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BURKINA FASO

July 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR WAIVER AND MODIFICATION OF PERFORMANCE CRITERIA—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BURKINA FASO

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV Consultation and first review under the three-year arrangement under the Extended Credit Facility, and request for waiver and modification of performance criteria, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 3, 2014, following discussions that ended on April 14, 2014, 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 18, 2014.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- An **Informational Annex** prepared by the IMF.
- **Press Release** including a statement by the Chair of the Executive Board, and summarizing the views of the Executive Board as expressed during its July 3, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- A **Statement by the Executive Director** for Burkina Faso.

The following documents 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*
Selected Issues Paper

*Also included in Staff Report

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

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BURKINA FASO

June 18, 2014

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EXECUTIVE SUMMARY

Growth remains robust, despite slight downward revisions. Growth estimates for 2013 and projections for 2014 were revised to 6.6 and 6.8 percent, respectively, reflecting weather and weaker terms of trade. Inflation is around zero, partly due to subsidized food prices. The revised 2013 current account deficit rose to 7 percent of GDP, with a drawdown of imputed reserves. The 2013 fiscal deficit increased to 3.5 percent of GDP, reflecting weaker revenues and spending for subsidies, partly offset by higher grants.

In line with 2011 Article IV recommendations, the authorities maintained a prudent fiscal stance, despite numerous shocks, and implemented structural reforms that have improved the resilience of agriculture, especially cotton. Social transfers have been bolstered to ensure the benefits of growth are better distributed. An updated external stability analysis shows that the exchange rate is broadly in line with fundamentals, and an updated joint debt sustainability analysis maintains a "moderate" risk of debt distress.

Program performance has been satisfactory. The authorities are requesting a waiver for a non-observance in the performance criterion for net domestic financing at end-December 2013, with most other quantitative targets met and all structural benchmarks for end-January and end-March met. Program targets differ mainly due to higher budget support projections. The 3 percent fiscal deficit target for the medium term macroeconomic framework remains unchanged, although with a higher share of current spending.

Policy discussions focused on composition and quality of spending, transfers to public enterprises, and natural resource revenues. The authorities recently submitted a supplemental budget that increases the share of current spending for a higher wage bill and more social and public enterprise transfers, but remains within program targets as a result of spending offsets and higher budget support. The authorities are proposing an audit of large public enterprises to estimate needs for the medium term, and inform reforms to reduce transfer needs. The National Assembly did not approve a new mining taxation code by end-2013 as expected, rather, the draft code was sent back to the authorities for further consideration of investors' concerns.

Approved By
Michael Atingi-Ego and Peter Allum

Discussions were held in Ouagadougou during March 13–26 and Washington, DC during April 9–14, 2014. The staff team was comprised of Laure Redifer (head), Liam O'Sullivan, Mehmet Cangul, David Corvino (all AFR), Benoit Taiclet (FAD), aided by Jean-Baptiste Le Hen (Resident Representative) and Bamory Ouattara. Mr. Tall (OED) accompanied the mission. HQ assistance was provided by Jean Vibar. The mission met with Mr. Luc-Adolphe Tiao, Prime Minister; Mr. Lucien Bembamba, Minister of Economy and Finance; Mr. Salif Kaboré, Minister of Mines; Ms. Clotilde Ki-Nikiéma, Minister of the Budget; Mr. Moussa Ouattara, Minister of Higher and Secondary Education; Ms. Koumba Boly, Minister of National Education and Alphabetization; Mr. Gnissa Isaie Konate, Minister of Scientific Research and Innovation; Mr. Lene Segbo, Minister of Health; and Mr. Charles Ki-Zerbo, National Director of the Central Bank of West African States, as well as other senior officials, parliamentarians, private sector and civil society representatives, and development partners.

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List of Acronyms

AFD	*Agence Française de Développement* (French Development Agency)
AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Centers
AICB	*Association Interprofessionnelle du Coton du Burkina Faso* (inter-professional cotton association)
ASCE	*Autorité Supérieure de Contrôle d'Etat* (Burkina Faso external control agency)
BOAD	*Banque Ouest Africaine de Développement* (West African Development Bank)
BCEAO	Central Bank of West African States
CEMAC	Economic Community of Central African States
CIT	corporate income tax
DGI	*Direction Générale des Impôts* (internal revenue service)
DGD	*Direction Générale des Douanes* (customs)
DSA	Debt Sustainability Analysis
EITI	Extractive Industries Transparency Initiative
ECOWAS	Economic Community of West African States
FARI	Fiscal Analysis of Resource Industries
GMO	Genetically Modified Organism
HDI	Human Development Index
IFC	International Finance Corporation
INSD	*L'Institut national de la statistique et de la démographie (*Statistical Agency)
ITC	International Trade Center
LIC	Low-Income Country
MDGs	Millennium Development Goals
MEFP	Memorandum of Economic and Financial Policies
MW	Megawatts
NFA	Net Foreign Assets
PPP	Purchasing Power Parity
REER	Real Effective Exchange Rate
SCADD	Stratégie pour une Croissance Accélérée et pour le Développement Durable (Strategy for Accelerated Growth and Sustainable Development)
SOFITEX	Société Burkinabè des Fibres Textiles (largest cotton ginning company)
SONABEL	Société Nationale d'électricité du Burkina Faso (state-owned electricity provider)
SONABHY	Société Nationale des Hydrocarbures (public oil importing company)
SONAPOST	*Société Nationale des Postes du Burkina Faso* (state-owned postal company)
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Developments

1. **Despite uncertainties associated with the transition of political power, the security situation in Burkina Faso remains calm**. After 25 years in office, President Compaoré is seeking to amend the constitution to enable him to seek another term. Early in 2014, there were several high profile resignations from his party, the Congress for Democracy and Progress (CDP). A new party was formed, and joined forces with the opposition party to stage a series of peaceful protests against the constitutional amendment. A public referendum on the constitutional amendment is possible in the second half of this year.

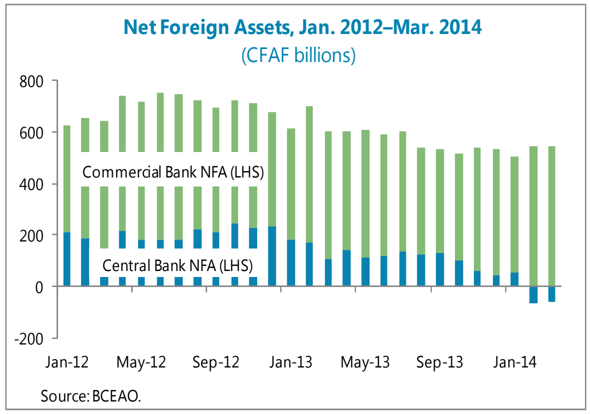
2. **Growth remained robust in 2013, but was revised downward slightly from 6.8 to 6.6 percent** (Figures 1 and 2). Erratic rains in 2013 affected grain production, although food stocks appear adequate. Lower international gold prices constrained growth in mining production, with a more pronounced impact on exports and fiscal revenues. Strong construction activity and cotton production—the latter having become more resilient to rain patterns—partly compensated. Food prices have been kept down due to price controls and government subsidized sales of basic food products in special rural shops. Inflation has remained around zero for the past several months.

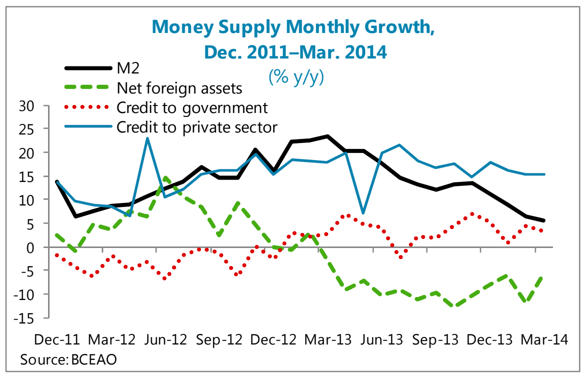
3. **The 2013 fiscal deficit was 0.2 percent of GDP higher than programmed, due to lower revenues and higher spending, partly offset by higher grants**. Revenue collection was affected by, among other things, gold prices and foregone fuel excise taxes. Higher expenditures were primarily due to capital transfers to public enterprises. Domestically-financed investment spending was otherwise roughly on target, thanks to accelerated spending in the second half of the year. Grants were larger than expected since the share of project grants to project loans was unusually high—80 percent compared to 50 percent historically. The overall deficit reached 3.5 percent of GDP (commitment basis). Deficit financing was skewed largely toward domestic financing: a bond issuance late in the year was oversubscribed two fold, a large World Bank budget support disbursement was delayed into the first few days of 2014, and external project financing was skewed away from loans.

4. **In the first quarter of 2014, weaker than expected revenue performance continued with large under-execution of spending.** Revenue collection in the first quarter was about 88 percent and spending was 63 percent of programmed levels, leading to a temporary budget surplus. Investment budget execution was 55 percent of program levels. In March 2014, the government reversed its decision from a year ago to forego part of its take of fuel excise taxes, which should compensate for one-half of the shortfall in revenue collection going forward (MEFP ¶31).

5. The current account balance deteriorated sharply due to lower gold prices (Figure 2, Table 4). International gold prices caused reduced exports, and imports remained strong due to demand for intermediate investment goods in conjunction with expansion of some mining projects and growing public investment. Due to a retroactive change in official gold production statistics, the current account deficits for 2012 and 2013 are 3.5 percentage points of GDP higher than in the 7th review.[1] This change affects current account projections going forward, but balance of payments projections are not yet finalized and there still may be offsetting revisions.

6. Imputed central bank international reserves dropped sharply, due to one-off factors, while private sector credit remained robust. As of end-December, imputed central bank reserves dropped 40 percent against the previous year. End-March monetary data indicate that the sharp drop in imputed central bank reserves continued, with net reserves going negative (reflected only in the share of reserves imputed to Burkina Faso, rather than overall common reserves), while commercial banks' reserves grew. The authorities explained that this was due to non-observance by some commercial banks of surrender requirements for foreign exchange, combined with large import needs connected with Millennium Challenge Account and other investment projects, as well as delays in anticipated external grants and financing (MEFP ¶7). A committee has been established to monitor repatriation requirements for gold mining companies and surrender requirements for commercial banks, and observed that as of April, reserves imputed to Burkina Faso began to accumulate.





[1] Discrepancies in official statistics for gold production have been resolved (end-March structural benchmark), with the authorities finding that some production had been recorded in the wrong units (kilograms vs. tons). Thus, official statistics for gold production in 2012 and 2013 were corrected from 42.4 to 35.6 tons and 42.8 to 38.9 tons, respectively. The revised production statistics have not yet been incorporated into the authorities' real and external sector statistics. However, since the correction implies an important change in the relationship between gold production/exports and fiscal revenues, staff and the authorities agreed to incorporate the correction into the external sector of the program framework. The change in production and exports in 2012 implies a very large upward revision to the current account deficit, from 0.8 percent of GDP, at the time of the 7th review under the previous ECF arrangement, to 4.5 percent currently. Once the national directorate of the BCEAO finalizes official BOP statistics, there may be offsetting revisions to other aspects of the BOP. Meanwhile, staff and the authorities have agreed to keep overall GDP growth estimates for 2012 and 2013 unchanged until the national accounts can be revised and finalized, since the contribution of the mining sector to growth is modest and other possible revisions leave the net effect on growth unclear. However, for the demand side, the higher current account deficit implies a reduction in private sector savings relative to earlier projections.

7. Private sector credit growth has remained robust, with an uptick in growth of banking sector credit to the general government. However, reflecting the drop in imputed NFA for most of 2013, broad money growth (M2) slowed markedly, well below projected nominal GDP growth. Although the trend is worth noting, in a monetary union and ample liquidity context, this does not necessarily imply a constraint on growth.

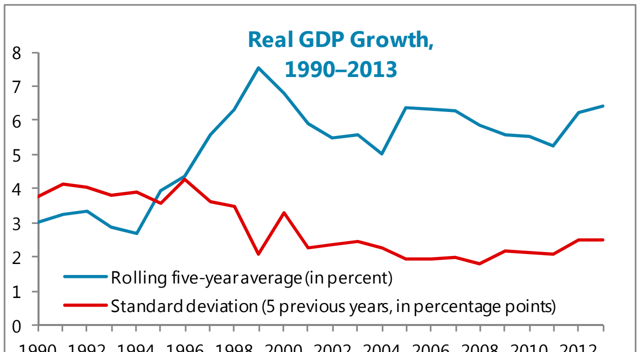
B. Program Performance

8. The majority of end-December and end-March quantitative targets were met (Table 5). The adjusted ceiling on net domestic financing for end-December was not observed by about 0.3 percent of GDP. With a fixed bid system, a November bond issuance was oversubscribed more than two-fold; the authorities used the financing to compensate for lower revenues and meet larger than programmed capital spending needs. In contrast, the adjusted indicative target for the deficit at end-December was met, due to the high share of grants supporting externally-financed investment spending. An indicative floor for revenues was not observed by about 0.5 percent of GDP at both end-December and end-March (MEFP ¶15) due to factors mentioned in ¶3. Due to large across-the-board under execution of spending in the first quarter (pending decisions on recomposition of spending), the end-March indicative target on poverty-reducing spending was missed by a large margin.

9. All end-January and end-March structural benchmarks were met (Table 6, MEFP ¶18). Among these were measures to strengthen expenditure approval processes in order to accelerate public investment spending; tax information sharing between Customs and Internal Revenue, which has already provided preliminary information to flag large importers who do not pay much in income taxes; updated financial projections for SOFITEX (state-owned cotton company) based on 2012 results; updated financial projections for SONABEL (state-owned electricity company) that helped identify needs in 2014; and a harmonized database for official gold production in 2012 and 2013, with strengthened ongoing cooperation between tax administration entities responsible for mining revenues.

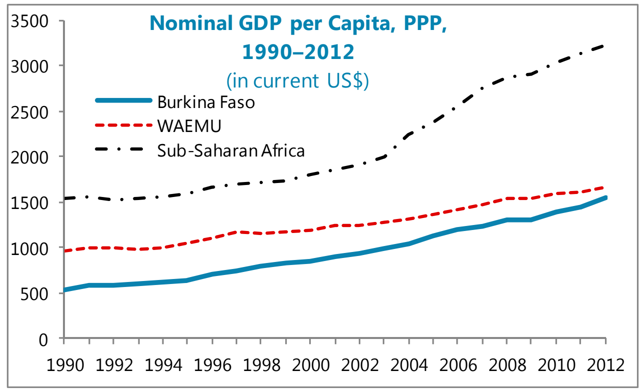
BACKGROUND FOR ARTICLE IV DISCUSSIONS

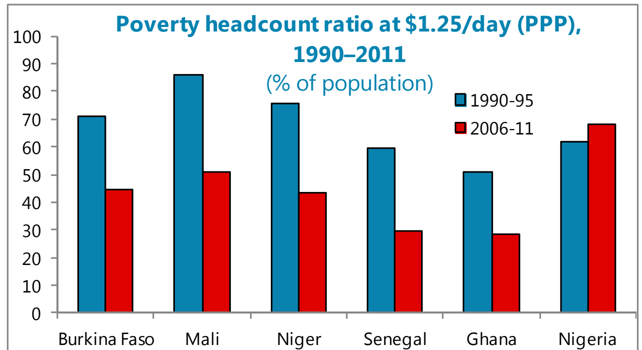
Burkina Faso is at a crossroads, its ability to accelerate development hinging upon crowding-in private sector activity and wise use of natural resource revenues.



Source: Countries Authorities; and IMF staff estimates.

10. Burkina Faso has experienced sustained higher and more stable growth over the past two decades, with progress toward the Millennium Development Goals. Burkina Faso has experienced sustained and higher growth with lower volatility, enabling it to catch up to regional norms (Annex I). Five year average real growth doubled between 1990 and 2012, with a decline in the standard deviation from 3.8 to 2.5 percentage points over the same period, despite numerous shocks. On a purchasing power parity basis, Burkina Faso's GDP per capita in 2012 (US$1555) had almost reached the WAEMU average (US$1663). Based on the authorities' official statistics for income poverty (poverty rate of around 44 percent unchanged since mid 1990s, using rising income levels in real US$ terms), there is a perception that poverty reduction has been slow. This perception has been further exacerbated by the recent boom in gold production. However, broader indicators suggest that growth has been relatively inclusive, with progress towards the MDGs in many areas. The share of the population living under the US$1.25 per day threshold (2005 prices) has gone down sharply since the early 90s (from 71 to 44 percent), and the income share held by the wealthiest 10 percent of the population has also decreased. MDG indicators with notable improvements include health for mothers and children under 5, primary school enrollment and access to drinking water. However, the country's indicators for education lag WAEMU, SSA and LICs averages.





Source: World Bank, World Development Indicators, 2014.

Burkina Faso: Millenium Development Goals, 2001–12

	2001	2005	2009	2012	SSA 2011/12
Population (in millions)	11.9	13.4	15.1	16.5	912.2
GDP per capita (in 2005 US$)	355	407	436	493	995
National household survey poverty incidence	...	...	46.7	...	...
GNI per capita, Atlas method (current US$)	240	410	550	670	1359.5
Primary school enrollment ratio (% net)	37	46	63	66	76
Ratio: girls to boys in primary education (%)	71	78	86	91	90
Under 5 mortality rate (per 1,000)	183	160	123	102	97.5
Prevelance of HIV, total (% of population aged 15-49)	2.2	1.4	1.1	1	4.7
Access to an improved water source (% of population)	...	69	...	82	64
Unemployment rate, total (modeled ILO estimate)	2.3	2.7	3.3	3.3	7.6

Source: World Bank, World Development Indicators, 2014.

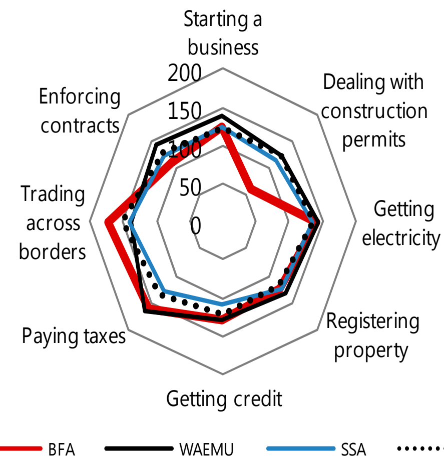
11. Burkina Faso has a long track record of strong macroeconomic policy management, supported by consecutive IMF programs. The authorities' policy decisions have tracked most recommendations of the 2011 Article IV consultation, in the context of two consecutive ECF-support programs (Box 1). Progress has been made in revenue collection, maintaining a prudent fiscal policy stance and keeping debt levels low. Poverty-reducing and food security spending has been increased, although direct transfers to protect the most vulnerable have only been introduced more recently. Notable progress has been made in structural reforms to improve resilience and support incomes in the vitally important cotton sector, which employs or supports a large share of the rural population (Annex 2). In addition, Burkina Faso has been at the forefront of inclusive growth innovations through its SCADD (Box 2), such as construction of a "growth pole" around the rural Bagré reservoir, providing irrigation and other support services for diversified crops, ecotourism, fishing and dairy industries, hydropower, among others, to create a synergetic center for local job creation and investment.

Box 1. Burkina Faso: Status of Policy Recommendations from the 2011 Article IV Consultation

Policy Area	Staff Recommendations	Outcome
Fiscal	Maintain a prudent fiscal stance and strengthen revenue mobilization.	Consolidation of fiscal stance in 2012-2013, despite 2012 weather shock, with program targets respected. Increased spending for investment and social transfers met by an improvement in revenue collection effort, due to policy and administrative reforms.
Debt	Enhance debt management capacity, and maintain a prudent borrowing policy consistent with debt sustainability.	Debt management capacity is ranked as moderate, with scope to improve internal coordination and transparency of implicit support to public enterprises. Regional efforts have shown deepening in regional market for domestic securities. Prudent borrowing policies have lowered risk of debt distress from high to moderate. A non-zero ceiling on non-concessional borrowing was introduced in the program.
Structural	Promote economic diversification and deepen structural reforms.	Authorities have invested in productivity-enhancements (irrigation, GMO seeds, crop rotation, land management) to increase resilience of agriculture. They have also invested in diversification and downstream activities, such as cotton and the Bagre Growth Pole initiative. With development partners, government has invested in energy expansion projects (new thermal plants, interconnections with neighboring countries and solar energy), along with other growth-enhancing public investment spending as laid out in the 5 year development plan.
Social	Improve social policies and develop social protection systems for the vulnerable.	Under the auspices of the SCADD, health, education, and food security spending has led to improvements in social indicators. Authorities are scaling up spending to achieve universal medical insurance coverage in 2016 and universal primary school attendance by 2021. A National Social Protection Plan was established to do targeted cash transfers, but has yet to take off, although spending on social transfers to the most vulnerable increased by 1% of GDP in both 2013 and 2014.

12. Despite this progress, private sector-led growth faces numerous constraints, while spending for development competes with less efficient claims on public resources. Although Burkina Faso's business indicators are generally equal to or better than those of regional peers, there are well-identified binding constraints to sustaining high and more inclusive growth. Private sector-led growth and job creation are hampered by insufficient access to, among others, reliable power, affordable financial services, an effective judiciary, higher education and vocational training, and transportation and communications infrastructure. At the same time, recent improvements in domestic revenue mobilization have supported continued untargeted energy subsidies and increases in the public wage bill.

Doing Business Indicators 2013
(0=best, 200=worst)



These problems are not unique to Burkina Faso, nor are they more profound in Burkina Faso than elsewhere. But this landlocked and resource poor (until recently) country has set high expectations for itself, with a marked history of outperforming peer countries in the strength of its public policies and public institutions.

13. Burkina Faso's recent gold boom provides an opportunity to accelerate its development agenda, but the country lacks sufficient architecture to efficiently harness and channel resources to meet multi-year development spending plans. (Annex 3). Although natural resource revenues have not reached a "dependency threshold" of 20 percent of total revenues, they are likely to in the coming years. Initial steps have been taken to improve the transparency of natural resource revenue management, but architecture has not yet been put into place to optimize public sector rent-sharing and to imbed disciplined rules for effective multi-year use of volatile resource revenues for the purposes of development. To the contrary, natural resource revenues have intensified the pressure to direct public resources for current consumption.

Box 2. Burkina Faso: Strategy for Accelerated Growth and Durable Development

The Strategy for Accelerated Growth and Sustained Development (SCADD) sets out economic and social policies to support broad-based growth, sustained poverty reduction, and progress towards the MDGs (MEFP ¶19–21). The strategy follows 4 main axes:

- **Development of accelerated growth pillars:** in pursuit of a growth target of 10 percent, the SCADD contains measures to improve the business environment, and develop "growth poles" to attract private investment.
- **Consolidation of human capital and promotion of social protection**: the SCADD focuses on investment for expansion of health sector primary education, with coordinated expansion of secondary and vocational education. The SCADD also aims to improve the equity of resource allocation.
- **Strengthening of governance**: internal and external controls to curb corruption and improve accountability of public institutions. A main challenge is judicial reforms.
- **Crosscutting priorities in development policies:** reduce gender inequalities, control population growth, sustainable use of natural resources, capacity building.

Two-thirds of 2013 measures or indicators were implemented or met, notably feasibility studies for three new growth poles, implementation of special export zones, and launching of a new household survey. Establishment of a universal health insurance scheme aims to cover 50 percent of the population by 2025, at a cost broadly estimated at 2 percent of GDP. Other health projects in the short run aim to hire health care professionals, establish facilities, and assure free healthcare for children under 5 (20 percent of the population). The 2010–20 education strategy plans to hire 3700 teachers per year, build or renovate existing classrooms and buy textbooks, with a goal of 100 percent primary school enrollment by 2021, at an additional cost of 2 percent of GDP per year.

POLICY DISCUSSIONS

A. Near Term Fiscal Policy

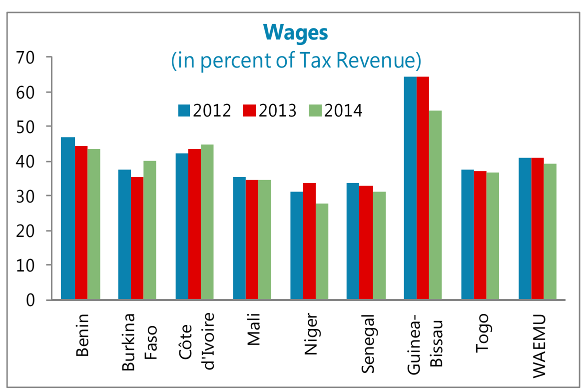
14. The Cabinet approved a large package of new inclusive growth spending measures in March, and a 0.6 percent of GDP public wage bill increase, but committed to find offsets to maintain the program deficit (MEFP ¶27-29). The authorities stressed that revenue gains in recent years and strong growth had led to mounting social pressure for more redistribution of public resources, with two key outlets: the public wage bill and ad hoc social transfers. Negotiations for a wage bill increase had been ongoing for 18 months as a quid pro quo for reducing the number of categories of allowances. In early 2014, public sector labor unions joined together and began a series of small scale strikes to force a conclusion of negotiations. By March, the government felt that agreement was necessary to head off collective action and potential social turmoil. New social transfers had been introduced in September 2013, and the authorities explained that continuation and extension of these measures required new spending authority of 0.6 percent of GDP. The Cabinet approved the spending increases in late March, along with another 0.3 percent of GDP needed for voter registration and security spending and 0.8 percent of GDP in priority investment spending. At the same time, the authorities identified preliminary categories of non-priority spending to be "frozen" pending a mid-term budget review in July.

