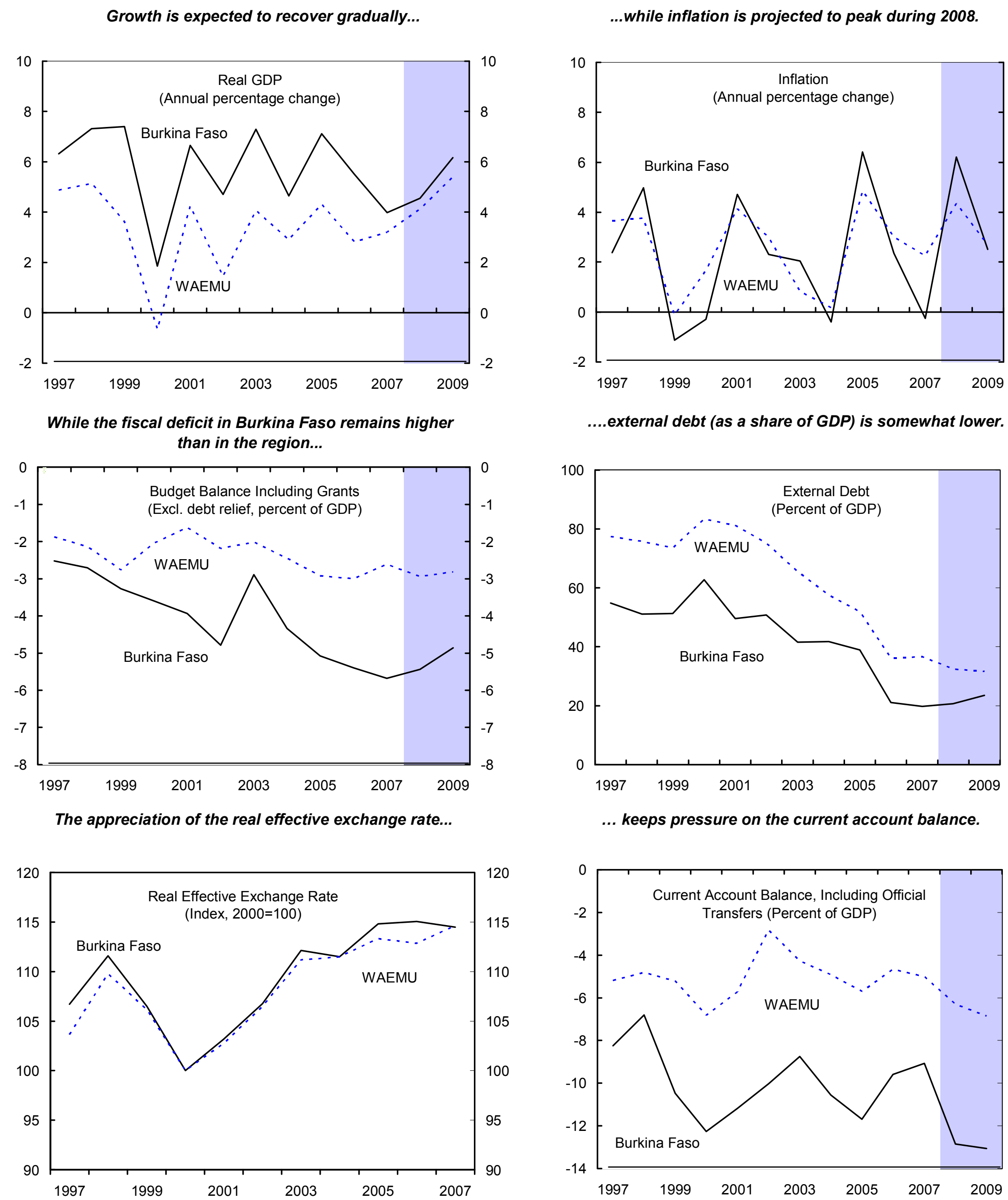
The estimated loss in revenues from temporary exemptions is about 0.3 percent of GDP. At current oil and food prices, the current account deficit will widen by about 3.0 percentage points.

Figure 2. Burkina Faso: Inflation and Commodity Prices, 2000–08



Sources: Burkinabè authorities and Datastream.

Figure 3. Burkina Faso and WAEMU: Macroeconomic Developments and Short-term Outlook, 1997–2009



Sources: Burkinabè authorities, World Economic Outlook, and IMF staff estimates and projections

3. **Burkina Faso met key program targets and performance under the PRGF-supported program since the first review was generally good (Text Table 1)**:

- All quantitative targets for end-December 2007 were met except for the floor on social expenditure. Government efforts to reinforce tax and customs administration helped to mobilize revenues, which increased by 0.6 percent of GDP to 13.6 percent of GDP. While current expenditure was marginally higher than programmed, the authorities faced problems in executing domestically financed capital expenditures. Poverty reducing capital expenditure was some CFAF 20 billion below program targets. The authorities are working on a functional classification and a better tracking mechanism, which will allow a more complete assessment as well as better measurement and programming of poverty-reducing expenditure. A limited system will be available later in 2008, the full system in 2009/10 (MEFP ¶10).

- The structural reform agenda progressed. In tax administration the late and nonfiler rate for VAT and corporate income taxes decreased to less than 7 from about 12 percent in early 2007. However, the large taxpayer office was not always able to send automatic reminders to all late filers and nonfilers within one week after the declaration deadline (structural PC). In early March, the computer systems of the Ouagadougou and Bobo Dioulasso offices were connected, facilitating notification (MEFP ¶5).

II. Economic and Structural Policies for 2008 and 2009

A. Overview

4. **The PRGF-supported program is in a challenging phase**. The authorities and staff agreed that trade-offs between adjustment and short-term political pressure and social cohesion needed to be carefully balanced. There is a need to progress in tax and customs administration. Preparation for broad-based tax policy reform is vital but will take longer than expected and require adjustment of program targets.

B. Macroeconomic Policy

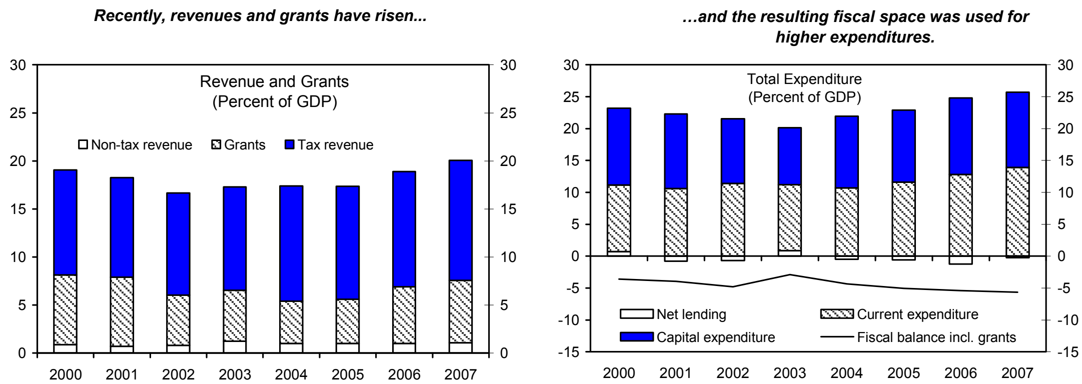
5. **The first review fiscal deficit target for 2008 (as a share of GDP) is still appropriate**. With strict expenditure control the deficit target leaves some room to accommodate additional social measures. The authorities agreed that some fiscal tightening would be warranted if rising inflation fuels expectations. Additional donor aid for targeted support would be desirable, particularly if the food situation worsens.

Text Table 1. Burkina Faso: Status of Previously Agreed End-2007 and 2008 Structural Conditionality

Measure	Timing (tentative)	PC/ Benchmark	Implementation
Tax policy			
Submit single tax code to parliament consolidating all tax legislation.	December 31, 2007	Benchmark	Met
Cabinet approval of comprehensive tax policy reform strategy.	April 30, 2008	Benchmark	Not met, expected by September
Submit to parliament a draft 2009 budget that includes tax policy measures consistent with the reform program.	September 30, 2008	Benchmark	Benchmark eliminated, new set of benchmarks introduced for new timeline of tax reforms (MEFP text table 1)
Submit a comprehensive tax policy reform program to parliament.	December 31, 2008	Benchmark	Delayed until 2009, as part of the new timeline for tax policy reforms
Tax administration			
Use Syntax to generate a list of LTO late filers and nonfilers for the main tax categories and send reminders within a week after the declaration deadline.	February 1, 2008 (start date)	Continuous PC	Not met, but substance achieved
Harmonize VAT thresholds for large, medium, and small taxpayers and subject small taxpayers to simplified taxation instead of VAT, in line with Fund recommendations.	June 30, 2008	Benchmark	Delayed until 2009, to allow for harmonization with WAEMU (MEFP¶12)
Customs administration			
During the third quarter of 2008, assign at least 50 percent of customs declarations to the green and blue channels and keep the percentage of declarations thus selected but assigned for further controls by individual inspectors to less than 10 percent.	September 30, 2008	Benchmark	Delayed until December, with revised threshold to address revenue concerns (MEFP¶14)
Public financial management and governance			
Introduce a comprehensive system for tracking poverty-reducing expenditures.	June 30, 2008	Benchmark	Delayed, benchmark for end-September to introduce partial system (MEFP¶10)
Develop an action plan for improving the effectiveness of ex ante expenditure controls, including elimination of redundant procedures.	December 31, 2008	Benchmark	Expected to be met
Cotton sector			
Secure government approval of liberalization strategy for Sofitex in collaboration with World Bank.	December 31, 2007	Benchmark	Met

Sources: IMF Country Report No. 08/168, IMF staff assessment.

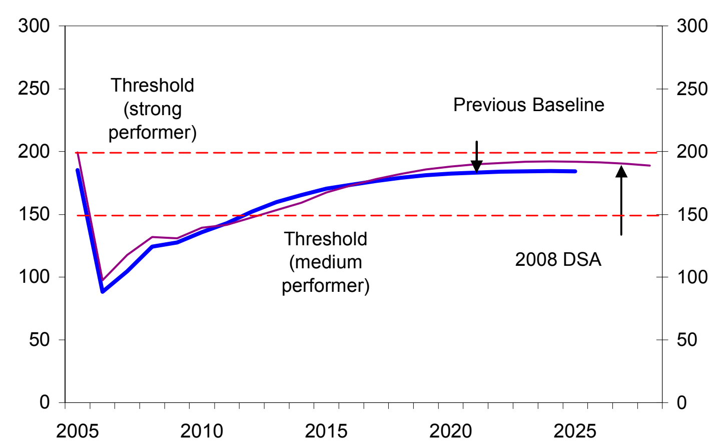
Figure 4: Burkina Faso: Government Revenue and Spending Indicators, 2000–07



Sources: Burkinabè authorities; and IMF staff estimates.

6. **Following Burkina Faso's reclassification as medium performer based on the World Bank's Country Policy and Institutional Assessment (CPIA) rating, risks to the debt sustainability outlook have increased**. The reclassification to medium performer implies lower thresholds for debt distress indicators. As a result, the NPV of external debt-to-export ratio would exceed the policy-dependent threshold of 150 percent by approximately 2013. Although, the overall risk of debt distress is therefore classified as high, it is noteworthy that all other indicators remain below their respective thresholds. Also, Burkina Faso has a good track record of servicing debt. The main risks relate to a worse-than expected export and growth performance and a lack of fiscal adjustment.

Figure 5. Burkina Faso: Net Present Value of Debt-to-Exports Ratio, 2005–28
(Percent)



Sources: Burkinabè authorities; and IMF staff estimates.

C. Fiscal Reform Agenda

7. **The authorities are committed to consolidating tax and customs administration gains**. The following steps will help offset the loss in revenues from temporary exemptions to cushion the impact of oil and food price increases:

- **Improving taxpayer compliance**. The authorities will continue to notify nonfilers and add controls as needed to increase compliance. Staff has proposed to change the current process-oriented PC (monitoring of nonfiler notification), into an outcome-based measure (indicative target) that would bring the average nonfiler rate down to about 5 percent by the end of 2009 (MEFP ¶11).

- **Customs administration**. Reforms in 2008 will focus on making full use of the new ASYCUDA system. Testing the selectivity module will take longer than anticipated because of capacity constraints (structural benchmark to be adjusted by three months to December 2008) (MEFP ¶14). The authorities are also putting in place the transit module.

8. **Increasing revenues requires reforms to addresses numerous weaknesses in the tax system**. A recent FAD technical assistance mission found that the tax system has a narrow base; lacks a coherent structure; contains too many and too generous exemptions; is inconsistent with WAEMU directives on VAT harmonization; and is distorted by many withholding taxes.

9. **Tax policy reform is more complex than anticipated and requires more time than initially envisioned, also reflecting capacity constraints**. Tax policy reforms include several areas, notably introducing a single tax on business profits, which requires a re-writing of the business tax code, streamlining the investment code as well as strengthening the VAT system through higher tax thresholds (revised structural benchmark, September 2009) and a better refund system (MEFP, ¶17–20). More time is needed because (i) the scope of the reforms is broader than anticipated; (ii) significant differences in view within government on key measures, such as reform of the investment code, need to be resolved; (iii) tax policy measures need to be aligned with ongoing WAEMU reform initiatives; and (iv) substantial stakeholder consultation is needed.

10. **Key steps for the tax policy reform are**: (i) setting up a tax policy unit to guide the process and conduct cost-benefit analyses of tax measures (new performance criterion, end-August 2008); (ii) cabinet approval of a tax reform strategy (benchmark, September 2009); (iii) preparation of a finance law with some short-term tax measures, partly intended to simplify tax administration for large enterprises; and (iv) spelling-out detailed reform

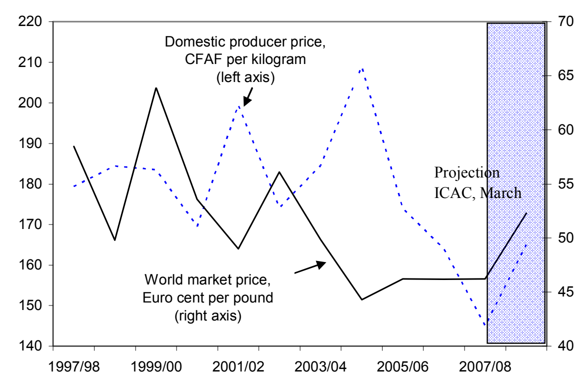
proposals and finalizing reforms in 2009 (structural benchmarks for end-April 2009 and performance criterion for end-December 2009).

11. **Because the target date for key tax policy measures has shifted to 2010, revenues next year are expected to be about 0.6 percentage points of GDP below target**. The 2009 budget deficit target, to be discussed in detail during the next mission, will need to strike a balance between fiscal consolidation in line with the findings of the debt sustainability analysis and avoiding an expenditure compression in a difficult economic environment.

12. **To improve public financial management (PFM), reforms will focus on budget execution, ex post controls, and expenditure tracking**. Technical groups have been set up to guide PFM reforms. Measures include an action plan for improving ex ante expenditure controls (benchmark, end-2008) and establishing a new audit institution. The authorities are addressing weaknesses in expenditure controls identified by the domestic debt audit. Because of capacity constraints, setting up a system for tracking poverty-reducing expenditure is likely to take longer than planned. A limited tracking system for non-wage current expenditure and domestically financed capital expenditure will be put in place by end-September 2008 (revised structural benchmark).

D. Other Structural Reforms

Figure 6. Burkina Faso: Cotton Prices, 1997/98–2008/09

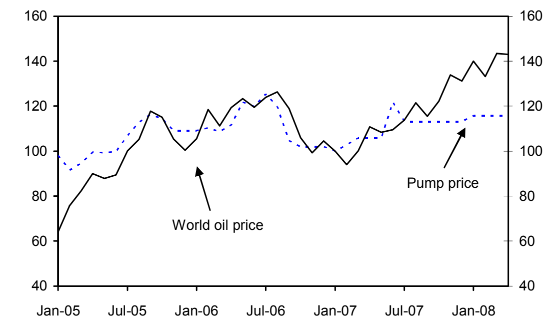


Sources: Burkinabè authorities; and IMF staff estimates.

13. **Cotton sector reform continues**. The new producer price mechanism has helped align domestic prices with world market prices. However, financing options for the smoothing fund, which is designed to help sustain the price mechanism in periods of declining world prices, should be reviewed. The fund needs to be adequately capitalized to minimize financial risks for stakeholders and calls for government support. The authorities are seeking a strategic partner for the largest ginning company, SOFITEX, and work closely with the World Bank on measures to improve productivity of cotton production.

14. **The authorities aim to close the gap between petroleum pump prices and prices mandated by the price adjustment mechanism,** which was de facto suspended in the second half of 2007. Although pump prices were increased in January 2008, they remain below the price suggested by the price adjustment mechanism. Public resistance makes it difficult to close the gap immediately. Transparency will be key (MEFP¶ 25–26). At current prices, incomplete pass-through of rising petroleum prices would lead to quasi-fiscal losses of the national oil company, SONABHY, of about 1 percent of GDP which will need to be monitored carefully and resulting subsidies be reflected in the budget.

Figure 7. International Oil Prices and Pump Prices, January 2005–April 2008
(January 2007 = 100)



Sources: Burkinabè authorities; and IMF staff estimates.

15. **Staff and the authorities agreed that financial sector reform is necessary to reduce vulnerabilities and support growth** (Figure 8). The banking system is on average relatively well capitalized and the authorities have taken steps to deepen financial sector development. However, the recent FSAP mission identified several risks and weaknesses, including (i) significant bank exposure to the cotton sector (after the 2004–06 cotton sector difficulties, the solvency of the banking sector would have been seriously damaged without an extended guarantee from the government); (ii) significant government ownership in the banking sector; (iii) weak supervision of microfinance; and (iv) deficiencies in the financial infrastructure. Better mechanisms for securitization and financial risk management in the cotton sector, a reduction of the government's shareholding in the banking sector, more and better-trained resources in supervision, and a reduction of institutional constraints to bank lending would pave the way for reducing vulnerabilities and improving access to finance. Future conditionality will draw on the findings of the FSAP.

III. Program Issues and Risks

16. In **the attached Letter of Intent the authorities request a waiver for nonobservance of the continuous PC** on sending notification letters within one week to late and nonfilers of tax returns. Several dates for benchmarks have been adjusted (see Text Table 1) to reflect delays in implementation, the complexity of tax reform measures, capacity constraints, and revenue risks. The letter and MEFP also update the structural PCs and benchmarks for the next review.

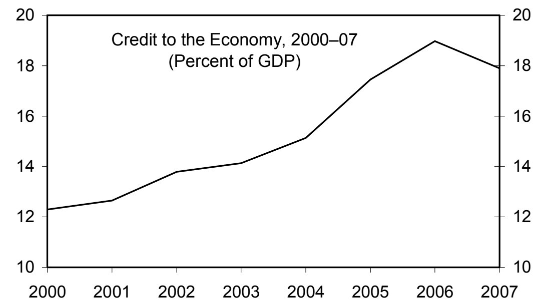
Figure 8. Burkina Faso: Financial Sector Developments and Selected FSAP Findings

Though profitability has declined in 2007, overall the banking sector is relatively sound...

Prudential Indicators	Dec. 06	Dec. 07
(Percent)		
Capital adequacy ratio (CAR) [1]	10.2	13.0
Return on assets (ROA)	1.2	0.6
Return on equity (ROE)	16.4	6.8
Nonperfoming loans [2]	4.9	6.3
(Number of banks in compliance) [3]		
Minimum capital	5	7
Capital adequacy ratio	8	9

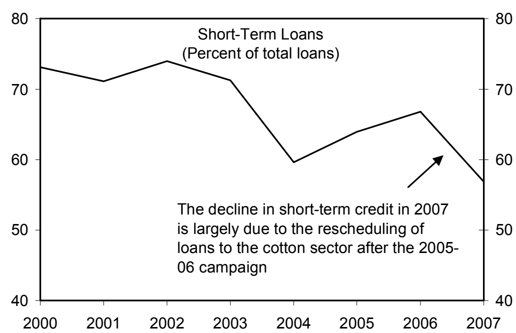
[1] Prudential rule: CAR≥8
[2] Percent of credit to the economy
[3] There are 11 commercial banks in total.

... and the depth of the banking market has increased.



However, credit is mostly short-term, ...

Credit from Commercial Banks, 2000–07



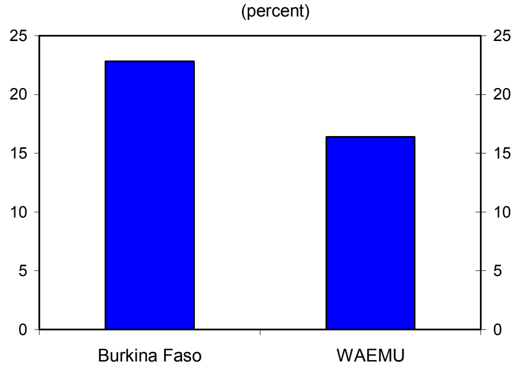
...and the banking sector is vulnerable to cotton-related shocks.

Stress Tests Summary	CAR	CAR ≤ 8	Cost of recapitalization
	(percent)	(# banks)	(percent of GDP)
Before shocks	13.0	2	-
After shocks [1]			
Agricultural credit [2]	7.3	4	1.2
Default on largest individual risks	2.9	7	2.4

[1] Shocks were tested on the individual data of 11 Burkinabé banks. Data was collected by the BCEAO.
[2] The test assumes default on half of the agricultural credit as of end-June 07.

The government could divest further from the banking sector ...

Share of the Public Sector in the Banking System, 2006
(percent)



...and improvements in the institutional framework would improve credit access.

Getting Credit[1], 2008

Rank: 115 out of 178

	Burkina Faso	SSA	OECD
Legal Rights Index	4.0	4.0	6.4
Credit Information Index	1.0	1.3	4.8
Private Bureau Coverage [2]	0.0	4.5	59.3

[1] The Legal Rights Index ranges from 0-10, with higher scores indicating that whose laws are better designed to expand access to credit. The Credit Information Index measures scope, access and quality of credit information available through public registries or private bureaus. It ranges from 0-6, with higher values indicating that more credit information is available from a public registry or private bureau.
[2] Percent of adults.
Source: Doing Business 2008

Sources: Burkinabè authorities and IMF staff calculations and estimates.

17. **Staff proposes to transform two PCs into indicative targets, while adding two new PCs**. It recommends turning the continuous PC on notification of non- and late filers into a quantitative indicative target that measures the average nonfiler rate, beginning in the final quarter of 2008. An outcome-based measure is more relevant to program objectives. Using an indicative target instead of a PC is appropriate because there is uncertainty about the time needed to achieve program objectives. Staff also recommend changing the current PC on nonaccumulation of domestic arrears to an indicative target because of concerns about data reliability. The recent domestic debt audit found persistent expenditure control problems, and it is not clear that the authorities can measure arrears well enough for monitoring as a PC. Staff recommends that the set-up of a tax policy unit and the submission of the tax policy reform program to parliament, two critical steps in the tax policy reform process, become two PCs.

18. **Against the background of high food and oil prices, there are some risks to the program**. These relate in particular to public and political resistance to adjustment efforts and, more generally, delays in implementing the tax reform. Delays in tax reform could, for example, result from continued differences in view within government and capacity constraints. IMF disbursements, supported by the recent augmentation of the PRGF arrangement in January (15 percent of quota), are expected to cover the financing gap in 2008. With continued increases in oil and food prices, staff would stand ready to discuss a further augmentation within the context of the next review.

IV. Staff Appraisal

19. **The economic environment is difficult, but implementation of the medium-term program supported by the PRGF arrangement has been generally good**. Growth, while expected to edge up, is below trend and inflation is increasing because of rising food and oil prices. All quantitative PCs and most structural benchmarks were met. Particularly noteworthy is the success in raising revenue by reinforcing tax and customs administration. While social expenditure has increased, nonobservance of that indicative target is regrettable. The composition of expenditure and the measurement of social expenditure deserve more emphasis.

20. **The authorities' commitment to policies that strike a balance between preserving economic and social stability is commendable**. As long as inflation expectations are contained, the fiscal policy stance remains appropriate. Some tightening would be appropriate if inflation pressures increase. To minimize budgetary risks and poorly targeted subsidies, it is important to reinstate the oil price mechanism expeditiously. Also, temporary food price measures should be phased out as planned. More distortionary measures, such as price controls, would have undesirable effects on supply. With

competitiveness already weak, any additional loss would further strengthen the case for structural reforms to raise productivity and growth.

21. **Laudable progress with customs and tax administration reforms must continue, and tax policy reform needs to be elaborated promptly and comprehensively**. Mobilizing more revenue, through a broader and fairer tax system, will be critical to reduce fiscal deficits, preserve space for poverty-reducing expenditure, and improve debt sustainability. Risks to the debt sustainability outlook have increased and firm medium-term fiscal consolidation, supported by tax policy reform, is essential.

22. **Expeditious structural reform, particularly in the financial sector, will help to put the economy on a sustainable growth path for the medium term**. Strengthening the resilience of the financial sector to shocks, for example through better financial risk management in the cotton sector, and facilitating access to finance will support growth. Other measures are also important, including steps to strengthen PFM, create a more business-friendly environment, and improve governance.