15. At staff's urging, the authorities agreed to formalize the new spending authority and their financing by embedding them in a supplemental budget submitted to the National Assembly on June 6. Staff also requested that the supplemental budget reflect additional spending authority based on more realistic estimates of budgetary transfer needs of public enterprises, for which the authorities added 0.3 percent of GDP. Total new spending authority of 2.6 percent of GDP is to be financed by a combination of spending offsets and additional budget support grants. Against the existing program framework, this implies a net increase in current spending by 1.3 percent of GDP, financed by reduced domestically-financed investment spending of 0.9 percent of GDP and new resources of 0.4 percent of GDP. Additional budget support grants result from agreement that a World Bank budget support operation delayed from 2013 into early 2014 could be incorporated into the program framework as additional resources to be used in 2014 (maintaining an original assumption for another disbursement later in 2014), thus reducing part of the need for spending offsets.

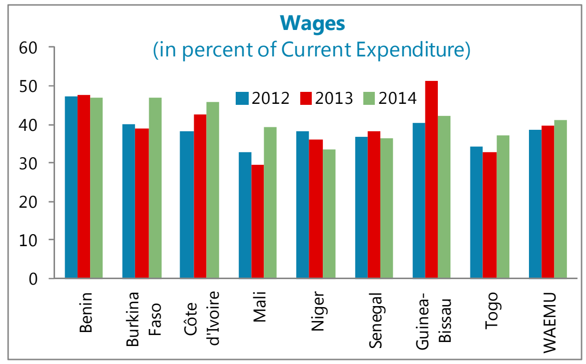
Summary of changes to Supplementary Budget vis-à-vis Program Approval Macroeconomic Framework					
Additional Spending Authority			**Spending offsets/New Resources**		
	CFA billions	**% GDP**		**CFA billions**	**% GDP**
Total	**164.1**	**2.56**	**Total**	**164.1**	**2.56**
Current Spending	**107.0**	**1.67**	**Spending offsets**	**138.4**	**2.16**
Wages and Salaries	40.4	0.63	Goods and Services	11.2	0.17
Transfers	66.6	1.04	Transfers	9.0	0.14
- Social spending	38.3	0.60	Interest	5.5	0.09
- Elections	12.6	0.20	Investment	112.7	1.76
- SONABEL	12.0	0.19			
- SONABHY	3.7	0.06			
			New Resources	**25.7**	**0.40**
Investment Spending	**57.1**	**0.89**	Grants	29.9	0.47
Priority projects	50.8	0.79	- o/w World Bank	23.5	0.37
Refugee/Security related	6.3	0.10	Domestic Revenues	-4.2	-0.07

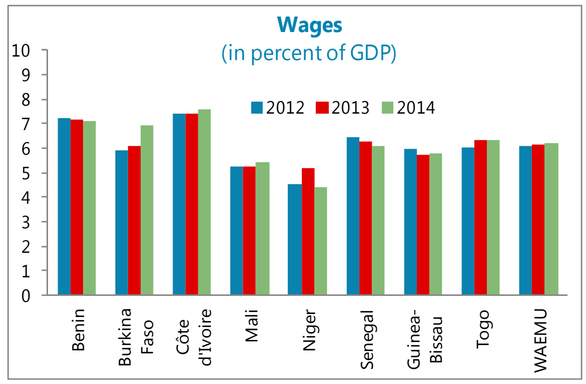
16. The authorities explained that recomposition of spending would not jeopardize program objectives for more inclusive growth, since higher social spending replaced lower priority investment spending. They observed that the additional social spending addresses specific, already-identified impediments to inclusive growth laid out in the National Social Protection Plan and the SCADD, notably better support to the most vulnerable segments of the population and job creation schemes (MEFP ¶24, 28-30). These include: targeted transfers for vulnerable groups (orphans, street children, elderly, handicapped); creation of additional labor-intensive rural jobs; increased use of "*boutiques témoins*" (small public grocery stores selling staple goods at subsidized prices); credit lines/loan guarantees for small entrepreneurs; and expanding university funding to facilitate more student participation and enrollment. At the same time, in finding offsetting adjustments, the authorities were forced to carefully review investment spending in order to safeguard the highest priority investment spending and delay lower priority spending (MEFP ¶29). New identified priority spending is directed towards energy infrastructure. Thus, while spending may be lower than originally planned, the quality and execution rate of spending should be higher, with "readiness" of projects given more prominence in project selection. In considering WAEMU fiscal rules, even with the recomposition, Burkina Faso meets the WAEMU floor for minimum domestically-financed investment spending by a large margin.

17. The authorities acknowledged the mission's concerns about the size of the wage bill increase and its sustainability, but explained that the circumstances were unique. Staff noted that the program already had incorporated a 10 percent increase in the wage bill over 2013, to accommodate hiring of new teachers and health workers. Thus, the wage bill settlement implies a 25 percent increase over 2013, with Burkina Faso's wage bill increasing from 6.0 to 6.9 percent of GDP, and 35.8 to 39.9 percent of revenues. The authorities noted that the wage bill increase



was unavoidable after almost a year and a half of negotiations to streamline allowances. Staff expressed concern about the sustainability of the large increase in the wage bill over the medium term, noting the change over time using various indicators. The authorities expressed their commitment to revert the wage bill back to the WAEMU ceiling (35 percent of tax revenues) over the medium term, and discussed with staff various options that might be incorporated into program design at a later stage. Burkina Faso does not have inflation-indexing, and the public sector does not serve as a basis for wage negotiations in other sectors. Thus, the most realistic option for bringing the wage bill back in line with the WAEMU ceiling is keeping a cap on multi-year wage negotiations, since there are already significant further increases in the number of teachers and health workers planned for 2015–16.





Burkina Faso: WAEMU Convergence Criteria, 2012–14

	Objective	2012	2013	2014
First-order criteria				
Basic fiscal balance/GDP [1]	≥ 0	-4.2	-4.9	-3.3
Inflation Rate	≤ 3	3.8	0.5	1.5
Total debt/GDP	≤ 70	28.7	29.1	31.1
Change in payments arrears:				
Domestic	≤ 0	0.0	0.0	0.0
External	≤ 0	0.0	0.0	0.0
Second-order criteria				
Wages and salaries/tax revenue	≤ 35	37.3	35.8	39.9
Capital expenditure domestically financed/tax revenue	≥ 20	45.8	59.7	46.1
Current account deficit excluding grants/GDP[2]	≤ 5	8.0	9.7	9.8
Tax revenue/GDP	≥ 17	15.8	16.7	17.3

Sources: Burkinabè authorities; and IMF staff estimates and projections.
[1] Total revenue (excl. grants) - current -dom-financed investment spending (incl capital transfers).
[2] Including revised gold production data.

18. **The authorities also outlined measures to support program revenue projections to address the mission's concerns about weak first quarter results.** They outlined numerous measures to support the revenue projections in the program framework, including restoration of fuel excise taxes, administrative measures to review past tax liabilities of mining companies, integration of tax databases between Customs and Internal Revenues, and numerous other Customs measures, including satellite tracking of import shipments and a new system of valuation for used vehicles. (MEFP ¶13, 31) The authorities agreed with the mission that revenue projections in the budget, having been increased by the National Assembly, could be overly ambitious and that the program should retain more cautious projections.

B. Containing Fiscal Liabilities from Public Enterprises

19. Staff explored in more depth budgetary transfers to the largest public enterprises (Box 4). The enterprises' imbalances are subject to fixed retail and volatile commodity pricing structures which are unlikely to change significantly in the coming period. An automatic price adjustment mechanism for fuel prices exists, but is not used in practice, and electricity tariffs—which are already very high—have not been changed since 2006. Despite ad-hoc increases in retail fuel prices—most recently for butane—explicit and implicit transfers to cover SONABEL and SONABHY operational losses have grown substantially. Support took the form of explicit recurrent and investment subsidies regularly appropriated in the budget, but also through tax and debt forgiveness. In 2013, net transfers to SONABHY and SONABEL (implicit + explicit subsidies—enterprises' returns) reached a peak of CFAF 172 billion—9.5 percent of government's expenditure or 2.9 percent of GDP. It should be noted that this snapshot, however, covered both losses in 2013 and some accrued losses from earlier years.

20. Staff again stressed that untargeted retail fuel subsidies are inefficient, and encouraged adjustment to avoid subsidizing cross-border fuel purchases at a minimum. Following the 2011 protests and the reports of large revenue improvements in recent years, the authorities remain concerned about the social consequences of larger adjustments in retail prices. The more profound fiscal liabilities, however, are the operational losses of SONABEL. The scope for maneuver on electricity tariffs is more limited still: sectoral experts stressed that it would be difficult for the authorities to introduce tariff increases absent the provision of a more reliable supply of power.

21. The authorities have updated transfer needs for 2014 and proposed an external audit to estimate a range of needs for 2015–17 (MEFP ¶34–35). The mission encouraged the authorities to update 2014 transfer needs and include these in the supplemental budget, and to consider whether there is any scope for retail price adjustments at this stage. The authorities proposed an external audit (program benchmark for the 2nd review) to estimate a range of needs for 2015–17, which would provide a basis for more concrete measures going forward. The audit will be carried out by the Burkina external control agency (ASCE) and will assess: effective transfers to enterprises; enterprises' balance sheets; possible adjustments to costs and prices; and measures to contain costs in the medium term.

Box 3. Burkina Faso: Implicit Subsidies to the Energy Sector, A Stock Taking of Actual Costs in 2013

Electricity and fuel are provided by state-owned enterprises. Energy in Burkina Faso is provided by two state-owned companies, the electricity company (SONABEL) and the fuel importer (SONABHY). SONABEL has a distribution monopoly for electricity but not production, however, private operators have shown limited interest so far. SONABHY has a legal import and storage monopoly for fuel products. Electricity tariffs are set up according to a 2006 tariff grid for households, industry, tertiary business and residential three-phases power lines. The grid slightly increased in 2008 and has been unchanged since. Retail prices for butane, gasoline and diesel are supposed to be automatically adjusted with international prices, but in practice there have only been ad-hoc hikes, most recently in March 2012 and May 2013.

Fixed retail prices and volatile input prices have caused operational losses. Both public companies face fixed retail prices, whereas the price of imported fuel is volatile. With international price increases in recent years, tariffs and prices have gone below actual costs , leading to financial losses for both companies since 2011 and causing larger fiscal risks and at some points threatening the loss of creditors and supplies. The government has had to provide additional liquidity to the enterprises to sustain fuel and power supplies.

In 2013, explicit and implicit transfers to rescue SONABEL and SONABHY totaled almost one tenth of the central government budget. Transfers to the companies from the government, were implemented in the form of explicit recurrent and investment subsidies regularly appropriated in the budget. Besides these, the government responded through tax and debt forgiveness operations. Tax exemptions were granted to facilitate power imports from suppliers in neighboring countries; SONABHY was allowed to retain excise tax on oil products for a 9-month period in 2013; and the government supported part of both companies' liabilities through a mix of debt forgiveness and recapitalization to cover historical operational losses. Given the companies' poor profitability, they returned very limited amounts of taxes and dividends (VAT, taxes on oil, revenue and property). In 2013, net transfers {implicit + explicit subsidies—enterprises return}, reached a peak of CFAF billion 172—9.5 percent of government's expenditure. This equates to 2.9 percent of GDP: while an increase for Burkina Faso, it is consistent with averages for sub-Saharan African countries.

Transfers to SONABEL and SONABHY in 2013 1/

CFA F Millions (unless otherwise specified)	SONABHY	Central Government	SONABEL	Donors
Net Transfers to the State Owned Enterprises	87,484	-157,513	75,461	-5,432
In percentage of energy sales	*23.2%*	*-31.5%*	*60.8%*	*-1.1%*
In percentage of government expenditure	*5.3%*	*-9.5%*	*4.6%*	
Explicit subsidies	26,085	-49,128	23,042	
Recurrent	9,300	-21,300	12,000	
Market oriented (oil, and Gas)	16,785	-27,828	11,042	
Externally funded Investment	350	-31,350	36,432	-5,432
Investment subsidies (from government)	0	-17,000	17,000	
Investment projects (from donors)	350	-14,350	19,432	-5,432
Recapitalization (carried out in 2013)	38,300	-55,608	17,308	
Tax rebates (on VAT and Oil excise)	31,950	-31,957	7	
Government Revenue collection	-9,201	10,530	-1,329	
VAT and income taxes	-3,458	4,787	-1,329	
Dividends	-5,743	5,743	0	

Sources: Government and enterprises' financial statements (2013)

1/ Accrued on FY 2013 (enterprise ledger) and on FY 2014 (government ledger)

C. Harnessing Natural Resource Revenues to Finance Development

22. A revised mining taxation code had been submitted to the National Assembly last fall, but has been withdrawn for further revision. Mining companies have been lobbying to make certain provisions of the draft code more generous, with the justification that lower international gold prices have caused a slowdown in exploration activities. The authorities are currently consulting with the companies concerning the requested revisions, and a revised draft is expected to be submitted to the National Assembly in the fall. The authorities have committed to consult with staff to help ensure that the draft submitted to National Assembly reflects key aspects of staff recommendations, and is broadly comparable to the mining codes of peer countries in the sub-region (MEFP ¶36). The mission met with members of the mining sector, the National Assembly, the WAEMU commission, and the government to emphasize the importance of a mining taxation regime which optimizes rent-sharing so that this non-renewable one-time windfall is effectively channeled to investments to meet development needs of the country.

23. The mission advocated, both at the national and regional level, consideration of a fiscal rule to guide the use of natural resource revenues. Although natural resource revenues are still below the "dependency" threshold of 20 percent of total revenues (16 percent in 2013), recent new discoveries and/or a recovery of international gold prices could easily push revenues to a higher level. The main channel by which gold production impacts the economy is through fiscal revenues, as the contribution to real activity and external sector balances is limited. In terms of the type of fiscal rule, key considerations are immediate development needs, execution capacity constraints, weak institutional capacity to deal with volatile commodity prices, and the need for a relatively simple rule that can garner broad ownership. Thus, rather than relying on longer term fiscal anchors based on permanent income hypothesis or some derivation thereof, staff would recommend a shorter term fiscal anchor as appropriate. An illustrative simulation of an expenditure growth rule is contained in Annex 1. For their part, the authorities' primary concern is that discussions about a fiscal rule should be held within a regional context, and that revised WAEMU fiscal rules (currently under revision) should be homogeneous for all countries. However, both in Burkina-specific and regional consultations, staff have encouraged the authorities and other domestic stakeholders to consider country-specific fiscal rules, as long as they are consistent with WAEMU rules.

D. Supporting Inclusive Growth

Investment for development:

24. Financing the SCADD requires not only more spending on human and infrastructure development, but also a redoubled focus on the quality of spending, through careful project selection and results-monitoring. Under the auspices of the SCADD, the authorities are working to identify critical infrastructure bottlenecks, and seeking to address them with large infrastructure projects (MEFP ¶19–21, 24). However, the authorities are aware that if the expected growth payoff is to be captured, the effectiveness of spending is critical. Average execution of investment spending has been below targeted levels, and the Public Investment Management Index suggests there may be weaknesses in the area of project selection. Last year, the authorities implemented some immediate measures to improve the rate of execution of investment spending—although execution of domestically-financed investment accelerated somewhat, donors do not report seeing much difference in the rate of externally-financed investment project execution.

25. The authorities have launched numerous initiatives to improve spending execution and multi-year budget planning. Based on a diagnostic to identify expenditure approval bottlenecks, they are in the process of rationalizing expenditure approval procedures and computerizing them (MEFP ¶18, 32, 44, 46), as well as revising thresholds for public procurement. They are receiving technical assistance to improve budget planning and program budgeting, and integrating the multi-year planning processes with annual budgeting. Investment execution rates have started to respond, but it will take time and monitoring to assess the quality and coherence of spending—on the margin—against objectives of the development strategy.

Addressing energy constraints:

26. Improving the supply of energy is critical to sustain inclusive growth, but also for putting the sector on a more financially-sustainable basis. Business climate surveys consistently indicate that, despite very high energy costs, consumers would be willing to pay more for reliable and sufficient provision of electricity, as this would reduce interruptions of service and the need for expensive backup systems. Thus, the question of financial sustainability is integrally linked to that of supply. Numerous projects are in the pipeline to meet demand that is growing more than 10 percent per year, while at the same time broadening access to energy for the rural population. There are concerns that plans to expand domestic capacity may not be enough to meet energy needs, and serve as an increasingly binding constraint on growth (Box 5). To meet these needs, the authorities are accessing a combination of sources: expanding imported energy (less expensive, but limited supply); expanding domestic thermal capacity (more expensive but more reliable); and developing alternative sources as much as possible (e.g. solar energy) (MEFP ¶49).

Box 4. Burkina Faso: Electricity Supply: a Long Way to Close the Gap

Improvement of electricity supply is critical for eliminating a growth bottleneck and ensuring financial sustainability of the sector. Key sector challenges include: (i) high supply costs, tariffs, and subsidies; (ii) fast growing demand and limited supply; and (iii) a low electrification rate, especially in rural zones—only 14 percent of households are connected. Demand is estimated to grow at above 10 percent a year, faster than the real GDP, while domestic capacity—still below 300 MW— grows at a much slower pace, with new electricity projects taking longer than anticipated. Recent studies financed by donors suggest that over the period 2015–30, domestic capacity should increase to 750 MW and imported energy should increase by an additional 400 MW.

Increase of power supply: The increase of power generation is supported by donors, with a focus on renewable resources. The lack of natural resources in Burkina Faso is a major impediment: solar electricity cannot exceed 25 percent of the total grid capacity due to technical constraints, and other natural assets either do not exist or are already used to the maximum possible (hydro). Therefore, imports from neighboring countries constitute an important element of the medium term strategy. The new interconnection with Ghana, planned for 2016, should supply the domestic grid with a minimum supply of 100 MW by 2016. Most of the cost is supported by the EU (US$31 million), AfDB (US$23 million), France (US$22 million) and the WB (US$16 million).

Box 4. Burkina Faso: Electricity Supply: a Long Way to Close the Gap (concluded)

Donor	Project	Capacity	Date
European Union	ZAGTOULI – solar plant. US$ 90 M (with the AFD)	30 MW	2015
	Micro-generation in remote areas: solar, bio-fuels	A few MW	Ongoing
France (AFD)	ZAGTOULI – solar plant. US$ 90 M (with the EU)	30 MW	2015
World Bank	Thermal generation in Fada and Ouahigouya. US$30M	15 MV	2014
IFC	Solar: IFC assist government to select an IPP	20 MW	2015
	Thermal: assist government to select an IPP	100 MW	2015
BOAD	Increase thermal capacity at Bobo II – US$ 30M		2014
	Increase thermal capacity at Komsilga III – US$ 20M		2014
	Increase thermal capacity at Komsilga III – US$ 30M		2014
AfDB	WINDINGA – solar plant (for mines only)	20 MW	2014

Identifying the export capacity of neighboring countries remains a challenge: Cote d'Ivoire aims to double generation capacity by 2020. In Ghana, 110 MW additional capacity (IFC) came on line in 2013, several other IPPs are in the pipeline, and the Ghana Power System Reinforcement Project (AfDB) aims to reduce losses to the grid. The AfDB is also financing hydro-plants in Niger (Kandadji–130 MW) and Togo (Adjarala–147 MW). However, accessing these sources may not be straightforward:

- *fast growing domestic demand* in Côte d'Ivoire and Ghana;
- *competition from other countries to import power from Côte d'Ivoire and Ghana: e.g. Côte d'Ivoire has already committed to supplying 83MW to Liberia, Sierra Leone and Guinea from 2015 onwards;*
- *export prices will likely increase to reflect increasing generation costs*: while Burkina Faso has, until now, been able to secure attractive prices from Côte d'Ivoire, implicit subsidies may not be sustainable due to Côte d'Ivoire own budget constraints. The same will likely also be true for Ghana, meaning that imported energy may cost more than historically.

Financial sector stability/access:

27. **Despite heightened risks for pan-African banks emphasized in WAEMU surveillance, most commercial banks in Burkina Faso appear to be in a sound position.** Burkinabè affiliates of large regional banks remain profitable and stable. Capital adequacy ratios have dropped somewhat, on the basis of robust new lending, with private credit growth at 26 percent as of December 2013. The sustained high growth of lending has also affected the ratio of deposits to loans. On the other hand, due to higher lending volume and a relatively low level of non-performing loans, there has been a significant increase in return to capital. All but one bank are above the 8 percent minimum capital threshold; the remaining bank is in the process of undergoing reform with a new administrator and is not a systemic threat. As in the rest of the region, asset concentration is high, with 5 banks (out of 12) holding more than 72 percent of assets. Loans are concentrated among certain large borrowers, among them SOFITEX, SONABHY, a large construction firm, and food importers. The central bank explained that concentration risks are controllable since banks engage in mainly short-term lending (almost 2/3) and have a good mastery of the borrowing profiles. As with other WAEMU countries, smaller financial institutions are supervised by national authorities. Pension and insurance institutions are not supervised, but there are regional efforts to remedy this.

Selected Financial Soundness Indicators

	2010	2011	2012	Jun-13	Dec-13
Regulatory capital to risk-weighted assets	9.6	11.0	9.2	12.2	9.1
Non-performing loans	9.5	5.3	3.6	4.0	4.0
After-tax return on total capital	22.7	18.9	15.9	17.2	25.1
Total deposits to total loans	110.8	105.2	104.5	101.3	94.7

Source: BCEAO

28. **Access to financial services remains limited in Burkina Faso, with typical structural impediments and a lack of incentives for innovation.** As of 2012, about 16 percent of the population had access to some form of financial services. Due to prohibitive costs, only 5 percent of the population had access to commercial banking services. In the 2013 World Bank Doing Business indicators, Burkina Faso ranked 130 (out of 181) for access to credit, down from 126 the previous year. Commercial banks are introducing new products to broaden access for the informal sector, but the regional regulatory and national legal environments represent serious obstacles, as do undeveloped credit registries and use of collateral. For example, in West Africa, there has been very little development of mobile banking since few institutions have received authorization to cooperate with telecommunications entities to enable mobile banking. At the same time, telecommunications service is quite poor, with limited infrastructure and competition, although the number of subscribers has accelerated sharply. Also, commercial banks report that the judicial system does not support enforcement of contracts, and sometimes may penalize the creditor.

29. **The authorities have an action plan to strengthen management and supervision of microfinance institutions, and enhance the provision of basic financial services by the state-owned postal company.** Under the microfinance strategy, the objective is to rationalize

institutions and provide more reliable service by those that remain. Additional supervisors have been added, with introduction of monthly reporting of prudential ratios and stress testing for some larger institutions. Risk mapping has been added to leverage on-site inspections. For SONAPOST, the plan is to use its geographical range to provide broader access to basic financial services for rural populations. A first draft of a five year strategy has been finalized that envisages providing more diverse and better quality products and services, including through computerizing SONAPOST's operations (MEFP ¶18).

Structural transformation:

30. In spite of higher and more stable growth, there appears to be relatively limited progress in structural transformation. Real GDP growth averaged 5.8 percent over the past decade, and 7 percent over the past 5 years. At the same time, growth has become less volatile, despite repeated droughts and floods. Better resilience against weather shocks is the result of investment in irrigation, crop rotation and land management, and increased use of genetically modified drought and pest resistant cotton seeds. However, concurrent structural transformation has been limited—despite the emergence of industrial gold production, the secondary sector share of GDP growth has remained around 20 percent since 1995, reflecting limited capacity to generate higher value added activities. As discussed in the report for the approval of the current ECF arrangement, there are efforts underway to establish value chains, notably in cotton.

31. An updated base year for the national accounts is needed to identify evolving sources of growth. The current base year is 1999. While the weight of various sectors has been adjusted in the intervening years, the underlying survey techniques have not kept pace. In particular, the statistical agency is concerned about estimates of informal sector activity. A first step in the process is launching a new informal sector survey which could, among other things, correct estimations of informal artisanal mining activity, which may be significantly understated. The statistical agency noted that impediments to updating the base year are resources and TA. AFRITAC West has reprogrammed TA planning to provide support, including to develop an action plan by year's end (structural benchmark).

OUTLOOK AND PROGRAM RISKS

A. Medium-Term Projections and Fiscal Policy

32. The growth outlook for the next two years has been revised slightly downward, mainly based on weaker terms of trade. The growth rate is forecast to be 6.7 and 6.8 percent in 2014 and 2015, respectively, reverting back to the past five year mean of 7 percent in 2016. Depending on weather, commodity prices, and the pace and quality of investment spending, growth could be higher, continuing its upward trend. Inflation is a function of imported prices and local food and fuel prices—which are partly controlled or subsidized—and is expected to remain low at around 2 percent.

Medium-Term Fiscal Framework
(Percent of GDP)

	2013	2014	2015	2016
Domestic Revenue	18.8	19.3	19.3	19.3
o/w mining Revenue	3.1	2.9	2.8	2.7
Grants	5.5	5.4	5.3	5.3
Total Expenditure	27.8	27.8	27.7	27.5
Current	13.8	14.7	14.7	14.7
Capital	14.4	12.8	12.9	12.7
o/w transfers	1.6	0.6	0.5	0.5
Net Lending	-0.4	0.2	0.1	0.1
Overall Balance	-2.7	-3.1	-3.1	-3.0
External Financing	0.6	1.9	1.4	1.3
Domestic Financing	2.2	1.1	1.1	1.0
Residual Financing Need	0.0	0.1	0.6	0.8

33. **Over the program period, the fiscal deficit is expected to remain relatively stable at around 3.0 percent of GDP.** Compared to the time of the approval of the arrangement in December 2013, both spending and revenue projections are somewhat higher. Importantly, however, recent decisions imply that of the larger envelope, a larger share is allocated to meet needs created by new recurrent spending obligations. For revenues, the authorities are continuing to focus on increasing domestic revenue mobilization, with numerous measures to improve customs administration and build on interconnections for tax information sharing (MEFP ¶8, 13, 47). Baseline projections take these improvements into account (as well as resumption of full collection of fuel excise taxes), but cautiously do not take into account any production or tax policy changes for natural resource revenues. Projections for residual financing needs in 2015 and 2016 are somewhat higher due to more cautious assumptions for external financing partly compensated by higher projections for domestic financing.

34. **The framework projects less deterioration in the revised current account deficit in 2014, partly due to larger deterioration than expected in 2013.** The deficit is expected to improve only gradually through 2016, in light of projected terms of trade and continued high import demand. Because the revision of 2012 gold production data caused a 3.7 percentage point of GDP increase in the base for the current account deficit, with no offsetting adjustments in the rest of the balance of payments, this implies a continued but modest use of international reserves over the medium term due to conservative assumptions for gold exports based on WEO terms of trade projections. However, it is important to note that these projections will most likely change once balance of payments statistics for 2012 have been finalized, given likely other revisions in the pipeline.

35. **Staff analysis does not suggest real effective exchange rate (REER) misalignment** (Annex IV). The nominal effective exchange rate appreciated by about 9 percent since the beginning of 2013, following the appreciation of the euro against other major currencies. Low inflation pressure in the WAEMU region meant that the REER, however, appreciated only moderately by about 4 percent and remained close to its historical average. Various model-based estimates suggest that there is no significant misalignment of the REER at end-2013. Assessments of the current account indicate that it also remains broadly in line with the country's fundamentals and the capital account is expected to remain stable over the medium term, composed of concessional financing and FDI. Imputed reserves coverage has dropped due to one-off factors (as explained in ¶6).

36. **The 2014 DSA results are broadly unchanged from the 2013 exercise, reflecting a moderate risk of debt distress** (Annex V). More pessimistic external (and fiscal) balances as well as

more conservative assumptions on the terms of financing are offset by the higher discount rate, lower starting nominal external debt levels than had been assumed in the 2013 exercise, and assumptions about a higher share of domestic financing. In the baseline scenario, all debt ratios continue to remain below the risk thresholds, with the risk threshold for the PV of debt to exports breached only in the case of one of the standardized stress tests. On this basis, the risk rating is maintained at "moderate," albeit on the cusp towards "low." The authorities and Bank and Fund staff continue to discuss technical assistance that can help address debt management capacity constraints that have been identified in various diagnostic reports.

B. An Alternative Low Growth Scenario

37. To challenge the robustness of the macroeconomic framework projections and the DSA results, staff constructed an alternative scenario. Since a gold price shock was explored in the 2012 and 2013 DSAs and is embodied in the standard stress tests, in this case staff explored a near term growth shock due to drought, with no additional response from donors. The growth slowdown starts in 2014, peaks in 2015, and has residual effects over the next five years. The main impact of the shock would be on grain production, creating resulting food security needs. Due to higher food prices, inflation increases to reach an average of 4 percent in 2015. The current account deteriorates only marginally relative to the baseline, as exports are assumed unchanged (with mining unaffected and cotton affected only marginally due to irrigation and GMO seeds) and lower growth and investment is assumed to have a dampening effect on import demand.

Impact on Main Macroeconomic Aggregates of Weather Related Exogenous Shock

	2014	2015	2016	2017	2018	2019	2020
			(Percent of GDP)				
Real GDP Growth							
Downside Scenario	6.0	4.5	6.0	6.4	6.4	6.4	6.4
Baseline	6.7	6.8	7.0	6.8	6.7	6.6	6.4
Fiscal Deficit (including grants)							
Downside Scenario	-3.4	-5.2	-5.1	-4.4	-4.7	-4.9	-4.3
Baseline	-3.1	-3.1	-3.0	-3.6	-3.8	-4.0	-4.0
Current Account Balance							
Downside Scenario	-7.6	-7.5	-7.6	-8.3	-8.4	-8.4	-8.9
Baseline	-7.2	-7.0	-7.0	-7.0	-7.1	-7.2	-7.5
Debt/GDP Ratio							
Downside Scenario	22.7	24.0	25.3	25.6	26.2	26.9	27.4
Baseline	22.2	21.9	21.8	21.7	21.8	22.1	22.7

38. In this scenario, the fiscal deficit rises above 5 percent in 2015 and 2016, and investment spending adjustment has an impact on growth in the medium term. The deficit increases sharply due to lower revenues and spending needs associated with food security and other transfers aimed at mitigating the impact of the shock. Investment spending adjustment is assumed to avoid an even larger increase in the deficit, and this has the effect of dampening growth over the next five years.

39. DSA results under this scenario show a higher risk of debt distress, albeit with the risk rating remaining "moderate". The impact of the shock is to increase long-term debt levels as the increase in the fiscal deficit is assumed to be financed mostly by increased external borrowing on non-concessional terms. On its own this scenario causes a near breach in the PV of debt-to-exports and in combining it with standardized stress tests, both PV of debt-to-exports and debt-to-GDP thresholds are breached. The results of this alternative scenario reinforce maintaining the risk of debt distress as "moderate." However, all DSA results should be interpreted with caution, particularly given uncertain assumptions about the investment-growth nexus, outdated national account statistics, and balance of payments data still under revision.

C. Program Risks

40. Program risks have increased, mainly due to growing pressure on current spending and risks of domestic social unrest (Table 8). Political uncertainty in the run-up to the presidential elections in 2015, increasingly unreliable electricity and telecommunications access, and growing social pressure on recurrent spending constitute new or enhanced risks to program implementation in the near term. The constructed alternative scenario of a weather shock combined with a lack of additional donor support should yield similar results as these types of shocks. Ongoing risks of weather shocks, commodity price volatility, capacity constraints and low returns to investment remain unchanged. Spillover from regional security issues constitutes a less serious risk than in the past. Another emergent risk is that the National Assembly appears to be taking a less prudent role in tax policy, both with regard to the mining taxation code and revenue projections underlying the budget.

PROGRAM MODALITIES

41. The authorities are requesting two minor modifications to program performance criteria for end-June and end-December 2014. First, an increase of 0.2 percent of GDP in the continuous performance criterion on non-concessional external debt to seek financing for two additional highway projects, one of which provides better access to Benin (MEFP ¶43). The authorities have already used about 60 percent of the existing program limit. Second, an unchanged indicative deficit target and larger identified program external financing imply lower ceilings on net domestic financing. Indicative targets for revenue and poverty spending are higher, and other program targets and adjustors remain unchanged (Table 5, MEFP Table 1). Staff and the authorities have also agreed on a new more specific and verifiable definition for the indicative target on non-accumulation of new domestic arrears, consistent with that of other WAEMU countries (TMU, ¶23).

42. The agreed program incorporates several aspects to avoid further nonobservance in quantitative program targets. The end-December nonobservance of the performance criterion on net domestic financing was partly a function of the use of fixed bid securities operations; the establishment of a regional domestic debt issuance mechanism with variable bidding should help keep planned debt issuance on track. The authorities have agreed to maintain more conservative program projections for revenues—which take into account the decision to restore the government's full share of fuel excise taxes and new measures listed in ¶18— and maintain the program deficit target to contain the spending envelope (MEFP ¶31). To meet poverty-reducing spending targets, budget execution is expected to gather momentum in the second quarter as the implementation of the planned social measures begins to accelerate and the recent reforms in investment planning and in project selection and implementation take effect. The mission and the authorities also discussed possible technical assistance that could help improve domestic debt planning, transparency of exceptional debt operations, better internal coordination on debt issues, and broaden understanding of the architecture of the ECF-supported program following an organizational restructuring by the authorities in 2013.

STAFF APPRAISAL

43. The growth outlook remains strong, but with heightened risks and growing policy challenges. All else equal, growth should stay around its recent average of 7 percent and even perhaps higher depending on weather patterns, but there are new risks to growth over the program horizon. However, failure to address certain increasingly important policy issues outlined below could undermine the country's fiscal and debt positions, and ultimately affect growth and development objectives.

44. Despite facing a more challenging environment, the authorities have reaffirmed their strong commitment to the program. Program performance through end-December remained strong, even taking into account the non-observance of the end-December performance criterion on net domestic financing. In the coming period, fiscal space is likely to be more limited than in the past, notwithstanding that in the longer term there could be significant increases in natural resource revenues. At this early stage, the authorities have wisely chosen not to borrow against future resources, preferring to maintain a cautious and stable fiscal policy stance. However, in this context, three critical policy challenges have emerged.

45. One main challenge will be handling social and political pressure to increase spending for consumption at the expense of development spending. This has already increased with the emergence of growing natural resource revenues and could intensify in the coming electoral period. In adjusting expenditure composition, the authorities should maintain a strong focus on promoting inclusive growth, supporting vulnerable segments of the population, and fostering job creation, while ensuring continued fiscal stability. Given planned increases in hiring in key sectors, the recent large increase in the wage bill creates sustainability concerns: multi-year wage negotiations will need to be contained and/or other measures implemented to bring the wage bill back in line with WAEMU limits.

46. Another challenge is boosting electricity supplies and containing fiscal liabilities posed by public enterprises. Access to reliable power is the single most important constraint to growth and job creation. The authorities are redoubling efforts to accelerate investment in increased power supply, but the situation has deteriorated and more is still needed. In terms of fiscal sustainability, an external audit can help provide more reliable forecasts of transfer needs going forward, but the authorities need to consider options for near term adjustments in case resources become more limited over the course of this year. In particular, adjustments to retail fuel prices would reduce transfer needs and help finance the additional current spending in the supplemental budget.

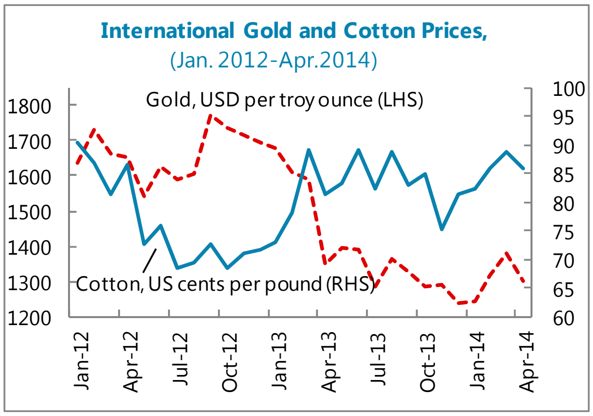
47. A third main challenge is making sure that Burkina Faso does not squander its one-time opportunity to harness natural resource wealth and channel it toward growth-enhancing development spending. By becoming EITI compliant and keeping close track of resource revenues, the authorities have taken good first steps. Next, it is critical that a mining taxation code—one that seeks fair rent-sharing between international investors and the public budget, comparable to regional peers—is drafted, and submitted and approved by National Assembly. It is incumbent upon the government and the National Assembly to protect fiscal space for development spending, and balance the interests of future generations against those of international investors. In the medium term, it is important to consider rules that introduce an element of counter-cyclicality to help safeguard development spending plans in the face of execution capacity constraints and the inherently volatile nature of natural resource revenues. The lack of more sophisticated architecture to harness, manage and use natural resource revenues leaves the country vulnerable, at best to an important missed opportunity and at worst to governance problems.

48. Efforts to harness and direct resources toward development spending must be complemented by reforms to improve the quality and pace of such spending. Weak institutions and capacity constraints impede scaling up of public spending for education, health, and infrastructure. Financing the national development strategy requires not only more investment spending on human and infrastructure capital, but also a redoubled focus on the quality of spending, through careful project selection and results-monitoring.

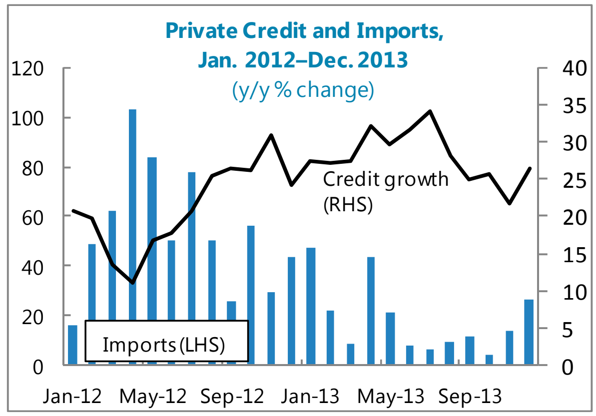
49. Staff supports completion of the 1st review of the current ECF arrangement, with a waiver for the end-December 2013 performance criterion on net domestic financing. Similarly, it supports modification of the performance criterion for net domestic financing and the nonconcessional external debt ceiling for end-June and end-December 2014, and the addition of a structural benchmark by end-November for an external audit of large public enterprises. It is recommended that the next Article IV consultation take place in the 24-month cycle in accordance with the Decision on Article IV consultation cycles.

Figure 1. Burkina Faso: Recent Economic Developments

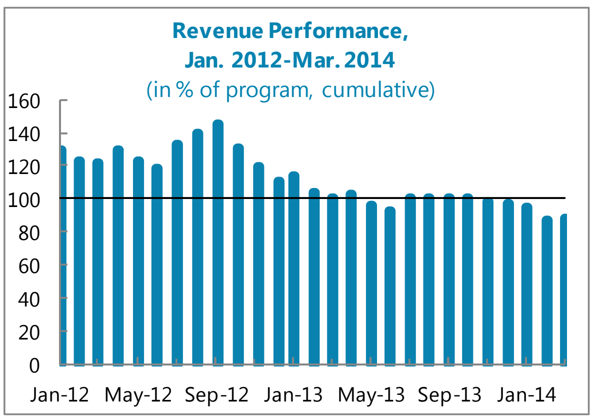
Gold prices dropped and remained low, while cotton prices have been stable.



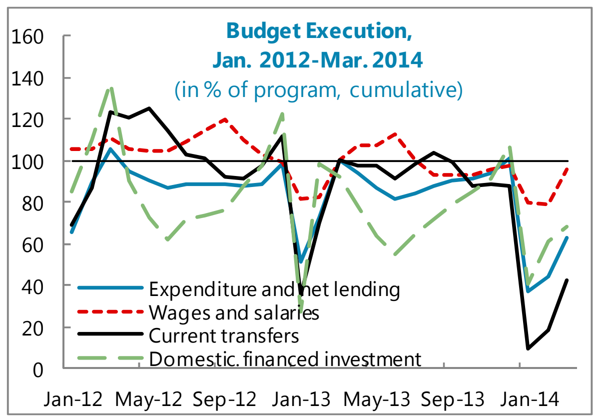
Credit growth stayed relatively robust, but imports have slowed down in 2013.



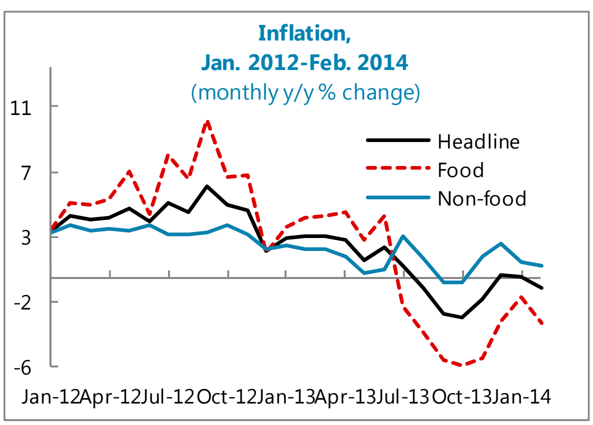
Revenue performance has been lower than targeted…



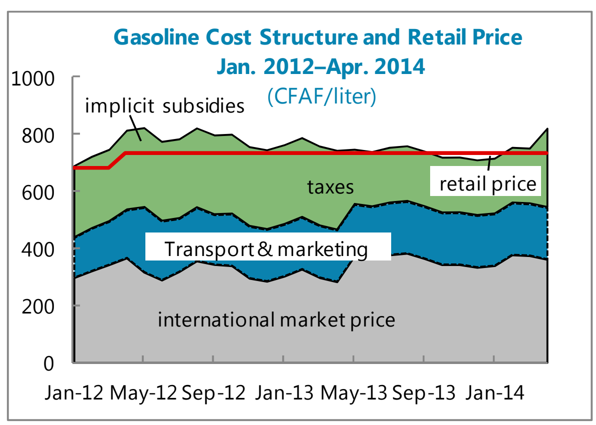
…while spending execution as been following targets.



Inflation dropped below zero due to low food prices, aided by government price subsidies.



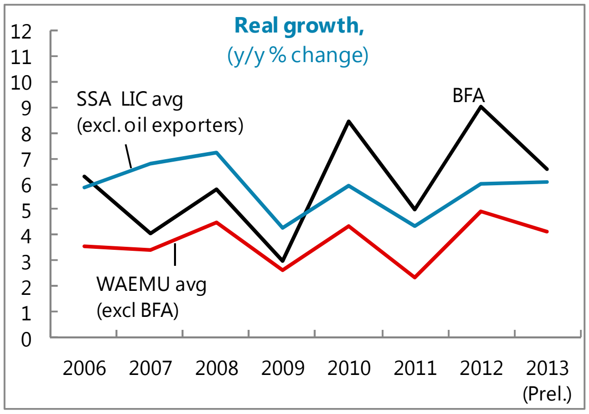
SONABHY losses were offset by a rebate of fuel excises taxes in May 2013, reversed in March 2014



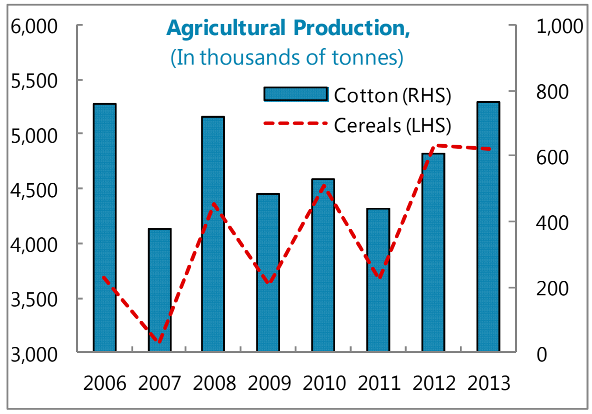
Sources: Burkinabè authorities and IMF staff calculations.

Figure 2. Burkina Faso: Real and External Developments, 2006–13

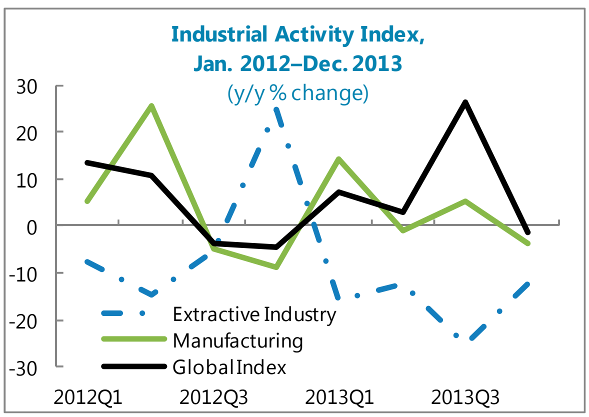
2013 growth remained strong.



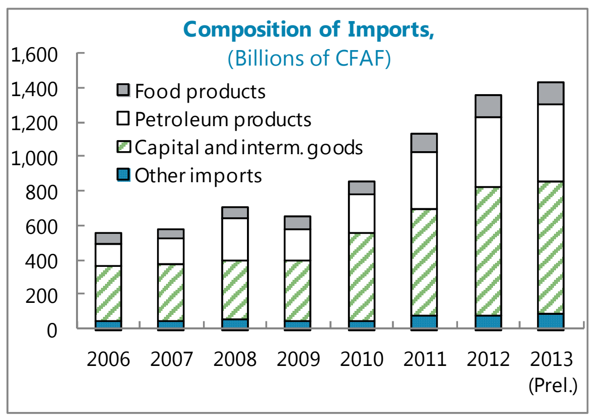
Cereal production was weak, due to erratic rain. Cash crops productions remained robust.



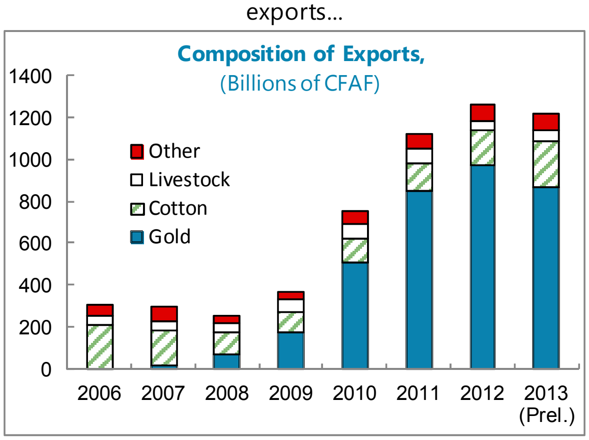
Secondary sector kept growing, despite the slow down of mining industry.



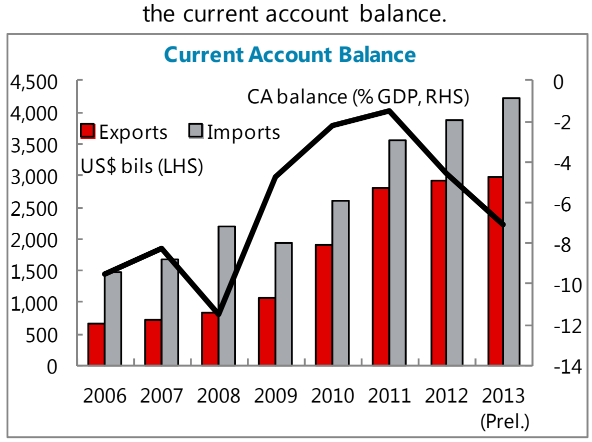
Imports growth stabilized, owing to CFA appreciation and decelaration of mining investments.



Lower international gold prices have affected exports...



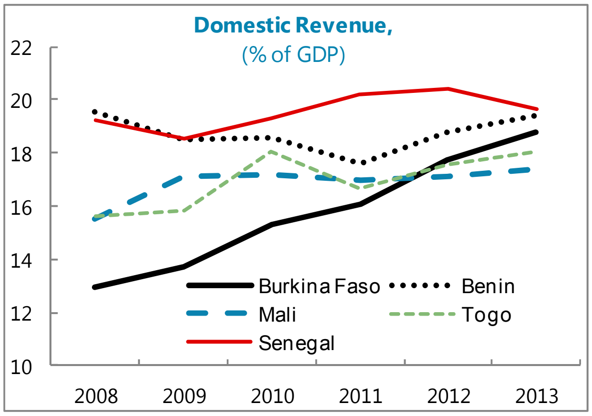
...causing a stronger-than-expected deterioration of the current account balance.



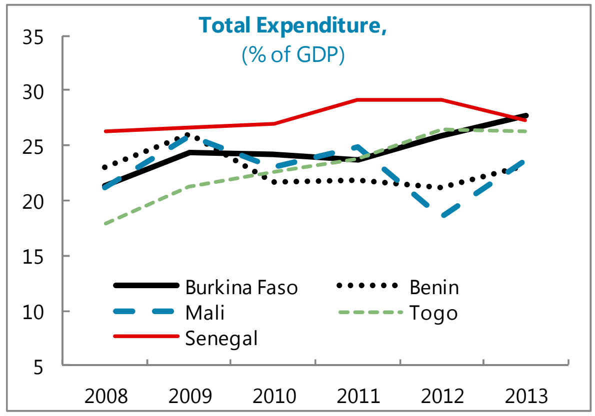
Sources: Burkinabè authorities and IMF staff calculations.