23. **Staff supports the authorities' request for a waiver for the nonobservance of the PC** related to delays in sending automatic reminders to late filers and nonfilers of tax returns. The substance of the measure has been achieved, and other corrective steps are being taken. Staff also recommends changing the PC (for nonfiler rates and nonaccumulation of domestic arrears) in an indicative target that measures the non-filer rate.

24. **Staff recommends completion of the second PRGF review** because implementation has been generally satisfactory, in the case of delays corrective actions have been taken, and new commitments have been made for the program's next phase.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2006–10

	2006	2007		2008		2009		2010	
	Est.	Prog.[1]	Proj.	Prog.[1]	Proj.	Prog.[1]	Proj.	Prog.[1]	Proj.
	(Annual percentage change; unless otherwise specified)								
GDP and prices									
GDP at constant prices	5.5	4.2	4.0	4.5	4.5	6.3	6.2	6.0	6.0
GDP deflator	-0.1	-0.5	3.4	1.6	5.0	2.6	1.3	2.5	1.8
Consumer prices (annual average)	2.4	-0.7	-0.2	2.0	6.2	2.0	2.5	2.0	2.2
Consumer prices (end of period)	1.5	0.9	2.3	2.0	3.3	2.0	2.2	2.0	2.1
Money and credit									
Net domestic assets (banking system)[2]	1.8	-3.4	-5.5	9.5	7.6	10.0	10.1	7.1	7.9
Credit to the government[2]	-6.5	-12.4	-9.6	3.0	3.0	-1.5	2.8	-1.0	0.6
Credit to the private sector[2]	11.2	9.6	0.6	7.4	8.7	11.4	7.3	8.1	7.4
Broad money (M2)	10.2	15.8	22.9	6.2	9.7	9.0	7.6	8.6	7.9
Velocity (GDP/M2)	4.6	4.3	4.0	4.3	4.0	4.3	4.0	4.3	4.0
External sector									
Exports (f.o.b.; valued in CFA francs)	24.5	-3.8	-3.6	1.3	0.9	22.0	24.6	11.0	13.1
Imports (f.o.b.; valued in CFA francs)	4.0	5.9	3.6	12.8	24.5	6.8	7.8	5.7	-0.7
Terms of trade	12.1	-2.9	-1.4	-6.1	-5.9	2.5	-1.4	1.2	-0.2
Real effective exchange rate (– = depreciation)	0.2	...	-0.5	..	...	..	...	..	...
World cotton price (US cents per pound)	58.1	60.5	63.3	61.0	68.0	61.5	66.0	62.0	65.0
Average petroleum spot price (US$ per barrel)	64.3	71.3	71.1	88.5	112.0	83.0	116.3	81.0	114.0
	(Percent of GDP; unless otherwise indicated)								
Gross investment	17.2	18.4	19.1	19.1	20.3	19.4	20.4	19.9	20.5
Government	8.4	9.1	8.3	9.0	8.4	8.8	8.8	8.9	8.9
Nongovernment sector	8.8	9.3	10.8	10.2	12.0	10.6	11.6	11.0	11.6
Gross domestic savings	3.3	3.8	4.9	2.9	3.0	4.7	4.3	6.1	6.9
Government savings	1.2	0.6	1.1	1.1	1.4	2.8	2.2	3.2	2.8
Nongovernment savings	2.1	3.3	3.8	1.8	1.6	1.8	2.1	2.9	4.1
Gross national savings	7.7	8.4	10.0	6.9	7.5	7.3	7.3	8.4	9.7
Central government finances									
Current revenue	13.0	13.3	13.6	13.6	13.5	14.6	14.0	15.0	14.6
Of which: tax revenue	12.0	12.2	12.5	12.6	12.6	13.6	13.1	13.9	13.6
Total expenditure (commitment basis)	24.3	26.7	25.7	26.2	25.5	24.6	24.6	24.7	24.7
Of which: current expenditure	12.8	13.5	13.9	12.9	13.1	12.0	12.2	12.1	12.0
Overall fiscal balance, excl. grants (commitments)	-11.3	-13.4	-12.2	-12.7	-12.0	-10.0	-10.6	-9.7	-10.1
Overall fiscal balance, incl. grants (commitments)[3]	-5.4	-6.2	-5.7	-5.4	-5.4	-4.5	-4.9	-4.1	-4.5
Overall fiscal balance, incl. grants (payment-orders)[3]	-4.6	-6.2	-5.4	-5.4	-5.4	-4.5	-4.9	-4.1	-4.5
Domestic financing[3]	0.3	3.3	2.1	1.5	1.8	-0.3	0.7	-0.2	0.1
External sector									
Exports of goods and services	11.5	10.7	10.2	10.3	9.5	11.4	10.8	11.7	11.3
Imports of goods and services	25.5	25.4	24.4	26.6	26.8	26.1	26.9	25.4	24.9
Current account balance (excl. official transfers)	-12.6	-14.1	-13.1	-16.0	-16.6	-14.5	-15.4	-13.8	-13.0
Current account balance (incl. official transfers)	-9.6	-10.1	-9.1	-12.2	-12.9	-12.1	-13.1	-11.5	-10.8
Debt indicators									
External debt	21.1	20.9	19.7	23.6	20.7	26.5	23.5	28.7	26.1
NPV of external debt	11.2	11.5	12.0	13.1	12.5	14.8	14.1	16.1	15.7
NPV of external debt as percent of exports	97.3	104.7	117.7	124.2	131.8	127.6	130.8	135.8	139.2
NPV of external debt as percent of revenues	86.1	86.5	88.6	96.6	92.3	101.7	100.9	107.8	107.7
Nominal GDP (CFAF billions)	3,018	3,317	3,243	3,521	3,559	3,840	3,830	4,169	4,132

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

[1] IMF Country Report No. 08/168.

[2] Percent of beginning-of-period broad money.

[3] Excluding MDRI.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2006–10

	2006	2007				2008		2009		2010	
	Est.	September		December		Prog.[2]	Proj.	Prog.[2]	Proj.	Prog.[2]	Proj.
		Prog.[1]	Act.	Prog.[2]	Act.						
	(CFAF billions)										
Total revenues and grants	570.1	480.8	510.0	678.3	650.5	732.4	714.5	772.5	757.0	859.5	834.8
Total revenues	392.4	340.6	325.6	440.3	440.2	477.6	480.7	559.8	536.4	624.1	603.0
Tax revenue, *of which:*	362.3	312.4	302.1	404.4	405.2	444.7	448.2	520.7	500.5	579.9	561.4
Income and profits	85.7	79.8	77.8	100.4	98.2	116.3	109.0	138.1	120.2	155.8	139.3
Domestic goods and services	194.3	167.4	161.0	222.6	217.3	248.5	245.9	289.2	273.9	321.0	306.6
International trade	71.3	54.1	54.4	70.2	78.1	63.6	76.6	74.1	88.2	81.4	94.3
Other	11.0	11.1	8.8	11.1	11.6	16.2	16.6	19.2	18.3	21.7	21.2
Nontax revenue	30.1	28.2	23.5	35.9	35.0	33.0	32.5	39.2	35.9	44.2	41.6
Grants (excl. MDRI)	177.6	140.2	184.4	238.0	210.3	254.8	233.8	212.6	220.6	235.4	231.8
Project, *of which:*	120.0	79.8	95.3	142.1	114.7	162.0	137.1	159.8	167.8	182.6	179.5
MCC	0.0	0.0	0.0	0.0	0.0	23.9	11.1	47.5	55.5	47.2	44.1
Program	57.6	60.3	89.1	95.9	95.6	92.8	96.7	52.8	52.8	52.8	52.3
Expenditure and net lending [3]	733.7	633.5	665.7	885.2	834.8	924.3	907.9	943.6	942.9	1,029	1,019
Current expenditure	386.4	319.5	355.7	447.3	450.3	452.5	467.8	462.7	466.0	503.1	496.1
Wages and salaries	159.9	135.8	140.5	187.9	187.6	193.7	193.7	199.7	203.0	216.8	214.8
Goods and services	82.2	73.5	87.2	99.1	94.8	104.5	100.3	99.8	99.8	108.6	108.6
Interest payments	17.3	6.1	9.1	10.3	13.1	13.1	17.1	19.9	19.9	22.5	22.5
Current transfers	126.9	104.1	118.9	149.9	154.8	141.2	156.7	143.3	143.3	155.2	150.2
Capital expenditure	361.9	316.2	307.6	433.2	383.3	450.3	425.4	482.9	479.0	528.1	525.0
Domestically financed	157.4	136.7	137.0	190.5	175.7	177.0	182.0	177.0	187.0	202.7	202.7
Externally financed, *of which:*	204.5	179.5	170.6	242.7	207.6	273.3	243.4	305.9	292.0	325.4	322.3
MCC	0.0	0.0	0.0	0.0	0.0	23.9	11.1	47.5	55.5	47.2	44.1
Net lending	-14.6	-2.2	2.4	4.7	1.2	21.5	14.8	-2.0	-2.0	-2.0	-2.0
Overall balance (commitment basis, excl. MDRI)	-163.6	-152.7	-155.7	-206.9	-184.2	-191.9	-193.4	-171.2	-185.9	-169.7	-184.3
Excluding grants	-341.3	-292.8	-340.1	-444.9	-394.5	-446.7	-427.2	-383.8	-406.5	-405.2	-416.1
Cash basis adjustment, *of which:*	37.2	0.0	24.3	-10.0	17.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of authorized expenditures without payment orders	23.4	0.0	2.8	0.0	8.8	0.0	0.0	0.0	0.0	0.0	0.0
Stock of payment orders not executed	6.9	0.0	-1.6	-10.0	-2.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in treasury commitments	6.9	0.0	19.0	0.0	7.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in Basic Education Fund account	0.0	0.0	4.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. MDRI)	-126.4	-152.7	-131.4	-216.9	-167.0	-191.9	-193.4	-171.2	-185.9	-169.7	-184.3
Excluding grants	-304.1	-292.8	-315.8	-454.9	-377.3	-446.7	-427.2	-383.8	-406.5	-405.2	-416.1
Financing	131.9	152.7	124.1	216.6	168.0	183.8	187.7	169.7	184.5	169.0	183.6
Foreign financing	123.9	151.1	85.8	107.3	99.3	131.1	124.4	181.5	159.6	178.2	178.2
Drawings	133.2	161.5	96.9	122.8	114.5	145.7	138.9	197.1	175.2	193.5	193.5
Project loans	89.9	99.7	75.4	100.6	93.0	111.2	106.2	146.1	124.2	142.8	142.8
Adjustment aid	43.3	61.7	21.5	22.3	21.5	34.4	32.7	51.0	51.0	50.7	50.7
Amortization	-24.7	-10.4	-11.1	-15.6	-15.2	-14.6	-14.6	-15.6	-15.6	-15.3	-15.3
Debt relief (excl. MDRI)	15.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (excl. MDRI)	8.0	1.6	38.3	109.3	68.7	52.6	63.3	-11.8	24.9	-9.2	5.4
Of which: privatization receipts	0.5	190.8	190.8	0.0	144.3	0.0	30.0	0.0	0.0	0.0	0.0
Banking sector	15.0	-137.2	-112.1	-83.4	-63.9	23.3	23.3	-11.8	24.9	-9.2	5.4
Central bank	17.4	-137.2	-122.3	-83.4	-70.8	41.6	41.6	28.0	64.7	-9.2	5.4
Commercial banks	-2.4	0.0	10.3	0.0	6.9	-18.3	-18.3	-39.8	-39.8	0.0	0.0
Nonbanks	-7.0	138.8	150.3	192.7	132.6	29.3	40.0	0.0	0.0	0.0	0.0
Errors and omissions	-5.4	0.0	7.4	0.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	0.0	0.0	0.4	...	8.1	5.7	1.5	1.4	0.7	0.7
Memorandum items:											
MDRI relief [4]	669.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	54.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, excluding IMF	-2.0	1.6	38.3	109.8	68.4	52.7	63.3	-11.8	25.0	-8.6	5.9
Poverty-reducing social expenditures, *of which:*	167	150	140	204	183	214	195	261	230	292	269
Education	71	...	62	78	77	86	82	105	96	117	113
Health	56	...	48	62	60	65	64	80	76	89	88
GDP	3,018	...	...	3,317	3,243	3,521	3,559	3,840	3,830	4,169	4,132

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

[1] IMF Country Report No 07/153.

[2] IMF Country Report No 08/168.

[3] On a commitment *(engagement)* basis.

[4] Multilateral Debt Relief Initiative stock-of-debt operation, including cancellation of debt treated under the enhanced HIPC Initiative, shown on accrual basis. Includes relief from IMF, World Bank, and African Development Bank. MDRI relief from the Fund is higher than in the balance of payments because of a valuation adjustment by the BCEAO.

Table 2. Burkina Faso: Consolidated Operations of the Central Government, 2006–10 (Concluded)

	2006	2007		2008		2009		2010	
	Act.	Prog.[1]	Act.	Prog.[1]	Proj.	Prog.[1]	Proj.	Prog.[1]	Proj.
	(Percent of GDP)								
Total revenues and grants	18.9	20.4	20.1	20.8	20.1	20.1	19.8	20.6	20.2
Total revenues	13.0	13.3	13.6	13.6	13.5	14.6	14.0	15.0	14.6
Tax revenue, *of which:*	12.0	12.2	12.5	12.6	12.6	13.6	13.1	13.9	13.6
Income and profits	2.8	3.0	3.0	3.3	3.1	3.6	3.1	3.7	3.4
Domestic goods and services	6.4	6.7	6.7	7.1	6.9	7.5	7.2	7.7	7.4
International trade	2.4	2.1	2.4	1.8	2.2	1.9	2.3	2.0	2.3
Other	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	1.0	1.1	1.1	0.9	0.9	1.0	0.9	1.1	1.0
Grants (excl. MDRI)	5.9	7.2	6.5	7.2	6.6	5.5	5.8	5.6	5.6
Project, *of which:*	4.0	4.3	3.5	4.6	3.9	4.2	4.4	4.4	4.3
MCC	0.0	0.0	0.0	0.7	0.3	1.2	1.4	1.1	1.1
Program	1.9	2.9	2.9	2.6	2.7	1.4	1.4	1.3	1.3
Expenditure and net lending[2]	24.3	26.7	25.7	26.2	25.5	24.6	24.6	24.7	24.7
Current expenditure	12.8	13.5	13.9	12.9	13.1	12.0	12.2	12.1	12.0
Wages and salaries	5.3	5.7	5.8	5.5	5.4	5.2	5.3	5.2	5.2
Goods and services	2.7	3.0	2.9	3.0	2.8	2.6	2.6	2.6	2.6
Interest payments	0.6	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Current transfers	4.2	4.5	4.8	4.0	4.4	3.7	3.7	3.7	3.6
Capital expenditure	12.0	13.1	11.8	12.8	12.0	12.6	12.5	12.7	12.7
Domestically financed	5.2	5.7	5.4	5.0	5.1	4.6	4.9	4.9	4.9
Externally financed, *of which:*	6.8	7.3	6.4	7.8	6.8	8.0	7.6	7.8	7.8
MCC	0.0	0.0	0.0	0.7	0.3	1.2	1.4	1.1	1.1
Net lending	-0.5	0.1	0.0	0.6	0.4	-0.1	-0.1	0.0	0.0
Overall balance (commitment basis, excl. MDRI)	-5.4	-6.2	-5.7	-5.4	-5.4	-4.5	-4.9	-4.1	-4.5
Excluding grants	-11.3	-13.4	-12.2	-12.7	-12.0	-10.0	-10.6	-9.7	-10.1
Cash basis adjustment	1.2	-0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Change in payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of authorized expenditures without payment orders	0.8	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Stock of payment orders not executed	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in treasury commitments	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in Basic Education Fund account	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis, excl. MDRI)	-4.2	-6.5	-5.2	-5.4	-5.4	-4.5	-4.9	-4.1	-4.5
Excluding grants	-10.1	-13.7	-11.6	-12.7	-12.0	-10.0	-10.6	-9.7	-10.1
Financing	4.4	6.5	5.2	5.2	5.3	4.4	4.8	4.1	4.4
Foreign financing	4.1	3.2	3.1	3.7	3.5	4.7	4.2	4.3	4.3
Drawings	4.4	3.7	3.5	4.1	3.9	5.1	4.6	4.6	4.7
Project loans	3.0	3.0	2.9	3.2	3.0	3.8	3.2	3.4	3.5
Adjustment aid	1.4	0.7	0.7	1.0	0.9	1.3	1.3	1.2	1.2
Amortization	-0.8	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Debt relief (excl. MDRI)	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing (excl. MDRI)	0.3	3.3	2.1	1.5	1.8	-0.3	0.7	-0.2	0.1
Of which: privatization receipts	0.0	0.0	4.4	0.0	0.8	0.0	0.0	0.0	0.0
Banking sector	0.5	-2.5	-2.0	0.7	0.7	-0.3	0.7	-0.2	0.1
Central bank	0.6	-2.5	-2.2	1.2	1.2	0.7	1.7	-0.2	0.1
Commercial banks	-0.1	0.0	0.2	-0.5	-0.5	-1.0	-1.0	0.0	0.0
Nonbanks	-0.2	5.8	4.1	0.8	1.1	0.0	0.0	0.0	0.0
Errors and omissions	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	0.0	...	0.2	0.2	0.0	0.0	0.0	0.0
Memorandum items:									
MDRI relief[3]	22.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, excluding IMF	-0.1	3.3	2.1	1.5	1.8	-0.3	0.7	-0.2	0.1
Poverty-reducing social expenditures, *of which:*	5.5	6.1	5.6	6.1	5.5	6.8	6.0	7.0	6.5
Education	2.3	2.3	2.4	2.4	2.3	2.7	2.5	2.8	2.7
Health	1.8	1.9	1.9	1.9	1.8	2.1	2.0	2.1	2.1
GDP (CFAF billions)	3,018	3,317	3,243	3,521	3,559	3,840	3,830	4,169	4,132

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

[1] IMF Country Report No 08/168.

[2] On a commitment *(engagement)* basis.

[3] Multilateral Debt Relief Initiative stock-of-debt operation, including cancellation of debt treated under the enhanced HIPC Initiative, shown on accrual basis. Includes relief from IMF, World Bank, and African Development Bank. MDRI relief from the Fund is higher than in the balance of payments because of a valuation adjustment by the BCEAO.

Table 3. Burkina Faso: Monetary Survey, 2006–08

	2006	2007				2008	
	Dec.	Jun.	Sep.	Dec. Prog.[1]	Dec.	Dec. Prog.[1]	Dec. Proj.
	(CFAF billions)						
Net foreign assets [2]	221	432	458	348	409	322	427
Central Bank of West African States (BCEAO)	203	392	432	323	355	298	373
Assets	275	465	514	396	457	370	477
Liabilities [3, 4]	72	73	82	73	102	73	104
Commercial banks	18	40	26	25	54	25	54
Net domestic assets	441	351	359	418	404	491	465
Net domestic credit	512	389	394	493	453	573	548
Net credit to government [3]	-30	-134	-142	-112	-94	-89	-70
Treasury	22	-66	-71	-61	-18	-38	-19
BCEAO	8	-73	-106	-75	-55	-33	-21
Commercial banks	14	7	34	14	37	-5	2
Other central government	-52	-68	-71	-51	-76	-51	-51
Of which: project deposits	-102	-118	-117	-101	-123	-101	-101
Credit to the economy	542	523	536	606	547	662	617
Crop credit	75	52	33	83	18	91	21
Other	467	471	503	523	529	571	597
Other items (net) [5]	-71	-38	-35	-75	-49	-82	-82
Broad money [2]	662	783	817	766	813	813	892
Of which: bank deposits	469	532	553	549	556	585	617
	(Annual changes in percent of broad money from 12 months earlier, unless otherwise specified)						
Memorandum items:							
Net foreign assets	8.4	31.6	36.8	19.2	28.5	-3.4	2.2
Net domestic assets	1.8	-10.8	-7.0	-3.4	-5.5	9.5	7.6
Net credit to government	-6.5	-16.5	-13.7	-12.4	-9.6	3.0	3.0
Credit to the economy	11.2	2.8	0.8	9.6	0.6	7.4	8.7
(annual percentage change)	14.1	3.6	1.0	11.7	0.8	9.4	12.9
(excluding crop credit)	13.1	14.7	14.0	12.0	13.2	9.2	12.9
Money supply	10.2	20.9	29.9	15.8	22.9	6.2	9.7
Of which: bank deposits	11.4	12.6	16.8	12.1	13.0	4.7	7.5
Currency velocity (GDP/broad money)	4.6	...	...	4.3	4.0	4.3	4.0

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

[1] IMF Country Report No. 08/168.

[2] From December 2003 on, reflects revised BCEAO estimates of currency in circulation.

[3] MDRI relief from the Fund is reflected from 2006 on.

[4] For 2006, assumes augmented access under the Fund arrangement.

[5] Includes valuation adjustment related to MDRI relief.

Table 4. Burkina Faso: Balance of Payments, 2006–10

	2006	2007		2008		2009		2010
	Est.	Prog.[1]	Proj.	Prog.[1]	Proj.	Prog.[1]	Proj.	Proj.
	(CFAF billions)							
Exports, f.o.b., *of which:*	308	300	296	304	299	371	373	422
Cotton	201	169	181	112	101	150	135	154
Gold	10	21	10	74	73	99	96	115
Imports, f.o.b.	-562	-621	-582	-700	-725	-748	-782	-776
Of which: petroleum products	-135	-156	-141	-196	-212	-192	-229	-237
Trade balance	-254	-321	-286	-396	-426	-377	-409	-355
Services and income (net)	-168	-179	-180	-193	-199	-210	-221	-221
Services	-167	-165	-173	-176	-192	-186	-206	-206
Income	-1	-15	-7	-17	-7	-24	-14	-16
Current transfers (net)	133	167	172	158	168	123	129	128
Private	42	32	42	25	35	29	40	38
Official	91	135	130	133	132	94	89	90
Current account (– = deficit)	-289	-334	-294	-431	-458	-464	-501	-448
Excluding current official transfers	-381	-469	-425	-564	-590	-558	-590	-538
Capital transfers	819	161	135	182	158	181	190	203
Project grants	120	142	115	162	137	160	168	179
Other capital transfers	699	19	20	20	21	21	22	23
Of which: MDRI debt relief (incl. IMF)	664	...	...	...	...	...	...	...
Financial operations	-481	299	348	215	312	267	282	244
Official capital	-506	107	99	131	124	182	160	178
Disbursements	133	123	114	146	139	197	175	194
Project loans	90	101	93	111	106	146	124	143
Program loans	43	22	22	34	33	51	51	51
Amortization	-590	-16	-15	-15	-15	-16	-16	-15
Of which: MDRI debt relief (IDA and AfDB)	-615	...	...	...	...	...	...	...
Private capital [2]	25	192	249	84	187	86	122	66
Errors and omissions	2	0	0	0	0	0	0	0
Overall balance	50	127	188	-34	12	-16	-29	-1
Financing	-50	-127	-188	26	-18	7	23	0
Net foreign assets	-50	-127	-188	26	-18	7	23	0
Net official reserves, *of which:*	-38	-120	-152	26	-18	7	23	0
Gross official reserves	-32	-121	-182	26	-20	7	23	1
IMF (net)	-40	0.4	0.4	0.0	2.4	0.0	0.0	-0.5
Of which: IMF MDRI debt relief	-50	...	...	...	...	...	...	...
Net foreign assets, commercial banks	-12	-7	-36	0	0	0	0	0
Financing gap	0	0.4	0.0	8.1	5.7	8.4	6.4	0.7
Memorandum items:	(Percent of GDP unless otherwise indicated)							
Trade balance (– = deficit)	-8.4	-9.7	-8.8	-11.3	-12.0	-9.8	-10.7	-8.6
Cotton export volume (thousands of metric tons)	302.3	273.0	273.0	183.5	152.7	243.6	210.0	246.2
Current account (– = deficit)	-9.6	-10.1	-9.1	-12.2	-12.9	-12.1	-13.1	-10.8
Excluding current official transfers	-12.6	-14.1	-13.1	-16.0	-16.6	-14.5	-15.4	-13.0
Overall balance (– = deficit)	1.7	3.8	5.8	-1.0	0.3	-0.4	-0.8	0.0
Gross international reserves (CFAF billions)	275.3	396.0	457.0	370.2	477.1	362.9	454.5	453.7
Months of imports of goods and services	4.3	5.7	6.9	4.8	6.0	4.4	5.3	5.3
GDP at current prices (billions of CFA francs)	3,018	3,317	3,243	3,521	3,559	3,840	3,830	4,132

Sources: Central Bank of West African States (BCEAO); and IMF staff estimates and projections.

[1] IMF Country Report No. 08/168.

[2] Includes portfolio investment and foreign direct investment.

Table 5. Burkina Faso: Medium-Term Selected Economic and Financial Indicators, 2006–12

	2006 Est.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.
	(Annual percentage change unless otherwise specified)						
GDP and prices							
GDP at constant prices	5.5	4.0	4.5	6.2	6.0	6.0	6.0
GDP deflator	-0.1	3.4	5.0	1.3	1.8	2.1	2.1
Consumer prices (annual average)	2.4	-0.2	6.2	2.5	2.2	2.0	2.0
Consumer prices (end of period)	1.5	2.3	3.3	2.2	2.1	2.0	2.0
Money and credit							
Credit to the government [1]	-6.5	-9.6	3.0	2.8	0.6	0.0	0.0
Credit to the private sector [1]	11.2	0.6	8.7	7.3	7.4	7.0	7.4
Broad money (M2)	10.2	22.9	9.7	7.6	7.9	8.2	8.2
External sector							
Exports (f.o.b.; valued in CFA francs)	24.5	-3.6	0.9	24.6	13.1	14.4	9.2
Imports (f.o.b.; valued in CFA francs)	4.0	3.6	24.5	7.8	-0.7	7.2	7.4
World cotton price (US cents per pound)	58.1	63.3	68.0	66.0	65.0	64.8	64.5
Average petroleum spot price (US$ per barrel)	64.3	71.1	112.0	116.3	114.0	113.0	112.8
	(Percent of GDP unless otherwise indicated)						
Gross investment	17.2	19.1	20.3	20.4	20.5	20.7	20.8
Government	8.4	8.3	8.4	8.8	8.9	8.9	8.9
Nongovernment sector	8.8	10.8	12.0	11.6	11.6	11.8	11.9
Gross domestic savings	3.3	4.9	3.0	4.3	6.9	8.0	8.3
Government savings	1.2	1.1	1.4	2.2	2.8	3.4	4.0
Nongovernment savings	2.1	3.8	1.6	2.1	4.1	4.6	4.4
Gross national savings	7.7	10.0	7.5	7.3	9.7	11.1	11.4
Central government finances							
Current revenue	13.0	13.6	13.5	14.0	14.6	15.2	15.7
Of which: tax revenue	12.0	12.5	12.6	13.1	13.6	14.1	14.6
Total expenditure (commitment basis)	24.3	25.7	25.5	24.6	24.7	24.5	24.6
Of which: current expenditure	12.8	13.9	13.1	12.2	12.0	11.9	11.9
Overall fiscal balance, excl. grants (commitments)	-11.3	-12.2	-12.0	-10.6	-10.1	-9.4	-8.8
Overall fiscal balance, incl. grants (commitments) [2]	-5.4	-5.7	-5.4	-4.9	-4.5	-4.0	-3.8
External sector							
Exports of goods and services	11.5	10.2	9.5	10.8	11.3	11.9	12.1
Imports of goods and services	25.5	24.4	26.8	26.9	24.9	24.7	24.5
Current account balance (excl. official transfers)	-12.6	-13.1	-16.6	-15.4	-13.0	-12.0	-11.6
Current account balance (incl. official transfers)	-9.6	-9.1	-12.9	-13.1	-10.8	-9.6	-9.4
Debt indicators							
External debt	21.1	19.7	20.7	23.5	26.1	28.0	29.3
NPV of external debt	11.2	12.0	12.5	14.1	15.7	16.9	17.8
NPV of external debt as percent of exports	97.3	117.7	131.8	130.8	139.2	141.8	147.5
Nominal GDP (CFAF billions)	3,018	3,243	3,559	3,830	4,132	4,470	4,836

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

[1] Percent of beginning-of-period broad money.

[2] Excluding MDRI grants.

Table 6. Burkina Faso: Indicators of Capacity to Repay the Fund, 2006-15 [1]

	2006 [2]	2007	2008	2009	2010	2011	2012	2013	2014	2015
			Projections							
Fund obligations based on existing credit										
(in millions of SDRs)										
Principal	0.0	0.0	0.0	0.0	0.7	2.4	4.7	5.1	5.5	4.8
Charges and interest	0.1	0.1	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3
Fund obligations based on existing and prospective credit										
(in millions of SDRs)										
Principal	0.0	0.0	0.0	0.0	0.7	2.4	4.7	5.5	7.2	6.9
Charges and interest	0.1	0.1	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.3
Total obligations based on existing and prospective credit										
In millions of SDRs	0.1	0.1	0.4	0.5	1.2	2.9	5.1	5.9	7.5	7.2
In billions of CFAF	0.1	0.1	0.3	0.3	0.8	1.9	3.4	3.9	5.0	4.8
In percent of exports of goods and services	0.4	0.3	1.3	1.0	2.4	6.3	9.1	9.0	9.6	8.0
In percent of debt service [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
In percent of Tax Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
In percent of quota	0.2	0.2	0.7	0.7	1.9	4.8	8.5	9.8	12.5	12.0
Outstanding Fund credit										
In millions of SDRs	23.2	23.7	35.3	37.3	37.6	35.2	30.5	25.0	17.8	11.0
In billions of CFAF	17.8	17.4	23.7	25.0	25.1	23.4	20.2	16.5	11.8	7.3
In percent of exports of goods and services	5.1	5.2	7.0	6.0	5.4	4.4	3.5	2.6	1.7	1.0
In percent of debt service [3]	82.8	79.1	110.9	85.6	78.1	77.9	54.3	37.9	22.7	12.1
In percent of GDP	0.6	0.5	0.7	0.7	0.6	0.5	0.4	0.3	0.2	0.1
In percent of Tax Revenue	4.9	4.3	5.3	5.0	4.5	3.7	2.9	2.1	1.3	0.7
In percent of quota	38.6	39.4	58.6	61.9	62.4	58.4	50.6	41.5	29.6	18.2
Net use of Fund credit (millions of SDRs)	12.9	0.5	11.5	2.0	0.3	-2.4	-4.7	-5.5	-7.2	-6.9
Disbursements	12.9	0.5	11.5	2.0	1.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	0.7	2.4	4.7	5.5	7.2	6.9
Memorandum items:										
Exports of goods and services (In billions of CFAF)	347.1	331.4	336.4	413.6	466.8	533.0	584.0	643.4	703.8	752.6
Debt service (In billions of CFAF) [3]	21.6	22.0	21.3	29.2	32.1	30.0	37.2	43.6	52.0	59.8
Nominal GDP (In billions of CFAF)	3,018	3,243	3,559	3,830	4,132	4,470	4,836	5,245	5,697	6,181
Tax Revenue (In billions of CFAF)	362.3	405.2	448.2	500.5	561.4	631.2	707.2	792.7	885.6	990.6
Quota (millions of SDRs)	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2	60.2

Sources: IMF staff estimates and projections.

[1] Assumes prospective PRGF disbursements of SDR 8.028 million in 2008, SDR 2.008 million in 2009 and SDR 1.004 million in 2010.
[2] Burkina Faso received MDRI relief in an amount of SDR 62.1 million in 2006.
[3] Total debt service includes IMF repurchases and repayments.

Table 7. Burkina Faso: Schedule of Disbursements Under the PRGF Arrangement, 2007–10

Amount	Date Available	Conditions Necessary for Disbursement [1]
SDR 0.5 million	April 23, 2007	Following Executive Board approval of the three-year PRGF arrangement
SDR 3.51 million	January 22, 2008	Observance of the performance criteria for June 30, 2007, and completion of the first review under the arrangement[2]
SDR 4.014 million	May 31, 2008	Observance of the performance criteria for December 31, 2007, and completion of the second review under the arrangement[2]
SDR 4.014 million	November 30, 2008	Observance of the performance criteria for June 30, 2008, and completion of the third review under the arrangement[2]
SDR 1.004 million	May 31, 2009	Observance of the performance criteria for December 31, 2008, and completion of the fourth review under the arrangement
SDR 1.004 million	November 30, 2009	Observance of the performance criteria for June 30, 2009, and completion of the fifth review under the arrangement
SDR 1.004 million	March 30, 2010	Observance of the performance criteria for December 31, 2009, and completion of the sixth review under the arrangement

Source: IMF staff estimates and projections.

[1] In addition to the generally applicable conditions under the Poverty Reduction and Growth Facility arrangement.

[2] Includes augmentation of access of 15 percent of quota (SDR 9.03 million), phased equally over the three disbursements expected in 2008.

Table 8. Burkina Faso: Poverty-Reducing Social Expenditures, 2001–08

	2001	2002	2003	2004	2005	2006	2007 Est.	2008 Proj.
				(CFAF billions)				
Total poverty-reducing social expenditure	80.4	108.9	116.6	145.0	161.8	167.2	182.6	195.0
Current expenditure	64.9	76.7	83.8	94.0	112.6	121.7	143.1	152.8
Capital expenditure	15.5	32.2	32.8	50.9	49.2	45.5	39.5	42.2
Health	27.3	38.5	37.9	48.1	54.2	55.7	60.2	64.2
Current expenditure	24.1	31.5	29.9	31.9	39.4	43.6	50.6	54.0
Capital expenditure	3.2	6.9	8.0	16.3	14.8	12.1	9.6	10.2
Education	35.1	42.7	47.9	56.9	64.5	70.6	76.6	81.8
Current expenditure	29.8	30.5	37.6	44.2	53.1	59.5	67.6	72.2
Capital expenditure	5.3	12.2	10.3	12.7	11.4	11.1	9.0	9.6
Rural roads	1.9	1.8	2.3	3.3	3.7	3.9	2.7	2.9
Current expenditure	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Capital expenditure	1.9	1.8	2.3	3.3	3.6	3.7	2.7	2.9
Women's welfare and other poverty-reducing social expenditure	16.2	25.9	28.5	36.6	39.4	37.0	43.2	46.1
Current expenditure	11.1	14.7	16.3	18.0	20.1	18.5	24.9	26.6
Capital expenditure	5.1	11.2	12.2	18.6	19.3	18.6	18.3	19.5
				(Percent of GDP)				
Total poverty-reducing social expenditure	3.9	4.8	4.6	5.5	5.7	5.5	5.6	5.5
Current expenditure	3.1	3.4	3.3	3.5	3.9	4.0	4.4	4.3
Capital expenditure	0.8	1.4	1.3	1.9	1.7	1.5	1.2	1.2
Health	1.3	1.7	1.5	1.8	1.9	1.8	1.9	1.8
Current expenditure	1.2	1.4	1.2	1.2	1.4	1.4	1.6	1.5
Capital expenditure	0.2	0.3	0.3	0.6	0.5	0.4	0.3	0.3
Education	1.7	1.9	1.9	2.1	2.3	2.3	2.4	2.3
Current expenditure	1.4	1.3	1.5	1.7	1.9	2.0	2.1	2.0
Capital expenditure	0.3	0.5	0.4	0.5	0.4	0.4	0.3	0.3
Rural roads	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Current expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Women's welfare and other poverty-reducing social expenditure	0.8	1.1	1.1	1.4	1.4	1.2	1.3	1.3
Current expenditure	0.5	0.6	0.6	0.7	0.7	0.6	0.8	0.7
Capital expenditure	0.2	0.5	0.5	0.7	0.7	0.6	0.6	0.5
				(Percent of total expenditure)				
Total poverty-reducing social expenditure	17.5	22.3	24.1	24.9	24.7	22.3	21.9	21.8
Current expenditure	14.1	15.7	17.3	16.1	17.2	16.3	17.2	17.1
Capital expenditure	3.4	6.6	6.8	8.7	7.5	6.1	4.7	4.7
Health	5.9	7.9	7.8	8.3	8.3	7.4	7.2	7.2
Current expenditure	5.2	6.4	6.2	5.5	6.0	5.8	6.1	6.0
Capital expenditure	0.7	1.4	1.7	2.8	2.3	1.6	1.1	1.1
Education	7.6	8.7	9.9	9.8	9.8	9.4	9.2	9.2
Current expenditure	6.5	6.2	7.8	7.6	8.1	8.0	8.1	8.1
Capital expenditure	1.2	2.5	2.1	2.2	1.7	1.5	1.1	1.1
Rural roads	0.4	0.4	0.5	0.6	0.6	0.5	0.3	0.3
Current expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.4	0.4	0.5	0.6	0.6	0.5	0.3	0.3
Women's welfare and other poverty-reducing social expenditure	3.5	5.3	5.9	6.3	6.0	4.9	5.2	5.2
Current expenditure	2.4	3.0	3.4	3.1	3.1	2.5	3.0	3.0
Capital expenditure	1.1	2.3	2.5	3.2	3.0	2.5	2.2	2.2

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

Table 9. Burkina Faso: Selected Indicators on the Millennium Development Goals, 1990–2005

	1990	1995	2000	2005
Eradicate extreme poverty and hunger	(2015 target: halve 1990 US$1 a day poverty and malnutrition rates)			
Income share held by lowest 20%	..	5.1	5.9	6.9
Malnutrition prevalence, weight for age (% of children under 5)	..	*32.7*	34.3	37.7
Poverty gap at $1 a day (PPP) (%)	..	19.5	14.4	7.3
Poverty headcount ratio at $1 a day (PPP) (% of population)	..	51.4	44.9	27.2
Poverty headcount ratio at national poverty line (% of population)	..	..	54.6	46.4
Prevalence of undernourishment (% of population)	21	19	..	15
Achieve universal primary education	(2015 target: net enrollment to 100)			
Literacy rate, youth total (% of people ages 15-24)	..	..	..	31
Persistence to grade 5, total (% of cohort)	70	..	69	76
Primary completion rate, total (% of relevant age group)	20	20	*25*	31
School enrollment, primary (% net)	29	..	36	45
Promote gender equality and empower women	(2015 target: education ratio 100)			
Proportion of seats held by women in national parliament (%)	..	4	8	12
Ratio of girls to boys in primary and secondary education (%)	61	..	70	77
Ratio of young literate females to males (% ages 15-24)	..	..	..	65
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	12.5	13	13.9	14.6
Reduce child mortality	(2015 target: reduce 1990 under 5 mortality by two-thirds)			
Immunization, measles (% of children ages 12-23 months)	79	43	59	84
Mortality rate, infant (per 1,000 live births)	113	107	100	96
Mortality rate, under-5 (per 1,000)	210	204	196	191
Improve maternal health	(2015 target: reduce 1990 maternal mortality by three-fourths)			
Births attended by skilled health staff (% of total)	..	*42*	31	*38*
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	1000	..
Combat HIV/AIDS, malaria, and other diseases	(2015 target: halt, and begin to reverse, AIDS, etc)			
Contraceptive prevalence (% of women ages 15-49)	..	*25*	12	14
Incidence of tuberculosis (per 100,000 people)	158	155	182	225.77
Prevalence of HIV, female (% ages 15-24)	..	..	..	1.4
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	2
Tuberculosis cases detected under DOTS (%)	..	11	17	18
Ensure environmental sustainability	(2015 target: various)			
CO2 emissions (metric tons per capita)	0.1	0.1	0.1	0.1
Forest area (% of land area)	26	..	25	25
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	..	..	..	..
Improved sanitation facilities (% of population with access)	7	..	..	13
Improved water source (% of population with access)	38	..	..	61
Nationally protected areas (% of total land area)	..	..	..	15.4
Develop a global partnership for development	(2015 target: various)			
Aid per capita (current US$)	38	50	30	50
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	7.8	14.6	20.3	6.8
Internet users (per 1,000 people)	0	0	1	5
Personal computers (per 1,000 people)	0	0	1	2
Total debt service (% of exports of goods, services and income)	6.8	11.9	14.9	..
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..
Other				
Fertility rate, total (births per woman)	6.9	6.9	6.3	5.9
GNI per capita, Atlas method (current US$)	350	240	250	400
GNI, Atlas method (current US$) (billions)	2.9	2.4	2.8	5.2
Gross capital formation (% of GDP)	18.2	22.8	22.7	20.6
Life expectancy at birth, total (years)	48	46	47	48
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	22
Population, total (millions)	8.5	9.8	11.3	13.2
Trade (% of GDP)	35.6	39.5	34.4	30.6

Source: World Development Indicators database, July 2007.

Appendix I. Burkina Faso: Joint Bank/Fund Debt Sustainability Analysis

Risks to the debt sustainability outlook have increased since the previous debt sustainability analysis (DSA) update in December 2007. *Following the reclassification of Burkina Faso as a medium performer based on the World Bank's Country Policy and Institutional Assessment (CPIA) rating, one indicative threshold (the NPV of debt-to-exports ratio) is breached in the baseline scenario. This breach leads to a classification of high risk of debt distress.*

I. External debt sustainability analysis[1]

A. What Has Changed Since the Last DSA?[2]

1. Following a weaker rating in the World Bank's CPIA rating for 2006 and 2007, Burkina Faso is now classified as a medium performer. In the joint DSA from April 2007, Burkina Faso was a strong performer based on the 2005 CPIA rating, and this classification was maintained for the DSA update by Fund staff in December 2007. However, the average CPIA rating for Burkina Faso for the period 2005-2007 has declined below the indicative threshold for strong performers.[3] Consequently Burkina Faso has now to be reclassified as a medium performer. The main causes for the decline in the CPIA ratings are a drop in 2006 of both the debt policy rating and the transparency and accountability rating, by half a point each.

2. **The reclassification to medium performer implies lower indicative thresholds for debt indicators in the DSF**. This is particularly relevant for the NPV of debt-to-exports ratio, for which the baseline projection now breaches the indicative threshold starting in 2013. For other debt indicators, baseline projections and some stress tests remain well below their indicative thresholds.

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[1] This DSA has been prepared jointly by staffs of the World Bank and Fund. The African Development Bank participated in the DSA mission.

[2] For the joint DSA from April 2007, see IMF Country Report No. 07/153; for the DSA update from December 2007 prepared by Fund staff, see IMF Country Report No. 08/168. The comparison to changes since the last DSA refers to the December 2007 update, unless otherwise indicated.

[3] Results for the 2006 CPIA rating became available in summer 2006; the 2006 rating was 3.69, below the threshold of 3.75 for strong performers. Results for the 2007 CPIA rating, as well as the 3-year average over 2005–07, also point to a medium policy performance.

3. **The medium-term export outlook has been revised upwards (Figure I.1, Panel 1) relative to projections in the DSA update from December 2007, mostly because of two factors**:[4]

- **Higher commodity prices**: Gold prices have increased by about 35 percent in US Dollars and about 25 percent in euro-terms; this has a significant effect on export projections because of the start-up of large commercial gold mining operations beginning in 2008.
- **Reassessment of medium-term export potential**: the most significant change is an upward revision for medium-term cotton exports, based on sector-specific World Bank input, which reflects a rebound to pre-crisis level in cotton output followed by gradual productivity improvements due to the introduction of higher-yield GM cotton seeds, better storage facilities, and advanced agricultural techniques (Figure I.1, Panel 2). Due to the constrained availability of arable lands, the share of cotton exports in percent of GDP is projected to decline markedly over the long-term (Figure I.1, Panel 3). Compared to the relatively stable export-to-GDP ratio in the previous DSA, the overall export-to-GDP profile is now hump-shaped. The peak in 2015 arises because of a strong expansion in the mining sector and a rebound in the cotton sector; in the long-run, the role of both sectors declines in percent of GDP, while other sectors, like services, livestock and light manufacturing, gradually increase in significance.

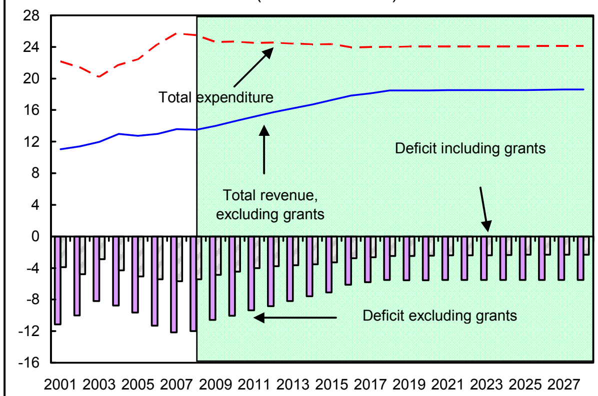
[4] The definition of service exports has been aligned with conventions in the Balance of Payments Manual, Fifth Edition; in contrast to the previous definition, the Fifth Edition treats the income account (formerly classified as factor services) separately from the service account. As a result, exports of services are now somewhat smaller than had been previously the case. This accounts for the downward revision of historical data shown in Figure I.1.

Box I.1. Burkina Faso—Macroeconomic Assumptions

Real GDP growth is projected to average 6 percent in the medium and long run, broadly in line with the historical average of the past ten years. In 2008, surging oil and food prices will keep growth below average at about 4.5 percent, while increasing annual average **inflation** to above 6 percent. In the following years, inflation is expected to return to its historical average of about 2 percent.

The **overall fiscal deficit**, with and without grants, is projected to decrease over time as revenue increases towards the WAEMU tax revenue target of 17 percent of GDP. The revenue increase is supported by ongoing efforts to strengthen tax and customs administration, which is a centerpiece of the current Fund-supported program, and comprehensive tax policy reforms planned for coming years. Expenditures have increased significantly since 2006 and are projected to remain high to meet the authorities' PRSP objectives. External financing requirements are to be met equally by grants and loans, which is a conservative assumption based on recent experience. The decline in the overall deficit including grants translates into a broadly equal reduction in external new borrowing, because domestic financing is assumed to be zero for most years as its costs are high.

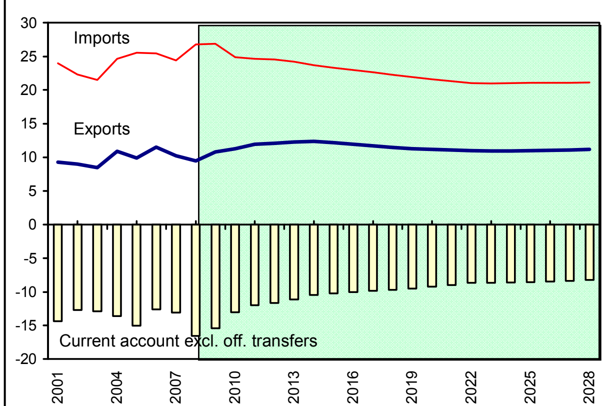
Fiscal Developments, 2001–2028
(Percent of GDP)



Source: Burkinabè authorities and staff estimates.

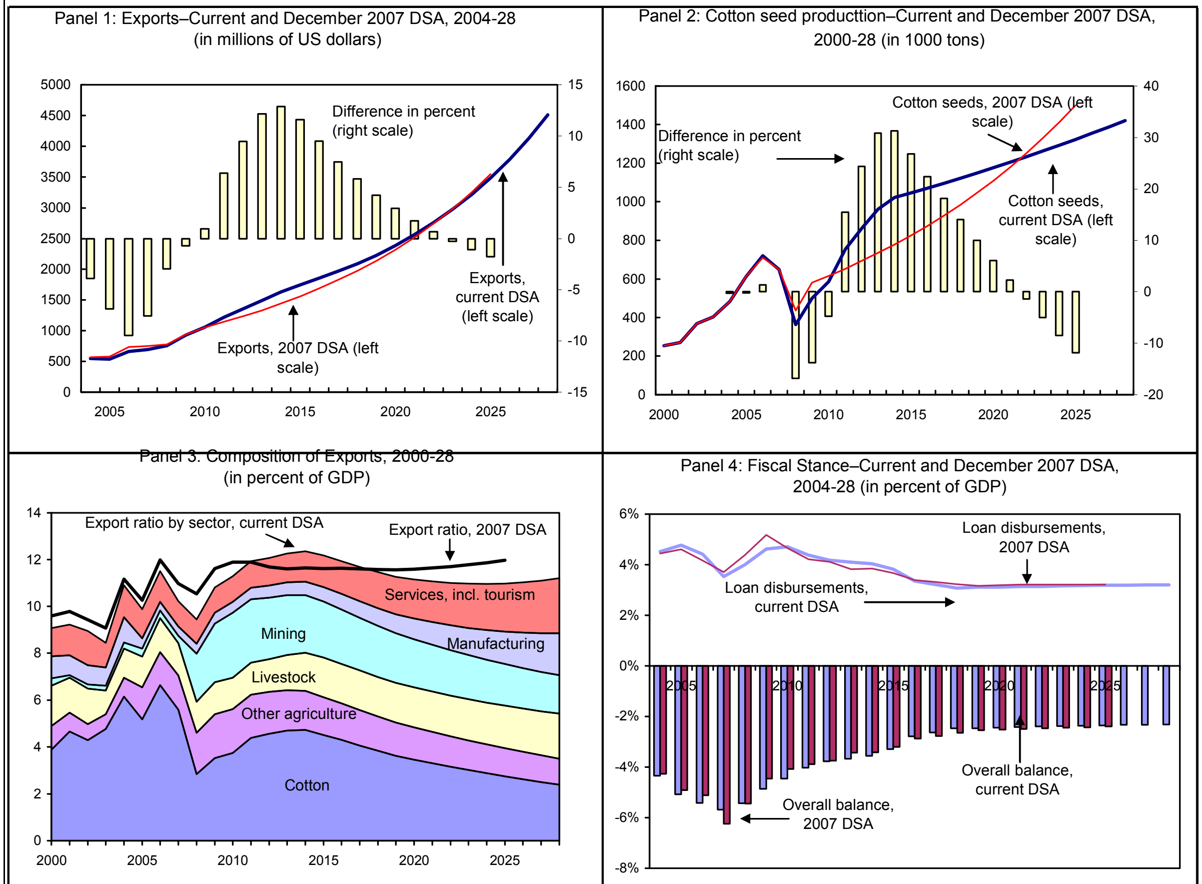
The **current account deficit** is expected to narrow moderately in the medium and long run as the tighter fiscal stance dampens import demand. In the short run, higher oil prices lead to a significant increase in imports and widening of the current account deficit; this is expected to be partially reversed once the connection of the transmission grid with Côte d'Ivoire is completed, which should reduce the consumption of oil for electricity generation. The exports-to-GDP ratio will decline significantly in 2008 because of a poor cotton harvest in 2007; in the medium term, gold exports due to the opening of new commercial mining operations will support export growth.