Figure 3. Burkina Faso: Fiscal Developments, 2008–13

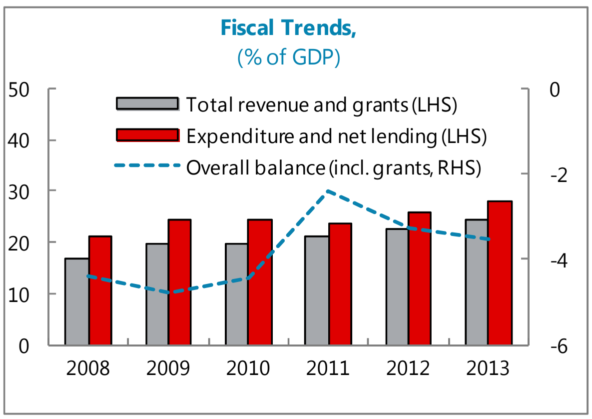
Revenue performance has been steadily improving, surpassing regional norms…



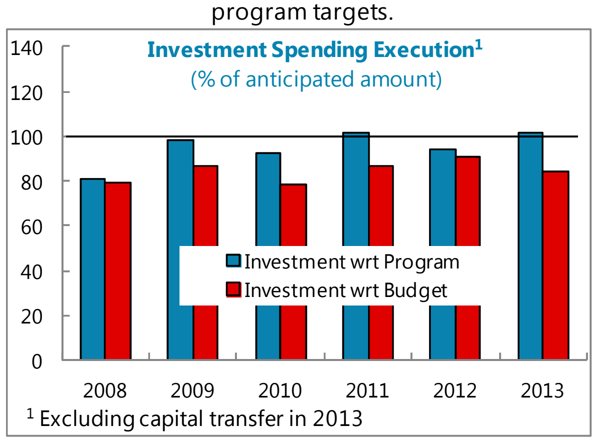
…while expenditure is increasing partly due to higher social spending.



Deficit is expected to remain steady…

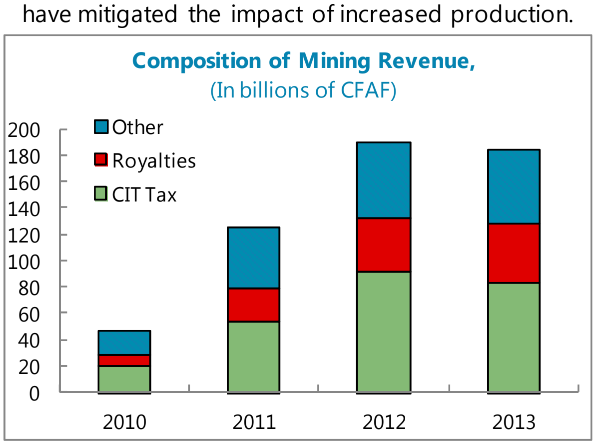


…and investment spending execution was below program targets.

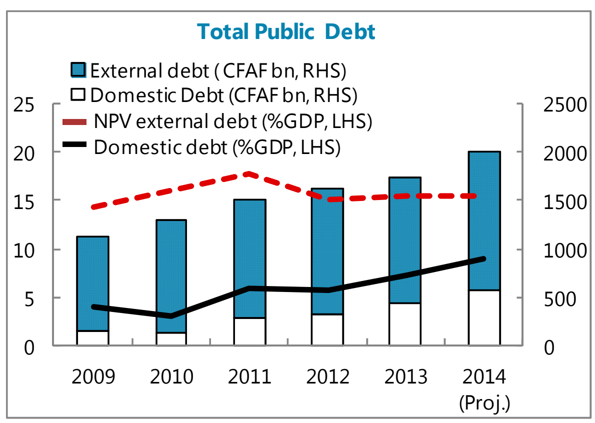


[1] Excluding capital transfer in 2013

Mining revenues have stabilized as lower prices have mitigated the impact of increased production.



Debt levels remain modest, but rising.



Sources: Burkinabè authorities and IMF staff calculations.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2012–16

	2012		2013		2014		2015	2016
	Appr. Prog.	Prel.	Appr. Prog.	Est.	Appr. Prog.	Proj.	Proj.	
	(Annual percentage change, unless otherwise indicated)							
GDP and prices								
GDP at constant prices	9.0	9.0	6.8	6.6	6.8	6.7	6.8	7.0
GDP deflator	4.6	4.6	0.9	-0.9	1.7	1.1	1.9	2.0
Consumer prices (annual average)	3.8	3.8	2.0	0.5	2.0	1.5	2.0	2.0
Consumer prices (end of period)	1.6	1.6	2.0	0.1	2.0	2.0	2.0	2.0
Money and credit								
Net domestic assets (banking system) [1]	16.1	16.1	12.9	19.6	18.2	15.4	15.0	17.5
Credit to the government (banking system) [1]	-2.7	-2.7	3.1	5.3	5.7	4.0	2.3	2.0
Credit to the private sector	24.1	24.1	20.7	26.3	20.0	15.1	16.4	19.8
Broad money (M3)	15.9	15.9	14.0	11.3	14.9	14.3	14.9	16.8
External sector								
Exports (f.o.b.; valued in CFA francs)	31.4	12.7	-7.2	-3.3	-0.5	-0.9	4.4	6.7
Imports (f.o.b.; valued in CFA francs)	25.3	19.8	1.1	5.7	5.8	2.5	3.4	6.6
Terms of trade	6.1	11.5	-11.4	-13.7	-3.1	-4.0	1.2	2.5
Real effective exchange rate	...	-0.7	...	...	...	...	...	...
CFAF/US$ (annual average)	510.0	510.2	...	493.9	...	...	...	...
	(Percent of GDP, unless otherwise indicated) [2]							
Central government finances								
Current revenue	17.8	17.7	19.3	18.8	19.4	19.3	19.3	19.3
Of which : tax revenue	15.8	15.8	17.3	16.7	17.3	17.3	17.2	17.3
Total expenditure and net lending	26.0	25.8	27.5	27.8	27.4	27.8	27.7	27.5
Of which : current expenditure	14.7	14.7	14.8	13.8	14.0	14.7	14.7	14.7
Overall fiscal balance, excl. grants (commitments)	-8.2	-8.1	-8.2	-9.0	-8.0	-8.4	-8.4	-8.3
Overall fiscal balance, incl. grants (commitments)	-3.3	-3.1	-3.3	-3.5	-3.1	-3.1	-3.1	-3.0
Savings and investment								
Current account balance (incl official transfers)	-0.8	-4.5	-3.6	-7.0	-6.0	-7.2	-7.0	-7.0
Gross investment	22.8	21.4	23.0	20.6	19.9	18.0	18.4	18.7
Government	7.8	7.8	8.8	10.1	9.2	9.0	9.0	8.9
Private	15.0	13.6	14.2	10.5	10.7	9.1	9.4	9.9
Gross national savings	22.0	16.9	19.4	13.6	13.9	10.8	11.4	11.7
Government	7.5	7.3	9.7	8.4	9.0	8.8	8.8	8.9
Private	14.5	9.5	9.7	5.1	4.9	2.0	2.6	2.8
Debt indicators								
External debt	23.2	22.9	25.4	21.8	25.9	22.2	21.9	21.8
NPV of external debt (percent of exports)	63.0	61.5	78.4	57.4	85.0	64.6	68.6	71.6
Memorandum items :								
Nominal GDP (CFAF billion)	5,629	5,629	6,062	5,947	6,582	6,413	6,983	7,621
Nominal GDP per capita (US$)	674	670	...	...	...	...	...	...
Gold price (US$ per once)	1,669	1,669	1,462	1,411	1,396	1,327	1,343	1,370

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

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

[2] 7th review numbers are calculated in percent of revised nominal GDP.

Table 2a. Burkina Faso: Consolidated Operations of the Central Government, 2012–16

	2012	2013		2014		2015	2016
		Appr. Prog.	Prel.	Appr. Prog.[1]	Proj.	Proj.	
	(CFAF billions)						
Total revenue and grants	1276.5	1445.1	1441.7	1556.3	1582.0	1717.2	1867.5
Total revenue	999.0	1147.9	1117.4	1242.5	1238.3	1347.1	1467.4
Tax revenue	890.8	1031.2	992.6	1110.5	1106.3	1203.1	1317.2
Of which: Gold Mining CIT	90.5	64.6	49.4	75.2	70.2	75.1	79.1
Nontax revenue	108.2	116.7	124.8	132.0	132.0	144.0	150.1
Of which: Royalties from gold	40.8	30.4	33.6	41.4	41.4	44.4	46.4
Grants	277.5	297.2	324.4	313.8	343.7	370.1	400.1
Project	111.6	150.8	205.2	216.8	216.8	244.4	262.9
Program	165.9	146.4	119.1	97.0	126.9	125.7	137.2
Of which: World Bank				17.5	40.7		
Expenditure and net lending [2]	1452.8	1638.4	1652.6	1754.0	1779.7	1934.7	2097.5
Current expenditure	828.7	879.9	818.9	861.6	942.9	1023.9	1119.7
Wages and salaries	332.3	366.3	355.5	401.0	441.4	469.2	504.7
Goods and services	120.6	130.1	118.6	129.6	118.4	139.7	160.0
Interest payments	41.8	29.9	34.7	34.4	28.9	37.9	43.4
Domestic	28.8	17.5	21.9	17.0	16.9	17.8	18.5
External	13.0	12.4	12.8	17.4	12.0	20.2	24.9
Current transfers	333.9	353.6	310.1	296.6	354.2	377.1	411.5
Of which: food security/refugees	73.5	35.9	35.9		……	…	…
subsidies to SONABHY/SONABEL	50.7	49.9	49.0	49.9	48.0	…	…
additional security and military spending	…	40.6	40.6		……	…	…
public enterprise bonds[3]		38.0	0.0		0.0		
Investment expenditure	625.1	748.5	858.4	879.3	823.7	900.8	967.8
Domestically financed	407.9	462.9	592.7	565.1	509.5	558.6	609.7
Capital transfers	5.5	41.0	95.6	40.5	40.5	35.0	35.0
Of which: public enterprise bonds[3]		0.0	38.3	0.0	31.0		
Of which: SONABEL recapitalization		0.0	17.3				
Externally financed	217.1	285.6	265.7	314.2	314.2	342.2	358.2
Net lending	-0.9	10.0	-24.8	13.1	13.1	10.0	10.0
Overall balance [2]	-176.3	-193.3	-210.8	-197.7	-197.7	-217.5	-230.1
Cash basis adjustment	19.5	0.0	50.8	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-156.8	-193.3	-160.0	-197.7	-197.7	-217.5	-230.1
Financing	150.2	188.5	162.5	190.7	190.7	175.4	171.8
Foreign financing	85.5	136.6	34.4	88.1	123.4	95.4	96.8
Drawings	107.3	160.8	60.5	115.4	150.7	139.7	141.0
Project loans	105.5	134.8	60.5	97.4	97.4	97.8	95.3
Program loans	1.8	26.0	0.0	18.0	53.3	41.9	45.7
Of which: World Bank				18.0	40.7		
Amortization (excl. IMF)	-21.7	-24.2	-26.0	-27.3	-27.3	-44.3	-44.2
Domestic financing	64.7	51.9	128.0	102.6	67.4	80.0	75.0
Bank financing	-40.4	54.6	92.4	113.9	77.9	50.0	50.0
Central bank	-2.6	-5.6	81.0	82.9	55.3	10.0	10.0
Of which: saved at the Central Bank	-32.4	-22.6	5.0	55.0	27.4		
Commercial banks[2]	-37.8	60.2	11.4	31.0	22.6	40.0	40.0
Of which: Public enterprise bonds purchased	8.0	38.3	35.1	39.4	31.0		
Of which: central government bond issues	60.9	55.0	76.4	55.0	30.0		
Nonbank financing	105.0	-2.7	35.7	-11.3	-10.5	30.0	25.0
Errors and Omissions	6.6		-2.5				
Financing gap	0.0	4.8	0.0	7.0	7.0	42.1	58.3
Of which: IMF future disbursements	0.0	4.8	0.0	7.0	7.0	7.0	7.0
Memorandum items:							
Gold mining revenue	189.5	195.4	183.1	191.1	188.9	193.1	203.4
Overall Balance excl. gold mining revenue	-365.9	-340.9	-343.1	-388.8	-386.7	-410.5	-433.5

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

[1] Adjusted to account for the counterpart of public enterprise bonds under capital rather than current transfers.

[2] Commitment ("*engagement*") basis.

[3] Includes public enterprise bonds as additional spending transfers and commercial bank purchases. From 7th Review, reclassification from current to capital transfers.

Table 2b. Burkina Faso: Consolidated Operations of the Central Government, 2012–16

	2012	2013		2014		2015	2016
		Appr. Prog.[3]	Prel.	Appr. Prog[4]	Proj.	Proj.	Proj.
	(In percent of GDP)						
Total revenue and grants	22.7	24.3	24.2	24.3	24.7	24.6	24.5
Total revenue	17.7	19.3	18.8	19.4	19.3	19.3	19.3
Tax revenue	15.8	17.3	16.7	17.3	17.3	17.2	17.3
Of which: Gold Mining CIT	1.6	1.1	0.8	1.2	1.1	1.1	1.0
Nontax revenue	1.9	2.0	2.1	2.1	2.1	2.1	2.0
Of which: Royalties from gold	0.7	0.5	0.6	0.6	0.6	0.6	0.6
Grants	4.9	5.0	5.5	4.9	5.4	5.3	5.3
Project	2.0	2.5	3.5	3.4	3.4	3.5	3.5
Program	2.9	2.5	2.0	1.5	2.0	1.8	1.8
Expenditure and net lending [1]	25.8	27.5	27.8	27.4	27.8	27.7	27.5
Current expenditure	14.7	14.8	13.8	13.4	14.7	14.7	14.7
Wages and salaries	5.9	6.2	6.0	6.3	6.9	6.7	6.6
Goods and services	2.1	2.2	2.0	2.0	1.8	2.0	2.1
Interest payments	0.7	0.5	0.6	0.5	0.5	0.5	0.6
Domestic	0.5	0.3	0.4	0.3	0.3	0.3	0.2
External	0.2	0.2	0.2	0.3	0.2	0.3	0.3
Current transfers	5.9	5.9	5.2	4.6	5.5	5.4	5.4
Of which: food security/refugees	1.3	0.6	0.6	0.0	...	...	...
subsidies to SONABHY/Sonabel	...	0.8	0.5	0.8	0.7		
additional security and military spend	...	0.7	0.7	0.0	...	...	...
Investment expenditure	11.1	12.6	14.4	13.7	12.8	12.9	12.7
Domestically financed	7.2	7.8	10.0	8.8	7.9	8.0	8.0
Capital transfers	0.1	0.7	1.6	0.6	0.6	0.5	0.5
Of which: public enterprise bonds[2]		0.0	0.6	0.0	0.5		
Of which: SONABEL recapitalization		0.0	0.3	0.0			
Externally financed	3.9	4.8	4.5	4.9	4.9	4.9	4.7
Net lending	0.0	0.2	-0.4	0.2	0.2	0.1	0.1
Overall balance (commitment basis)	-3.1	-3.3	-3.5	-3.1	-3.1	-3.1	-3.0
Cash basis adjustment	0.3	0.0	0.9			0.0	0.0
Overall balance (cash basis)	-2.8	-3.2	-2.7	-3.1	-3.1	-3.1	-3.0
Financing	2.7	3.2	2.7	3.0	3.0	2.5	2.3
Foreign financing	1.5	2.3	0.6	1.4	1.9	1.4	1.3
Drawings	1.9	2.7	1.0	1.8	2.3	2.0	1.9
Project loans	1.9	2.3	1.0	1.5	1.5	1.4	1.3
Program loans	0.0	0.4	0.0	0.3	0.8	0.6	0.6
Amortization (excl. IMF)	-0.4	-0.4	-0.4	-0.4	-0.4	-0.6	-0.6
Domestic financing	1.1	0.9	2.2	1.6	1.1	1.1	1.0
Bank financing	-0.7	0.9	1.6	1.8	1.2	0.7	0.7
Central bank	0.0	-0.1	1.4	1.3	0.9	0.1	0.1
Of which: saved at the Central Bank	-0.6	-0.4	0.1	0.9	0.4	...	...
Commercial banks[2]	-0.7	1.0	0.2	0.5	0.4	0.6	0.5
Of which: Public enterprise bonds purchased	0.1	0.6	0.6	0.6	0.5	...	...
Of which: central government bond issues	1.1	0.9	1.3	0.9	0.5	...	...
Nonbank financing	1.9	0.0	0.6	-0.2	-0.2	0.4	0.3
Errors and Omissions	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.1	0.0	0.1	0.1	0.6	0.8
Of which: IMF future disbursements	...	0.1	0.0	0.1	0.1	0.1	0.1
Memorandum items:							
Gold Mining Revenue	3.4	3.3	3.1	3.0	2.9	2.8	2.7
Overall Balance excl. gold mining revenue	-6.5	-5.7	-5.8	-6.1	-6.0	-5.9	-5.7
Nominal GDP (CFAF billions)	5,629	5,947	5,947	6,413	6,413	6,983	7,621

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

[1] Commitment ("*engagement*") basis.

[2] Includes public enterprise bonds as additional spending transfers and commercial bank purchases. From 7th Review, reclassification from current to

[3] GDP base is the revised figure for 2013.

[4] GDP base is the revised figure for 2014. Counterpart spending for public enterprise bonds has been moved under capital rather than current transfers.

Table 3. Burkina Faso: Monetary Survey, 2012–16

	2012	2013		2014		2015	2016
		Appr. Prog.	Prel.	Appr. Prog.	Proj.	Proj.	Proj.
	(CFAF Billions)						
Net foreign assets	678.8	698.4	534.9	632.9	512.7	509.7	491.4
BCEAO	233.9	253.4	45.2	188.0	22.9	20.0	1.6
Assets	509.1	524.7	297.7	453.7	271.6	254.5	221.5
Liabilities	275.2	271.3	252.5	265.7	248.7	234.5	219.9
Commercial banks	445.0	445.0	489.7	445.0	489.7	489.7	489.7
Net domestic assets	1061.4	1284.9	1402.3	1645.2	1701.4	2033.8	2478.9
Net domestic credit	1133.0	1433.1	1540.5	1832.8	1839.6	2171.9	2617.0
Net credit to government	-48.2	6.4	44.2	119.9	122.0	172.0	222.0
Treasury	-19.1	35.6	79.8	149.0	157.7	207.7	257.7
BCEAO	-1.8	-7.4	79.2	75.5	134.5	144.5	154.5
Commercial banks	-17.3	43.0	0.6	73.6	23.2	63.2	103.2
Other central government	-29.1	-29.1	-35.7	-29.1	-35.7	-35.7	-35.7
Credit to the economy	1181.2	1426.6	1492.3	1712.5	1717.6	1999.9	2395.0
Other items (net)	-71.6	-148.2	-138.1	-187.6	-138.1	-138.1	-138.1
Broad money	1740.2	1983.2	1937.2	2278.1	2214.1	2543.5	2970.2
Of which : Priv. deposits in comm. banks	1424.1	1582.3	1628.2	1838.2	1818.3	2113.1	2495.1
	(Annual % change, unless otherwise indicated)						
Memorandum items:							
Net foreign assets	-0.4	2.9	-21.2	-9.4	-4.2	-0.6	-3.6
Net domestic assets [1]	16.1	12.9	19.6	18.2	15.4	15.0	17.5
Net credit to government [1]	-2.7	3.1	5.3	5.7	4.0	2.3	2.0
Credit to the private sector	24.1	20.7	26.3	20.0	15.1	16.4	19.8
(excluding crop credit)	23.9	20.7	27.4	20.0	15.1	16.4	19.8
Money supply	15.9	14.0	11.3	14.9	14.3	14.9	16.8

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

[1] Annual change as a percentage of broad money from 12 months earlier.

Table 4. Burkina Faso: Balance of Payments, 2012–16

	2012		2013		2014		2015	2016
	Appr. Prog.	Prel.	Appr. Prog.	Prel.	Appr. Prog.	Proj.	Proj.	
	(CFAF billions)							
Current account	-45.2	-255.9	-211.3	-419.1	-382.2	-462.5	-489.0	-536.9
Trade balance	91.1	-79.5	-31.0	-198.5	-119.5	-246.1	-242.3	-257.5
Exports of goods	1492.0	1276.3	1385.0	1234.7	1378.4	1223.5	1278.0	1363.8
Of which: cotton	167.2	167.2	212.9	217.0	219.3	236.4	236.7	244.0
gold	1162.2	974.1	997.2	872.7	964.4	827.9	864.8	915.1
Imports of goods	-1400.9	-1355.8	-1416.0	-1433.2	-1497.9	-1469.6	-1520.3	-1621.3
Of which: oil	-443.7	-398.6	-455.6	-449.5	-437.6	-452.9	-443.7	-459.0
Of which: food	-124.7	-124.7	-130.6	-129.3	-127.5	-120.9	-115.3	-122.2
Of which: public investment	-500.0	-500.0	-598.8	-610.3	-672.4	-626.6	-672.6	-681.3
Services, net	-407.6	-407.6	-434.1	-421.8	-473.4	-433.6	-463.5	-510.3
Income, net	-0.8	-39.1	-2.6	-33.9	-2.2	-29.1	-34.4	-36.5
Current transfers	272.0	270.3	256.4	235.1	212.9	246.3	251.3	267.4
Of which: Official transfers, net	204.2	194.5	187.8	157.7	154.3	167.3	170.7	185.2
Capital account	138.7	137.8	177.9	231.4	243.9	243.0	270.6	289.1
Project grants	111.6	111.6	150.8	205.2	216.8	216.8	244.4	262.9
Financial account	-59.0	109.1	48.1	40.8	65.9	190.3	173.3	171.2
Direct investment	22.8	130.9	24.5	78.3	26.6	84.4	81.9	69.4
Portfolio investment	10.0	16.7	10.0	10.0	10.0	10.0	10.0	10.0
Other investment	-91.8	-38.4	13.6	-47.5	29.3	95.9	81.4	91.8
Long-term investment	-92.8	-39.4	8.6	-52.5	24.3	90.9	76.4	86.8
Project loans	105.5	105.5	134.8	60.5	97.4	97.4	97.8	95.3
Program loans	1.8	1.8	26.0	0.0	18.0	53.3	41.9	45.7
Amortization of public loans (excl. IMF)	-21.7	-21.7	-24.2	-26.0	-27.3	-27.3	-44.3	-44.2
Other private	-178.3	-124.9	-128.0	-86.9	-63.8	-32.5	-18.9	-10.0
Short-term investment	1.0	1.0	5.0	5.0	5.0	5.0	5.0	5.0
Errors and omissions	-37.2	6.3	0.0	3.0	0.0	0.0	0.0	0.0
Overall balance	-2.7	-2.7	14.7	-144.0	-72.4	-29.2	-45.1	-76.6
Financing	2.7	2.7	-19.5	144.0	65.4	22.2	2.9	18.4
Net change in foreign assets of the central bank	41.4	41.4	-19.5	188.7	65.4	22.2	2.9	18.4
Of which: gross official reserves	-20.7	-20.7	-15.5	211.5	71.0	32.8	23.6	39.5
IMF net financing	34.6	34.6	-4.0	1.0	-5.6	-10.6	-20.7	-21.1
Disbursements	38.3	38.3	0.0	4.8	0.0	0.0	0.0	0.0
Repayments (excluding charges)	-3.7	-3.7	-4.0	-3.8	-5.6	-10.6	-20.7	-21.1
Net foreign assets of commercial banks	-38.7	-38.7	0.0	-44.8	0.0	0.0	0.0	0.0
Financing Gap	0.0	0.0	4.8	0.0	7.0	7.0	42.1	58.3
Of which: IMF future disbursements	0.0	0.0	4.8	0.0	7.0	7.0	7.0	7.0
	(Percent of GDP, unless otherwise indicated)							
Memorandum items:								
Trade balance (– = deficit)	1.6	-1.4	-0.5	-3.3	-1.8	-3.8	-3.5	-3.4
Exports of goods	26.5	22.7	22.8	20.8	20.9	19.1	18.3	17.9
Imports of goods	-24.9	-24.1	-23.4	-24.1	-22.8	-22.9	-21.8	-21.3
Gold export volume (metric tons)	42.4	35.6	42.8	38.9	44.1	40.5	42.5	44.6
Current account (– = deficit)	-0.8	-4.5	-3.5	-7.0	-5.8	-7.2	-7.0	-7.0
Imputed Country Reserves (in percent of Broad Money)	29.3	29.3	26.5	15.5	19.9	12.0	9.5	6.8
Total WAEMU Reserves (in percent of next year's goods and services imports, exc. intra-zone)	5.2	5.2	…	…	…	…	…	…
Total WAEMU Reserves (in percent of WAEMU broad money)	51.2	51.2	…	…	…	…	…	…
GDP at current prices (CFAF billions)	5,629	5,629	6,062	5,947	6,582	6,413	6,983	7,621

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

Table 5. Burkina Faso: Quantitative Performance Criteria and Indicative Targets
December 2013–March 2015
(CFAF billion, cumulative from beginning of year; unless otherwise indicated)

	2013				2014										2015
	Dec.				Mar.[4]				Jun.		Sept.[4]		Dec.		Mar.[4]
	Prog.	Adj.	Act.		Prog.	Adj.	Prel.		Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.
Quantitative Performance Criteria															
Ceiling on net domestic financing of government[1]	56.7	110.0	128.0	Not met	115.0	115.0	-1.9	Met	95.9	67.9	128.0	75.0	109.6	74.4	55.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government[2, 3]	135.9	135.9	55.0	Met	135.9	135.9	83.2	Met	135.9	150.0	135.9	150.0	135.9	150.0	150.0
Accumulation of external arrears[2]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets															
Ceiling on the overall fiscal deficit including grants	193.3	258.3	210.8	Met	100.9	92.5	-32.5	Met	125.8	125.8	125.8	169.1	197.7	197.7	79.4
Floor on Government revenue	1147.9	...	1117.4	Not met	268.7	...	237.2	Not met	583.2	593.8	863.4	884.3	1242.5	1238.3	276.8
Floor on Poverty-reducing social expenditures[5]	417.9	...	415.0	Not met	115.5	...	63.3	Not met	231.0	244.7	346.5	367.1	462.0	489.5	117.5
Accumulation of new domestic arrears[2]	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Including on-lending of prospective IMF disbursements. The ceiling on net domestic financing is to be adjusted in line with the TMU definition. Prospective sales of public enterprise bonds are included in the targets here.