Current Account, Exports, and Imports 2001-28
(Percent of GDP)



Source: Burkinabè authorities and staff estimates.

Figure I.1. Burkina Faso: Changes in Macroeconomic Framework Between Current and Previous DSA



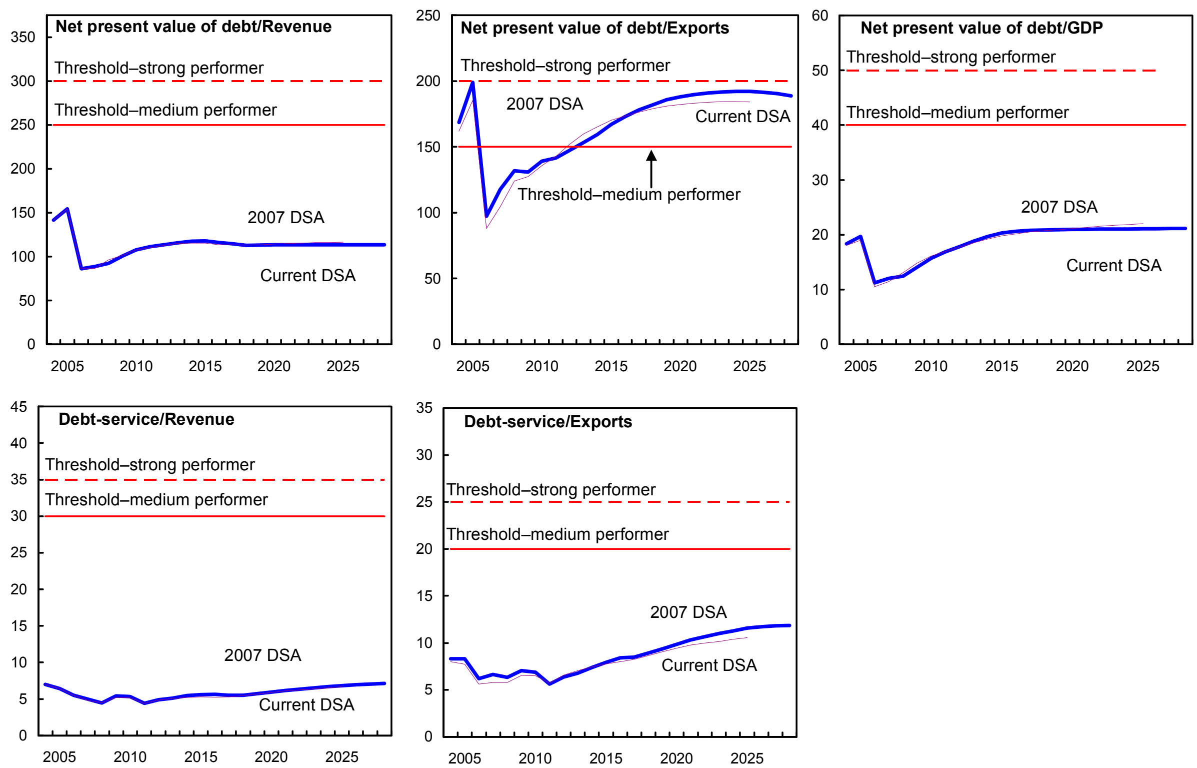
Sources: Burkinabè authorities; and IMF staff estimates.

4. **The fiscal path is broadly unchanged**. Externally-financed capital expenditures in 2007 remained below expectations, leading to a modest downward revision in the following years and correspondingly lower borrowing requirements. Fiscal targets were otherwise maintained, with a long-run fiscal deficit target of about 2.5 percent of GDP (Figure I.1, Panel 4).

5. **The debt database has been updated and reconciled with creditor statements, but this has not led to a major revision in the NPV of debt**. The debt database has been updated to reflect the debt stock outstanding as of end-2007; the reconciliation with available creditor statements was done jointly by staffs of the African Development Bank, the Fund, and the World Bank. The resulting change in the estimated NPV of debt is small—for 2007, it has been revised upwards by about 3.75 percent, whereas the average revision for 2007–25 is approximately -0.5 percent.

6. **The lower DSF thresholds signal a higher risk of debt distress (Figure I.2)**. With few changes in the macroeconomic framework, the path for most DSF indicators is close to previous projections. The country's risk of debt distress, however, has increased because all DSF indicators are now closer to their respective thresholds than was previously the case and the NPV of debt-to-exports ratio even breaches its threshold.

Figure I.2. Burkina Faso: Selected Debt Indicators (Baseline Scenario)–Current and December 2007 DSA, 2004–28 (percent)



Source: Burkinabè authorities and IMF–World Bank staff estimates.

B. Assessing Vulnerabilities

7. **This section explores the vulnerability of the debt sustainability outlook to lower export and growth assumptions and maintaining the current fiscal stance**.

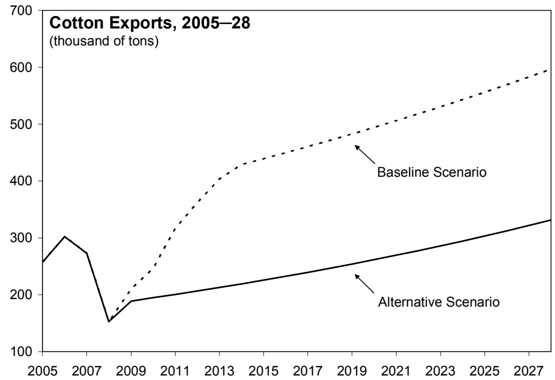
8. **A worse-than-expected export and growth performance is a clear risk, but simulations show that most DSF indicators are relatively robust to more unfavorable export and growth scenarios, with the exception of the NPV of debt-to-exports ratio**. The baseline scenario of the DSA assumes (i) a rapid cotton production rebound to pre-crisis levels, and (ii) much higher gold prices in line with WEO projections. The country-specific alternative scenario in Figure I.3 relaxes both assumptions and lowers the GDP growth rate, while maintaining the path for the overall fiscal deficit in percent of GDP. The impact on most debt sustainability indicators is modest, with baseline projections remaining below their indicative thresholds for medium performers (Figure I.4). The exception is the NPV of debt-to-exports ratio, which breaches the threshold.

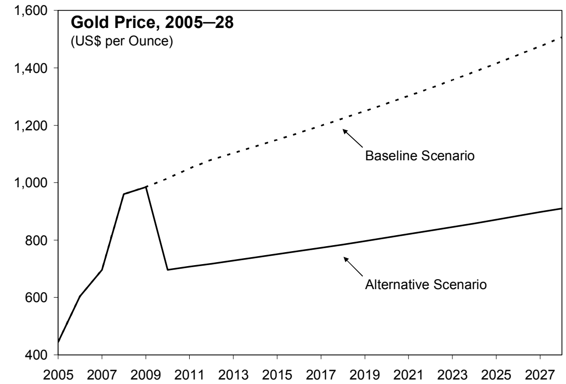
9. **A key factor for the resilience of most debt indicators to the adverse export and growth shock is the assumption that the fiscal deficit declines throughout the projection period as programmed in the baseline**. This implicitly assumes that (i) structural reforms in the area of tax administration and fiscal policy would be implemented and (ii) that fiscal tightening would be adopted as a response to permanent losses of revenue.

10. **If the fiscal deficit remains at the level observed over the past few years, debt sustainability will be at risk**. In a second country-specific scenario, growth and exports follow the same trend as in the baseline, but fiscal policy is less tight, with the overall fiscal deficit-to-GDP ratio remaining in the long-run at about 4.5 percent of GDP, vs. 2.5 percent of GDP in the baseline (Figure I.5). This scenario leads to an upward trend in all debt indicators, and a number of indicative thresholds would be breached. Besides increasing the risk of debt distress, the economy would become much more vulnerable to negative external shocks, and there would be little room for implementing counter-cyclical policies.

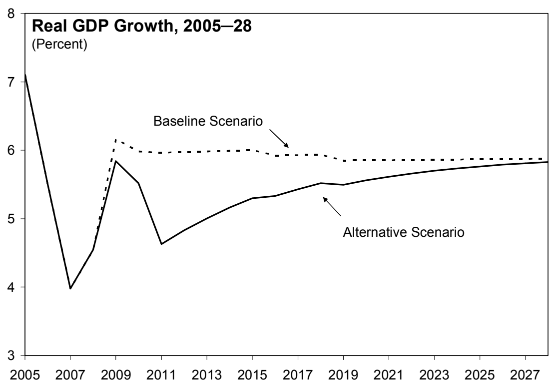
Figure I.3. Alternative Scenario with Lower Exports and Growth: Assumptions

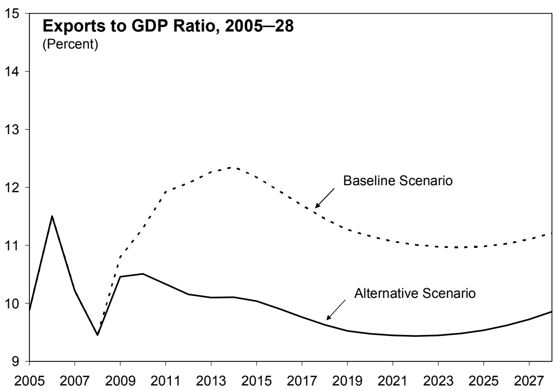
Cotton production and gold prices are lower over the medium and long term, ...



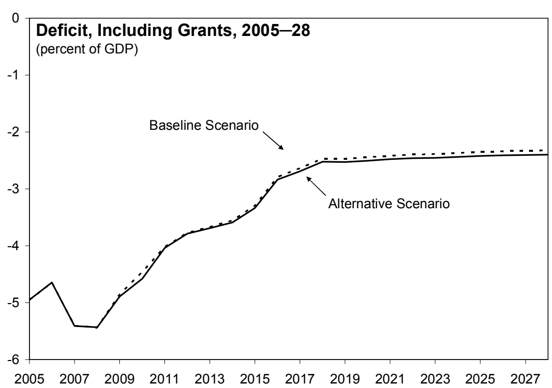


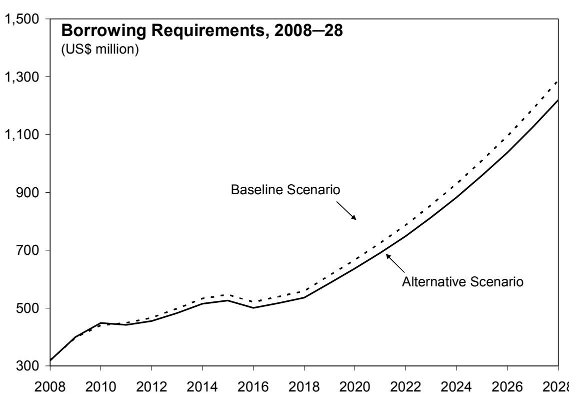
… leading to lower growth and a reduced export-to-GDP ratio.





The fiscal deficit, in percent of GDP, follows the baseline, but nominal borrowing requirements are reduced because of the lower GDP level.

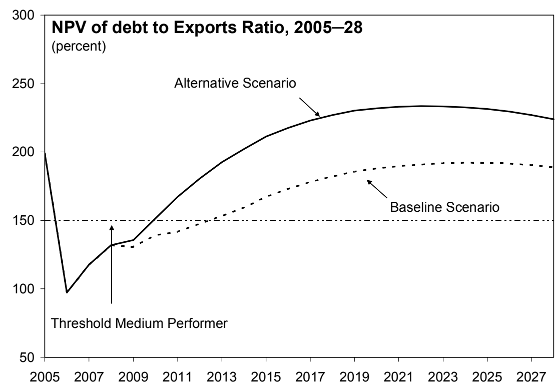




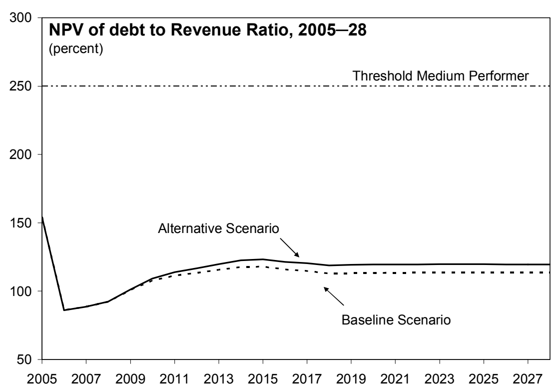
Sources: Authorities, World Bank and IMF staff estimates.

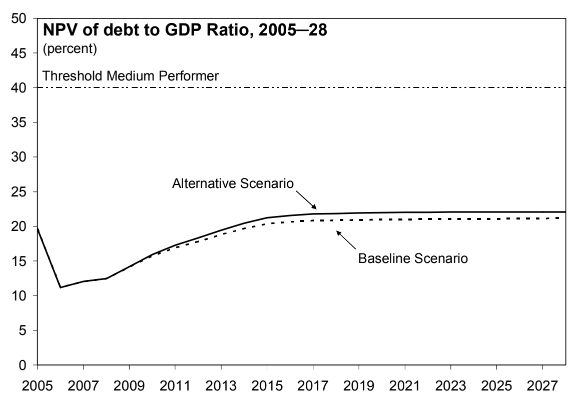
Figure I.4. Alternative Scenario with Lower Exports and Growth: Results

Because of a less favorable outlook for exports, the NPV of debt-to-exports ratio would exceed 200 percent, the threshold for strong performers …

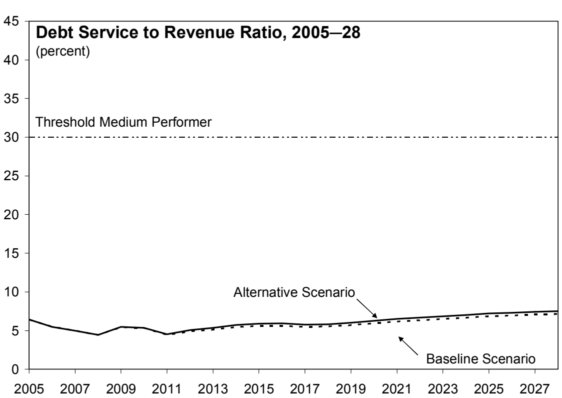


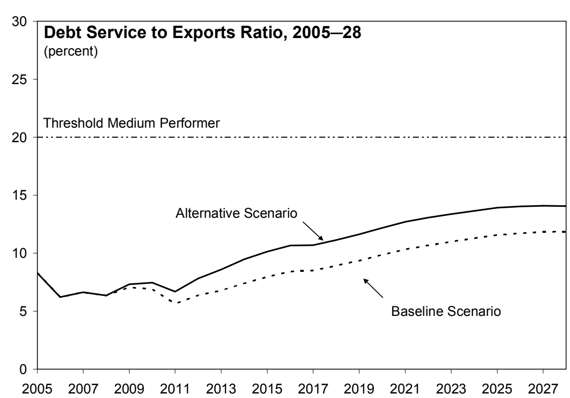
… but debt would remain otherwise sustainable …





… as Burkina Faso would preserve its capacity to meet its external debt service payments.

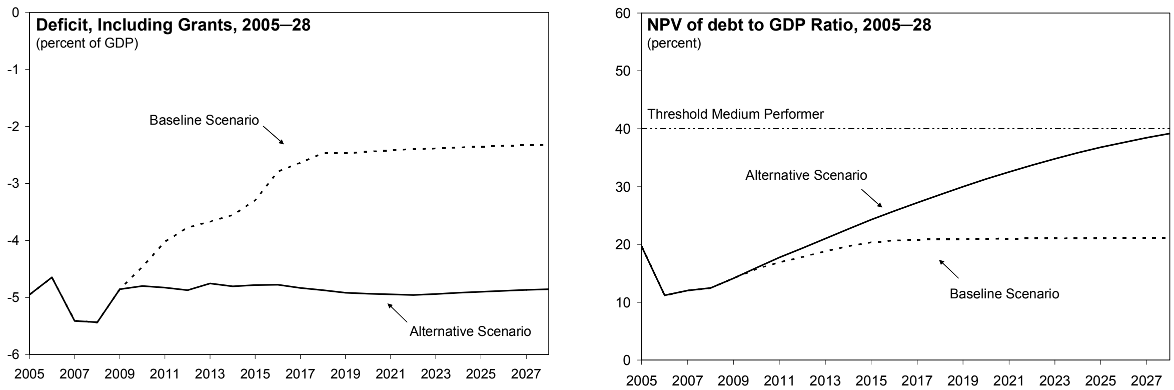




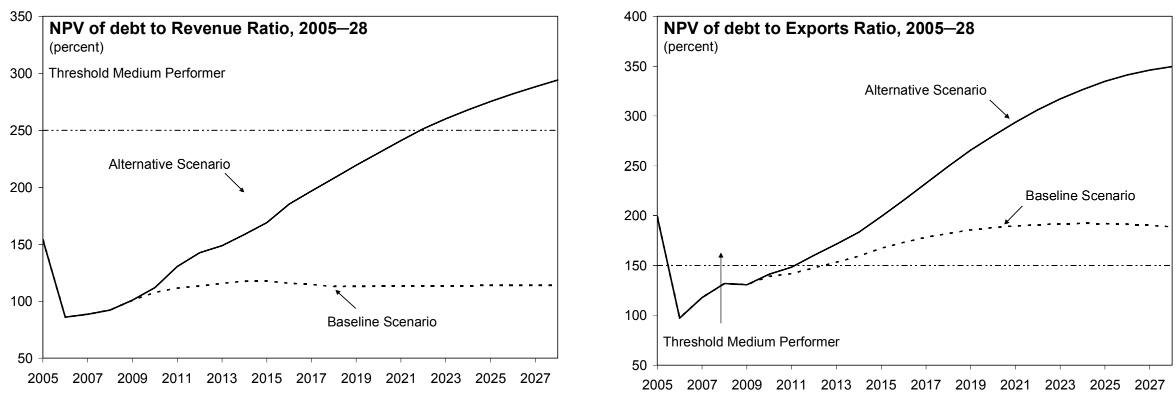
Sources: Authorities, World Bank and IMF staff estimates.

Figure I.5. Alternative Scenario with Higher Fiscal Deficit

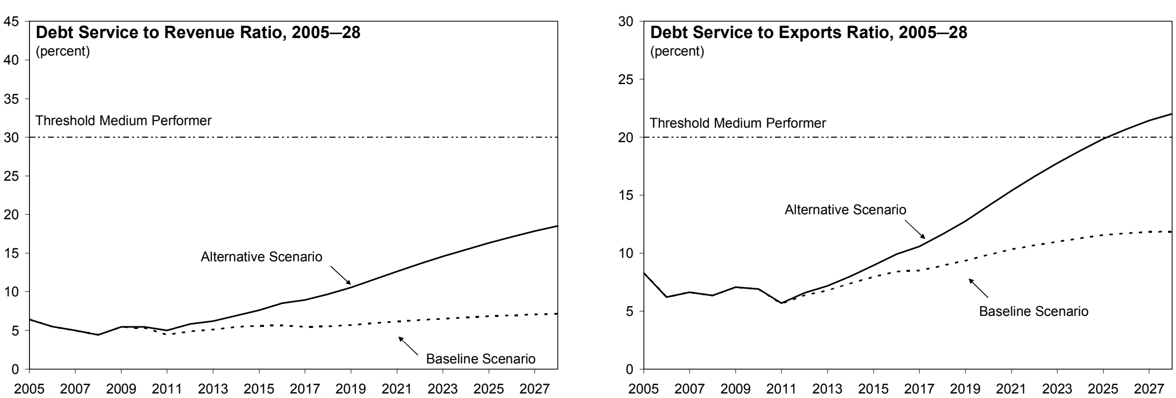
As a result of a higher fiscal deficit the NPV of debt to GDP ratio will increase continuously...



... and debt sustainability will be at risk, as underlined with the two other NPV of debt ratios, which will breach their indicative thresholds.



Debt service ratios will also increase continuously.



Sources: Authorities, World Bank and IMF staff estimates.

C. Risk of Debt Distress

11. **The risk of debt distress is high because one indicative threshold is breached in the baseline projection: the threshold for the NPV of debt-to-exports ratio**. The peak ratio of about 190 percent in the baseline projection of the NPV of debt-to-exports ratio is well above the 150 percent threshold. Under DSF guidelines, such a breach warrants a classification of high risk of debt distress, although the GDP- and revenue-based DSF indicators remain well below their indicative thresholds, including some of the alternative scenarios and stress tests.

12. **There are a number of other positive factors as well as some downside risks:**

Positive factors

- Outstanding payment record: since the transition from a centralized to a market-oriented economy in the early 1990s, Burkina Faso's government has consistently demonstrated its commitment to stay current on its external payment obligations. This includes the period before the country benefited from debt relief under the Heavily Indebted Poor Country Initiative (HIPC), when the NPV of debt-to-exports ratio was well above 200 percent. Despite a high debt burden, the government even reduced outstanding external payment arrears in these years. Given this demonstrated payment record, it appears unlikely that the government will fail to service its debt obligations. Moreover, the debt service ratios are projected to remain low throughout the entire projection period.
- Additional grant financing: this could improve the debt sustainability outlook significantly. The share of grant financing excluding IDA and AFD has increased in recent years to about 55 percent, whereas DSA projections are based on a more conservative 50 percent grant-financing share. Raising the grant-financing share to 55 percent in the projection period would lower the peak NPV of debt-to-exports ratio by about 20 percentage points, but it would still remain above the indicative threshold.
- Improvements in debt management: the authorities have recently adopted a national debt policy and are currently receiving technical assistance in this area from the World Bank. Preliminary conclusions from the Debt Management Performance Assessment (DEMPA) indicate that Burkina Faso has relatively strong controls for the contracting of external debt. The 35 percent concessionality floor is strictly enforced for all central-government foreign-currency borrowings, and projects are consistently scrutinized by a National Public Debt Committee before negotiations are concluded. A debt strategy that is planned to be added as an annex to the 2009 budget is being finalized and will include a ceiling on new borrowings based on the analysis of debt sustainability. While the evaluation also identifies a number of areas that do not meet the minimum requirements set out in the DeMPA framework (overstretching

of the Public Debt National Committee, poor information on disbursements, poor dissemination on debt data, and weak audit institutions with respect to external borrowing), in many cases the improvements required for reaching those standards are relatively modest.

Downside risks

- Delayed fiscal adjustment: this poses a significant downside risk, because without deficit reduction Burkina Faso's debt burden could eventually become unsustainable, even measured relative to GDP or revenue. Preventing this will require a stronger revenue effort, which in turn depends on further efforts in strengthening tax and customs administration, and on implementing substantial tax policy reform.
- Adverse export shocks: these shocks would mostly affect the export-based debt indicators, whereas the other indicators are relatively robust with respect to this type of shock. Given that Burkina Faso is unlikely to have problems mobilizing foreign exchange to service its public debt[5], the impact of this type of shock on the risk of debt distress is limited.

13. **In sum, there are significant up- and downside-risks**. The most significant downside risk is delayed fiscal adjustment, in which case the NPV of debt-to-exports ratio could climb above 300 percent (Figure I.5). However, even under this dire scenario a debt default may not be the most likely outcome because (i) additional grants, particularly those related to the IDA/AFD grant allocation mechanism, would mitigate the increase in debt ratios, and (ii) the authorities have proven their commitment in the past to stay current on their debt allocations even when the debt burden is high.

II. Fiscal Debt Sustainability Analysis

14. **The results for the fiscal DSA are broadly similar to those of the external DSA**. Failure to reduce the current fiscal deficits would lead to ever-increasing debt indicators, which is clearly unsustainable. The domestic debt stock is low—gross domestic debt is estimated at approximately 3.5 percent of GDP at end-2007, and net debt at 0.5 percent of GDP; consequently, the baseline scenarios for external and total public debt are similar. The alternative scenarios in the fiscal DSA, though, differ in exploring the impact of different fiscal policies on the debt sustainability outlook. For example, the 'no-reform' scenario, which maintains the 2008 primary deficit of 5 percent of GDP over the projection horizon, reinforces the result above (Figure I.7).

[5] Burkina Faso's membership in the West African Economic and Monetary Union (WAEMU) gives it access to the union's pool of foreign exchange reserves.

III. Conclusion

15. **Burkina Faso's risk of debt distress is high** on account of the NPV of debt-to-exports ratio; all other debt indicators are comfortably below their policy-dependent thresholds under the baseline scenario. The overall deterioration from the previous DSA suggests that more emphasis needs to be given to a prudent fiscal policy, to external borrowing limited to concessional loans, and to a continued build-up in public debt management capacity.