[2] To be observed continuously.

[3] The limit is not tied to specific projects.

[4] Indicative Target, except for continuous performance criteria.

[5] 90 percent of budget amount.

Table 6. Structural Benchmarks for the 1st ECF Review

Measures	Completion Date	Status
Make the tax information cross checking module (with Customs) operational and functional in GERIF (system used by internal revenue service).	Jan-14	Met
Update the financial projections for 2013–16 underlying the SOFITEX business plan based on financial results for the 2012 fiscal year.	Jan-14	Met
Adopt a new strategy to improve the quality of the financial services offered by the national postal service, SONAPOST.	Jan-14	Met
Finalize SONABEL's new financial model and produce new financial projections for 2014–16 including different scenarios.	Jan-14	Met
Use the tax information interconnection between internal revenue service (DGI) and Customs (DGD) through an automatic update of the IFU database in Sydonia++.	Mar-14	Met
Begin operations of the committee charged with computerizing the expenditure approval chain.	Mar-14	Met
Revise 2014 Budget law and its implementing decrees to incorporate reforms to rationalize the expenditure approval process.	Mar-14	Met
Harmonize different databases for gold production and conduct monthly audit on mining production statistics.	Mar-14	Met

Table 7. Burkina Faso: Schedule of Disbursements Under Current ECF Arrangement 2014–16

Amount	Date available	Conditions for disbursement [1]
SDR 2.55 million	January 1, 2014	Following Executive Board Approval of successor ECF arrangement
SDR 2.55 million	May 15, 2014	Observance of the performance criteria for end-December 2013, and completion of the first review under the arrangement
SDR 4.11 million	December 1, 2014	Observance of the performance criteria for end-June 2014, and completion of the second review under the arrangement
SDR 4.47 million	May 15, 2015	Observance of the performance criteria for end-December 2014, and completion of the third review under the arrangement
SDR 4.47 million	December 1, 2015	Observance of the performance criteria for end-June 2015, and completion of the fourth review under the arrangement
SDR 4.47 million	May 16, 2016	Observance of the performance criteria for end-December 2015, and completion of the fifth review under the arrangement
SDR 4.47 million	December 1, 2016	Observance of the performance criteria for end-June 2016, and completion of the sixth review under the arrangement

[1] In addition to the generally applicable conditions under the Extended Credit Facility.

Table 8. Risk Assessment Matrix		
Source	**Likelihood**	**Expected Impact**
Sustained decline in gold & cotton prices	**Medium** • Deceleration of global demand for cotton. • Increased supplies due to new production sources.	**High** • Negative impact on external position and fiscal revenues. • Continued deterioration in reserves. • For cotton, additional fiscal costs to stabilize farmer incomes, social safety net.
Weather shocks	**High** • Drought /flooding in Sahel	**High** • Food insecurity for vulnerable population. • Additional fiscal costs to stabilize farmer incomes. • Negative impact on economic activity and inflation.
Delays in infrastructure and energy investment	**High** • Unreliable energy provision, delays in tariff reform. • Pressure on current spending for wage bill and energy subsidies. • Persistent weakness in implementation capacity.	**Medium to High** • Lower growth and weaker economic activity. • Erosion of business confidence and private sector employment growth. • Fiscal impact of delayed tariff reform.
Domestic social unrest	**Medium** • Political transition related to Presidential elections in 2015. • Protests against high costs of living (food, fuel, and utility prices).	**Low-Medium** • Negative impact on economic activity and growth. • Delays in investment execution, development program, and structural reforms. • Risk of fiscal overruns for security or politically-motivated social spending.
Regional security problems	**Low-Medium** • Political transitions in neighboring countries. • Reemergence of political turmoil in vulnerable Sahel countries.	**Low-Medium** • Negative impact on economic activity and growth. • Fiscal costs (security, social spending, refugees). • Potential impact on power, fuel supplies (e.g. CIV)

Table 9. Burkina Faso: Indicators of Capacity to Repay the Fund, 2013–25

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
	Actual						Projections						
Fund obligations based on existing and prospective credit													
(in millions of SDRs)													
Principal	5.1	7.2	14.1	14.5	17.8	24.2	27.2	24.7	19.8	10.8	4.0	2.2	0.5
Charges and interest	0.0	0.0	0.6	0.7	0.7	0.7	0.5	0.4	0.2	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit													
In millions of SDRs	5.1	7.2	14.8	15.2	18.5	24.8	27.8	25.1	19.9	10.9	4.1	2.3	0.5
In billions of CFAF	4.0	5.4	10.9	11.1	13.5	18.0	20.0	17.9	14.3	7.8	2.9	1.6	0.3
In percent of government revenue	0.4	0.4	0.8	0.8	0.9	1.1	1.1	0.9	0.7	0.3	0.1	0.1	0.0
In percent of exports of goods and services	0.3	0.4	0.7	0.7	0.8	0.9	1.0	0.8	0.6	0.3	0.1	0.1	0.0
In percent of debt service[2]	4.4	5.1	8.2	7.5	7.9	9.2	9.0	7.8	5.6	2.8	1.0	0.5	0.1
In percent of GDP	0.1	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
In percent of quota	8.5	11.9	24.5	25.2	30.8	41.2	46.1	41.6	33.1	18.0	6.8	3.8	0.8
Outstanding IMF credit													
In millions of SDRs	139.8	141.8	136.6	131.1	113.3	89.2	61.9	37.2	17.5	6.7	2.7	0.5	0.0
In billions of CFAF	109.2	106.5	101.0	96.1	82.6	64.6	44.6	26.6	12.5	4.8	1.9	0.3	0.0
In percent of government revenue	9.8	8.6	7.5	6.5	5.2	3.8	2.4	1.3	0.6	0.2	0.1	0.0	0.0
In percent of exports of goods and services	7.5	7.1	6.4	5.7	4.7	3.3	2.2	1.2	0.5	0.2	0.1	0.0	0.0
In percent of debt service[2]	121.6	100.7	75.9	64.9	48.6	32.9	20.0	11.6	4.9	1.7	0.6	0.1	0.0
In percent of GDP	1.8	1.7	1.4	1.3	1.0	0.7	0.5	0.2	0.1	0.0	0.0	0.0	0.0
In percent of quota	232.2	235.6	227.0	217.8	188.3	148.1	102.9	61.9	29.0	11.1	4.4	0.7	0.0
Net use of IMF credit (millions of SDRs)	1.4	-0.5	-5.2	-5.5	-17.8	-24.2	-27.2	-24.7	-19.8	-10.8	-4.0	-2.2	0.6
Disbursements	6.5	6.7	8.9	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Repayments and repurchases	5.1	7.2	14.1	14.5	17.8	24.2	27.2	24.7	19.8	10.8	4.0	2.2	0.5
Memorandum items:													
Nominal GDP (in billions of CFAF)	5947.5	6412.8	6982.8	7620.9	8303.7	9040.5	9833.8	10677.4	11593.4	12578.0	13634.4	14779.9	16004.2
Exports of goods and services (in billions of CFAF)	1463.6	1492.7	1570.9	1682.7	1776.1	1932.3	2047.7	2192.6	2340.8	2465.8	2630.2	2853.9	3097.9
Government revenue (in billions of CFAF)	1117.5	1238.3	1347.1	1467.4	1579.4	1709.6	1852.7	2012.7	2181.9	2262.8	2452.8	2658.9	2879.2
Debt service (in billions of CFAF)[2 3]	89.8	105.7	133.0	148.0	170.0	196.1	223.2	229.9	254.6	279.2	301.2	341.4	397.8

Sources: IMF staff estimates and projections.

[1] Includes the proposed disbursements under the new ECF arrangement.

[2] Total debt service includes IMF repurchases and repayments.

[3] Includes state-owned enterprises debt.

Appendix I. Letter of Intent

MINISTRY OF ECONOMY
AND FINANCE

GENERAL SECRETARIAT

DIRECTORATE GENERAL
OF COOPERATION

Ouagadougou, June 17, 2014

N°2014/002524/MEF/SG/DGCOOP

Madame Christine Lagarde,
Managing Director
International Monetary Fund
700 19th Street NW
Washington, DC 20431 (USA)

Subject: Letter of Intent and Memorandum of Economic and Financial Policies

Madame Managing Director,

The government of Burkina Faso has continued to implement the measures established in its economic program supported by the three-year arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the period 2013-2016. The seventh and final review of our economic and financial program for 2010-2013, which ended on December 31, 2013, was approved by the IMF Board of Directors on December 18 2013, allowing for a disbursement of 3,225 million SDRs or about CFAF 2,372 billion.

The attached Memorandum of Economic and Financial Policies (MEFP) examines program performance at end-December 2013 and presents the policies that the government intends to pursue in the year ahead. It also explains the country’s balance of payments needs and its reform efforts to preserve macroeconomic stability, and strengthen the foundation for sustained and inclusive growth in line with the objectives of the Strategy for Accelerated Growth and Sustained Development (SCADD).

Program implementation in 2013 took place in an environment marked by less buoyant economic activity than in 2012, mainly due to static production in agriculture. Domestic revenue mobilization totaled CFAF 1,117.4 billion at end-December 2013, up 11.9 percent from 2012. The tax to GDP ratio was 16.7 percent, within 0.3 percentage points of the WAEMU norm. The budget deficit, including grants, amounted to 3.5 percent of GDP taking account of the expenditure effects of the implementation of social safety net measures and actions to promote job creation. Over the course of 2013, the government continued to implement the SCADD to strengthen the economy's resilience to various shocks while promoting inclusive growth and poverty reduction.

In terms of program performance, the end-December performance criterion for net domestic financing was not met and a waiver is requested. Net domestic financing amounted to 2.2 percent of GDP against an adjusted target of 1.8 percent of GDP, due to the use of proceeds from the issuance of government securities to balance the shortfall in domestic revenues, delayed budget support, and to meet expenditure needs. The indicative target for revenue collection was not met, mainly due to lower mining profits from falling international gold prices and the government's decision to forego part of its share of the tax on petroleum products. The indicative target on poverty-reducing expenditures was missed by a minor amount at end-December 2013, but by a wider margin as of end-March 2014. Execution of new social transfers spending should result in a marked improvement in performance over the rest of 2014.

To ensure that targets are met in 2014, more cautious revenue forecasts have been maintained, with specific reforms to further strengthen revenue administration. After disappointing first quarter revenue collection, the government has decided to restore its full share of taxes on petroleum products. Moreover, it will look carefully at the timing of budget support disbursements and domestic debt issuance for the remainder of the year.

The eight structural benchmarks agreed to under the program for end-January and end-March 2014 were all met on time.

In March 2014, the Cabinet approved an increase in spending of CFAF 110 billion, mainly for an increase in the wage bill, additional social transfers, and new voter registration. To ensure this additional spending does not jeopardize the sustainability of the public finances, additional resources and offsetting spending adjustments have been identified to contain the nominal deficit in line with agreed program targets. These changes in spending authority were reflected in a draft supplemental budget law that was submitted by the government to the National Assembly on June 7.

In aggregate, these measures aim on one hand to preserve spending in the social sectors (health, education, and youth employment, in particular) and also to make savings on operating expenses, certain current transfer items, and domestically-financed capital spending projects whose implementation can be deferred based on their state of readiness, which should serve to strengthen investment execution. Also, with the implementation of measures aimed at boosting job creation, income generation, and access to financing, the government believes the package will have a positive impact on inclusive growth, which will contribute to the consolidation of national solidarity and the preservation of social stability.

In light of our commitment to preserving macroeconomic stability and based on the policies set out in the attached MEFP, we request that the IMF conclude the first review under the ECF arrangement enabling a disbursement in the amount of SDR 2.55 million, grant a waiver for the missed performance criterion, modify the performance criterion on net domestic financing, and increase the ceiling on the continuous performance criterion on nonconcessional external debt from CFA 135.9 billion to CFA 150 billion (an increase of 0.2 percent of GDP).

The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with applicable IMF policies on such consultation.

Furthermore, the government will provide the IMF with information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding or at the request of the IMF.

As in the past, the government agrees to publication of this letter, the attachments hereto, and the related IMF staff report upon approval by the IMF Executive Board.

Very truly yours,

_____________/s/_______________
Lucien Marie Noël Bembamba
Commandeur de l'Ordre National

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

Attachment I. Memorandum of Economic and Financial Policies 2013–16

1. This Memorandum of Economic and Financial Policies (MEFP) provides an update on the implementation of the arrangement supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF) from 2013–2016. The purpose of the ECF-supported program is to maintain macroeconomic stability and lay a firmer foundation for sustained and inclusive growth in accordance with the objectives of the Strategy for Accelerated Growth and Durable Development (SCADD). This memorandum describes recent economic trends and takes stock of the quantitative criteria and structural benchmarks at end-December 2013, end-January 2014, and end-March 2014. It also outlines the macroeconomic framework and the structural benchmarks for the remainder of 2014.

RECENT ECONOMIC TRENDS

2. Economic activity was less robust in 2013 with a growth rate of 6.6 percent, compared to 9.0 percent in 2012. This relative slowdown is due mainly to the primary sector, particularly the drop in food crop production. GDP growth in 2013 was sustained primarily by the secondary and tertiary sectors which grew at 7.9 and 6.6 percent respectively.

3. Within the tertiary sector, there was an increase of 7.7 percent in the output of non-market services, attributable to the effects of measures taken by the government in September 2013 regarding government employee allowances, job creation for youth and women, and the improvement of social safety nets for vulnerable segments of the population. Another contributing factor was the 5.8 percent rise in market services output, boosted by the hosting of a number of international events—the Panafrican Film and Television Festival of Ouagadougou (FESPACO) and the International Tourism and Hotel Trade Fair of Ouagadougou (SITHO)—and stepping up promotion of "destination Burkina Faso."

4. As regards the primary sector, its contribution amounted to a mere 0.9 percentage points of GDP growth in 2013, compared to 4.6 points in 2012 (growth of 3.4 percent compared to 18.7 percent in 2012). The decline in cereal production (0.6 percent, due to less favorable rainfall despite grants for inputs and equipment, and larger areas sown) was offset by a solid growth performance in the cash crop agricultural subsector (14.9 percent), cotton production (7.0 percent), and other cash crops (22.0 percent).

5. Annual inflation stood at 0.1 percent at end-December 2013, compared to 1.6 percent at the same time in 2012. The implementation of government measures, such as the sale of cereals at subsidized prices in areas with shortages, price controls on consumer products, and the opening of special outlets supporting food security policy by selling at lower-than-market prices (*boutiques témoins*), combined with a good 2012/2013 crop year, helped keep average inflation at 0.5 percent, well below the community standard, compared to 3.8 percent in 2012. At end-January 2014, overall consumer prices dropped 0.8 percent compared to December 2013 as a result of lower food and beverage prices, among other factors.

6. Foreign trade was marked by a sharp rise in imports compared to exports. Imports of goods and services were up 5.3 percent from CFAF 1978.2 billion in 2012 to CFAF 2083.9 billion in 2013, due in large part to imports of capital goods and the oil bill. Exports fell by 1.8 percent

from CFAF 1491.1 billion in 2012 to CFAF 1463.6 billion in 2013, owing mainly to gold prices. The current account deficit was 7.0 of GDP compared to 4.5 percent of GDP in 2012, a decrease of 2.5 percentage points.

7. At end-December 2013, private sector credit rose by 26.3 percent on an annual basis. The money supply was bolstered entirely by deposits, growing 11.3 percent. Net foreign assets fell 21.2 percent in 2013, mainly because of substantial import requirements from some large gold mines and delay of a budget support disbursement from the World Bank. In addition, in spite of stricter control of the repatriation of export revenues by the authorities, some large banks did not comply with the requirements to transfer assets to the BCEAO. A BCEAO committee was created to improve monitoring of compliance with this requirement

8. Revenue mobilization grew by another 11.9 percent in 2013 from CFAF 999.0 billion at end-December 2012 to CFAF 1117.4 billion at end-December 2013. This increase was brought about by the government's continued efforts to modernize tax administration, implement the collection unit approach, broaden the tax base, raise awareness of tax compliance among economic actors, and foster efforts to combat evasion, forgery, and corruption. This performance is also attributable to the many actions taken by the authorities in 2013, the use of a special tax on transactions related to mining stocks, the application of Value-Added Tax (VAT) on imports of operational mining companies and companies that signed contracts with the government, and the continued streamlining of customs clearance procedures. Tax mobilization was 16.7 percent of GDP, close to the WAEMU criterion. At end-March 2014, CFAF 237.2 billion in revenues was mobilized, compared to CFAF 259.7 billion over the same period in 2013, a contraction of 8.7 percent.

9. Grants stood at CFAF 324.4 billion at end-December 2013 compared to CFAF 277.5 billion in 2012, an increase of 16.9 percent despite a delay in the World Bank budget support disbursement of CFAF 24.1 billion, which arrived in January 2014. These program grants were complemented by project-related assistance that reached CFAF 205.2 billion, up 83.9 percent compared to end-2012.

10. Execution of total expenditure and net lending stood at CFAF 1652.7 billion at end-December 2013 compared to CFAF 1460.8 billion in 2012. Total expenditure for 2013 was 27.8 percent of GDP, including the counterpart in capital transfers to SONABHY securities sold to commercial banks and SONAPOST, for a total of CFAF 38.3 billion.

11. Domestically financed capital expenditure (including capital transfers) reached 10.0 percent of GDP at end-2013 (CFAF 592.7 billion) in line with revised budget projections and compared to the 7.8 percent forecast during the seventh review. Externally financed capital expenditure, however, posted weak performance at 4.5 percent of GDP. At end-March 2014, public spending amounted to CFAF 266.7 billion compared to CFAF 316.7 billion at the same time in 2013.

12. The budget deficit (grants included) at end-December 2013 was 3.5 percent of GDP compared to 3.3 percent in 2012. Allowing for a cash adjustment of 0.9 percent of GDP, the budget deficit was financed through net external financing and net domestic financing totaling 2.7 percent of GDP.

13. Budget execution performance was not up to standard in the first quarter of 2014.This outcome can be explained in part by weak execution of transfer payments. Revenues in the first

quarter were also below target (CFAF 237.2 billion compared to a target of CFAF 268.7 billion). In any case, the government anticipates an improvement in budget execution in the coming quarters with the initial effects of the implementation of the social measures. It also expects an improved revenue performance, due on one hand to the restoration of fuel excise taxes, and also to the implementation of reforms relative to satellite tracking of merchandise imports and the new system of valuation for used vehicles to improve customs revenue.

PROGRAM PERFORMANCE

14. Most program quantitative targets for end-December 2013 and end-March 2014 were met. However, the end-December 2013 domestic financing ceiling was missed by 0.3 percent of GDP. This outcome led the government to request a waiver for the non-achievement of this objective. The non-observance was due to issuance of government securities in the amount of CFAF 121.6 billion, which was used to make up for a delayed World Bank disbursement, lower than expected revenues and an acceleration in investment spending in the last quarter of 2013. The indicative ceiling on the deficit was respected due to an upward adjustment in response to the shortfall in the disbursement of CFAF 48 billion in program loans and grants. Under execution of the budget meant that both the NDF and deficit targets were met by a large margin at end-March 2014.

15. Indicative targets for revenues were not achieved at end-December 2013 and end-March 2014, due to slower growth and the government's decision to forego part of the tax on petroleum products (TPP) to support SONABHY.

16. The target on poverty-reducing spending at end-December 2013 was missed by a minor amount. Preliminary data for end-March 2014 also show under-execution, which should be corrected with the new social transfers underway.

17. Limits on accrual of new external and domestic arrears and on nonconcessional external debt were respected. The government entered into new agreements on new nonconcessional loans at end-December 2013 to finance large investment projects, as follows: (i) construction of Donsin airport with the ECOWAS Bank for Investment and Development (EBID) (CFAF 5 billion) and the Islamic Development Bank (IDB) (CFAF 50 billion); and (ii) paving of the Dédougou-Tougan highway under a contract signed with the IDB in January 2014 for CFAF 28,206 billion. Under these contracts, the total amount of the nominal limit used is CFAF 83,206 billion.

18. Structural benchmarks for end-January and end-March 2014 were completed:

- *Launch of the tax information cross-checking module in GERIF:* To improve information sharing between the tax and customs authorities, the tax information cross-checking module in the Tax Information Cross-Checking Management (GERIF) software application was completed and its functionality enhanced. Roll-out of the software began at two pilot sites in January 2013 and continued at other sites thereafter. The country's two major tax centres, which collect at least 90 percent of DGI revenues, started using the software fully in the fourth quarter of 2013.
- *Update of forecasts on the 2013–2016 financial situation of the SOFITEX business plan based on FY 2012 results*: This exercise has been carried out and the results have been approved by the Board of Directors. The update helped the company increase its equity from CFAF 11,2 billion in the initial plan to CFAF 16,2 billion.

- *Adoption by the SONAPOST Board of Directors of a strategy to improve the quality of financial service offered:* A new five-year strategy was adopted by the SONAPOST Board of Directors to expand access and improve the quality of postal financial services. Implementation of this strategy will ultimately help prepare the creation of a postal bank.
- *Finalization of the SONABEL financial model and production of new forecasts on the 2014–16 financial situation, with various scenarios:* The structure of this new financial model was validated in December 2013 and the results confirm the software's capability to run financial simulations to determine the profit-and-loss accounts and the management ratios over a given period, on the basis of realistic assumptions.
- *Begin using the interconnection between the DGI and DGD to facilitate information sharing* through an automatic update of the IFU (single tax identification number) database in ASYCUDA++. The interconnection was achieved through CIR/RESINA. Tests are being performed within DGI on suspended IFU numbers in the DGI database following automatic deactivation in ASYCUDA.
- *Put in place a committee responsible for coordinating implementation of the computerization initiative and make it operational*. The committee was created and held its first meeting on March 4, 2014, to adopt its annual agenda.
- *Revise the law establishing the budget and its implementing decrees to take into account the findings of the workshop on procedural reform and the responsibilities of all participants in the expenditure chain.* The government submitted the draft law to the National Assembly, which was passed on January 24, 2014.
- *Align the gold production databases and audit mining production statistics monthly.* The 2012 and 2013 mining production data have been harmonized. Going forward, a committee has been established to audit mining production statistics on a monthly basis.

IMPLEMENTATION OF THE STRATEGY FOR ACCELERATED GROWTH AND DURABLE DEVELOPMENT (SCADD)

19. Government policies in 2013 were guided and implemented in keeping with the Strategy for Accelerated Growth and Durable Development (SCADD) with a view to consolidating gains and making further progress in achieving development objectives. At end-December 2013, the annual performance assessment for the 2014 preview of the SCADD reported that indicator targets were reached at a rate of 63.2 percent.

20. Measures are being adopted to strengthen regional and sectoral capacity to improve implementation over the period 2014–16 including developing the Bagré growth pole, more use of public-private partnerships, improving the population's access to energy, and increasing the competitiveness of the private sector by improving the business climate and promoting more capacity for structural transformation. Implementation of the "Bagré growth hub" pilot project continued through a public-private partnership forged in order to send a strong signal to potential investors as to the safeguards surrounding the project. To this end, a semi-state company was created with a capital of CFAF 1 billion, 38 percent of which is held by the private sector. Moreover, in terms of strengthening human capital, there are plans to bring staffing of public health facilities up to required levels and to put in place a universal health insurance system, to extend social protection to the population at large and broaden Burkinabè's access to a minimum of quality healthcare. It is also planned to broaden the implementation of reforms in

the education system, most visibly through building new classrooms, renovating schools, and hiring about 5,000 new teachers per year.