Appendix I—Table 1. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2008–28 1/

(percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2005	2006	2007			2008	2009	2010	2011	2012	2013	2008–13 Average	2018	2028	2014–28 Average
External debt (nominal) 1/	**38.9**	**21.1**	**19.7**			**20.7**	**23.5**	**26.1**	**28.0**	**29.3**	**30.6**		**32.7**	**31.9**	
o/w public and publicly guaranteed (PPG)	38.9	21.1	19.7			20.7	23.5	26.1	28.0	29.3	30.6		32.7	31.9	
Change in external debt	-2.9	-17.8	-1.3			1.0	2.8	2.6	1.9	1.3	1.3		-0.1	-0.1	
Identified net debt–creating flows	8.0	6.7	0.4			8.0	9.3	8.5	7.3	6.8	5.6		3.2	2.9	
Non–interest current account deficit	**11.4**	**9.3**	**8.9**	**10.1**	**1.1**	**12.7**	**12.7**	**10.4**	**9.4**	**9.1**	**8.6**		**7.6**	**6.4**	7.1
Deficit in balance of goods and services	15.6	14.0	14.2			17.4	16.1	13.6	12.7	12.4	12.0		10.8	9.9	
Exports	9.9	11.5	10.2			9.5	10.8	11.3	11.9	12.1	12.3		11.5	11.2	
Imports	25.5	25.5	24.4			26.8	26.9	24.9	24.7	24.5	24.2		22.3	21.1	
Net current transfers (negative = inflow)	-4.3	-4.4	-5.3	-4.7	0.8	-4.7	-3.4	-3.1	-3.3	-3.3	-3.3		-3.1	-3.5	-3.3
o/w official	-3.4	-3.0	-4.0			-3.7	-2.3	-2.2	-2.4	-2.2	-2.2		-1.6	-1.5	
Other current account flows (negative = net inflow)	0.1	-0.2	0.0			0.0	0.0	0.0	0.0	-0.1	-0.1		-0.1	0.0	
Net FDI (negative = inflow)	**-0.6**	**-0.6**	**-5.5**	**-1.0**	**1.6**	**-4.0**	**-2.6**	**-1.0**	**-0.9**	**-1.0**	**-1.7**		**-3.1**	**-2.2**	-2.4
Endogenous debt dynamics 2/	**-2.8**	**-2.0**	**-2.9**			**-0.6**	**-0.8**	**-0.9**	**-1.1**	**-1.2**	**-1.3**		**-1.4**	**-1.3**	
Contribution from nominal interest rate	0.3	0.2	0.2			0.2	0.4	0.4	0.3	0.3	0.3		0.4	0.5	
Contribution from real GDP growth	-2.8	-2.0	-0.7			-0.8	-1.2	-1.3	-1.4	-1.5	-1.6		-1.8	-1.7	
Contribution from price and exchange rate changes	-0.3	-0.3	-2.4			…	…	…	…	…	…		…	…	
Residual (3–4) 3/	**-10.9**	**-24.6**	**-1.7**			**-7.0**	**-6.5**	**-6.0**	**-5.5**	**-5.5**	**-4.2**		**-3.2**	**-3.0**	
o/w exceptional financing	0.0	-23.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
NPV of external debt 4/	19.7	11.2	12.0			12.5	14.1	15.7	16.9	17.8	18.8		20.9	21.2	
percent of exports	199.1	97.3	117.7			131.8	130.8	139.2	141.8	147.5	153.3		182.1	188.8	
NPV of PPG external debt	**19.7**	**11.2**	**12.0**			**12.5**	**14.1**	**15.7**	**16.9**	**17.8**	**18.8**		**20.9**	**21.2**	
percent of exports	**199.1**	**97.3**	**117.7**			**131.8**	**130.8**	**139.2**	**141.8**	**147.5**	**153.3**		**182.1**	**188.8**	
percent of government revenues	**154.2**	**86.1**	**88.6**			**92.3**	**100.9**	**107.7**	**111.4**	**113.3**	**115.7**		**112.9**	**113.7**	
Debt service-to-exports ratio (percent)	**8.3**	**6.2**	**6.6**			**6.3**	**7.1**	**6.9**	**5.6**	**6.4**	**6.8**		**8.9**	**11.9**	
PPG debt service-to-exports ratio (percent)	**8.3**	**6.2**	**6.6**			**6.3**	**7.1**	**6.9**	**5.6**	**6.4**	**6.8**		**8.9**	**11.9**	
PPG debt service-to-revenue ratio (percent)	**6.4**	**5.5**	**5.0**			**4.4**	**5.4**	**5.3**	**4.4**	**4.9**	**5.1**		**5.5**	**7.2**	
Total gross financing need (US$ billions)	631.1	548.6	271.1			735.8	938.5	957.9	937.6	988.2	933.1		1014.0	2218.3	
Non–interest current account deficit that stabilizes debt ratio	14.3	27.2	10.2			11.7	9.9	7.9	7.5	7.7	7.3		7.7	6.5	
Key macroeconomic assumptions															
Real GDP growth (percent)	7.1	5.5	4.0	5.6	1.9	4.5	6.2	6.0	6.0	6.0	6.0	5.8	5.9	5.9	5.9
GDP deflator in US$ terms (percent change)	0.8	0.7	12.8	5.3	10.3	12.7	1.8	2.6	3.1	3.2	2.3	4.3	2.3	2.2	2.3
Effective interest rate (percent) 5/	0.7	0.7	1.2	0.6	0.4	1.1	1.8	1.8	1.2	1.2	1.3	1.4	1.4	1.5	1.4
Growth of exports of G&S (US$ terms, percent)	-2.1	23.7	4.2	12.0	22.3	8.9	23.5	13.7	15.3	10.7	10.2	13.7	6.3	9.3	7.7
Growth of imports of G&S (US$ terms, percent)	11.7	6.1	12.3	11.0	12.8	29.5	8.3	0.6	8.4	8.7	7.2	10.4	6.7	8.4	7.3
Grant element of new public sector borrowing (percent)	…	…	…	…	…	32.4	33.2	32.5	32.3	31.9	31.4	32.3	29.9	27.7	29.2
Aid flows (US$ billions) 7/	554.8	564.6	678.6			835.9	891.5	965.1	997.3	1033.8	1046.1		1117.8	2574.3	
o/w Grants	249.8	280.2	439.4			524.3	496.9	526.0	548.7	566.9	548.1		558.9	1287.1	
o/w Concessional loans	259.4	254.9	239.2			311.6	394.6	439.1	448.7	466.9	498.1		558.9	1287.1	
Grant–equivalent financing (percent of GDP) 8/	…	…	…			7.9	7.3	7.1	6.8	6.4	5.8		4.0	4.1	4.2
Grant–equivalent financing (percent of external financing) 8/	…	…	…			73.6	70.2	69.2	69.5	69.2	67.4		65.0	63.8	64.6
Memorandum items:															
Nominal GDP (US$ billions)	5436.9	5776.6	6776.8			7981.4	8625.6	9375.6	10245.5	11203.4	12151.1		18238.9	40248.1	
(NPVt–NPVt–1)/GDPt–1 (percent)						2.6	2.8	3.0	2.7	2.6	2.6	2.7	1.8	1.8	1.9

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r – g – r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections, capital transfers are included–in particular project grants, which are projected to average about 2.5 percent of GDP over the long term, and about 4 percent over 2008-12 due to MCC grants—and private, non-debt-creating capital inflows. Projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current–year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant–equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Appendix I. Table 2. Burkina Faso: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008–28
(Percent)

	Projections							
	2008	2009	2010	2011	2012	2013	**2018**	2028
NPV of debt-to-GDP ratio								
Baseline	12	14	16	17	18	19	**21**	21
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	12	13	14	15	16	18	**29**	40
A2. New public sector loans on less favorable terms in 2008–27 2/	12	15	18	20	22	24	**29**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	12	14	16	18	19	20	**22**	22
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	12	16	21	22	22	23	**24**	22
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	12	15	18	20	21	22	**24**	24
B4. Net non–debt creating flows at historical average minus one standard deviation in 2008–09 4/	12	16	18	19	20	21	**22**	21
B5. Combination of B1–B4 using one–half standard deviation shocks	12	15	19	20	21	22	**24**	23
B6. One–time 30 percent nominal depreciation relative to the baseline in 2008 5/	12	20	22	24	25	27	**30**	30
NPV of debt-to-exports ratio								
Baseline	132	131	139	142	148	153	**182**	189
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 1/	132	120	123	127	137	151	**257**	360
A2. New public sector loans on less favorable terms in 2007–26 2/	132	142	161	171	184	197	**256**	297
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	132	131	139	142	148	153	**182**	189
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	132	205	322	319	325	331	**358**	337
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	132	131	139	142	148	153	**182**	189
B4. Net non–debt creating flows at historical average minus one standard deviation in 2008–09 4/	132	148	160	160	165	170	**192**	191
B5. Combination of B1–B4 using one–half standard deviation shocks	132	169	219	220	227	233	**265**	263
B6. One–time 30 percent nominal depreciation relative to the baseline in 2008 5/	132	131	139	142	148	153	**182**	189
NPV of debt-to-revenue ratio								
Baseline	92	101	108	111	113	116	**113**	114
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 1/	92	92	95	100	105	114	**159**	217
A2. New public sector loans on less favorable terms in 2007–26 2/	92	110	124	135	142	149	**159**	179
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	92	103	113	116	118	121	**118**	119
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	92	115	143	144	143	143	**127**	117
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	92	108	125	129	131	134	**131**	132
B4. Net non–debt creating flows at historical average minus one standard deviation in 2008–09 4/	92	114	124	126	127	128	**119**	115
B5. Combination of B1–B4 using one–half standard deviation shocks	92	110	131	134	135	136	**127**	123
B6. One–time 30 percent nominal depreciation relative to the baseline in 2008 5/	92	143	153	158	161	164	**160**	161

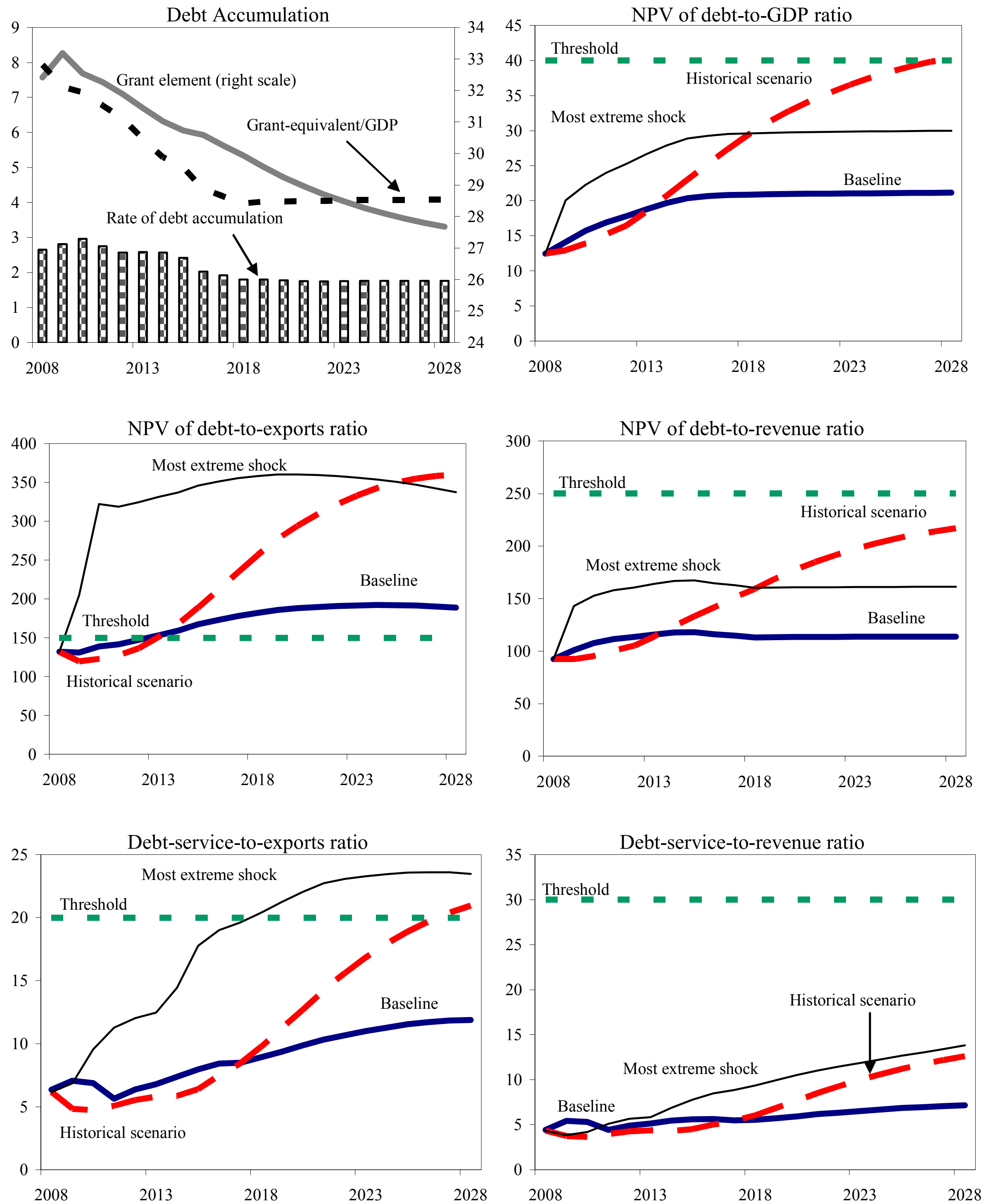
Appendix I. Table 2. Burkina Faso: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008–28 (concluded)
(Percent)

	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
Debt service-to-exports ratio								
Baseline	6	7	7	6	6	7	**9**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	6	5	5	5	6	6	**10**	21
A2. New public sector loans on less favorable terms in 2008–27 2/	6	5	5	6	7	8	**15**	23
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	6	5	5	6	6	6	**9**	12
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	6	7	10	11	12	12	**20**	23
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	6	5	5	6	6	6	**9**	12
B4. Net non–debt creating flows at historical average minus one standard deviation in 2008–09 4/	6	5	5	6	6	7	**10**	13
B5. Combination of B1–B4 using one–half standard deviation shocks	6	6	7	8	9	9	**14**	18
B6. One–time 30 percent nominal depreciation relative to the baseline in 2008 5/	6	5	5	6	6	6	**9**	12
Debt service-to-revenue ratio								
Baseline	4	5	5	4	5	5	**6**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	4	4	4	4	4	4	**6**	13
A2. New public sector loans on less favorable terms in 2008–27 2/	4	4	4	5	6	6	**9**	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	4	4	4	5	5	5	**6**	8
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	4	4	4	5	5	5	**7**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	4	4	5	5	5	6	**7**	9
B4. Net non–debt creating flows at historical average minus one standard deviation in 2008–09 4/	4	4	4	5	5	5	**6**	8
B5. Combination of B1–B4 using one–half standard deviation shocks	4	4	4	5	5	5	**7**	8
B6. One–time 30 percent nominal depreciation relative to the baseline in 2008 5/	4	5	6	6	7	7	**8**	11
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	33	33	33	33	33	33	**33**	33

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (US$ terms), non–interest current account in percent of GDP, and non–debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assumingan offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure I.6. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios (in percent), 2008-28 1/



Source: Staff projections and simulations.
1/ Thresholds for medium performer.

Appendix I–Table 3.Burkina Faso: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005-28
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2005	2006	2007	Historical Average 5/	Standard Deviation 5/	2008	2009	2010	2011	2012	2013	2008-13 Average	2018	2028	2014-28 Average
Public sector debt 1/	44.4	22.8	22.0			24.0	26.4	28.7	30.3	31.4	32.5		34.0	32.5	
o/w foreign-currency denominated	40.9	20.0	18.6			20.7	23.5	26.0	27.8	29.1	30.5		32.5	31.7	
Change in public sector debt	0.3	-21.6	-0.8			2.0	2.4	2.3	1.6	1.1	1.2		-0.2	-0.2	
Identified debt-creating flows	6.6	-23.0	2.3			3.3	3.0	2.3	1.6	1.2	1.2		-0.2	-0.2	
Primary deficit	4.6	5.0	5.3	3.6	1.2	5.0	4.3	3.9	3.6	3.3	3.2	3.9	2.0	1.8	2.1
Revenue and grants	17.4	18.9	20.1			20.1	19.8	20.2	20.5	20.8	20.8		21.5	21.8	
of which : grants	4.6	5.9	6.5			6.6	5.8	5.6	5.4	5.1	4.5		3.1	3.2	
Primary (noninterest) expenditure	21.9	23.9	25.3			25.0	24.1	24.1	24.1	24.1	24.0		23.5	23.6	
Automatic debt dynamics	2.1	-5.9	-2.9			-1.7	-1.3	-1.6	-2.0	-2.1	-2.0		-2.1	-2.0	
Contribution from interest rate/growth differential	-3.6	-3.1	-1.1			-1.0	-1.3	-1.4	-1.7	-1.8	-1.9		-2.0	-1.9	
of which : contribution from average real interest rate	-0.7	-0.8	-0.2			0.0	0.1	0.1	-0.1	-0.1	-0.1		-0.1	-0.1	
of which : contribution from real GDP growth	-2.9	-2.3	-0.9			-1.0	-1.4	-1.5	-1.6	-1.7	-1.8		-1.9	-1.8	
Contribution from real exchange rate depreciation	5.7	-2.8	-1.9			-0.7	0.0	-0.2	-0.3	-0.3	-0.1		...	...	
Other identified debt-creating flows	0.0	-22.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	-22.2	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-6.3	1.4	-3.1			-1.3	-0.6	-0.1	0.0	-0.1	-0.1		0.0	0.0	
NPV of public sector debt	23.2	14.0	15.5			15.8	17.1	18.5	19.4	20.0	20.9		22.3	21.9	
o/w foreign-currency denominated	19.7	11.2	12.0			12.5	14.1	15.7	16.9	17.8	18.8		20.9	21.2	
o/w external	19.7	11.2	12.0			12.5	14.1	15.7	16.9	17.8	18.8		20.9	21.2	
NPV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 2/	6.0	6.2	6.6			5.8	5.3	4.8	4.4	4.2	4.2		3.1	3.2	
NPV of public sector debt-to-revenue and grants ratio (in percent)	133.6	73.9	77.1			78.5	86.6	91.3	94.4	96.5	100.6		103.6	100.5	
NPV of public sector debt-to-revenue ratio (in percent)	181.7	107.3	113.9			116.7	122.2	126.4	127.7	127.6	128.5		120.8	117.8	
o/w external 3/	154.2	86.1	88.6			92.3	100.9	107.7	111.4	113.3	115.7		112.9	113.7	
Debt service-to-revenue and grants ratio (in percent) 4/	8.2	6.2	6.7			4.4	4.7	4.6	4.0	4.3	4.6		5.1	6.3	
Debt service-to-revenue ratio (in percent) 4/	11.2	8.9	9.9			6.6	6.6	6.4	5.3	5.7	5.8		6.0	7.3	
Primary deficit that stabilizes the debt-to-GDP ratio	4.3	26.6	6.1			2.9	1.9	1.6	2.0	2.2	2.0		2.2	2.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	7.1	5.5	4.0	5.6	1.9	4.5	6.2	6.0	6.0	6.0	6.0	5.8	5.9	5.9	5.9
Average nominal interest rate on forex debt (in percent)	0.7	0.6	1.1	0.6	0.4	1.1	1.8	1.8	1.2	1.2	1.3	1.4	1.4	1.5	1.4
Average real interest rate on domestic currency debt (in percent)	3.9	5.1	4.1	-0.3	5.2	4.1	4.1	3.6	3.3	3.5	3.3	3.6	3.1	2.6	2.9
Real exchange rate depreciation (in percent, + indicates depreciation)	16.0	-7.4	-10.0	-2.6	12.5	-3.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.6	-0.1	3.4	2.8	2.9	5.0	1.3	1.8	2.1	2.1	2.3	2.4	2.3	2.2	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	10.8	15.0	10.2	7.4	6.6	3.3	2.2	6.1	6.0	5.9	5.4	4.8	6.1	5.9	5.8
Grant element of new external borrowing (in percent)	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	...

Sources: Country authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Appendix I–Table 4.Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt 2008-28

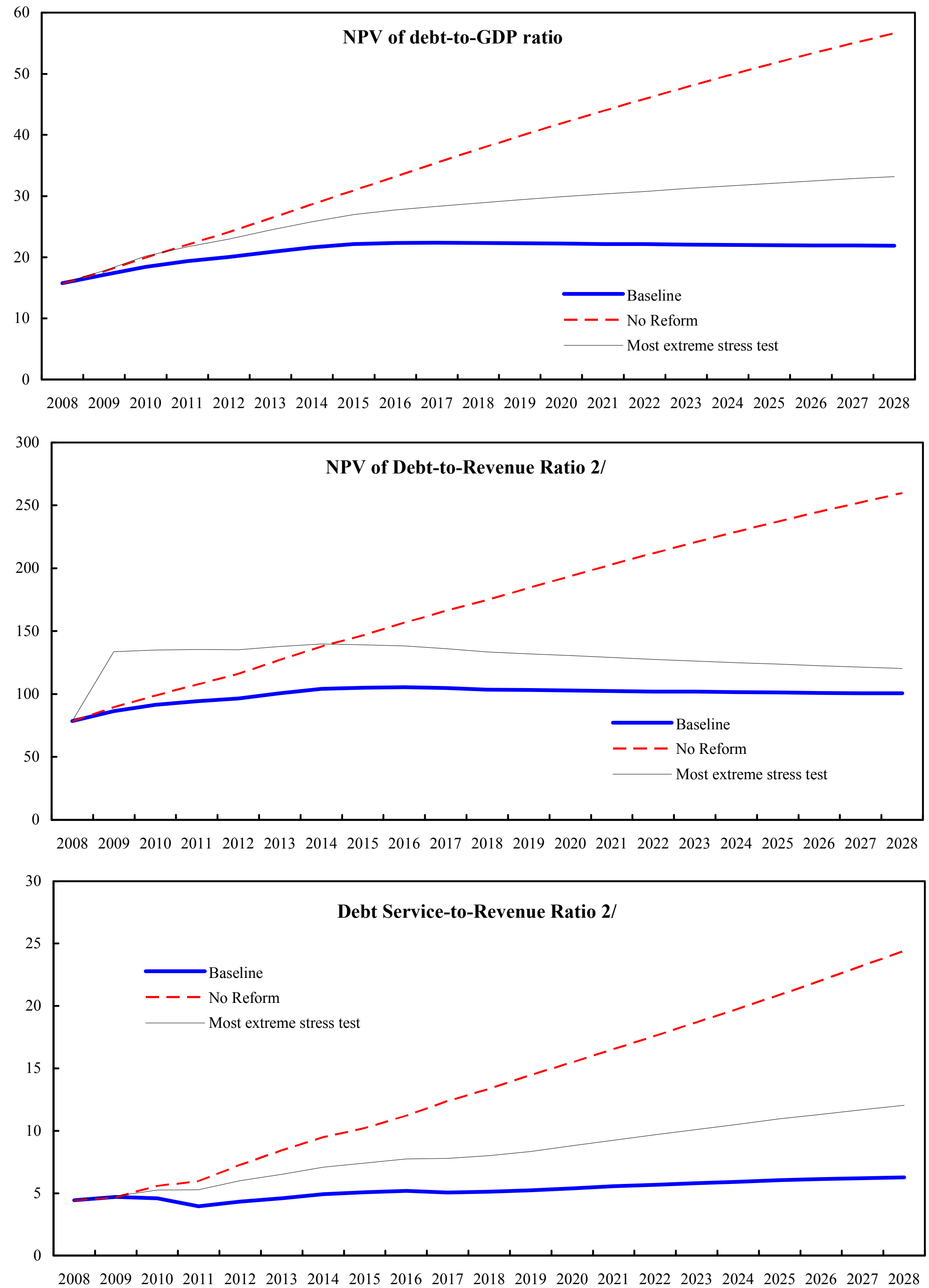
	Projections							
	2008	2009	2010	2011	2012	2013	2018	2028
NPV of Debt-to-GDP Ratio								
Baseline	16	17	18	19	20	21	22	22
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	16	18	19	20	21	27	39
A2. Primary balance is unchanged from 2008	16	18	20	22	24	26	38	57
A3. Permanently lower GDP growth 1/	16	17	19	20	21	22	26	35
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	16	18	20	22	23	24	29	33
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	16	18	20	21	21	22	23	23
B3. Combination of B1-B2 using one half standard deviation shocks	16	17	19	20	20	21	22	21
B4. One-time 30 percent real depreciation in 2009	16	22	22	22	22	22	22	21
B5. 10 percent of GDP increase in other debt-creating flows in 2009	16	26	27	28	28	29	29	26
NPV of Debt-to-Revenue Ratio 2/								
Baseline	78	87	91	94	96	101	104	100
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	78	83	87	90	94	100	127	178
A2. Primary balance is unchanged from 2008	78	89	99	107	116	127	175	260
A3. Permanently lower GDP growth 1/	78	87	93	97	100	106	122	161
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	78	89	99	105	109	117	133	151
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	78	89	97	100	102	106	108	103
B3. Combination of B1-B2 using one half standard deviation shocks	78	86	93	95	96	100	101	94
B4. One-time 30 percent real depreciation in 2009	78	109	109	107	106	107	104	98
B5. 10 percent of GDP increase in other debt-creating flows in 2009	78	134	135	135	135	138	134	120
Debt Service-to-Revenue Ratio 2/								
Baseline	4	5	5	4	4	5	5	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	4	5	3	3	4	5	8	14
A2. Primary balance is unchanged from 2008	4	5	6	6	7	8	13	24
A3. Permanently lower GDP growth 1/	4	5	5	4	5	5	7	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2009-2010	4	5	5	5	6	7	8	12
B2. Primary balance is at historical average minus one standard deviations in 2009-2010	4	5	5	6	5	5	5	7
B3. Combination of B1-B2 using one half standard deviation shocks	4	5	4	4	4	4	5	5
B4. One-time 30 percent real depreciation in 2009	4	5	6	5	5	6	7	8
B5. 10 percent of GDP increase in other debt-creating flows in 2009	4	5	21	10	8	7	7	9

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Figure I.7.Burkina Faso: Indicators of Public Debt Under Alternative Scenarios, 2008-28 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

(Translated from French)

Appendix II. Burkina Faso: Letter of Intent

Ouagadougou
June 11, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431
USA

Reference: Letter of Intent for Economic and Financial Policies 2008–09

Mr. Strauss-Kahn:

1. The first review of our economic and financial program supported under the Fund's Poverty Reduction and Growth Facility (PRGF) was approved by the IMF Board on January 9, 2008. To help the country address the impact of higher oil prices and the adverse shock on cotton, the Board also approved an increase in access of 15 percent of quota (SDR 9.03 million).

2. The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments and progress in the implementation of our program through the first quarter of 2008; it also sets out the policies the government intends to pursue in the remainder of 2008 and early 2009.

3. The government's continued efforts to strengthen tax and customs administration and implement structural reforms enabled it to meet all quantitative performance criteria and most benchmarks. In particular, the revenue and fiscal deficit target were met. With regard to tax administration, substantial progress has been made in making use of the notification system for late-filers and non-filers to remind them of their obligation to file tax returns. Even though technical problems prevented us in some cases from sending notification letters within a week after the filing deadline, the late-filing and non-filing rates have still declined significantly. As we have complied with the substance of the measure, we request a waiver of this structural performance criterion.

4. In support of our overall performance and on the strength of the policies set forth in the attached memorandum, we request completion of the second review under the PRGF and the third disbursement in the amount of SDR 4.014 million.

5. The government believes that the policies set forth in the attached MEFP will enable it to meet its program objectives in a difficult economic environment, characterized by rising prices of some consumer goods, high oil prices, a strong euro, and a slowdown in global growth. However, the government is nonetheless determined to take any other measures that might become necessary to achieve that goal. Burkina Faso would then consult with the Fund before revising any of the policies contained in the attached MEFP, in accordance with the Fund's policy on such consultation. The third review under the PRGF arrangement is expected to be completed no later than end-January 2009 and the fourth review by end-July 2009.

6. The government intends to make the contents of this letter and the attached MEFP and Technical Memorandum of Understanding available to the public. Therefore, it authorizes the IMF to publish these documents on the IMF website once the Executive Board concludes the review.

Sincerely yours,

/s/

Jean-Baptiste M. P. Compaoré
Commander of the National Order

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding

(Translated from French)

Appendix II. Attachment I. Burkina Faso: Memorandum of Economic and Financial Policies of the Government for 2008–09

I. Introduction

1. **This memorandum updates Burkina Faso's economic and financial program under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF**. It summarizes recent economic developments, reviews performance under the PRGF-supported program, and updates the government's strategy for pursuing its financial and economic policies. The program, which was approved by the IMF's Executive Board on April 23, 2007, aims at consolidating macroeconomic stability and fostering conditions that can sustain high economic growth and reduce poverty.[6] The first review was completed on January 9, 2008. On that occasion, the Board approved an increase in access of 15 percent of quota (SDR 9.03 million) to help address the impact of higher oil prices and the adverse shock to cotton. In the second half of 2007, the government continued its efforts to strengthen tax and customs administration, made progress with cotton sector reform, and followed through on structural reforms.

II. Recent Economic Developments and Program Implementation during 2007 and the first Quarter of 2008

A. Recent Economic Developments

2. **Affected by external shocks, recent economic performance was mixed**. Real GDP growth slowed to 4 percent from 5.5 percent in 2006 as cotton production declined by over 40 percent, oil prices surged, and the strengthening of the euro put pressure on competitiveness. Cotton production was low as a result of several factors: late rainfalls, floods in certain production areas, delayed payments to producers from the previous crop year, and a late announcement of the producer floor price. However, growth was strong in the other sectors, in particular construction and mining, as reflected in the high level of credit to the economy, excluding crop credits. Inflation, which was on average negative during 2007, has been rising recently, mainly due to higher food prices reflecting the poor harvest and global price increases, in particular for rice and wheat. The recapitalization (equivalent to 1 percent of GDP) of SOFITEX, the largest cotton company contributed, as projected, to a widening of the fiscal deficit excluding grants. Low cotton exports and high oil prices led to

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[6] The program document was published as IMF country report (CR007/153) on the IMF website (www.imf.org).

a widening of the current account deficit, which was partly offset by rising gold exports, as one major gold mine started up operations in the second half of 2007.

3. **We took measures to offset the impact of the floods and rising consumer goods prices on the most vulnerable groups**. Poor weather conditions affected food production in a third of the provinces. To support the poorest people, we made use of our stock of food reserves, which will be replenished. Like other countries in the subregion, we also felt the need to soften the impact of mounting prices of essential goods. In February, we introduced a three-month suspension (later extended to six months) of customs tariffs and VAT on rice, powdered milk, evaporated milk, and salt. In early March, we announced indicative prices for these goods, based on import prices and "reasonable" margins. We will monitor price developments and strengthen the dialogue with importers and wholesalers to protect the most vulnerable.

B. Program Implementation

4. **Key program targets for the second review were met, largely due to continued improvements in tax and customs administration**. The year-end targets for the fiscal deficit and revenue collection (quantitative performance criterion and benchmark, respectively) were met. Thus, total revenues increased by 0.6 percent of GDP to 13.6 percent in 2007. However, despite the 9-percent increase from one year to the next, social expenditures, according to the program monitoring definition, fell short of the set minimum by 0.7 percent of GDP, mainly because of insufficient capacity in executing capital expenditures. In the meantime, against a backdrop of oil price increases and cotton sector problems, the government provided considerable support in other areas having a significant impact on poverty reduction, such as subsidies on cotton producer inputs and the social safety net, to make products like gas and oil accessible to the poor.

5. **Progress was made in the area of structural reforms**.

- **Tax policy**: With the submission of the single tax code to the National Assembly in December, another benchmark was met.

- **Tax administration**: SINTAX, the tax administration system, has been used to automatically notify late-filers and non-filers (continuous PC). This led to a substantial reduction of the nonfiler rate for VAT and corporate income taxes to below 7 from about 12 percent in early 2007. However, because of some technical difficulties in transmitting filing information from provincial offices to Ouagadougou, in a few cases notification letters were not sent within a week after the filing deadline. However, the opening of a DGE window in Bobo-Dioulasso in early March 2008 will provide a solution to this problem. We were also not able to supply filing statistics on the tax on income from real estate (IRF) and the tax on income from securities (IRVM). The IRF is paid by taxpayers that are not always registered in the IFU because it is not a professional tax. The new lease management software that we hope to rollout by end-May 2008 will enable us to monitor this tax. In the case of the IRVM, payment, which depends on dividend distribution, is not systematic. In all events, we have implemented much of the substance of this measure by reducing the nonfiler rate. We therefore request a waiver of this structural performance criterion. The computer connection between the Ouagadougou and Bobo-Dioulasso offices became effective in early March, facilitating notification.

- **Customs administration**: We have implemented the computerized customs management system (ASYCUDA) in our Ouagadougou offices and its main modules are fully operational (structural benchmark). A number of customs brokers (*commissionnaires en douane*) are already making use of ASYCUDA's remote access capabilities, which allows them to file declarations from their own premises. The selectivity module, which automatically assigns customs declarations to the respective customs channels, has been programmed and we are currently testing it in practice. We have integrated our customs valuation database with ASYCUDA; this facilitates automatic verification of declared customs values. In addition, we are requiring and using pre-shipment inspection certificates for all goods imports, in accordance with the regulations.

- **Other structural policies**: The government adopted a strategy for divestment of SOFITEX (structural benchmark). This strategy envisages the sale of a 30 percent share of SOFITEX to a financially strong private investor with proven expertise in the sector. It should be recalled that the recapitalization of SOFITEX, which was completed in December 2007, increased the government's ownership to 65.4 percent.

III. Policies for 2008 and 2009

A. Macroeconomic framework

6. **We need to adjust to a challenging economic outlook, related to a number of external factors**. Real GDP growth is projected to edge-up slightly to 4.5 percent, supported by a recovery of cotton production and the start up of several gold mines. Thus despite the surge in oil prices and the strong euro, which will continue to weigh on economic competitiveness, the economy will remain on a growth path. In the short term, inflation may rise further under the pressure of escalating food prices and the other factors mentioned above, but the situation should improve with the policy of making low cost grain available to the public and with the next harvest.

B. Fiscal Policy

7. **The fiscal policy stance will have to accommodate social needs, while preserving macroeconomic stability**. As we expect the increase in food prices to be temporary, the fiscal stance agreed during the first review remains appropriate by and large in terms of the overall budget deficit as a share of GDP. While maintaining this fiscal position, we will take steps to mitigate the social impact of higher food and energy prices. We are closely monitoring these rapidly mounting prices and will take the proper measures if the situation so warrants. Indeed, a lasting increase in inflation would be detrimental for long-run growth.

8. **Our policy is aimed at maintaining social cohesion while preserving tax revenues by reinforcing our administrative capacities**. The six-month suspension of customs duties and VAT to cushion the impact of rising consumer prices will lead to a slight loss in customs and tax revenue. The suspension of these duties and taxes represents a revenue loss of about 0.3 percent of GDP. Despite the negative impact of these few measures on tax revenues, we should be close to the revenue-to-GDP ratio in 2008, thanks to a sustained improvement in tax and customs administration.

9. **Prioritizing our expenditure appropriately is key to addressing the adverse impact of external shocks**. To support a rebound in growth and social cohesion, we will allocate support for rising input costs for cotton producers, funds to minimize the impact of escalating world market prices for oil and electricity, as well as a contingency reserve for additional measures. The funds will be made available through strong revenue efforts. Moreover, the recapitalization of SOFITEX, at a cost to the government of CFAF 34 billion) was finalized in FY 2007 and will not be a burden on the 2008 budget. Furthermore, we are reinforcing administrative capacities to improve, *inter alia*, the execution of investment expenditures and, thus, basic infrastructures. Arrangements for setting-up the operations related to the U.S. Millennium Challenge Account are expected to start this year, with a total envelope of US$520 million (including administrative costs and monitoring) over a five-year period. These funds will be managed through a separate fiscal agency, and the projects will focus on: (i) agricultural and irrigation; (ii) roads; (iii) land reform; and (iv) primary education.

10. **Tracking social expenditure more closely and making spending more efficient is a key priority and will help achieve the Millennium Development Goals (MDG)**. We want to establish a system for tracking such expenditures (benchmark for September 2008). By 2008, this system will cover all categories of self-financed spending except personnel expenditure, which is tracked with special software, namely SIGASPE. This program is currently under review and includes the establishment of a CID interface that will be ready by year-end. Our current definition is largely based on an economic classification by ministry. It would be advisable to adopt a functional classification, and we are preparing a pilot project in this area. The need for numerous interfaces with other software systems and

the overall complexity of the project have delayed the full implementation until 2009 at the earliest.

C. Fiscal Structural Reforms

Strengthening Tax and Customs Administration

11. **Taxpayer compliance is improving**. Substantial progress has been made in using the notification system for late-filers and non-filers to remind them of their obligation to file tax returns. Thus, we agreed with the Fund mission to change the process-oriented performance criterion into an indicative target intended to achieve a non-filer rate of less than 7 percent by end-2008 and 5 percent by end-2009 for VAT, the BIC PM and IUTS. We will continue to use our current notification system and send reminder letters to late-filers and non-filers without delay. We also plan to use audits to reduce the high rate of large taxpayer VAT returns that have either zero liabilities or structural credit positions. We will pursue efforts to check periodically the plausibility of information from tax offices for large and medium taxpayers with customs data.

12. **The harmonization of tax thresholds should be postponed to align it with WAEMU schedule**. We want to raise the VAT threshold so as to enhance the efficiency of VAT administration (benchmark, June 2008). However, as WAEMU is working on defining new tax thresholds, it is preferable to wait until the new thresholds have become effective (scheduled for September 2009). We will include this measure in our tax reform strategy.

13. **Significant progress has been made with the computerization of the Large Taxpayer Office (LTO) and the Medium Taxpayer Office (MTO)**. The IT system SINTAX is fully operational at both the LTO and MTO. SINTAX is already used by the LTO. At the MTO, the software has been installed, training was completed in February, but additional computer equipment may be required to make the system operational.

14. **In order to reinforce the customs administration, the transit module of ASYCUDA should be operational and the selectivity model should be fully integrated**. The transit module will help us significantly improve transit monitoring by providing border offices and the central administration with real time information on inbound and outbound traffic. Such a mechanism requires an electronic interconnection between the various border offices and the central administration, which will be established by the end of the summer in 2008. The transit module should be fully operational by the end of the year. The selectivity module allows declarations to be automatically assigned to the appropriate customs channel, thereby reducing discretionary decisions and the risk of corruption. The selectivity module currently assigns about 10 percent of all declarations to the blue and green channels. By September, we intend to increase this rate to 30 percent. Based on the lessons of this first experience, we will gradually increase the rate while seeking a fair balance between improving customs procedures for importers and the risk of revenue losses resulting from fraud. We will maintain a minimum rate of 30 percent by December (benchmark).

Tax Policy Reform

15. **Increasing revenue is at the core of our macroeconomic stabilization policy, and requires substantial reform of the tax system**. The consolidation of tax legislation into a single tax code in December 2007 has increased transparency. But several issues remain: the tax system has a narrow base, as a result of the structure of GDP and its numerous exemptions, in particular for external financing; its structure is complex, as a result of withholdings and prepayment deductions. While some measures can be implemented in the short-term, other measures require more preparatory work and a substantial consultation with the various stakeholders.

16. **The cabinet will approve a tax policy reform strategy** (benchmark, September 2008). The strategy will broadly define the scope of the reform, the process, and a timetable. The recent technical assistance from the IMF's Fiscal Affairs Department will serve as major input for our reform plans. We will introduce a single tax on business profits to replace the current one, which comprises several schedules. Our strategy also includes (i) the revision of the investment code, with the dual objective of its simplification and rationalization of incentives, particularly those fiscal incentives which could be integrated in the general tax code, all this with special focus on accelerated depreciation; (ii) increase of tax thresholds; and (iii) VAT reform. Given capacity constraints and a lower revenue impact, the treatment of the informal sector will only be addressed at a later stage.

17. **This tax policy reform will be supported by the establishment of a policy unit and by substantive dialogue with stakeholders**. The lack of an appropriate institutional structure and a database, which prevent us from conducting the necessary cost-benefit analysis, are a fiscal reform handicap. Therefore, we have decided to create a tax policy unit, and the recommendation of the technical assistance mission from the IMF's Fiscal Affairs Department, which will have the necessary authority and will be in charge of supervising implementation of the reforms and preparing essential analyses. The tax policy unit will be operational by August 2008, including staffing of the unit (new structural performance criterion).

18. **Several measures that are consistent with the reform program will be incorporated in the short-term, when the draft 2009 budget is submitted to the National Assembly**. To ensure that our reforms have the necessary coherence and credibility, we will further revise the draft general tax code and postpone its adoption to 2009 to include the pertinent recommendations of the Fund's technical assistance mission. However, through end-2008, we will channel short-term reform measures through the budget law. More specifically we will harmonize the taxation of all types of tobacco and eliminate for large enterprises withholding and prepayment deductions of profit taxes for payments made to service providers and for imports and purchases for wholesalers, semi-wholesalers, and producers. In addition, we will analyze in detail exemptions.

19. **In 2009, we will reform the VAT regime and introduce an autonomous corporate income tax**. In this context, we intend to: (i) establish a more efficient VAT refund mechanism, while taking into account appropriate safeguards; (ii) increase VAT thresholds; (iii) exclude bank interest from VAT coverage; (iv) begin discussions with all development partners with a view to subjecting foreign-financed investments to the VAT; and (v) introduce a new corporate income tax to replace the existing schedules. Afterwards, we envisage eliminating withholding taxes for the profit tax. In parallel, we will also reform the investment code. Owing to some delays, the adoption of certain tax policy measures will shift from 2009 to 2010 because of the scope and complexity of the proposed reforms (Text Table 1). We shall consult the IMF throughout the reform process.

Text Table 1. Burkina Faso: Tax Reforms—Timeline

Measures	Timetable	Benchmark
Tax reform policy		
Set-up a tax policy unit in Ministry responsible for finance to formulate the tax reforms and supervise their implementation.	August 31, 2008	New performance criterion
Cabinet approval of comprehensive tax policy reform strategy with outline of main pillars and indicative timetable.	September 30, 2008	Benchmark
Submission to the National Assembly of a draft 2009 budget that includes tax policy measures consistent with the overall tax policy reform strategy described in this MEFP.	September 30, 2008	
Submit to cabinet a comprehensive tax policy reform program in line with Fund recommendations and WAEMU community directives.	April 30, 2009	New Benchmark
Submit the comprehensive tax policy reform program to the National Assembly to take effect with the 2010 budget.	December 31, 2009	Performance Criterion (Revision of Benchmark)

20. **The revised timetable for tax reform will affect the 2009 macroeconomic program.** As the target date for important policy measures is pushed back from 2009 to 2010, revenues in 2009 could be about 0.6 percentage points of GDP below original program targets. We will discuss policies for 2009 in greater detail during the next review mission; however, to avoid an excessive expenditure compression, the deficit target will need to be raised, yet maintained below 5 percent.

Public Financial Management

21. **In January 2008, the Ministry of Finance created six technical committees to monitor implementation of its new sectoral strategy (*Stratégie de renforcement des finances publiques*, SRFP) to strengthen public financial management**. It focuses on the following areas: (a) budget management; (b) revenue mobilization and management; (c) public procurement; (d) audit systems, (e) deconcentration and decentralization; and (f) capacity building. Progress will be monitored quarterly. An action plan to expedite the processing of payments and eliminate redundant controls will be implemented for 2008 and 2009 (structural benchmark, end-December 2008).

22. **Follow-up work on the recommendations of the domestic debt audit is ongoing**. At December 31, 2007, over CFAF 40 billion in claims from various government suppliers had been settled. Claims amounting to CFAF 13 billion are still being processed. The remainder pending processing totals about CFAF 25 billion. To prevent such obligations from recurring, all ministries and institutions were required to adopt procurement plans, whose implementation must be periodically monitored by the DEP (Direction des Etudes and de la planification). Similarly, appropriation managers must produce quarterly reports on the physical and financial execution of the budget. Lastly, in general terms, a mid-term assessment of budget execution is conducted every year in May to allow corrective measures to be taken. The regular meetings organized between the budget department and the appropriation managers connected with the financial controllers of the line ministries are forums for exchanges of views between the main operators in the expenditure chain and a reminder to all of the need to meet the requirements of the budget law.

Other Structural Reforms

23. **We are cooperating closely with the World Bank on reducing the participation of the state in the cotton sector and improving its efficiency**. The sector still faces many challenges. In March 2008, the domestic arrears of producer groups amounted to CFAF 4 billion and their external arrears (i.e., to cotton companies) stood at CFAF 1.5 billion. We are pursuing a multifaceted strategy to support the recovery of the sector. The cotton strategy in December 2007 envisages a reduction of the government's interest in SOFITEX by disposing of a 30 percent stake to a strategic investor. Producer prices are now determined on the basis of a transparent pricing mechanism indexed to world cotton price trends and bonus payments from the 2006–07 harvest will help reduce the domestic arrears of producer groups. External arrears will be rescheduled by the cotton companies. We continue to work with cotton sector stakeholders to ensure that the price-smoothing fund is self-financing and transparent. To make Burkina Faso cotton production more competitive and ensure its long-term viability, efforts to raise productivity are crucial. This will require institutional and policy reforms to disseminate advanced agricultural techniques and stimulate adoption of potentially high-yielding cotton seeds.

24. **We reviewed the findings of the joint Bank-Fund staff Financial Sector Assessment mission in March 2008 and are preparing an action plan for the financial sector**. Promoting an efficient financial sector will help to preserve financial sector stability and increase its contribution to growth. The FSAP includes several recommendations to (i) facilitate cotton financing; (ii) improve microfinance supervision; (iii) enhance access to finance for SMEs; (iv) strengthen the legal and judicial framework; and (v) to reduce the role of the state in the banking system. We are reviewing these proposals. The prioritization of measures and a timetable for implementing the action plan will be discussed during the third PRGF review.

25. **In the wake of sustained oil price hikes, pump prices were raised in January 2008 but remained below the rates determined by the petroleum price adjustment mechanism**. While preliminary financial results indicate that SONABHY still made a small net profit in 2007, cumulative margin losses reached some CFAF10 billion between July 2007 and March 2008. In a concerted effort, based on an independent study, we will work on an arrangement to partially or fully compensate SONABHY for the cumulative margin loss.

26. **We are committed to a transparent oil price mechanism**. To show the impact of the temporary suspension of the mechanism, we will publish each month a petroleum price table, which will compare actual pump prices for the various types of gasoline with the prices that would have been obtained with the full application of the mechanism. We will also report quantities of imports and sales. To minimize the budgetary impact, for which we allocated CFAF 8 billion in 2008, we will gradually reduce the price gap, with a view to reinstating the automatic petroleum price adjustment mechanism as soon as market conditions allow for it. Until the formula is restored, we will continue to pass through future increases in world prices in order to gradually reduce the subsidies granted to SONABHY. In the event of a very high rise in gas prices, we will consult the Fund.

27. **We are reviewing the possibility to reactivate the privatization program, which has experienced some delays**. After relinquishing 51 percent of our interest in ONATEL to Maroc Télécoms at end-2006, we plan to sell by end-December 2008 additional share representing 26 percent of the capital (20 percent through public offering, and 6 percent directly to ONATEL employees). On the basis of the new electricity law adopted in November 2007, we are working with the World Bank to solicit bids for private management of SONABEL, the national electricity company, hoping to finish the operation in 2009.

28. **We have taken steps to create a more business-friendly environment**. Through our work with the International Finance Corporation (IFC), we are continuing to improve the business climate. New labor market legislation targeting greater flexibility, was adopted by government and submitted to the National Assembly in April 2008.

29. **Improving governance is a priority**. In December 2007, the National Assembly unanimously adopted a law creating a new government supervisory authority, the *Autorité de Contrôle d'Etat* (ASCE). The ASCE merges the State General Inspectorate, the High Authority to Coordinate the Fight Against Corruption, and inherits some of the attributes of the National Anti-Fraud Committee. The new institution enjoys more independence and power to investigate government agencies, monitor the work of audit offices in different ministries, and take legal actions. The agency will also publish an annual report. To date two decrees are still to be adopted concerning the organization of specific jobs and the terms of compensation for the staff of the Authority. Notwithstanding, the agency is expected to start its activities by end-June 2008. Moreover, we are carrying out a comprehensive Governance and Anti-Corruption diagnostic study with support from the World Bank. The study, which focuses on the sources of corruption, will include several sector analyses and policy recommendations. This work is part of the National Plan of Good Governance (*Plan national de bonne gouvernance*, PNBG). It should also be noted that Burkina Faso joined the Extractive Industries Transparency Initiative (EITI) in September 2007 and is establishing an institutional system for EITI-related activities. The Ministry of Mines, Quarries, and Energy is ready to join the process.

D. Program Monitoring

30. The program will continue to be monitored against the agreed quantitative financial targets (Table 1) and structural performance criteria and benchmarks (Table 2) and through program reviews. The quantitative financial targets for end-June 2008 and end-December 2008 are performance criteria; those for end-September 2008 are indicative targets. The third program review is scheduled to be completed by end-January 2009 and the fourth review by end-July 2009. Definitions of the variables used and the reporting requirements are given in the attached Technical Memorandum of Understanding (TMU). The performance criterion of generating a list of late filers and nonfilers was changed from a process- to a results-based performance benchmark for measuring the non-filer rate beginning in the final quarter of 2008. A results-based measure is more relevant for program purposes.

Appendix II. Attachment I. Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2007–08

(CFAF billions cumulative from beginning of year)

	2007				2008						
	End-Sep.		End-Dec.		End-Mar.	End-Jun.		End-Sep.		End-Dec.	
	Prog. [6]	Act.	Prog. [7]	Act.	Prog. [7]	Prog. [7]	Proj. [8]	Prog. [7]	Proj. [8]	Prog. [7]	Proj. [8]
Performance criteria and indicative targets [1]											
Ceiling on the overall fiscal deficit including grants [2]	155.0	99.1	240.0	181.2	35.0	75.0	75.0	105.0	105.0	195.0	195.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government [3, 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the amount of new external debt of less than one year's maturity contracted or guaranteed by the government [3, 4]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic arrears [3, 10]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of external arrears [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets											
Government revenue	340.0	325.6	440.0	440.2	100.0	245.0	245.0	355.0	355.0	475.0	475.0
Poverty-reducing social expenditures	150.0	140.1	203.0	182.6	40.0	110.0	95.0	160.0	145.0	213.0	195.0
Large taxpayer non-filer rate [9]	…	…	…	…	…	…	…	…	…	…	7.0
Maximum upward adjustment of deficit ceiling including grants due to:											
Shortfall in grants relative to program projections	25.0	0.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
Excess in concessional loan financing relative to program projections	15.0	0.0	15.0	0.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Adjustment factors											
Shortfall in grants relative to program projections	0.0	0.0	0.0	27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess in concessional loan financing relative to program projections	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Grants [5]	140.2	184.4	238.0	210.3	59.1	151.7	138.8	234.9	231.2	254.8	233.8
Concessional loans [5]	161.5	96.9	122.9	114.5	17.0	50.7	48.3	102.3	99.5	145.7	138.9

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

[1] Performance criteria at the end of June and December 2007 and 2008.
[2] The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. Up to September 2007 it is calculated on a payment-order basis and afterwards on a commitment basis.
[3] To be observed continuously.
[4] Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU) market.
This ceiling excludes supplier credit with a maturity of one year or less.
[5] Includes identified financing only.
[6] IMF Country Report No. 07/153.
[7] IMF Country Report No. 08/168.
[8] Proposed program.
[9] Applies to average over respective quarter.
[10] Beginning July 2008, this will become a an indicative target.