21. In the pursuit of pro-poor growth, actions were taken to improve social safety nets by creating labor-intensive jobs (HIMO). For this and other social purposes, a supplemental budget law authorizing additional spending of 1 percent of GDP (CFAF 64 billion) was enacted in October 2013. Other areas covered by this measure included the provision of investment and settling-in loans for financing self-employment of young graduates, strengthening the university infrastructure and improving social safety nets for the most vulnerable.

MEDIUM-TERM MACROECONOMIC FRAMEWORK

22. The forecasts for 2014–15 are leaning toward continued economic growth of 6.7 to 6.8 percent, assuming rainfall is normal and gold and cotton prices remain relatively stable. This growth would be driven in part by the implementation of quickly-impacting government measures in the agricultural and livestock sectors, and the launch of the Bagré growth pole operational phase. Gold production in 2014 is expected to increase by 4 percent compared to 2013, owing mainly to the entry into full production of certain mines and the expansion of one gold mine. If rainfall is more favorable than expected, the growth rate is expected to rise above 7 percent.

23. Moreover, to strengthen the resilience of the economy against various shocks while promoting inclusive growth and poverty reduction, the government plans to continue to develop growth hubs, implement arrangements under the National Rural Sector Program and the action plan for food security, and approve a draft law on universal health insurance. Four new growth poles will be established: two agricultural centers in Sourou and Samendeni, a mining center in the Sahel, and a center for tourism in the east of the country. Establishing these centers of commerce will help: (i) increase agro-pastoral and fisheries production; (ii) develop exports; (iii) match development of infrastructure and critical services with industrial development needs; and (iv) direct national and foreign investments toward establishing a better framework to support small and medium-sized enterprises. These expected results should boost economic growth in the selected centers, and help spread the effects across the whole of the local, regional, and national economy.

24. The government will continue to implement social measures, notably through controlled consumer product prices, by keeping special outlets open. Other specific measures are intended to help the most vulnerable groups in society, the young unemployed and women's groups. Subject to favorable rainfall and the continuation of these government measures, the rate of inflation should be around 2 percent in 2014–2015, below the community standard of 3 percent.

25. Terms of trade are expected to worsen in 2014, leading to a deterioration in the trade deficit. In the medium term, the terms of trade and the trade deficit are expected to improve, even if the current account deficit remains fairly high (owing to the statistical revision of gold production data in 2012). Despite a drop in net foreign assets, the money supply is expected to continue to grow faster than nominal GDP, reflecting stronger growth of private-sector credit offset by lower banking system financing of the government.

FISCAL POLICY FOR THE REMAINDER OF 2014

26. The 2014 budget seeks to foster sustained, but more inclusive, growth. Growth should be better distributed and address social concerns in a tangible manner, as a result of social measures aimed at job creation and improving living conditions, especially for the most vulnerable. Thus, the budget is built around the following strategic platforms: (i) strengthening the pillars of growth; (ii) consolidating social gains; (iii) promoting local, economic, civic and administrative governance; and (iv) stepping up national defense and internal security.

27. To consolidate the social measures taken by the Cabinet in September 2013 to improve living conditions, the government took further action on March 24, 2014. These actions stem from the evaluation of the previously implemented measures conducted during an assessment workshop on January 17, 2014. The workshop revealed genuine popular support for these measures, based on their contribution to easing social tensions, particularly in rural areas. The measures include raising public sector workers' wages, improving the social safety net for vulnerable segments of the population, creating jobs and income, and providing access to staple goods.

28. The total cost of the additional expenditure is 2.6 percent of GDP, and includes the following:

- Payroll, which increased by 0.6 percent of GDP after allowances were raised using a new salary scale that had been discussed with the social partners (while streamlining the number of allowance categories from 26 to 5). The housing allowances for all government employees and public institutions were raised as of January 1, 2014.
- The continuation of social measures initiated in September 2013 totaling 0.6 percent of GDP. These measures include:
  - support for the most vulnerable segments of the population, which will make a difference for more than 11,000 people (orphans, street children, the elderly, people with disabilities);
  - creation of labor-intensive jobs, which will help roughly 20,000 people (waste recycling workers, health care contract workers, research assistants, training for housekeeping staff, labor market integration assistance for young professionals, recruitment of staff for regional authorities);
  - increased access to financing (female entrepreneurship, informal sector associations, small and medium enterprises) by establishing a special counter providing a line of credit and a fund dedicated exclusively to loan guarantees for female entrepreneurship;
  - easier access to staple goods through efforts to build up the special retail outlets;
  - academic measures by enhancing university infrastructure, boosting student enrollment, and raising scholarship amounts;
- Other small expenditures associated with updates to the electoral register for future elections and with the security situation in Mali.

29. To keep the deficit unchanged at 3.1 percent of GDP, the government identified compensating measures in the form of cuts to non-priority spending, including operating

expenses (acquisition of certain capital and material assets as well as overhead costs), current transfer spending, and some investment spending that has become less of a priority in 2014 given the state of readiness of these investments. These measures were incorporated into a draft supplementary budget that was submitted to the National Assembly on June 7.

30. The reallocation of expenditures according to the new supplementary budget compared to the initial budget will have a positive effect on inclusive growth because it will direct additional resources to growth-enhancing social spending (particularly health, education, and youth employment), while reprioritizing investment spending to maintain projects that are the most growth-enhancing and ready to execute.

31. Projections for program performance on the whole are in line with the targets set upon program approval. The deficit target for the year remains unchanged. The revenue projection is slightly lower, in keeping with more conservative estimates on performance, offset by the gains that will be achieved through the collection of the TPP and the introduction of standardized invoicing. The net domestic financing target is the same as at the time of program approval, less additional financing expected from the World Bank and the African Development Bank.

32. In order to improve budget execution, the government will pursue in 2014 the operationalisation of verification units and their extension into other ministerial departments, improvement of the procurement process, and reconcile the physical and financial execution of the budget, more specifically as part of delegated project management. It will also pursue the decentralization and delegation of spending, particularly through easing payroll processing by extending processing units from the Payroll and General Pay Office Directorate to other departments, and digitizing administrative documents to improve expenditure execution times.

Government financing of publicly-owned enterprises

33. In 2013, the government provided certain publicly-owned enterprises with assistance to absorb past debts or ongoing operational losses. To this end, it provided SONABHY with CFAF 26 billion in direct subsidies, and SONABEL with CFAF 12 billion in balancing subsidies, in addition to CFAF 11 billion in oil subsidies. Given the current and accumulated operating losses posted by these two publicly-owned enterprises, the overall financial support from the government in 2013 accounted for close to 10 percent of budget expenditure, and about a third of the total value of energy sales. Moreover, the government transferred CFAF 30.3 billion to BAGREPOLE, a semi-public company, as a fixed financial contribution under the agreement reached between the company and the government for 2013.

34. For 2014, government transfers to publicly-owned enterprises were revised to CFAF 48 billion. Additional expenditure in the amount of CFAF 15.7 billion was written into the 2014 draft supplementary budget. Of this amount, CFAF 12 billion is dedicated to SONABEL and 3.7 billion to SONABHY, in addition to the initial amount for capital loss, bringing the total to CFAF 8 billion.

35. The government plans to conduct an external audit of SONABEL and SONABHY to clearly identify the subsidy needs of these companies in the medium term (new structural benchmark). Depending on the results of the audit, different, more specific options could be explored to control costs in the medium term.

Mining sector

36. With a view to refocusing the actions to optimize the contribution that mines make to the national economy and to make them true drivers of development, the government undertook to revise the mining code and mining investor guide. The draft law adopted by the government was introduced in the National Assembly in September 2013 and then withdrawn for further consultation with industry players regarding some of the points of contention. The revision process is underway and the draft law should again be submitted to the National Assembly during the fall parliamentary session. The government will ensure that this new draft law, which draws on the recommendations made following several IMF technical assistance missions, is consistent with applicable best practices and compares to mining codes already in force in the subregion.

37. This issue is one of critical importance for the future development of the economy as the investment needed to boost infrastructure and fund development projects will be financed in large part from the tax revenues generated from the ongoing expansion of the mining sector. For the longer term, the government recognizes the need to improve the management and use of natural resource revenues through exploring options for the application of an appropriate fiscal rule, defined within the regional context.

38. Burkina Faso joined the Initiative for Transparency in the Extractive Industries (EITI) in 2008 and was granted "compliant country" status on February 27, 2013. The country is expected to undergo an evaluation in 2016 of the efforts it has made to maintain this status. To meet the requirements for this exercise, it prepared its third report on the reconciliation of payments from mining companies to the government and the revenues collected by the government from these companies for 2011. The fourth report is currently being prepared and will cover the 2012 financial year. To help make future preparation of EITI reports more successful, the EITI-BF Steering Committee organized a national training workshop on the EITI Standard from March 24-28, 2014, for all individuals involved in gathering information for the production of Burkina Faso's EITI reports. Moreover, the government is continuing consultations with mining sector stakeholders to improve and accelerate transparency in mining in order to clean up industrial operations, including small-scale or artisanal mining, and to ensure an adequate level of mining revenues to fund the development projects needed to translate the natural resource boom into significant improvements in living conditions. A company called "Société de participation minière du Burkina Faso" was created to value the assets held by the government in mining companies, as was a national board for securing mining sites to keep mining facilities and investments safe.

Debt policy

39. The government will continue to update and implement the medium-term debt management strategy (2014–16), which sets out the guidelines and criteria for external and domestic debt and which provides a framework for debt policy over the next three years. The main objectives of this strategy are as follows: (i) meet the government's financing and payment obligation needs at the lowest possible cost in the long term; (ii) maintain risks at an adequate level, and (iii) achieve the other objectives of the authorities, such as financial market development.

40. The main policy thrusts are as follows: (i) minimize the cost of debt while maintaining risk at its current level; (ii) maintain its participation in the regional financial market; and (iii) continue to use nonconcessional resources to finance high-return or structuring projects.

41. To this end, the government of Burkina Faso will continue its current strategy of using highly concessional resources to finance the needs of its economy. External financing denominated in euros will be given preference due to the low exchange rate risk it poses.

42. Through its participation in the regional financial market, the government plans to diversify its financing sources, reduce its dependence on external financing, and contribute to the development of the financial market.

43. As part of the current program, the government is requesting that the ceiling for nonconcessional financing be increased from CFAF 135.9 billion to CFAF 150.0 billion. Structuring projects for road, hydroagricultural, and business infrastructure have already been identified which justify this increase.

STRUCTURAL REFORMS FOR THE REMAINDER OF 2014

Shorter public expenditure execution timeframes

44. With respect to the budget, a number of major reforms will be implemented to further reduce the time required for executing public spending. With the coming into force of amending law no. 06/AN of January 24, 2003, which now entrusts the payment authorizing officer (*ordonnateur*) with validating the expenditure according to normal procedures, the time needed for executing public spending should become shorter. Moreover, this reform led to the reorganization of the IT system, particularly the Integrated Expenditure Chain (*Circuit Intégré de la Dépense* – CID), by making it possible for computer-based expenditure validation by the payment authorizing officer to automatically lead to the issuance of the payment order.

45. Another major reform is digitizing content. This reform will be monitored particularly closely with the formal establishment of a committee responsible for overseeing the implementation of the process through the issuance of a joint order signed by the Minister of Finance and the Minister responsible for the Development of the Digital Economy.

46. As regards investment spending, the committee responsible for monitoring expenditure associated with development projects and programs, established by order no. 2013-0070/MEF/SG/DGB of June 27, 2013, will continue its activities in 2014 with a view to contributing to better execution of investment spending.

Improved information sharing

47. The government will continue to roll out the tax information cross-checking module in GERIF at other DGI sites to ensure its optimal use in improving information sharing with the DGD. Furthermore, to ensure harmonized mining production data, a committee created for this purpose will meet regularly.

Product diversification

48. As part of product diversification, the government plans to develop niche products in specific markets. Products likely to make up these niches include shea, nutsedge, and soybean.

Energy

49. To encourage the production and use of solar energy, import exemptions for solar equipment will be maintained. In addition, to improve its management, its governance, and supply to its customers, SONABEL intends to develop a new strategic plan for 2014–18 based on recommendations and action plans arising from technical assistance financed by the World Bank. A new contract will also be drawn up between SONABEL and the government before the end of 2014.

PROGRAM ARRANGEMENTS

50. The government intends to take all necessary steps to achieve the targets and meet the criteria agreed upon with IMF staff, as presented in tables 1 and 2 of this memorandum. The program will be reviewed in accordance with the Technical Memorandum of Understanding (TMU), which sets out the quantitative performance criteria and requirements for reporting data to IMF staff. The second and third program reviews are expected to take place in September 2014 and March 2015, or shortly thereafter.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets
December 2013–March 2015

(CFAF billion, cumulative from beginning of year; unless otherwise indicated)

	2013				2014										2015
	Dec.				Mar. [4]				Jun.		Sept. [4]		Dec.		Mar. [4]
	Prog.	Adj.	Act.		Prog.	Adj.	Prel.		Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.	Rev. Prog.	Prog.
Quantitative Performance Criteria															
Ceiling on net domestic financing of government[1]	56.7	110.0	128.0	Not met	115.0	115.0	-1.9	Met	95.9	67.9	128.0	75.0	109.6	74.4	55.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government [2, 3]	135.9	135.9	55.0	Met	135.9	135.9	83.2	Met	135.9	150.0	135.9	150.0	135.9	150.0	150.0
Accumulation of external arrears [2]	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative targets															
Ceiling on the overall fiscal deficit including grants	193.3	258.3	210.8	Met	100.9	92.5	-32.5	Met	125.8	125.8	125.8	169.1	197.7	197.7	79.4
Floor on Government revenue	1147.9	...	1117.4	Not met	268.7	...	237.2	Not met	583.2	593.8	863.4	884.3	1242.5	1238.3	276.8
Floor on Poverty-reducing social expenditures[5]	417.9	...	415.0	Not met	115.5	...	63.3	Not met	231.0	244.7	346.5	367.1	462.0	489.5	117.5
Accumulation of new domestic arrears[2]	0.0	...	0.0	Met	0.0	...	0.0	Met	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

[1] Including on-lending of prospective IMF disbursements. The ceiling on net domestic financing is to be adjusted in line with the TMU definition. Prospective sales of public enterprise bonds are included in the targets here.

[2] To be observed continuously.

[3] The limit is not tied to specific projects.

[4] Indicative Target, except for continuous performance criteria.

[5] 90 percent of budget amount.

Table 2. Burkina Faso: Structural Benchmarks			
Measures	**Rationale**	**Evidence**	**Date**
Submit to the Cabinet a report with recommendations to improve the quality of investment expenditure **(DGB)**	Improve the quality of investment expenditure	Cabinet Report	September 2014
Conduct a study to identify options for strengthening the price smoothing fund (*fonds de lissage*) and putting it on a financially sustainable basis **(SP/SFCL)**	Put the price smoothing fund on a more financially sustainable basis	Study report	September 2014
Have the Board of Directors adopt an action plan to implement the option selected for improving the quality of financial services provided by SONAPOST **(SONAPOST)**	Improve access to financial services	Board of Directors decision	December 2014
Update SOFITEX's business plan by taking into account all the new assumptions, and submit the update to the Board of Directors for approval **(SOFITEX)**	Update financial situation forecasts	Board of Directors decision	December 2014
Conduct a study on the viability of production and import options to take into account new developments in the energy sector at the national and subregional level **(SONABEL)**	Identify the best option for production to meet demand at a lower cost	Study report	December 2014
Implement a satellite tracking system for goods in transit **(DGD)**	Combat fraud and improve revenue collection	Note on system implementation	December 2014
Initiate the process to update the base year used by the INSD for the production of national accounts **(INSD)**	Produce national accounts using an updated base	Status report on process initiation	December 2014
Conduct an external audit of SONABHY and SONABEL, under the supervision of the higher authority for government supervision	Better grasp of the effectiveness of subsidies and financial management of audited companies	Audit report,	November 2014

Attachment II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) defines the quantitative performance criteria, indicative targets, and structural benchmarks that will serve to assess performance under the program supported by the Extended Credit Facility (ECF) from 2014 to 2016. It also sets the framework and deadlines for the submission of data to IMF staff for assessment of program implementation.

CONDITIONALITY

1. The quantitative performance criteria and indicative targets for end-March 2014, end-September 2014, and end-December 2014 are provided in Table 1 of the MEFP. The structural benchmarks set forth in the program are presented in Table 2 of the MEFP.

DEFINITIONS

2. **Government.** Unless otherwise indicated, the term "government" means the central administration of Burkina Faso and does not include local administrations, the central bank, or any other public or government-owned entity with autonomous legal status not included in the table detailing the financial operations of the state (TOFE).

3. **Definition of debt.** For the purposes of the relevant performance criteria, the definition of debt is set out in IMF Executive Board Decision No.6230-(79/140), Point 9, as amended by Executive Board Decision No. 14416-(09/91), published on the IMF website.

4. **Debt guarantees.** For the purposes of the relevant performance criteria, a government debt guarantee means an explicit legal obligation to service a debt in the event of nonpayment by the borrower (through payment in cash or in kind).

5. **Debt concessionality.** For the purposes of the relevant performance criteria, a debt is considered concessional if it includes a grant element of at least 35 percent.[1] The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service payments on the debt.[2] The discount rate used is 5.0 percent.

6. **External debt.** For the purposes of the relevant performance criteria, external debt is defined as debt contracted or serviced in a currency other than the CFA franc. This definition also applies to debt among WAEMU countries. The relevant performance criteria apply to the external debt of the government, public enterprises that receive government transfers, and other public entities in which the government holds more than 50 percent of the capital, and any private debt for which the government has extended guarantees that constitute a contingent liability for the government.

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[1] The following page of the IMF website provides a tool to calculate the grant element of a wide range of financing packages: http://www.imf.org/external/np/pdr/conc/calculator.

[2] The calculation of concessionality takes account of all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

QUANTITATIVE PERFORMANCE CRITERIA

7. The revised quantitative performance criteria proposed for 2014 are as follows: (i) a ceiling on net domestic financing as defined below in paragraph 10; (ii) a ceiling on the contracting or guarantee of nonconcessional external debt by the government, as defined in paragraphs 4 to 7, and (iii) a ceiling on the non-accumulation of payment arrears on external debt service.

A. Net Domestic Financing

8. For the purposes of the relevant performance criteria, net domestic financing is defined as the sum of (i) net bank credit to the government, including net bank credit to the Treasury as defined below and other government claims and debts vis-à-vis the domestic banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed government bills and bonds held outside domestic commercial banks; (iii) privatization receipts and other government claims and debts vis-à-vis national nonbank institutions. Net bank credit to the Treasury is the balance of the Treasury's claims and debts vis-à-vis domestic 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 in postal checking accounts (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 securitized deposits of the national postal savings fund (CNE/CCP). Net bank credit to the government is calculated based on information provided by the Central Bank of West African States (BCEAO) whose figures are deemed valid for program purposes. The foregoing items are calculated based on the government budget execution report presented each month in the table detailing the financial operations of the state, prepared by the Ministry of Economy and Finance.

Adjustment

9. The cumulative ceiling on net domestic financing will be adjusted upward in the amount by which external program support, excluding project grants and project loans, falls short of the projected amount, up to a maximum of CFAF 65 billion. The shortfall will be calculated by reference to the projections in Table 1 below. The ceiling will not be adjusted downward if the external program assistance is higher than programmed.

Table 1. Burkina Faso: Projected External Program Assistance (Cumulative, CFAF billions)

	End-June 2014	End-September 2014	End-December 2014
Grants and loans	120.1	144.1	180.2

10. If the value of government bonds issued for the benefit of public enterprises, and sold to commercial banks by them, falls short of projections, the cumulative ceiling on net domestic financing will be adjusted downward in the amount equivalent to the difference between projected and actual figures. The difference will be calculated by reference to the projections in Table 2 below. The ceiling will not be adjusted upward if the value of the bond sales is higher than programmed.

Table 2. Burkina Faso: Projected Sales of Government Bonds to Commercial Banks by Public Enterprises (Cumulative, CFAF billions)

	End-June 2014	End-September 2014	End-December 2014
	31.0	31.0	31.0

11. The Ministry of the Economy and Finance will submit data on net domestic financing to the IMF within six weeks of the end of each quarter.

B. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

12. The government commits not to contract or guarantee any nonconcessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies to external debt as defined in paragraph 7 of this memorandum. It uses the concept of concessionality as defined in paragraph 6 of this memorandum. This performance criterion also applies to any private debt guaranteed by the government that constitutes a contingent government liability as defined in paragraphs 4 to 7 of this memorandum. In addition, this criterion applies to public enterprises that receive government transfers, local governments, and other public sector entities (including public administrative, professional, scientific and technical agencies) unless excluded in MEFP Table 1. However, this performance criterion will not apply to Treasury bills and bonds issued in CFA francs on the WAEMU regional market, to ordinary short-term credit from suppliers, or to IMF loans. This commitment is a performance criterion to be observed continuously. It is measured on a cumulative basis from the IMF Executive Board's date of approval of the ECF, and no adjustment factor will apply.

Reporting deadlines

13. Details on any loan (terms and creditors) contracted by the government must be reported within four weeks of the end of each month. The same requirement applies to guarantees extended by the government.

C. Non-accumulation of New External Payment Arrears

Performance criterion

14. External payment arrears are external payments due but unpaid. Under the program the government agrees not to accumulate external payment arrears on its debt, except arrears arising from obligations being renegotiated with external creditors, including bilateral non-Paris Club creditors. Nonaccumulation of new external arrears by the government is a performance criterion, to be observed continuously.

Reporting deadlines

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

OTHER QUANTITATIVE INDICATIVE TARGETS

16. The program also includes indicative targets for the overall deficit (commitment basis, grants included) as defined in paragraph 19 below; total government revenue; poverty-reducing social expenditures, and nonaccumulation of domestic payment arrears.

A. Overall Deficit Including Grants

Definition

17. For the program, the overall deficit including grants is valued on a commitment basis. It is defined as the sum of the government's net foreign and domestic financing, measured from the financing side, plus a cash basis adjustment. Net foreign financing is the sum of new external borrowing less amortization. Government net domestic financing is defined in paragraphs 10–11 above. The cash basis adjustment is defined as the sum of: (i) the total change in unauthorized expenditure commitments, (ii) the change in pending bills, and (iii) the change in Treasury deposits.

Adjustment

18. The ceiling on the overall fiscal deficit, including grants, will be adjusted upward in the amount by which external program grants falls short of the projected amount, up to a maximum of CFAF 65 billion. The shortfall will be calculated by reference to the projections in Table 3 below. The ceiling will not be adjusted downward in the event that actual external program assistance is higher than programmed.

19. The ceiling on the overall fiscal deficit, including grants, will be adjusted downward in the amount equivalent to the difference between projected and actual project loans if the actual figures are lower than projected. The overall fiscal deficit, including grants, will be adjusted upward in the amount equivalent to the difference between projected and actual project loans if the actual figures are higher than projected. The difference in the amount will be calculated by reference to the projections in Table 3 below.

Table 3. Burkina Faso: Projected External Program Grants and Project Loans (Cumulative, CFAF billions)			
	End-June 2014	End-September 2014	End-December 2014
Grants	84.6	108.6	126.9
Project loans	14.0	35.0	97.4

20. If the value of government bonds, issued for the benefit of public enterprises, and sold to commercial banks by them, falls short of projections, the cumulative ceiling on net domestic financing will be adjusted downward of the amount equivalent to the difference between projected and actual figures. The difference will be calculated by reference to the projections in Table 2 above. The ceiling will not be adjusted upward if the value of the bond sales is higher than programmed.

B. Total Government Revenue

Definition

21. 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. It also includes revenue from treasury checks.

C. Poverty-Reducing Social Expenditures Definition

22. Poverty-reducing social expenditures are defined as the expenditures supporting the priority programs identified in the Accelerated Growth and Sustainable Development Strategy (SCADD) to accelerate the achievement of poverty reduction objectives. Such expenditures cover all spending categories for the following ministries: Promotion of Women and Gender Issues; Health; Social Action and National Solidarity; National Education and Literacy; Agriculture and Food Security; Animal Resources; Environment and Sustainable Development; Youth, Professional Training and Employment including the labor and social security components of Civil Service, Labor, and Social Security; Water, Hydraulic Improvements, and Sanitation. They also cover spending on rural roads and Heavily Indebted Poor Countries (HIPC) initiative (Category 5) for Infrastructure, Integration, and Transport; and HIPC expenditures only for Communication; Justice and Human Rights; Economy and Finance; and Mines, Quarries, and Energy ministries. Added to this is the allocation under section 98 "transfers to subnational governments" from Health, Agriculture and Food Security as well as National Education and Literacy. These expenditures are monitored directly through the budget, and the indicative threshold for the program will be 90 percent of the amount established by the budget authority.