Appendix II. Attachment I. Table 2: Burkina Faso—Structural Conditionality from July 1, 2008 to December 31, 2009

Measures	Timing	PC/Benchmark
Tax policy		
Set up a tax policy unit in Ministry of Finance to formulate tax reforms and supervise their implementation (MEFP ¶17).	August 31, 2008	New performance criterion
Cabinet approval of comprehensive tax policy reform strategy (MEFP ¶16).	September 30, 2008	Benchmark
Submit to cabinet a comprehensive tax policy reform program in line with Fund recommendations and WAEMU community directives (Text Table 1)	April 30, 2009	New structural benchmark
Submit a comprehensive tax policy reform program to the National Assembly to take effect with the 2010 budget (Text Table 1).	December 31, 2009	Performance criterion (revised timing of previous benchmark)
Tax administration		
Raise VAT thresholds for large, medium, and small taxpayers and subject small taxpayers to simplified taxation instead of VAT, in line with Fund recommendations and WAEMU community directives (MEFP ¶12).	September 30, 2009	Benchmark
Customs administration		
During the fourth quarter of 2008, assign at least 30 percent of customs declarations to the green and blue channels and keep the percentage of declarations thus selected but assigned for further controls by individual inspectors to less than 10 percent (MEFP ¶14).	December 31, 2008	Benchmark
Public financial management and governance		
Introduce system for tracking of poverty-reducing expenditures in order to track all self-financed spending except for personnel expenditures (MEFP ¶10).	September 30, 2008	Benchmark
Develop an action plan for improving the effectiveness of ex ante and ex post expenditure controls, including elimination of redundant procedures (MEFP ¶21).	December 31, 2008	Benchmark

Appendix II. Attachment II. Burkina Faso: Technical Memorandum of Understanding

Ouagadougou, June 11, 2008

1. This memorandum defines the quantitative performance criteria and indicative targets for the program supported by the Poverty Reduction and Growth Facility (PRGF) of the International Monetary Fund (IMF). It also sets deadlines for reporting data to Fund staff to facilitate program monitoring.

I. Definitions

2. For the purposes of this memorandum, the following definitions of "debt," "government," "payments arrears," and "government obligations" will be used:

- **Debt,** as specified in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, will be understood to mean a current, not contingent, liability, created by contract through provision of value in the form of assets (including currency) or services, that requires the obligor to make one or more payments in the form of assets (including currency) or services, at one or more future points in time; these payments being made to discharge principal and interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being:

  - (i) loans, consisting of advances of money to the obligor (e.g., deposits, bonds, obligations, commercial loans, and buyers' credits), who undertakes to repay the funds in the future, and temporary exchanges of assets that are equivalent to fully collateralized loans where the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (e.g., repurchase agreements and official swap arrangements);

  - (ii) suppliers' credits, which are contracts where the supplier lets the obligor defer payments until after the date on which the goods have been delivered or the services provided; and

  - (iii) leases, which are arrangements in which property is provided for the use of the lessee for a specified period, usually shorter than the total expected life of the property, while the lessor retains title to the property. For purposes of this guideline, the debt is the present value at the inception of the lease of all lease payments expected to be made during the period of the agreement, except payments that cover the operation, repair, or maintenance of the property.

- Treasury bills and bonds issued in CFA francs on the WAEMU (West African Economic and Monetary Union) regional market are included in domestic debt for purposes of this memorandum.

- **Government** is defined as the central government of Burkina Faso and does not include any political subdivision, government-owned entity with a separate legal personality, or the central bank.

- **External payments arrears** are external payments due but unpaid. Domestic arrears are domestic payments due but unpaid after a 90-day grace period, unless the obligation specifies a different grace period.

- **Government obligation** is any financial obligation of the government accepted as such by the government (including any government debt).

II. Quantitative Performance Criteria

3. The numerical values for quantitative performance criteria, indicative targets, and adjusters are set out in Table 1 of the attached Memorandum of Economic and Financial Policies (MEFP).

A. Overall Deficit Including Grants

Definition

4. For the program, the overall deficit including grants is valued on a commitment basis *(base engagement)*. It is defined as the sum of foreign and domestic financing (net) of the government measured from the financing side plus cash basis adjustment. Net foreign financing is the sum of foreign borrowing and debt relief minus amortization. Net domestic financing is the sum of (i) net bank credit to the government, including both net bank credit to the treasury as defined below and other government claims on and debts to national banking institutions; (ii) unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. Net bank credit to the treasury is the balance of the treasury's claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with commercial banks, secured obligations, and government deposits with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and CNE *(Caisse Nationale d'Épargne Postale)*/CCP securitized deposits. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are recognized as valid for program purposes. The stock of treasury bills and other government debt, as well as net foreign financing, is calculated by the Ministry of Finance.

Cash basis adjustment is the sum of (i) expenditure commitments not-paid *(engagées non-payées)*; and (ii) change in treasury deposits.

5. All these items are valued according to the statement of government budgetary execution established monthly in the central government's financial operations table. This is prepared by the Permanent Secretariat for the Monitoring of Financial Policies and Programs (SP-PPF), in collaboration with the other directorates of the Ministry of Economy and Finance.

Adjustment

6. The overall deficit including grants is adjusted upward by the amount that grants fall short of what is programmed up to a maximum (see the MEFP, Table 1). It will not be adjusted if grants are higher than programmed.

7. The overall deficit including grants will also be adjusted upward by the amount that concessional loans exceed what is programmed up to a maximum (see the MEFP, Table 1).

Reporting deadlines

8. The ministry in charge of finance will forward data to the IMF on the overall deficit excluding grants within six weeks after the end of each quarter.

B. Nonaccumulation of External Arrears

Performance criterion

9. The government's external debt is the stock of debt owed or guaranteed by the government. External arrears are external payments due but not paid on the due date. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt that is being renegotiated with creditors, including non-Paris Club bilateral creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

10. Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.

C. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

11. The government undertakes not to contract or guarantee any external debt maturing in one year or more that has a grant element of less than 35 percent (calculated using the

interest reference rate for borrowed foreign currencies provided by the IMF) beyond the ceiling indicated in the MEFP (Table 1). This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to all commitments contracted or guaranteed for which value has not been received. However, it does not apply to treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

Reporting deadlines

12. Details on any loan (terms and creditors) to the government or guaranteed by the government must be reported within four weeks of the end of each month.

D. Government Short-Term External Debt

13. The government undertakes not to accumulate or guarantee any new external debt with a contractual maturity of less than one year. This performance criterion applies not only to debt as defined in point 9 of the Guidelines (see ¶2), but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are import- and export-related loans and treasury bills and bonds issued in CFA francs on the WAEMU regional market and normal short-term suppliers' credits of one year or less. This performance criterion is to be observed continuously. As of April 1, 2007, the government of Burkina Faso had no short-term external debt.

III. Other Quantitative Indicative Targets

14. The program also includes indicative targets on total government revenue, poverty-reducing social expenditures, nonaccumulation of domestic arrears, and large taxpayer non-filer rates.

A. Total Government Revenue

Definition

15. Total government revenue is valued on a cash basis. It includes all tax and nontax revenue collected by the Directorate General of Taxation, the Directorate General of Customs, the Burkinabè Treasury, and revenue collection units at ministries and institutions, and it also includes revenue from treasury checks. VAT refunds are considered as expenditures.

Reporting deadlines

16. Details on total revenue will be sent to IMF staff by the SP-PPF of the Ministry of Finance and Budget within six weeks after the end of each month.

B. Poverty-Reducing Social Expenditures

Definition

17. Poverty-reducing social expenditures are defined by the PRSP priority sector programs designed to accelerate the reduction of poverty. They cover all spending categories for the following ministries: Primary Education and Literacy; Health; Social Action and National Solidarity; Promotion of Women; Labor and Social Security; Employment and Youth; Agriculture, Water and Fishing Resources; Animal Resources; and Environment. They also cover rural roads and HIPC resources for infrastructure spending and for the Justice Ministry and the Ministry of Economy and Development. These expenditures are monitored directly through the budget.

Reporting deadlines

18. The government will report within six weeks after the end of each month the monthly data on poverty-reducing social expenditures.

C. Nonaccumulation of Domestic Arrears

Definition

19. The government will not accumulate any arrears on domestic government obligations during the program period. This is a quantitative indicative target, to be observed continuously.

Reporting deadlines

20. Data on balances, accumulation, and repayment of arrears on domestic obligations will be reported within four weeks after the end of each month.

D. Large Taxpayer Nonfiler Rate

Definition

21. The large taxpayer nonfiler rate is defined as the ratio of late and nonfilers in the Large Taxpayer Office (LTO) relative to the total number of taxpayers obligated to file in LTO. A late filer is anyone who files a tax return after the deadline. A nonfiler is anyone in the database who did not file taxes. The main tax categories are the VAT *(TVA)*, the corporate income tax *(BIC)*, and the tax on wage income (IUTS). Declaration deadlines for the main tax categories are set in the tax code.

Reporting deadlines

22. The government will report within two weeks after the end of each quarter the total number of late and nonfilers as well as the total number of taxpayers obligated to file in LTO for the main tax categories.

IV. Structural Performance Criteria

23. The program incorporates structural performance criteria (see the MEFP, Table 2).

V. Additional Program-Monitoring Information

A. Public Finance

24. The government will report the following to Fund staff:

- The monthly government flow-of-funds table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be used.

- Complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided within six weeks after the end of each month.

- Quarterly data on implementation of the public investment program, including details on financing sources, to be sent within six weeks after the end of each quarter.

- Quarterly data on external debt stock, external debt service, signing of external loans, and disbursements of external loans, to be sent within six weeks after the end of each quarter.

- Monthly data on prices and the taxation of petroleum products, including (i) prices prevailing during the month; (ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) a breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks after the end of each month.

- A monthly statement of the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month.

- Quarterly data for the large taxpayer office on (for *TVA, BIC, IUTS*) the numbers of:
    - registered taxpayers
    - declarations received on time
    - reminder letters sent to late and nonfilers.
- These quarterly statistics are to be provided within two weeks after the end of each quarter. Similarly, quarterly data on the following are to be sent within 2 weeks of the end of the quarter:
    - total number of customs declarations
    - number of declarations selected by channel
    - number of declarations by channel subject non-standard treatment.

B. Monetary Sector

25. The government will provide the following information within six weeks after the end of each month:

- the consolidated balance sheet of monetary institutions
- provisional data on the monetary survey (with final data provided ten weeks after the end of each month)
- borrowing and lending interest rates
- customary banking supervision indicators for bank and nonbank financial institutions, if necessary.

C. Balance of Payments

26. The government will report the following to Fund staff:

- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur
- foreign trade statistics compiled by the National Statistics Institute, within three months after the end of the month concerned

- preliminary annual balance of payments data within nine months after the end of the year concerned.

D. Real Sector

27. The government will report the following to Fund staff:

- disaggregated monthly consumer price indices, within two weeks after the end of each month
- provisional national accounts
- any revision of the national accounts.

E. Structural Reforms and Other Data

28. The government will also report the following:

- any study or official report on Burkina Faso's economy, within two weeks after its publication
- any decision, order, law, decree, ordinance, or circular that has economic or financial implications as soon as it is published or at the latest when it enters into force.

Appendix III. Burkina Faso: Informational Annex

- **Relations with the Fund.** Describes financial and technical assistance from the Fund and provides information on the safeguards assessment and exchange rate system. Outstanding purchases and loans amounted to SDR 27.23 million (45.23 percent of quota) at end-March 2008.

- **Relations with the World Bank.** Describes the World Bank Group program and portfolio, including collaboration with the Fund.

- **Statistical Issues.** Assesses the quality of statistical data. Weaknesses in a broad range of economic statistics are hampering the analyses of economic developments in the country.

Burkina Faso—Relations with the Fund

(As of October 31, 2007)

I. Membership Status: Joined: May 2, 1963; accepted Article VIII in June 1996

II. General Resources Account:	**SDR Million**	**In percent of quota**
Quota	60.20	100.00
Fund holdings of currency	52.82	87.74
Reserve position in Fund	7.39	12.27
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**In percent of allocation**
Net cumulative allocation	9.41	100.00
Holdings	0.09	0.94

IV. Outstanding Purchases and Loans:	**SDR Million**	**In percent of quota**
Poverty Reduction and Growth Facility (PRGF) arrangements	27.23	45.23

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Apr. 23, 2007	Apr. 22, 2010	15.05	4.01
PRGF	Jun. 11, 2003	Sept. 30, 2006	30.10	30.10
PRGF	Sept. 10, 1999	Dec. 09, 2002	39.12	39.12

VI. Projected Payments to Fund
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2008	2009	2010	2011	2012
Principal			0.69	2.41	4.69
Charges/interest	0.33	0.39	0.39	0.38	0.36
Total	0.33	0.39	1.07	2.79	5.05

VII. Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
I. Commitment of HIPC assistance			
Decision point date	Sept. 1997	Jul. 2000	
Assistance committed by all creditors (US$ Million)[7]	229.00	324.15	
Of which: IMF assistance (US$ million)	21.70	35.88	
(SDR equivalent in millions)	16.30	27.67	
Completion point date	Jul. 2000	Apr. 2002	
II. Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	16.30	27.67	43.97
Interim assistance	...	4.15	4.15
Completion point balance	16.30	23.52	39.82
Additional disbursement of interest income[8]	...	2.01	2.01
Total disbursements	16.30	29.68	45.98

VIII. Implementation of MDRI Assistance:

I. Total Debt Relief (SDR Million)[9]	62.12
Of which: MDRI	57.06
Of which: HIPC	5.06

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery date	**GRA**	**PRGF**	**Total**
January 2006	N/A	62.12	62.12

[7] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence, these two amounts cannot be added.

[8] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point, but not disbursed during the interim period.

[9] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

IX. Safeguards Assessments:

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Burkina Faso. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established, and follow-up on internal and external audit recommendations has been strengthened.

The results of continuous safeguards monitoring indicate that while certain vulnerabilities remain in internal control systems and legal structure, there has been some progress in other areas, including through: (i) improving the external audit process by adopting a multi-year audit program; (ii) establishing an audit committee; (iii) expanding disclosures on financial positions of WAEMU countries with the Fund in the notes to the annual financial statements; and (iv) further strengthening of the effectiveness of the internal audit function.

X. Exchange Rate Arrangement:

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The union's common currency, the CFA franc, is pegged to the euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the Euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. On May 5, 2008, the rate of the CFA franc in terms of SDR was CFAF 1062.57 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its member. The exchange system is free of restrictions on the making of payments and transfers on current international transactions.

XI. Article IV Consultations:

The periodicity of Burkina Faso's Article IV consultation is set in accordance with the July 15, 2002 Executive Board Decision on consultation cycles. Discussions on the 2007 Article IV consultation and first review under the Poverty Reduction and Growth Facility (PRGF) were held during the period September 19–October 4, 2007 in Ouagadougou. The staff report and the Selected Issues and Informational Annex were considered by the Executive Board on January 9, 2008.

XII. ROSC/AAP:

An FAD mission visited Ouagadougou during May 7–18, 2001 to assist the authorities undertake a draft fiscal module of a Report on the Observance of Standards and Codes (ROSC). The final report, which was issued in July 2002, found that Burkina Faso was making good progress in a number of areas to increase the transparency and accountability of government. Additional efforts are needed to bring a number of improvements to the point of implementation, particularly with regard to expenditure tracking at the local level and external audit functions. Initial discussions indicated that the authorities broadly concurred with the mission assessment. On July 31, 2002, the authorities formally adopted an action plan based on the recommendations of the final ROSC.

An STA mission during May 8–21, 2003 assisted the authorities in preparing a data ROSC. The report was published in March 2004. The mission found that most of the methodologies used in the compilation of macroeconomic statistics are in broad conformity with internationally accepted guidelines. However, most datasets are affected by limited or impaired source data arising from irregularity in the conduct of surveys (national accounts), use of outdated weights (CPI), or low response rate to surveys (balance of payments). For CPI and government finance statistics, data dissemination meets the SDDS requirement, but for other macroeconomic datasets, timeliness falls short of GDDS recommendations. The authorities broadly concurred with the main findings of the mission as well as the recommendations made to address them.

The team, jointly with World Bank staff, also discussed a HIPC Initiative Assessment and Action Plan (AAP) with the authorities. The aim was to assess the capacity of the public expenditure management system to track poverty-reducing public expenditures under the HIPC Initiative and the need for technical assistance to enhance that capacity. The mission secured the officials' approval of the jointly prepared preliminary assessment; identified the main needs for technical assistance on upgrading the capacity to track such expenditures; and drew up a draft outline action plan. This plan identifies the main needs for further technical assistance to improve tracking of poverty-reducing expenditures. The AAP has been endorsed by the authorities.

III. Technical Assistance:

Significant technical assistance has been provided since 1989, more recently especially in the fiscal area:

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Tax Advisor	February 7–11, 2005	Review the progress made on: (1) the setup of the Large Taxpayer Unit and the Medium Taxpayers Office; (2) the steps to strengthen the fiscal control; and (3) the corporate registry reform.
AFRITAC	Customs Advisor	February 14–18, 2005	Provide assistance to control transit merchandises in the country and travelers at Ouagadougou airport.
AFRITAC	Customs, short-term Expert	February 14–23, 2005	Implement customs valuation code and establish a database for indicative import prices.
AFRITAC	Microfinance Advisor	March 21–25, 2005	Assess the TA need of the Cellule responsible of the supervision of microfinance institutions and prepare a capacity-building program.
AFRITAC	Short-term Expert	April 18–29, 2005	Training of auditors of the Tax administration.
AFRITAC	PEM Advisor	June 27, July 1, 2005	Review of the public finance directives of WAEMU.
AFRITAC	STA Advisor and Short-term Expert	June 27–July 5, 2005	Assist in setting up database for the TOFE (first or two scheduled missions) and expand further the scope of the TOFE (last of three scheduled missions).
AFRITAC	Customs Advisor visits	July 10–16, 2005	Advise on customs enforcement and assessment of further TA needs.
AFRITAC	Tax Advisor	August 8–12, 2005	(1) Review the status of implementation of the 2003 FAD mission’s recommendations; (2) update the tax directorate’s action plan; and (3) asses the DGI TA’s needs.
AFRITAC	STA Short-term Expert	August 22–26, 2005	Assist with putting in place the database of public finances.
AFRITAC	Customs Advisor	August 28–September 1, 2005	Advise on customs enforcement and assessment of further TA needs.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	STA Short-term Expert	August 29–September 2, 2005	Assist and set up database for the TOFE (last of the two scheduled missions).
AFRITAC	Microfinance Advisor	September 19–23, 2005	Strengthen operational systems for the surveillance of microfinance institutions.
AFRITAC	STA Short-term Expert	September 19–23, 2005	Assist and setting up database for the TOFE (additional mission).
AFRITAC	PEM Advisor	October 10–14, 2005	Review the status of implementation the January 2004 mission recommendations and assess the technical assistance needs.
AFRITAC	Microfinance Advisor and Short-term Expert	November 21–December 16, 2005	Coach in microfinance inspections.
AFRITAC	STA Advisor	December 6–15, 2005	Review the WAEMU directives on budgetary nomenclature.
AFRITAC	Customs Advisor	January 23–25, 2006	Strengthen the dialogue between the customs administration and the private sector (regional workshop).
AFRITAC	STA Advisor	March 11–25, 2006	Review the directive on the TOFE.
AFRITAC	PEM Advisor	March 13–17, 2006	Review the directive on the TOFE.
AFRITAC	Tax administration; Short term Expert	March 14–28, 2006	Assist in strengthening (1) operations of the LTU; and (2) tax auditing.
AFRITAC	Customs Advisor	March 14–28, 2006	Assist in defining an action plan to improve revenue mobilization.
FAD	Revenue administration mission	March 14–28, 2006	Advise on tax and customs administration reform strategy (including improvement of the large tax payer unit, and strengthening of the tax and customs organization and operations).
AFRITAC	Custom Advisor	April 4–14, 2006	Strengthen the control of goods valuation.
AFRITAC	Tax administration; Short term Expert	April 17–28, 2006	Strengthen the management of the most important taxpayers.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Tax Advisor	July 24–28, 2006	Follow up the implementation of the recommendations by the FAD mission in March 2006.
AFRITAC	Microfinance Advisor	July 31–August 4, 2006	Identify the follow-up indicators from a distance.
AFRITAC	Real statistic sector Advisor	September 11–20, 2006	Take stock of the implementation of the recommendations by the ROSC mission in March 2004.
AFRITAC	Microfinance, Short term Expert	September 28–October 20, 2006	Accompany the agents of the Cell S-IFD
AFRITAC	Public expenditure Advisors	October 2–12, 2006	Review and follow up the implementation of the priority action plan in the PF strengthening strategy.
AFRITAC	Microfinance; Short term Expert	October 2–20, 2006	Develop agent's abilities in inspection and accompany them in the field.
AFRITAC	Customs administration, Short-term Expert	November 20–December 1, 2006	Assess the implementation of preview recommendations relating to the control of goods valuation in the customs.
AFRITAC	Tax Advisor	November 20–December 1, 2006	Strengthen capacities of the tax administration to fight tax evasion.
AFRITAC	Macroeconomic statistics Advisor	March 5–9, 2007	Training in Government Statistics Manual 2001
AFRITAC	Debt Advisor	March 5–16, 2007	Study the situation of the administrative management of the internal and external debts.
AFRITAC	Customs Advisor	March 12–23, 2007	Follow up the implementation of the recommendations by the FAD mission in March 2006, and assess the implementation of the goods valuation control in the customs.
AFRITAC	Macroeconomic statistics Advisor	March 19–23, 2007	Training in Government finance statistics framework.
AFRITAC	Tax Advisor	March 26–30, 2007	Assist in the implementation of the tax administration strengthening and modernization measures.

Department	Type of Assistance	Time of Delivery	Purpose
AFRITAC	Tax Advisor	May 22–June, 4 2007	Follow up on fiscal administration.
AFRITAC	Custom Advisor	July 16–27, 2007	Computerization of customs procedures.
MCM	Bank supervision	July 23–27, 2007	Technical assistance needs assessment and evaluation on bank supervision.
FAD	Budget management	June 26–July 9, 2007	Advise on tax and customs administration reform strategy (including improvement of the large tax payer unit, and strengthening of the tax and customs organization and operations).
STA	Macroeconomic statistics	November 26–December 7, 2007	Support in setting up fiscal accounts for the Treasury.
FAD	Tax policy reform	27 November–12 December, 2007	Review and simplification of tax system.
FAD/ AFRITAC	Public financial management		Assist in the implementation of the authorities' reform agenda in public financial management.
AFRITAC	Debt Sustainability Workshop	January 28–February 1, 2008	To assist the authorities in the implementation of the Debt sustainability Analysis framework.
AFRITAC	Revenue administration	February 11–22, 2008	Segmentation of taxpayers, functionality of Syntax system and its implementation in the medium taxpayer Office.
AFRITAC	Micro finance supervision	February 11–15, 2008	Support personnel of microfinance supervision.
STA/PEM	UEMOA Directives	February 25–29, 2008	Support the preparation of the revision of UEMOA directives.
STA	National Accounts	April 14–25, 2008	Train staff in national accounts software and improved compilation techniques and tabulation procedures.

XIV. Resident Representative:

Mr. Mario Zejan took up the post of Resident Representative in March 2004.

Burkina Faso—Relations with the World Bank Group

(As of April 30, 2008)

A. Partnership in Burkina Faso's development strategy

Government's development strategy. The government of Burkina Faso outlined its development strategy in a revised PRSP (PRSP-2) adopted by the Council of Ministers on October 27, 2004, along with a Priority Action Program (PAP). The PAP translates strategic objectives into sequenced actions and strengthens results-based monitoring of the PRSP. The revised PRSP and accompanying PAP were presented to World Bank and IMF Boards on May 3, 2005. A Joint Staff Advisory Note approved in May 2007 reviewed the sixth annual progress report submitted in May 2006 covering the implementation of the Poverty Reduction Strategy in 2005. PRSP-2 reaffirms the four interrelated pillars as identified in the first PRSP, namely: (i) accelerating broad-based growth; (ii) promoting access to social services; (iii) increasing employment and income-generating activities for the poor; and (iv) promoting good governance.

Partnership with the Fund. The IMF and World Bank staffs maintain a collaborative relationship in supporting the government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes regular participation of Bank staff in the meetings with the government on the Fund's program review missions, IMF staff participation in Bank development policy missions, and Bank internal review meetings. The IMF takes the lead in macroeconomic stabilization and the World Bank in economic growth and poverty reduction, with close collaboration on overlapping issues. The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's policy dialogue has maintained consistency with the macroeconomic framework endorsed by the Fund.

B. World Bank Group Strategy

29. On June 28, 2005, the Bank's Board discussed the World Bank Group's country assistance strategy (CAS FY2006–09). This CAS supports the pillars of PRSP-2 with analytic work, technical advice, on-going operations and new financing. It is built around a results framework that explicitly defines the assumed causal links between IDA-supported activities, direct outcomes of these activities and the country's higher-level development outcomes. On July 5, 2007, the Bank's Board discussed the CAS Progress Report which emphasized that the CAS remains highly relevant for Burkina Faso and is being effectively implemented to deliver results in the following key strategic areas:

- **Accelerated and shared growth**. IDA will support enhanced regional integration, expanded and diversified export earnings, cotton sector reform, an improved investment climate, decentralized urban development to promote urban-rural linkages, and economic infrastructure needed to reduce factor costs and stimulate private sector investment and growth.

- **Improved access to basic social services**. IDA will continue to support access to education and improved quality of teaching, expanded coverage of basic health care and HIV/AIDS prevention and treatment and increased access to clean water and sanitation, particularly in urban areas. IDA will also support the expansion of basic service delivery at the decentralized level.
- **Increased employment and income opportunities for the poor**. A two-pronged approach will focus, first, on the labor market and employment strategy for urban workers. Second, IDA will support efforts to reduce risk, increase revenues, upgrade economic and market infrastructure and enhance women's opportunities in rural areas, along with promoting community-based land and natural resource management for sustainable development.
- **Better governance with greater decentralization**. Governance affects the achievement of development outcomes across all strategic pillars and sectors. Efforts to enhance governance and accountability will be integral to all IDA-supported activities. Particular emphasis will be placed on supporting a more efficient judiciary, promoting public resource management and increased decentralization and strengthening local government's capacity and participation in public policy decisions.

A new CAS will be discussed with government, partners and civil society during the second half of CY2008. It is likely to emphasize support to increase the effectiveness of public spending, to improve Burkina Faso's competitiveness and measures to strengthen governance and fight corruption in collaboration with civil society.

30. As of April 30, 2008, the World Bank has approved 74 loans for a total amount of US$2.013 billion. The **current portfolio** consists of 19 operations (17 IDA and 2 GEF) for a total commitment amount of US$547 million of which US$411 million is undisbursed.

31. The Bank's **proposed remaining lending** program for the FY08–09 period will consist of: two investment operations (regional training and sustainable development/wildlife biodiversity); two sector investment and maintenance operations for health and basic education; one programmatic development lending operation. The sustainable development/wildlife biodiversity project which also has a GEF component and the development lending operation are subject to discussions with the Government and IDA availability. In addition, Burkina will participate in regional projects to improve infrastructure networks and increase agricultural productivity[10].

[10] A regional transit facilitation project, a West Africa power pool project and a West African agricultural productivity program.

Burkina Faso: Financial Relations with the World Bank
(As of April 30, 2008; in millions of U.S. Dollars)

IDA/GEF Lending Operations	Approval Date	IDA/GEF Commitments	Undisbursed Amount of Active Projects
Energy Access Project	07/26/2007	38.8	42.1
Decentralized Urban Capacity Building	05/29/2007	10.0	10.4
Community Based Rural Development	03/27/2007	74.0	66.7
Agriculture Diversification & Market Development	06/20/2006	66.0	70.1
Post Primary Education	06/20/2006	22.9	17.2
Health Sector Support and AIDS Project	04/27/2006	47.7	41.9
Admin Capacity Building	03/22/2005	7.0	4.5
Power Sector Development	11/30/2004	63.6	43.8
STATCAP	03/25/2004	10.0	2.9
Transport Sector	04/08/2003	92.1	61.5
Competitive and Enterprise Development	03/04/2003	30.7	23.2
Development Learning Center	07/29/2002	2.3	0.0
Basic Education Sector	01/22/2002	32.6	8.7
Regional HIV/AIDs Treatment Project	06/17/2004	18.1	0.9
West and Central Africa Air Transport	04/27/2006	6.5	6.3
Africa Emergency Locust Project	12/16/2004	8.4	4.3
West Africa Biosafety	11/13/2007	3.9	4.2
GEF Sahel Lowland Ecosystem Management	06/22/2004	4.5	1.8
GEF Partnership for Natural Ecosystem Mgt. Prog.	07/10/2002	7.5	0.0
Total		**546.6**	**410.5**

Source: World Bank.

C. IMF-World Bank collaboration

32. **Areas in which the Fund leads.** The Fund takes the lead in the policy dialogue on macroeconomic policies and monitors macroeconomic performance through quantitative performance criteria. In addition, it has established benchmarks and structural performance criteria in the areas of tax and customs administration, tax policy, financial transparency and good governance.

33. **Areas in which the Bank leads.** The Bank takes the lead in economic growth and poverty reduction. The Bank is supporting the implementation of the PRSP in the areas of cotton sector reform, public finance management, good governance, decentralization, energy sector and economic diversification and competitiveness through a series of poverty reduction support credits (PRSC), complemented with a portfolio of specific projects addressing issues related to HIV/AIDS, education, infrastructure investments in transport, water and sanitation, urban and rural development, private sector development, and statistical capacity building.

34. **Areas of shared responsibility.** The staffs of the Bank and Fund consult with each other on a regular basis on all aspects of the policy dialogue in order to ensure a well coordinated approach. Bank and Fund staffs are expected to attend Board discussions in the other institution, and will normally be called to the table to present their views on areas of the reform program where their institution is in the lead. Bank and Fund staffs collaborate as

needed on a variety of topics in ways that are consistent with their areas of emphasis. These include but are not limited to the following: debt sustainability assessments; level and composition of public expenditures; public financial management; anti-corruption efforts; fiscal reform; and HIPC resource use.

Prepared by World Bank staff. Questions may be referred to Mr. Gilles Alfandari (Sr. Economist, phone: 202-458-9498).

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Burkina Faso: Statistical Issues

Overall, data provision is adequate for surveillance purposes, but serious shortcomings hamper economic and program monitoring. The country has participated in the General Data Dissemination System (GDDS) since December 2001 and its metadata are posted on the Dissemination Standards Bulletin Board (DSBB). However, the metadata have not been updated since 2001. Following the conversion of the National Institute of Statistics and Demography (INSD) into an autonomous agency, its human and material resources were significantly increased in 2002.

The country has received technical assistance (TA) under the government finance statistics (GFS) component of the regional GDDS project (funded by Japan) for member countries of the West African Economic and Monetary Union (WAEMU).[11] A data ROSC mission visited Burkina Faso in May 2003 and the report was published in March 2004. The May 2006 and September 2006 STA missions helped the authorities update the statistical plans for improvement and recommended further increasing resources to support statistical reforms, especially to the INSD, for additional staff and survey work. This was seen as a prerequisite to enhanced overall effectiveness of technical assistance.

Real sector

Serious problems have been identified in both national accounts and price statistics. The INSD compiles the national accounts following the harmonized WAEMU guidelines, which are in line with the *1993 SNA*. Annual data are available on GDP estimates by economic activity (19 industries) and by expenditure categories at current and constant (1985) prices, as well as by institutional sector accounts. Also, a general table of transactions and an overall balance of goods and services are available.

The quality of the national accounts estimates is affected by the scarcity of suitable data sources and by deficiencies in statistical practices. In particular, the informal sector is not properly captured, with estimates derived from limited informal sector surveys conducted in 1989 and 1996. Although included in the directory of industrial and commercial enterprises, most medium and small enterprises belonging to the "modern sector" fall short of submitting accounting statements or tax declarations. Other deficiencies revealed from GDDS metadata are the residual estimation of private household consumption in the absence of an adequate framework to validate data (i.e., supply-use tables). The country has completed, with TA from the Fund and other donors, the current price accounts for the period 1999–2001 (with 1999 as the new base year). A work program aiming at improving the quality of the national accounts and producing estimates for missing years has been set up with AFRITAC West assistance. To this end, the INSD will continue to receive further TA from the AFRISTAT

[11] Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

and INSEE-France, and aim at preparing the estimates for the 2005 and 2006 by September 2008.

The consumer price index compiled by the INSD follows the methodology of the harmonized index adopted by the WAEMU member countries. The index only covers expenditures by households living in the capital. Further restrictions are the exclusion of non-African households, various types of purchased goods and services, as well as services of owner-occupied dwellings. The weight for the item “food, beverages, and tobacco” (33.9 percent of the total) is very low in comparison with neighboring countries. A possible explanation is that the survey from which the weights are taken did not cover a full year. There are plans—subject to the availability of funding—to update the weights. Currently, the base year is 1996. When a product is unavailable, its price is presumed to remain unchanged for a period of up to three months, which is in conformity with the WAEMU methodology. However, best practice would impute a price change for these items on the basis of the prices recorded for closely related products. The software package used for calculating the consumer price index needs to be improved. There do not seem to be other major problems concerning the index, whose periodicity and timeliness meet SDDS requirements. The index is published by the INSD and is also available on the Central Bank of West African States (BCEAO) and AFRISTAT websites.

The authorities do not compile a producer price index or wholesale price index. According to plans for improvement posted on the DSBB, the development of these indices is not envisaged, even for the medium term.

Government finance

In general, *GFS* compilation is constrained by a lack of coordination among fiscal agencies. The data ROSC identified as areas for improvement the production of functional and ministerial breakdown of expenditure, extending the coverage of the TOFE to the general government, and basing compilation on the Treasury ledger. The above-mentioned areas benefited from the June–July 2007 FAD/AFRITAC West public finance management mission. It provided a medium-term strategy to improve budget management, furthered the progress on prior STA recommendations, and strongly encouraged the authorities to adopt functional classification of expenditure and other methods consistent with *GFSM 2001*. Annual data are published in the *International Financial Statistics (IFS)* through 2005. No detailed monthly or quarterly data have been reported to STA for publication. *The 2007 Government Finance Statistics Yearbook* includes data for 2004, 2005 and 2006 that were for the first time reported in the format of the *Government Finance Statistics Manual 2001 (GFSM 2001).* The data cover budgetary operations only, but include a breakdown by function for 2004.

Monetary and financial statistics

Preliminary monetary data are prepared by the national agency of the BCEAO and released officially (including to the IMF Statistics Department (STA)) by the BCEAO headquarters. Most of the problems in the monetary statistics are not specific to Burkina Faso, but affect all member countries of the WAEMU. For example, the BCEAO has encountered difficulties in estimating currency in circulation in each WAEMU member country due to large backlogs of unsorted banknotes held by the central bank in its various national agencies. In August 2005, the BCEAO informed STA of a change in the method to estimate currency in circulation in the WAEMU countries. The new method, based on updated sorting coefficients ("coefficients de tri"), has been applied backwards to time series from December 2003 and aims at improving the accuracy and timeliness of monetary statistics in the WAEMU countries. The African Department and STA await more information from the authorities to review the new methodology. Meanwhile, however, key monetary aggregates such as broad money, net foreign assets and other monetary indicators have undergone substantial revisions.

In August 2006, as part of the authorities' efforts to implement the methodology in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA monetary data for June 2006 for all member countries using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). In response to STA's comments, the BCEAO has recently provided a revised 1SR and indicated that 2SR is being revised. There has been improvement in the timeliness of depository corporations and interest rate data. The authorities now report monetary data to STA regularly, and the lag has been reduced from about six months to four or less.

Balance of payments

Regarding trade data, the customs computer system (ASYCUDA) was upgraded in 1999, and its implementation in the main border customs offices is complete; this allowed for better monitoring of import data and should improve the coverage of informal trade. Further improvement of services and transfers (especially workers' remittances) coverage is clearly linked to the future intensification of the contacts with reporting bodies. The 2003 data ROSC mission found that the response rate for the survey among industrial and commercial enterprises was only 40 percent. To address this, the mission recommended that more attention and resources be devoted to improve data collection.

In the financial account, the foreign assets of the private nonbank sector are well covered through the use of data from the Bank for International Settlements. The organization of annual surveys for the reporting of foreign direct investment transactions is still at a preliminary stage. The BCEAO authorities have indicated that they are looking forward to integrating two additional sources aimed at improving the quality of the balance of payments reports: the regional stock exchange transactions, and the firms' balance sheet database (*centrale des bilans*). They have also indicated that quarterly data derived from banking settlement reports will soon be used to assess the existing information. The balance of payments compilers receive payments statements every ten days; however, the information is not used in the compilation of the annual balance of payments statements, but rather to support data quality controls and to provide early information to the BCEAO authorities.

The computer debt-management system software, SYGADE, developed by the United Nations Conference on Trade and Development, was introduced in 1999 and is fully operational. Information on debt disbursement has also been fully integrated with the expenditure-monitoring system.

The BCEAO national agency disseminates balance of payments statistics with a seven-month lag, in partial compliance with the recommendations of the GDDS, and annual international investment position data with an eighteen-month lag. Updates for the IFS and the BOPSY since 2001 are pending.

Despite reiterated requests, BOP and IIP data have not been reported to STA for publication in IFS and the BOPSY since 2001.

Burkina Faso: Table of Common Indicators Required for Surveillance

As of May 21, 2008

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]	Memo Items: Data Quality – Methodological soundness[7]	Memo Items: Data Quality Accuracy and reliability[8]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/2007	3/2008	M	M	M		
Reserve/Base Money	12//2007	3/2008	M	M	M	LO, LO, LNO, O	LO, O, O, O, O
Broad Money	12/2007	3/2008	M	M	M		
Central Bank Balance Sheet	12/2007	3/2008	M	M	M		
Consolidated Balance Sheet of the Banking System	12/2007	3/2008	M	M	M		
Interest Rates[2]	2//2008	3/2008	M	M	M		
Consumer Price Index	03/2008	5/2008	M	M	M	O, LNO, O, O	LNO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] –General Government[4]	12/2007	3/2008	I	I	I	O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	12/2007	3/2008	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2007	3/2008	A	A	A		
External Current Account Balance	2006	3/2008	A	A	A	O, O, O, O	LO, O, LO, O, O
Exports and Imports of Goods and Services	2006	3/2008	A	A	A		
GDP/GNP	2006	3/2008	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO, NO
Gross External Debt	12/2007	3/2008	A	A	A		

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Reflects the assessment provided in the data ROSC published in March 2004 and based on the findings of the mission that took place in May 2003 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not available (NA).

[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 08/157
FOR IMMEDIATE RELEASE
July 1, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under PRGF Arrangement with Burkina Faso and Approves US$6.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the second review of Burkina Faso's economic performance under the three-year, SDR 15.05 million (about US$24.5 million) Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the second review enables the release of an amount equivalent to SDR 4.014 million (about US$6.5 million) bringing total disbursements under the arrangement to SDR 8.02 million (about US$13 million).

In completing the review, the Board granted a waiver for the non-observance of a performance criterion related to delays in sending automatic reminders to late filers and nonfilers of tax returns, given that the substance of the measure has been achieved, and other corrective steps are being taken.

The PRGF arrangement with Burkina Faso was approved on April 23, 2007 (see Press Release No. 07/77) to support the government's economic reform program for 2007-10. On January 9, 2008, an SDR 9.03 million (about US$14.7 million) increase in access was approved to help address the impact of higher oil prices and the adverse shock to the cotton sector (see Press Release No. 08/04).

Following the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“In a difficult macroeconomic environment, the Burkinabè authorities’ generally solid macroeconomic policy performance has been commendable. With oil and food price prices rising, the authorities’ commitment to striking an appropriate balance in maintaining economic and social stability is welcome.

“Fiscal policy that is in line with the targets set under the authorities’ program has helped preserve macroeconomic stability. Over time, it will be important to develop a well-targeted social safety net to phase out short-term measures introduced in response to quickly rising food prices. Improving debt sustainability will depend on a continued reduction of fiscal deficits over the medium term.

“Consolidating progress in tax and customs administration and implementing a broad-based tax policy reform will be key to achieving the authorities’ medium-term revenue targets. Mobilizing more revenue will help reduce fiscal deficits and preserve space for poverty-reducing expenditures. To minimize budgetary risks, it will be important to gradually close the gap between petroleum pump prices and prices mandated by the price adjustment mechanism.

“A number of planned structural reforms will help to set Burkina Faso’s economy on a sustainable high growth path. In the cotton sector, priorities include following-through on plans to find a strategic partner for the largest ginning company and improving productivity of cotton production. In the financial sector, better managing financial risks related to cotton financing, facilitating access to finance, and strengthening microfinance supervision will be key,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Statement by Lauren W. Rutayisire, Executive Director
for Burkina Faso
June 30, 2008

I would like to express my authorities' appreciation for the continued support of the Fund and the close policy dialogue with Burkina Faso. I thank staff for their dedicated efforts in providing my authorities with sound advice and technical assistance, including during the last mission to Ouagadougou. I also thank the staffs' of the World Bank and the IMF for a set of well-written and balanced reports which helps inform their reform efforts aimed at achieving growth and reducing poverty.

As they sought to implement their reform agenda, my authorities have been faced with a challenging external environment marked by increases in oil and basic food imports prices and difficulties in the cotton sector. Following mounting social and political pressures, including days of riots and strikes in many cities throughout the country, my authorities adopted emergency measures which involved temporary suspension of certain taxes on basic food staples and discouraged speculative price hikes on certain products, taped into their strategic food reserves with a view to reign in on the impact of the price increase without distorting market incentives, and intervened in the cotton sector through subsidies on inputs such as fertilizers and high yield seeds in order to stabilize and boost productivity in this sector.

Despite the difficult environment, my authorities succeeded in maintaining macroeconomic stability and structural reform implementation. They have implemented all quantitative performance criteria under the PRGF arrangement, and met all but one structural performance criteria on sending notification letters to late tax fillers. Although they implemented the substance of the missed criteria, they also took remedial actions. On the basis of this strong performance they request the conclusion of the second review under the PRGF arrangement and the granting of a waiver for the non-observance of a structural performance criteria.

VI. Recent Economic Performance and Program performance

Real GDP growth declined below trend to 4 percent in 2007 from 5.5 percent in 2006, largely due to losses in cotton production estimated at over 40 percent, rising oil and food imports prices. Nonetheless, economic activity outside of the cotton sector has been buoyant, driven by the mining and construction sectors. Inflation, which has been negative on average in 2007, turned sharply higher recently on account of higher food prices. The current account deteriorated further as cotton exports declined and food and oil imports costs increased, although the decline of the external position was cushioned by rising gold exports.

My authorities implemented a prudent fiscal policy, balancing the need to maintain macroeconomic stability in the face of exogenous shocks with making gains towards their growth and poverty reduction objectives. Despite increased spending needs, the fiscal deficit target was met through reforms aimed at raising revenue ,controlling spending and with the support of development partners.

On spending, my authorities increased social expenditures in addition to emergency measures taken to cope with increasing food and oil prices. They reallocated spending specially in the education and health sectors and towards priority infrastructure and investment projects. As regards the missed indicative performance criteria on the floor on social expenditures my authorities took remedial actions, including through efforts to improve the tracking of social expenditures in the budget and building capacity to increase the execution rate of capital projects.

On the revenue side, my authorities surpassed their program target, raising total revenue to 13.6 percent of GDP in 2007 with a view to sustaining pro-poor spending. They achieved this objective through reforms in tax policy as well as in customs and tax administration. In customs administration, the reforms aimed at using the functionalities of ASYCUDA to increase efficiency in revenue collections. In tax policy, my authorities have consolidated all tax related legislation into a single tax code which they have submitted to parliament. In tax administration, they aimed at improving compliance by reducing the number of late or non filer rates for VAT and corporate income taxes from 12 percent to below 7 percent. Towards this end, they used the tax administration system SINTAX to automatically notify late filers within a week of the filing deadline. Due to technical difficulties in the transmission of information between offices in the countryside and the capital city, and the non periodicity of certain taxes such as taxes on income from real estate or dividend payments some notification letters could not be sent within a week period as targeted. Nonetheless, my authorities implemented the substance of the program target by reducing significantly the rate of non fillers and acquired a software that will enable them to cost-effectively implement this criterion. They therefore request a waiver for the non observance of this performance criteria.

On monetary and financial sector policies, my authorities were successful in maintaining average inflation well bellow the convergence criterion of the WAEMU in 2007. However, the inflation outlook deteriorated recently due to increases in oil and basic staple imports prices. My authorities are accordingly closely monitoring inflation expectations as well as the level of credit to the economy, and are prepared to adopt a tighter stance as needed. They pro-actively took steps to ensure that the financial sector was insulated from the downturn in the cotton sector, including through the recapitalization of SOFITEX and the enforcement of prudential ratios for Banks. One Bank involved in the cotton sector took advantage of the discount window of the Central Bank to meet its short-term maturities but has since retired this financing.

On structural reforms, my authorities made significant progress in promoting a private sector led growth. They implemented reforms aimed at improving the business climate, Notably the streamlining of business regulation, reducing costs to enforce property rights and improving the functioning of labor markets. On the cotton sector, my authorities are in the implementation stage of a strategy to ensure of the long run viability of this sector. Government intervention helped avert a collapse of the sector following the prolonged decline of cotton-prices and due to various factors including bad weather. They adopted a strategy to divest 30 percent of SOFITEX's share to a strategic investor, which will reduce governments' participation in this company to 35.4 percent. Returning majority control to the private sector, will help achieve productivity gains and enhance the sectors long run viability.

VII. The Reform Agenda Ahead

Although the macroeconomic outlook going forward is less favorable with inflationary and competitiveness pressures expected to continue, my authorities are nonetheless determined to steadfastly implement their reform agenda.

Fiscal Policy

In fiscal policy, my authorities will strive to maintain a balance between addressing pressing social pressures, preserving macroeconomic stability and promoting a broad based growth. Towards this end, they plan to improve revenue collection while better targeting spending.

In order to improve revenue collection, my authorities will strengthen tax and customs administrations, reform tax policy and improve public financial management. Tax administration reforms will aim at improving compliance, with a focus on large and medium tax payers. In custom administration, efforts will be undertaken to reduce risks of revenue loss from corruption and fraud including with an improved monitoring of transit. My authorities plan also to reform tax policy in line with findings from IMF's technical assistance to broaden the tax base, reduce exemptions and simplify the tax code. In public financial management, they plan to strengthen key areas such as public procurement, budget management and the monitoring of budget execution.

On spending, my authorities plan to increase spending aimed at promoting a broad based growth to reduce poverty and the economy's vulnerability to exogenous shocks. Towards this end they plan to prioritize spending, put in place well targeted safety nets and improve the tracking of social expenditure through a functional classification of the budget.

On debt sustainability, my authorities are committed to a prudent debt strategy going forward and will continue to seek to finance their enormous development needs preferably through grants and highly concessional loans. They are also strengthening their debt management capacity.

Monetary and Financial Sector Policies

Monetary policy, which is implemented at the regional level, will continue to aim for price stability. My authorities' welcome the recently concluded FSSA report on Burkina Faso which confirms the soundness and resilience of the financial system to foreseeable exogenous shocks. The report also highlights the systemic importance of the cotton sector and made valuable suggestions including on improving the regulatory framework for the Banks and the microfinance institutions, as well as on government's securities market. My authorities are committed to addressing the regulatory and supervisory issues raised, as well as in enforcing AML/CFT standards and codes.

Structural Reforms

My authorities' structural reform agenda aims at broadening the sources of growth in order to reduce the vulnerability of the economy to exogenous shocks and realize further productivity gains in the face of raising pressures on the economy's competitiveness. They plan to further liberalize the economy, improve the business climate and governance. In the cotton sector, my authorities plan reforms to increase the long run viability of the sector including through increased private sector participation in SOFITEX, ensuring that the smoothing fund established to protect cotton farmers from excessive price fluctuations is self-financed and transparent, and productivity enhancements through the adoption of high-yielding seeds and the modernization of the sector.

On governance, my authorities are committed to further improvements in order to foster an environment conducive to a private sector led growth. They plan to adopt laws to provide adequate resources to the newly established state supervisory body, which has been designed to be independent and enjoys extensive investigative and legal powers to pursue suspected mismanagement or corruption in government. My authorities are also working with the assistance of the World Bank on a Governance and Anti-Corruption diagnostic report which will help inform my authorities' national governance agenda. In the mining sector, they are committed to adhere to international best practice standards in managing natural resources such as the EITI.

VIII. CONCLUSION

My Burkinabè authorities are making significant progress in implementing the PRGF program with a view to reducing poverty and promoting growth while preserving macro stability. In spite of a difficult external environment they are committed to further reform efforts in order to meet the Millennium Development Goals. In this endeavor, they value an increased support from the international community and the fruitful policy dialogue with their development partners, including the IMF.

Based on the overall track record of strong program performance of my authorities and their commitment to pursue sound policies going forward in order to meet the Millennium development goals and address short term challenges, I request Executive Directors to support my authorities request for the conclusion of the second review under the PRGF and the granting of a waiver for the non observance of a performance criteria.