D. Non-accumulation of Domestic Payment Arrears

Definition

23. The government will not accumulate payment arrears on domestic obligations during the program period. This is an indicative target. Under the program, domestic payment arrears arise when actual payment is made more than 90 days after liability is incurred for an undisputed debt to a third party, except in cases where the terms and conditions of the transaction stipulate a longer period. In the case of debt service, arrears arise 30 days after the due date. Payments are deemed to be in arrears according to the following definition:

- Debt unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).
- Unpaid wages or pensions 90 days after their due date.
- Payments for services rendered received by the supplier more than 90 days after processing of the supporting documents submitted by the supplier.

D. Additional Information for Program Monitoring

24. To enable IMF staff to assess program performance, the government agrees to submit the following data, in paper format and/or MSC Excel electronic files, consistent with the frequency and deadlines specified below.

Table 4. Burkina Faso: Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
Public Finance			
The table detailing the financial operations of the state (TOFE) and the customary appendix tables; (if data on actual investment financed by external grants and loans are not available in time, a linear estimate of execution based on the annual projections will be used)	MEF	Monthly	6 weeks
Domestic financing of the budget (net bank credit to the government and stock of unredeemed treasury bonds and bills)	MEF/BCEAO	Monthly	6 weeks
Data on implementation of the public investment program, including details on sources of financing	MEF	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt payment	MEF	Quarterly	6 weeks
Poverty-reducing social expenditures in Table form	MEF	Monthly	6 weeks
Petroleum product prices, consumption, and taxes, including: (i) the price structure for the month concerned; (ii) detailed calculation of the price structure, from the f.o.b. price to the retail price; (iii) volumes purchased and distributed for consumption by the petroleum distributor (SONABHY); with a distinction made between retail and industry sales; and (iv) a breakdown of tax revenue from petroleum products— customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and unpaid subsidies	MEF	Monthly	4 weeks
A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, public administrative enterprises, international organizations, private depositors, and others)	MEF	Monthly	6 weeks

Table 4. Burkina Faso: Summary of Data Reporting Requirements (concluded)

Monetary Sector			
The consolidated balance sheet of monetary institutions	National Directorate of the BCEAO	Monthly	6 weeks
The monetary survey: provisional data	BCEAO	Monthly	6 weeks
The monetary survey: final data	BCEAO	Monthly	10 weeks
Interest rates on lending and borrowing	BCEAO	Monthly	6 weeks
The standard bank supervision indicators for banks and nonbank financial institutions	BCEAO	Monthly	6 weeks
Balance of Payments			
Preliminary annual balance of payments data	BCEAO	Annual	9 months
Foreign trade statistics	INSD/BCEAO	Monthly	3 months
Any revision of balance of payments data (including services, private transfers, official transfers, and capital flows)	BCEAO	As they occur	2 weeks
Real Sector			
Provisional national accounts; and any revision thereto	MEF	Annual	2 weeks
Disaggregated monthly consumer price indices	MEF	Monthly	2 weeks
Structural Reforms and Other Data			
Any study or official report on Burkina Faso’s economy, on the date published, or the date of entry into force.	MEF		2 weeks
Any decision, order, law, decree, ordinance, or circular having economic or financial implications, on the date published, or no later than the date of entry into force.	MEF		2 weeks

Annex I. External Stability Assessment

The current account deficit has increased to about 10 percent of GDP in 2013, but it is expected to improve progressively over the medium term as investment and gold exports stabilize. Non-debt creating flows—official transfers and FDI—constitutes the main source of external financing. Various analyses indicate that the current account and real effective exchange rate remain broadly in line with the country's fundamentals. There is also no indication of current account disequilibria and real effective exchange rate misalignment at the regional level. Official WAEMU reserves remain adequate. Structural competitiveness has been improving in some respects, but much remains to be done, in particular to develop infrastructure and increase energy supply.

Balance of payments

1. The current account deficit (excluding grants) has increased recently reflecting important investment and falling gold exports.[1] The deficit has increased from 5.7 percent of GDP in 2011 (its lower historical level) to about 8 percent in 2012 and 10 percent of GDP 2013 reflecting raising investment and falling gold exports. Investment, in particular public ones, increased from about 16 percent of GDP in 2011 to about 21 percent of GDP in 2013. The trade balance mirrored these developments deteriorating from a zero balance in 2011 to -1.4 percent in 2012 and -3.3 percent in 2013. The current account deficit is expected to decrease gradually from 9.8 percent of GDP in 2014 to about 8.5 percent of GDP in 2019 as investment (progressively financed by national saving) and export growth would stabilize.

2. Grants and foreign direct investment (FDI) constitute the main source of external financing. Official—current and capital—transfers have remained at about 6-6.5 percent of GDP over the last 3 years and are expected to decrease only slightly in the medium term. After increasing to above 2 percent of GDP, FDI is expected to stay at about 1 percent of GDP over the medium term. Portfolio investment has been low accounting for about 0.1 percent of GDP over the last decade. Overall, non-debt creating flows are projected to remain a predominate source of current account deficit financing.

Price competitiveness

3. The real effective exchange rate (REER) assessment does not indicate significant misalignments and price-competitiveness issues at the country level. The nominal effective exchange rate appreciated by about 9 percent since the beginning of 2013, mirroring to the large extent the euro appreciation. The real effective exchange rates, however, appreciated only moderately by about 4 percent owing to moderating inflation pressure in the region and remained close to its historical average. A model-based assessment (Box 1) does not point to significant misalignments of the real effective exchange rate.

Regional price competitiveness and reserves adequacy

4. The regional external stability assessment indicates the real effective exchange rate is broadly in line with regional fundamentals and official reserves coverage remains adequate.[2]

[1] The assessment here is based on the current account excluding grants on the basis this wider measure of external balance allows for measurement of vulnerability to all external flows, including program assistance.

[2] WAEMU Staff Report on Common Policies for Member States (IMF Country Report 14/84).

5. The real effective exchange rate appreciated by about 4 percent since the beginning of 2013 reflecting nominal effective appreciation and favourable inflationary developments. The CGER methodology applied to the WAEMU points to small—positive and negative—deviations confirming that there is no significant price-competitiveness issue at the regional level. Although official regional reserves are estimated to decline in from CFAF 7051 billion at end-2012 to CFAF 6886 billion at end-2013, reserves coverage remains adequate at about 4.7 months of the following year's extra-regional imports.

Structural competitiveness

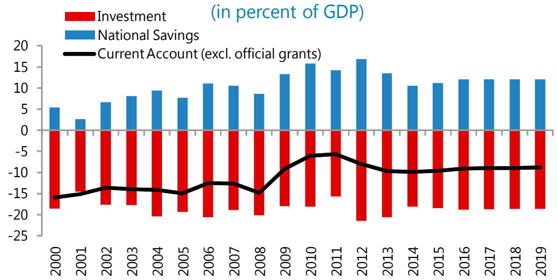
6. There is a need for further improving structural competitiveness. Various competitiveness indicators rank Burkina Faso among the best performers in the region. Further efforts, however, are necessary to improve business and investment climate.

- The World Bank "Doing Business" indicators show that in certain respects the country's situation has significantly improved over the last decade (Figure 2). Burkina Faso scores relatively well in dealing with construction permits, starting a business and protecting investor rights. The standard of transport infrastructure remains insufficient. Therefore, trading across borders and ensuring access to a reliable supply of electricity remain relatively more challenging constraints relative to other WAEMU countries. Access to finance and registration of property continue to be cumbersome. Progress overall has been maintained in the last 2 years and Burkina Faso is now the highest ranking country in the region on the basis of these indicators (Table 2). These results broadly confirm those presented in the Selected Issues paper on Inclusive Growth.
- The World Bank Governance Indicators (WGI) also rank Burkina Faso among the best performers in the region, especially regarding regulatory quality and rule of law. The indicators show, however, a moderate deterioration over the last 5 years.

Figure 1. Burkina Faso: External Sector Developments (2000–19)

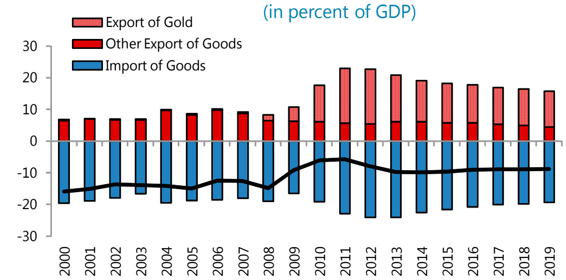
The current account deficit has widened recently reflecting increasing investment ...

Current Account Balance, 2000–19
(in percent of GDP)



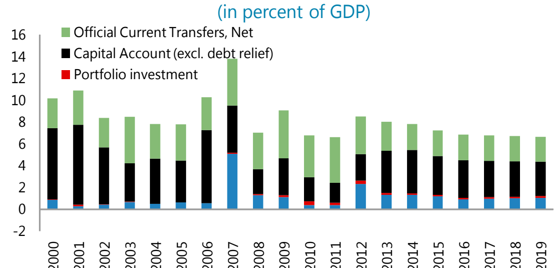
... and falling gold exports.

Current Account Balance, 2000–19
(in percent of GDP)



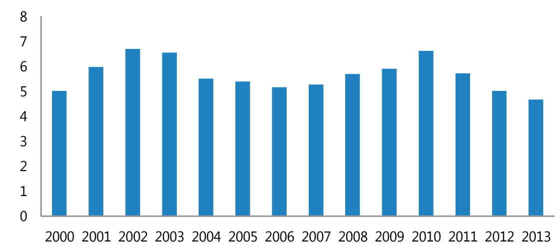
Official transfers and FDI remain the principal source of external financing.

Current Account Financing, 2000–19
(in percent of GDP)



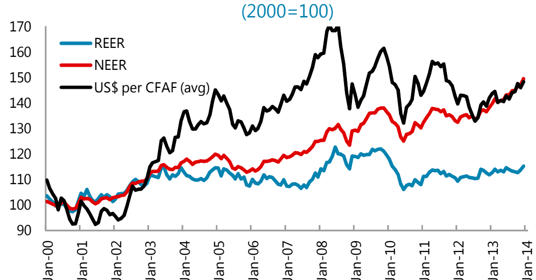
Regional reserve coverage is adequate.

Reserves coverage
(Months of next year's imports of goods and services)



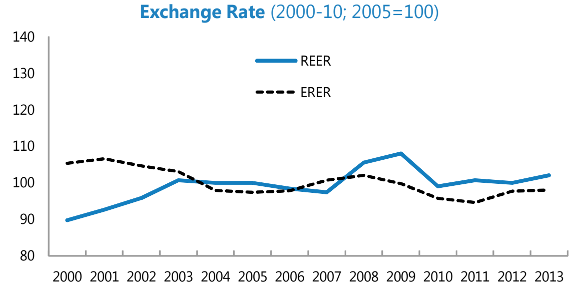
Real effective exchange rate appreciated slightly and ...

Burkina Faso: Exchange rates, 2000–13
(2000=100)



... continues to reflect the country's fundamentals.

Burkina Faso: Equilibrium and Real Effective Exchange Rate (2000-10; 2005=100)



Sources: BCEAO, DTTS, IMF staff calculations

Box 1. Burkina Faso: Model-Based Real Effective Exchange Rate Assessment

Three alternative CGER approaches indicate relatively small positive deviations from equilibrium (Table 1), which continues to suggest no significant misalignment of Burkina Faso's real effective exchange rate.[1]

Real Effective Exchange Rate Assessment

	CAB/GDP		CA/REER elasticity	REER[1]
	Norm	Underlying[2]		
Macroeconomic Balance	-5.5	-8.8	-0.4	7.3
Equilibrium real exchange rate	...	...		4.1
External Sustainability	-4.6	-8.8	-0.4	9.3

[1] "-" indicates undervaluation; [2] the medium-term current account deficit (excl.grants)

Source: IMF staff estimates.

First, the macroeconomic balance approach estimates the equilibrium current account balance compatible with the country's medium-term fundamentals. This approach indicates that the exchange rate should depreciate by about 7 percent to close the gap between the equilibrium and underlying current account balances. The second method estimates the equilibrium real exchange rate as a function of medium-term fundamentals which points to an overvaluation of about 4 percent of the actual real effective exchange rate. Finally, the external sustainability approach derives the current account norm that stabilizes net foreign assets at its 2012 level (24 percent of GDP). This method indicates that about 9-percent depreciation is needed to close the gap between the underlying and equilibrium current account.

[1] The previous 2012-exchange rate assessment indicated a real effective exchange rate misalignments of 1¼ to 8 percent. IMF Country Report 12/158.

Table 2. Burkina Faso: Doing Business Indicators

	2013*	2014	2013/14
Benin	175	174	1
Burkina Faso	154	154	0
Cote d'Ivoire	173	167	6
Guinea-Bissau	181	180	1
Mali	153	155	-2
Niger	174	176	-2
Senegal	176	178	-2
Togo	159	157	2
Average	**168**	**168**	0
Total of countries	*185*	*189*	

* Adjusted for data corrections.

Source: World Bank, Doing Business Indicators, 2014.

INTERNATIONAL MONETARY FUND

BURKINA FASO

June 18, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR WAIVER AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Michael Atingi Ego and Peter Allum (IMF) and Jeffrey D. Lewis and Marcelo Giugale (IDA)

Prepared jointly by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the First Review under the program supported by the IMF's Three-Year Extended Credit Arrangement (ECF). It is based on new end-2013 debt data. Based on lower WEO projections for gold prices and projected higher spending, the current account and fiscal balances are notably worse, with an impact on growth through the medium term. A downward adjustment to actual gold production statistics in 2012 and 2013 significantly worsened the current account balance, thus worsening the projection profile. A cautious assumption is made that gold mining reserves will begin facing depletion around 2022, not fully compensated by other mineral exports. Under these assumptions, none of the external debt ratios under the baseline scenario breach their respective indicative debt distress thresholds, but one of the standardized stress tests shows a breach, indicating that Burkina Faso's risk rating for debt distress remains moderate.[1] *To supplement the standardized DSA treatment, staff has constructed an alternate scenario with a significant near term "growth shock." Under this scenario, the same standardized stress test shows an earlier breach in addition to a new breach under a different stress test.*

[1] Burkina Faso's latest CPIA score is 3.8, which places the country's policy and institutional framework in the group of 'strong' performers.

BACKGROUND AND UNDERLYING DSA ASSUMPTIONS

1. Burkina Faso's nominal stock of debt as of end-2013 was 29.1 percent of GDP, equivalent to approximately US$3.6 billion (Table 1). Although up slightly from end-2012, this amount is lower than what had been assumed in the 2013 DSA (US$3.9 billion). The composition of debt shifted slightly more toward domestic debt, reflecting large issuances of government bonds in 2013, delayed donor disbursements, as well as exchange rate appreciation. About 75 percent of the total stock of debt at end-2013 was external debt, down from 81 percent at end-2012.

Table 1. Stock of Public Debt 2011–13

(CFAF billions)

	2011	2012	2013	Percent
Public Debt	1508.2	1616.3	1733.7	100
External Debt	1216.2	1290.6	1296.0	74.8
Domestic Debt	291.9	325.8	437.6	25.2
	(percent of GDP)			
	2011	**2012**	**2013**	
Public Debt	30.5	28.7	29.1	
External Debt	24.6	22.9	21.8	
Domestic Debt	5.9	5.8	7.4	

2. Table 2 and Box 1 summarize the main differences in macroeconomic assumptions between the previous DSA (July 2013) and this one. The most significant changes are gold price projections and their attendant impacts; retroactive revisions to gold production data by the authorities (Annex III, Box 1); and WEO projections for nominal exchange rate appreciation through the medium term. In the near term, somewhat lower growth is assumed, although this is harmonized with growth over the medium term. Maintaining spending roughly constant at current levels, these assumptions lead to higher fiscal and external deficits over the medium term. Moreover, the current account balance is expected to deteriorate further starting in 2022 when gold production slows, although there is modest improvement in fiscal and external balances in the longer run, as spending levels and imports adjust.

Table 2. Changes in Assumptions for the April 2014 DSA vs. the July 2013 DSA

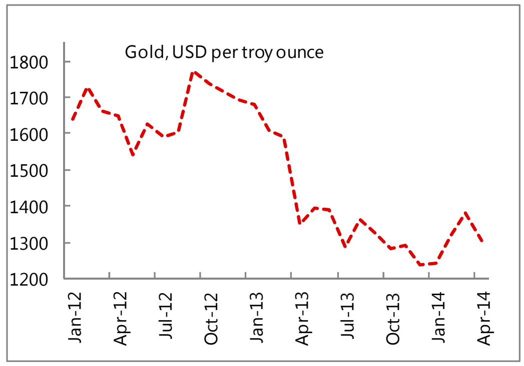
		2013	2014	2015	2016	2017	2030	2031	2032
Gold (tons)	2014 DSA	38.9	40.5	42.5	44.6	46.9	60.0	60.0	60.0
	2013 DSA	45.4	48.6	52.0	54.6	57.3	90.8	92.6	93.6
Gold (USD/ounce)	2014 DSA (WEO)	1411	1327	1343	1370	1398	1487	1487	1487
	World Bank		*1250*	*1230*	*1216*	*1203*			
	2013 DSA	1418	1432	1451	1468	1491	1844	1873	1903
Exports of goods (% of GDP)	2014 DSA	20.8	19.1	18.3	17.9	17.2	15.6	15.7	15.7
	2013 DSA	25.0	25.2	25.1	24.2	23.6	21.9	21.8	21.6
Real GDP growth (y/y)	2014 DSA	6.6	6.7	6.8	7.0	6.8	6.0	6.0	6.0
	2013 DSA	7.0	7.0	7.0	6.9	6.8	6.0	6.0	6.0
Current account (% of GDP)	2014 DSA	-7.0	-7.2	-7.0	-7.0	-7.0	-7.4	-7.3	-7.3
	2013 DSA	-2.2	-2.2	-2.0	-3.3	-4.1	-4.7	-4.8	-4.9
Overall balance (% of GDP)	2014 DSA	-3.5	-3.1	-3.1	-3.0	-3.6	-6.1	-5.9	-5.9
	2013 DSA	-2.4	-2.4	-2.4	-2.1	-3.9	-3.1	-3.0	-2.9

3. **This DSA assumes continued modest use of nonconcessional financing over the forecast horizon.** The authorities have already signed contracts using about 60 percent of the program continuous PC on nonconcessional external debt, mainly for the Donsin airport project and a road connecting Dedougou to Tougan northwest of the capital. The authorities have requested an upward modifications of the program continuous PC on nonconcessional external debtby approximately 0.2 percent of GDP in order to finance two additional highway projects (Table a. and Box 2).

4. **The DSA includes both already-contracted and anticipated borrowing on a disbursement basis.** The authorities have reiterated their ongoing commitment to rely as much as possible on available concessional financing, but in light of limited concessional resources, this DSA includes an assumption that nonconcessional borrowing will be continued, at modest levels, through the DSA horizon. Consistent with this and the conservative assumption of less concessional financing going forward, the grant element of new borrowing is assumed to decrease gradually over the forecast horizon, especially toward the outer years.

Box 1. Burkina Faso: Macroeconomic Assumptions Underlying the DSA

Gold prices have dropped significantly since the last DSA. WEO projections have dropped as well, by an average of 20 percent over the forecast horizon.



Gold production is expected to rise steadily over the medium term with discovery of new reserves. The DSA assumes reserves will be gradually depleted after 2022.

GDP growth assumptions are lower in the medium term than in the 2013 DSA, based on the 2013 outturn, the near term outlook, and terms of trade projections. The longer term average remains unchanged at around 6 percent.

The overall fiscal deficit (including grants) is based on relatively stable, but higher spending levels, and revenues that fluctuate in line with gold exports. The deficit increases after gold production slows beyond 2022 and expenditures remain unchanged. In the long run, the deficit begins to improve as spending adjusts.

Debt composition: Domestic debt is assumed to increase modestly through the forecast horizon, reflecting the authorities' efforts to deepen domestic and regional financial markets. The remainder of the deficit is financed via external debt, but on less generous terms to reflect some nonconcessional financing and a more cautious assumption about ability to borrow at concessional terms going forward (the impact on the net present value is partly offset by use of a higher discount rate, as explained in paragraph 4).

The current account deficit is significantly larger throughout the forecast horizon than in the 2013 DSA, due to the authorities' revisions to gold production data for 2012 and 2013. This, plus gold price projections, render export projections significantly lower in the current DSA compared to the 2013 DSA. The current account deficit forecast mimics that of the fiscal balance, with a deterioration following an assumption of gradual depletion of gold reserves, with a delay in the adjustment of import levels.

Table a. Non-Concessional Borrowing

Project	Amount in bln of CFAF	Creditor
Ouagadougou Donsin International Airport	55	Islamic Bank of Development & ECOWAS Bank for Investment and Development
Dedougou-Tougan Highway Project	28.2	Islamic Bank of Development
Guiba-Garango Highway Project	25.7	In process
Kantchari-Diapaga-Tansarga (Benin border) Highway Project	38.8	In process

Box 2. Burkina Faso: Nonconcessional Borrowing

The nonconcessional borrowing for which approximately 83.2 bln CFAF has already been signed relates mainly to the Donsin Airport project and the highway project between Dedougou and Tougan. The remaining 64.5 bln CFAF that has not been signed is envisioned for two additional highway projects. Of this 64.5 bln CFAF, 12 billion is upward adjustment requested to the continuous PC on nonconcessional external debt.

The new airport project involves the revamping of the existing one from the city proper to 35 kilometers northwest of Ouagadougou. A World Bank feasibility study determined that the envisioned benefits would outweigh the costs, and supported its construction. Currently, two loans have been signed relating to the project. The first one is by the amount of 50 bln CFAF, financed by the Islamic Development Bank (BID) at an interest rate of 2.5 percent (grant element of 22 percent); this has been ratified by the National Assembly in March of this year. The second loan, in the amount of 5 bln CFAF, financed by ECOWAS, at an interest rate of 3 percent (grant element of 23 percent), is expected to be official soon.

The remaining loans relate to three highway projects that involve the bituminous surface treatment (BST) of existing roads or construction of new roads with BST treatment to improve road access. BST is usually used on low-traffic roads, but also as a type of sealing to rejuvenate an existing asphalt pavement. The first project for which 28.2 bln CFAF has been signed with BID at an interest rate of 2.5 percent (grant element of 20 percent) is a highway connecting Dedougou to Tougan northwest of the capital, approximately 92 km of distance. The loans for the remaining projects are estimated to be 25.7 and 38.8 CFAF bln respectively, but the financing has not yet been secured. The first project is a construction of a new road between Guiba and Garango, south-east of the country. The second is the construction of two connected highways that eventually connect Kantchari, located to the east of Ouagadougou near the Niger Border, to Tansarga, near the Benin border, involving approximately 70 km of paved road.

DSA RESULTS

A. External Debt

5. The 2014 DSA results are broadly unchanged from the 2013 exercise, reflecting a moderate risk of debt distress (Figure 2 and Table 1). The more pessimistic external and fiscal balances are offset by the higher discount rate, lower starting nominal external debt levels than had been assumed in the 2013 exercise, and revised assumptions about the mix of domestic and external financing. In the baseline scenario, all debt ratios continue to remain below the risk thresholds. Even with the less optimistic fiscal and external outlooks and the assumption for continued nonconcessional borrowing, the PV of external debt to exports peaked at 174.4 percent in 2034, still below the 200 percent debt risk threshold.[2]

[2] Residual figures in the external debt baseline are higher than in the 2013 DSA on account of the much larger current account deficit in 2012 and 2013 caused by the revision in official gold production data while actual fiscal results and debt accumulation remained unchanged. This discrepancy between the accrual of debt from the fiscal and estimated debt creating flows from the external balance likely reflects the underestimation of artisanal gold production/exports in the official data, as discussed in Box 1 of Annex III.

6. As in the past, the risk threshold for the PV of debt to exports is breached only in the case of one of the standardized stress tests. The breach is similar to that of the 2013 DSA. The stress test reflects a shock to exports, assuming that the growth of exports is reduced by one standard deviation in 2015–16. Indeed, volatility of gold prices remains an important vulnerability to exports. Under this shock scenario, exports 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 assuming an offsetting adjustment in imports.

B. Total Public Debt DSA Results

7. The current DSA assumes a continued modest increase in domestic financing, bringing debt levels higher relative to the 2013 DSA, although the debt to GDP ratio remains below the relevant WAEMU convergence criterion. This assumption stems from progress already underway in expanding the domestic bond market, and plans to expand the regional market and develop more secondary markets. Under a fairly conservative assumption, this DSA assumes close to current terms for new domestic financing, which have fixed bid schemes and may be overly generous given the large oversubscription of recent bond issuances. However, the authorities are already considering variable bid schemes and other means to bring down the costs of domestic financing, and allow more precision for the amounts and timing thereof.

C. An Alternate Lower Growth Scenario

8. To challenge the robustness of the macroeconomic framework projections and the DSA results, staff constructed an alternative scenario. Since a gold price shock was explored in the 2012 and 2013 DSAs and is embodied in the standard stress tests, staff constructed an alternative scenario to test the sensitivity of the analysis to a near term shock to growth, stemming from a drought, but without recourse to additional budget support. In effect, this shock simply exaggerates the existing weather/growth patterns seen in the past. The shock is assumed to hit in the second half of 2014, reducing projected growth from 6.7 to 6.0 percent. The larger impact of the shock is felt in 2015, with projected growth slashed to 4.5 percent (from 6.8 percent). Public spending in 2015 would increase sharply to address food security needs and farm gate price subsidies to cotton farmers in addition to other spending aimed at muting the impact of the shock. At the same time, fiscal revenues would be affected by lower growth, causing a sharp increase in the deficit to 5.2 percent of GDP in 2015 (compared to 3.1 percent in the baseline), taking into account offsetting spending adjustment of 0.5 percent of GDP affecting domestically-financed investment.

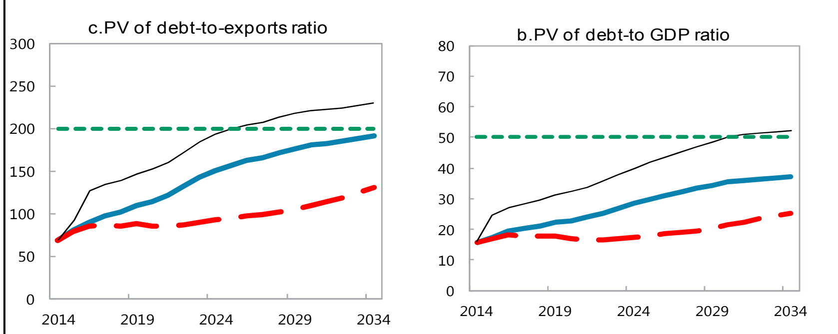
9. Without additional budget support, the remaining fiscal deficit would be met by higher domestic financing and more expensive external financing. Of the 2.1 percentage points of GDP increase in the deficit, approximately 10 percent would be financed by additional domestic financing, and the rest would be met by additional nonconcessional external financing. Under this scenario, lower investment spending would be assumed to have an impact on growth and the fiscal deficit over the next 3 years, leading to higher accrual of debt. The current account deteriorates less relative to the baseline, as exports are assumed unchanged (with mining unaffected and cotton affected only marginally due to irrigation and GMO seeds) and lower growth and investment is assumed to have a dampening effect on import demand. The use of more nonconcessional external financing was proxied in the DSA framework by reducing the overall grant element of new financing for the medium term down to an approximate average of 10 percent.

10. DSA results under this scenario show a higher risk of debt distress, albeit with the risk rating remaining "moderate." On its own this scenario causes a near breach in the PV of debt-to-exports and in combining it with standardized stress tests, both PV of debt-to-exports and debt-to-GDP thresholds are breached. These results, even maintaining gold unchanged, indicate a clearer "moderate" risk of debt distress than the baseline, which is on the cusp of "moderate" and "low." However, all DSA results should be interpreted with caution, particularly given uncertain assumptions about the investment-growth nexus, outdated national account statistics, and balance of payments data still under revision.

Impact on Main Macroeconomic Aggregates of Weather Related Exogenous Shock

	2014	2015	2016	2017	2018	2019	2020
				(Percent of GDP)			
Real GDP Growth							
Downside Scenario	6.0	4.5	6.0	6.4	6.4	6.4	6.4
Baseline	6.7	6.8	7.0	6.8	6.7	6.6	6.4
Fiscal Deficit (including grants)							
Downside Scenario	-3.4	-5.2	-5.1	-4.4	-4.7	-4.9	-4.3
Baseline	-3.1	-3.1	-3.0	-3.6	-3.8	-4.0	-4.0
Current Account Balance							
Downside Scenario	-7.6	-7.5	-7.6	-8.3	-8.4	-8.4	-8.9
Baseline	-7.2	-7.0	-7.0	-7.0	-7.1	-7.2	-7.5
Debt/GDP Ratio							
Downside Scenario	22.7	24.0	25.3	25.6	26.2	26.9	27.4
Baseline	22.2	21.9	21.8	21.7	21.8	22.1	22.7

Figure 1. Alternative Low Growth Scenario



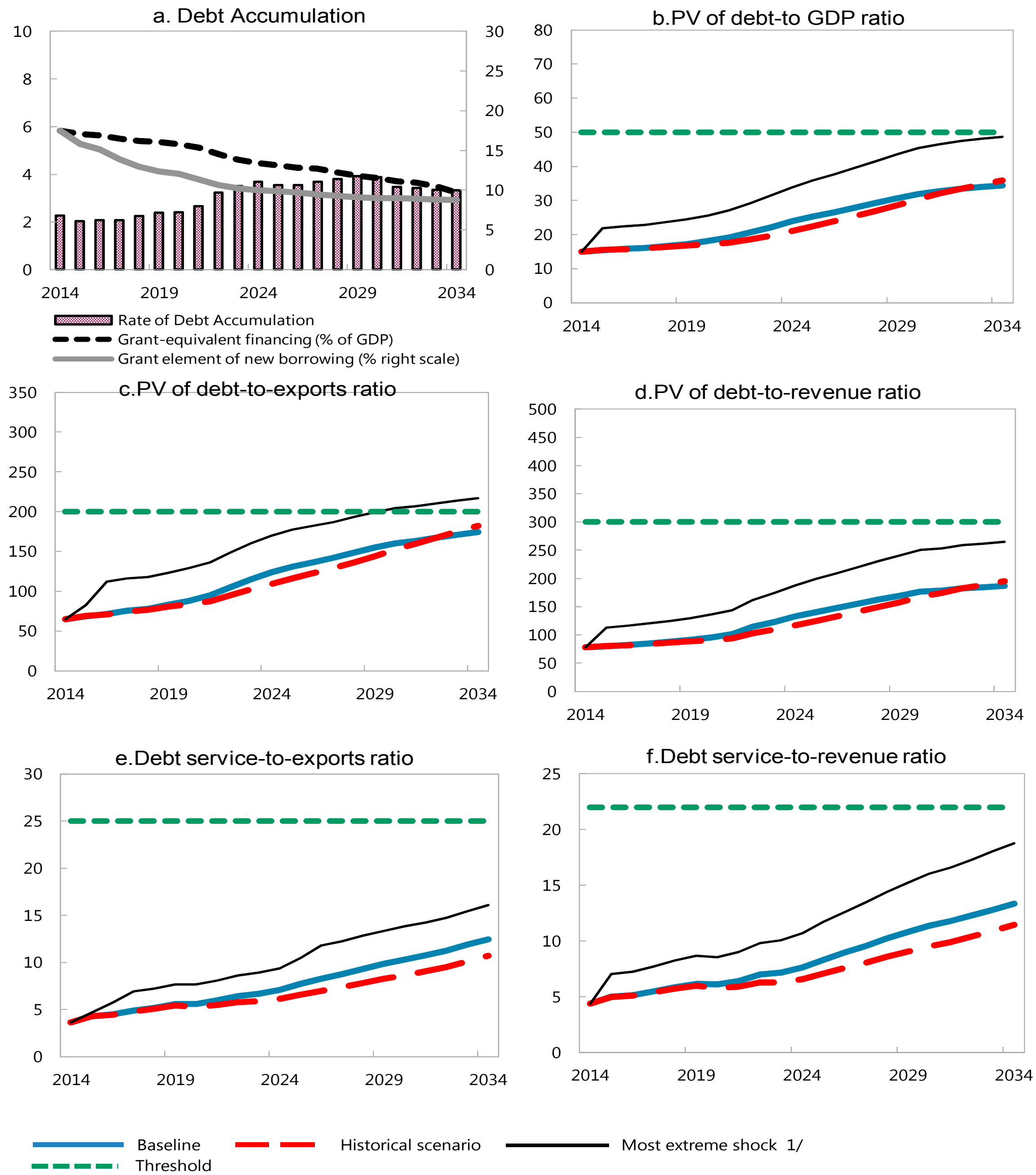
CONCLUSION

11. The DSA results indicate that Burkina Faso's risk of debt distress remains "moderate." The baseline scenario shows no breach of debt distress thresholds for any of the indicators. However, the debt-distress threshold for the PV of debt-to-exports is breached under the standardized stress test of a shock to exports. An alternative low growth scenario combined with the standardized stress tests, shows an earlier breach of this indicator and a breach of the PV of debt-to-GDP.

Authorities' Views

12. The assumptions and conclusions of the DSA were discussed with the authorities who broadly concurred with the assessment and with maintaining a "moderate" debt risk rating. They thought that the alternative scenario of an impact on growth due to a weather shock was useful for considering realistic risks. On domestic debt issuance, they indicated that the new regional debt issuance entity, "Agence UMOA Titres" has been established, and that domestic debt will be issued on variable-bid schemes going forward. The authorities reaffirmed their commitment to seek concessional financing to the greatest extent possible, but they continue to be concerned about the limited availability of such financing for large investment projects.

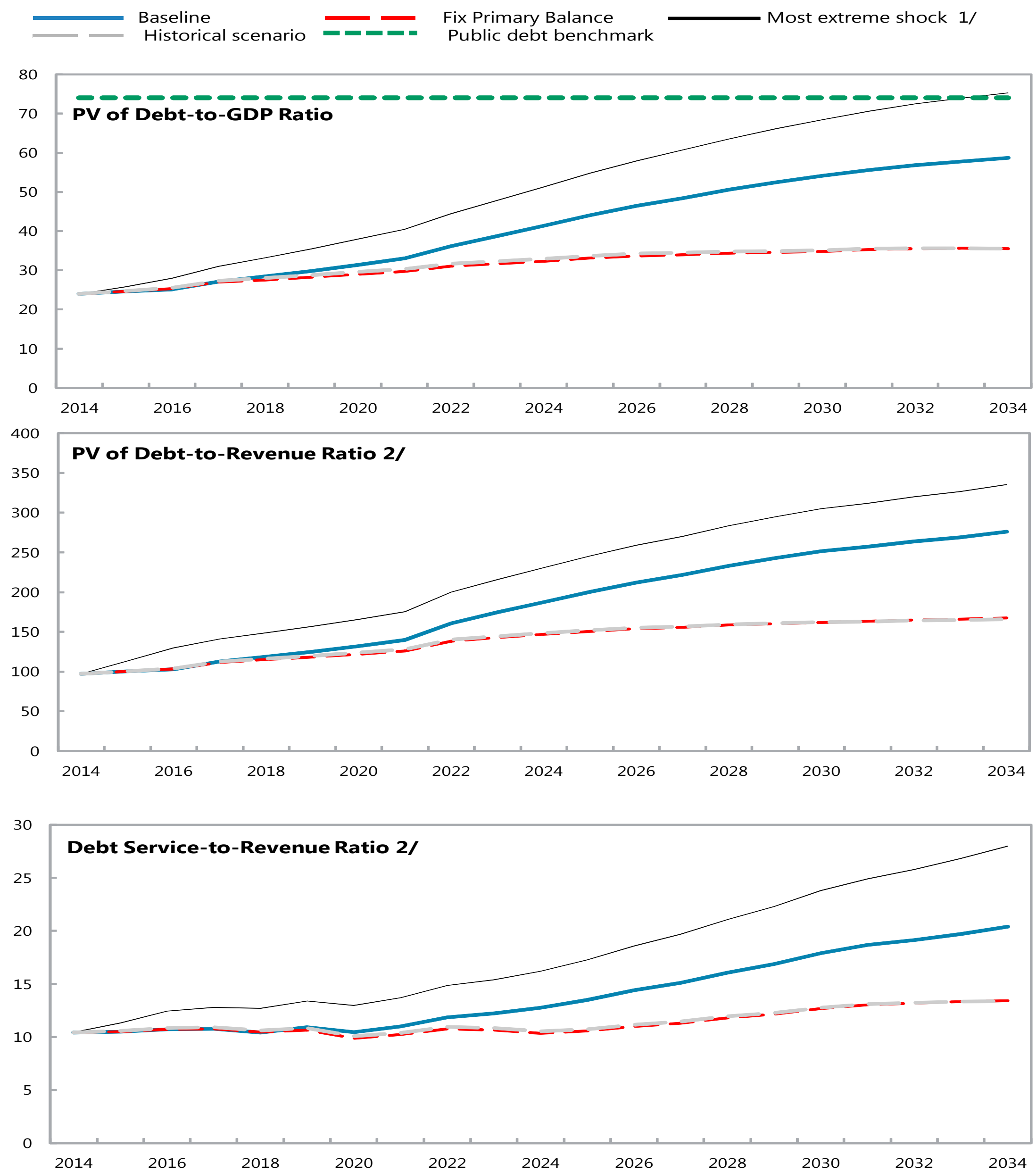
Figure 2. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 3. Burkina Faso: Indicators of Public Debt Under Alternative Scenarios, 2014–34[1]



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table 3. Burkian Faso: External Debt Sustainability Framework, Baseline Scenario, 2011–34[1]

(Percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**24.6**	**22.9**	**21.8**			**22.2**	**21.9**	**21.8**	**21.7**	**21.8**	**22.1**		**28.2**	**38.9**	
of which: public and publicly guaranteed (PPG)	24.6	22.9	21.8			22.2	21.9	21.8	21.7	21.8	22.1		28.2	38.9	
Change in external debt	-1.5	-1.7	-1.1			0.4	-0.2	-0.2	-0.1	0.1	0.3		1.7	0.4	
Identified net debt-creating flows	-2.2	1.0	3.8			4.6	4.5	4.7	4.7	4.8	4.9		4.9	3.2	
Non-interest current account deficit	**1.3**	**4.3**	**6.8**	**7.0**	**3.8**	**6.9**	**6.6**	**6.6**	**6.6**	**6.6**	**6.6**		**6.8**	**5.8**	6.4
Deficit in balance of goods and services	6.9	8.7	10.4			10.6	10.1	10.1	10.0	10.0	10.0		10.1	8.5	
Exports	26.9	26.5	24.6			23.3	22.5	22.1	21.4	21.4	20.8		19.3	19.7	
Imports	33.9	35.1	35.0			33.9	32.6	32.2	31.4	31.3	30.8		29.4	28.2	
Net current transfers (negative = inflow)	-5.5	-4.8	-4.0	-4.9	0.8	-3.8	-3.6	-3.5	-3.4	-3.3	-3.2		-2.8	-1.8	-2.6
of which: official	-4.2	-3.5	-2.7			-2.6	-2.4	-2.4	-2.3	-2.3	-2.2		-1.8	-1.0	
Other current account flows (negative = net inflow)	-0.2	0.4	0.4			0.2	0.1	0.1	0.0	-0.1	-0.1		-0.4	-0.9	
Net FDI (negative = inflow)	**-0.4**	**-2.3**	**-1.3**	**-1.4**	**1.4**	**-1.3**	**-1.2**	**-0.9**	**-1.0**	**-1.0**	**-1.1**		**-1.3**	**-2.0**	-1.6
Endogenous debt dynamics 2/	**-3.1**	**-1.0**	**-1.7**			**-1.0**	**-1.0**	**-1.0**	**-0.9**	**-0.8**	**-0.7**		**-0.6**	**-0.6**	
Contribution from nominal interest rate	0.2	0.3	0.2			0.3	0.4	0.4	0.5	0.5	0.6		0.9	1.5	
Contribution from real GDP growth	-1.1	-2.1	-1.4			-1.3	-1.4	-1.4	-1.3	-1.3	-1.3		-1.5	-2.1	
Contribution from price and exchange rate changes	-2.2	0.9	-0.5			...	...	...	...	...	...		...	...	
Residual (3-4) 3/ with changes in project grants	**2.2**	**-0.7**	**-1.5**			**-0.8**	**-1.2**	**-1.4**	**-1.4**	**-1.2**	**-1.2**		**-0.5**	**-0.7**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	14.1			15.0	15.4	15.8	16.1	16.6	17.2		23.8	34.3	
In percent of exports	...	...	57.4			64.6	68.6	71.6	75.5	77.9	82.8		123.5	174.4	
PV of PPG external debt	**...**	**...**	**14.1**			**15.0**	**15.4**	**15.8**	**16.1**	**16.6**	**17.2**		**23.8**	**34.3**	
In percent of exports	**...**	**...**	**57.4**			**64.6**	**68.6**	**71.6**	**75.5**	**77.9**	**82.8**		**123.5**	**174.4**	
In percent of government revenues	**...**	**...**	**75.1**			**77.9**	**79.9**	**82.1**	**84.9**	**88.0**	**91.5**		**132.6**	**186.7**	
Debt service-to-exports ratio (in percent)	**2.2**	**2.7**	**3.0**			**3.6**	**4.3**	**4.5**	**4.9**	**5.2**	**5.6**		**7.1**	**12.5**	
PPG debt service-to-exports ratio (in percent)	**2.2**	**2.7**	**3.0**			**3.6**	**4.3**	**4.5**	**4.9**	**5.2**	**5.6**		**7.1**	**12.5**	
PPG debt service-to-revenue ratio (in percent)	**3.7**	**4.0**	**4.0**			**4.4**	**5.0**	**5.1**	**5.5**	**5.8**	**6.2**		**7.6**	**13.3**	
Total gross financing need (Billions of U.S. dollars)	0.2	0.3	0.8			0.9	1.0	1.1	1.2	1.3	1.5		2.3	4.6	
Non-interest current account deficit that stabilizes debt ratio	2.8	6.0	8.0			6.6	6.9	6.8	6.7	6.5	6.4		5.2	5.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.0	9.0	6.6	6.1	2.1	6.7	6.8	7.0	6.8	6.7	6.6	6.8	6.3	6.0	6.2
GDP deflator in US dollar terms (change in percent)	9.2	-3.4	2.4	4.9	6.9	4.2	3.8	3.2	3.6	3.4	3.4	3.6	2.0	2.2	2.0
Effective interest rate (percent) 5/	1.0	1.2	1.0	1.0	0.2	1.4	1.8	2.1	2.3	2.7	2.9	2.2	3.8	4.3	4.0
Growth of exports of G&S (US dollar terms, in percent)	46.8	3.7	1.4	26.8	28.2	5.1	7.1	8.4	7.2	10.3	7.4	7.6	8.5	7.7	7.9
Growth of imports of G&S (US dollar terms, in percent)	36.5	9.4	8.8	17.3	15.7	7.4	6.7	9.0	7.9	10.3	8.6	8.3	7.8	6.9	7.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	17.5	15.9	15.1	13.9	12.9	12.3	14.6	10.0	8.7	9.8
Government revenues (excluding grants, in percent of GDP)	16.1	17.7	18.8			19.3	19.3	19.3	19.0	18.9	18.8		18.0	18.4	18.2
Aid flows (in Billions of US dollars) 7/	0.8	0.8	0.8			0.8	0.9	0.9	1.0	1.1	1.2		1.4	2.2	
of which: Grants	0.5	0.5	0.7			0.7	0.8	0.9	0.9	1.0	1.1		1.3	2.1	
of which: Concessional loans	0.3	0.2	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.8	5.7	5.6	5.5	5.4	5.4		4.5	3.2	4.2
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			72.7	72.9	72.3	71.5	69.2	67.7		54.4	45.0	53.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	10.5	11.0	12.0			13.4	14.8	16.4	18.1	20.0	22.1		33.2	73.4	
Nominal dollar GDP growth	14.6	5.3	9.2			11.1	10.8	10.5	10.7	10.4	10.3	10.6	8.4	8.4	8.3
PV of PPG external debt (in Billions of US dollars)			1.8			2.0	2.3	2.6	2.9	3.4	3.8		8.0	25.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	2.0	2.1	2.1	2.2	2.4	2.2	3.7	3.3	3.4
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.3		0.4	0.6	
PV of PPG external debt (in percent of GDP + remittances)	...	...	13.9			14.8	15.2	15.6	16.0	16.4	17.0		23.6	34.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	54.1			60.9	64.7	67.7	71.4	73.7	78.3		117.0	166.9	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.9			3.4	4.1	4.2	4.6	4.9	5.3		6.7	11.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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 also includes contribution from price and exchange rate changes.

4/ Assumes that PV 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 PV of new debt).

Table 4. Burkina Faso: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011–34

(Percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	30.5	28.7	29.1			31.1	31.2	31.2	32.7	33.6	34.7		45.7	63.2	
of which: foreign-currency denominated	24.6	22.9	21.8			22.2	21.9	21.8	21.7	21.8	22.1		28.2	38.9	
Change in public sector debt	1.3	-1.8	0.4			1.9	0.1	0.0	1.5	0.9	1.1		2.6	0.9	
Identified debt-creating flows	0.1	-0.5	1.1			0.8	0.3	0.1	0.7	0.9	1.0		2.4	1.1	
Primary deficit	2.0	2.6	2.5	1.6	6.6	1.7	1.7	1.5	2.0	2.4	2.5	2.0	4.1	3.5	3.7
Revenue and grants	21.2	22.7	24.2			24.7	24.6	24.5	24.2	24.0	23.8		22.0	21.2	
of which: grants	5.1	4.9	5.5			5.4	5.3	5.3	5.2	5.1	5.0		4.0	2.9	
Primary (noninterest) expenditure	23.2	25.3	26.8			26.3	26.3	26.0	26.2	26.4	26.3		26.1	24.8	
Automatic debt dynamics	-1.9	-3.1	-1.5			-0.8	-1.5	-1.4	-1.3	-1.5	-1.5		-1.7	-2.5	
Contribution from interest rate/growth differential	-2.4	-3.2	-0.5			-0.7	-1.1	-1.1	-1.0	-1.3	-1.2		-1.7	-2.5	
of which: contribution from average real interest rate	-1.0	-0.7	1.2			1.1	0.8	1.0	1.0	0.8	0.9		0.9	1.1	
of which: contribution from real GDP growth	-1.4	-2.5	-1.8			-1.8	-2.0	-2.0	-2.0	-2.1	-2.1		-2.5	-3.5	
Contribution from real exchange rate depreciation	0.5	0.1	-0.9			-0.1	-0.3	-0.3	-0.3	-0.3	-0.3		...	...	
Other identified debt-creating flows	0.0	0.0	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	0.0	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	1.2	-1.3	-0.6			1.1	-0.2	-0.1	0.8	0.0	0.1		0.2	-0.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	21.5			24.0	24.7	25.2	27.2	28.4	29.8		41.3	58.7	
of which: foreign-currency denominated	...	...	14.1			15.0	15.4	15.8	16.1	16.6	17.2		23.8	34.3	
of which: external	...	...	14.1			15.0	15.4	15.8	16.1	16.6	17.2		23.8	34.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	3.3	4.1	4.6			4.3	4.3	4.1	4.6	4.9	5.1		6.9	7.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	88.6			97.1	100.3	102.8	112.4	118.6	125.1		187.5	276.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	114.3			124.1	127.8	130.8	142.8	150.3	158.3		229.7	319.3	
of which: external 3/	...	...	75.1			77.9	79.9	82.1	84.9	88.0	91.5		132.6	186.7	
Debt service-to-revenue and grants ratio (in percent) 4/	6.1	6.6	8.4			10.4	10.5	10.7	10.8	10.4	10.9		12.8	20.4	
Debt service-to-revenue ratio (in percent) 4/	8.0	8.5	10.8			13.3	13.4	13.6	13.7	13.2	13.8		15.6	23.6	
Primary deficit that stabilizes the debt-to-GDP ratio	0.7	4.4	2.1			-0.3	1.6	1.5	0.5	1.5	1.4		1.5	2.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.0	9.0	6.6	6.1	2.1	6.7	6.8	7.0	6.8	6.7	6.6	6.8	6.3	6.0	6.2
Average nominal interest rate on forex debt (in percent)	1.0	1.2	1.0	1.0	0.2	1.4	1.8	2.1	2.3	2.7	2.9	2.2	3.8	4.3	4.0
Average real interest rate on domestic debt (in percent)	1.7	0.4	15.4	3.6	5.3	15.1	10.5	10.8	10.3	6.6	6.3	10.0	2.8	1.5	2.7
Real exchange rate depreciation (in percent, + indicates depreciation)	2.3	0.5	-4.3	-0.8	8.3	-0.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.6	4.6	-0.9	3.1	3.1	1.1	1.9	2.0	2.0	2.0	2.0	1.8	2.0	2.2	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	2.5	18.9	12.9	3.5	6.7	4.9	6.7	5.8	7.6	7.5	6.5	6.5	6.2	5.3	5.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	17.5	15.9	15.1	13.9	12.9	12.3	14.6	10.0	8.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Medium term and long term general government gross debt.

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.

Table 5. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34

(Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to GDP ratio								
Baseline	15	15	16	16	17	17	**24**	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	15	15	16	16	16	17	**21**	36
A2. New public sector loans on less favorable terms in 2014-2034 2	15	16	17	18	19	20	**30**	48
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	15	16	17	17	18	18	**25**	37
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	15	17	21	21	21	21	**27**	36
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	15	16	18	18	19	19	**27**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	15	16	17	17	18	18	**25**	35
B5. Combination of B1-B4 using one-half standard deviation shocks	15	15	14	14	15	16	**23**	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	15	22	22	23	24	24	**34**	49
PV of debt-to-exports ratio								
Baseline	65	69	72	76	78	83	**124**	174
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	65	69	71	74	76	81	**109**	182
A2. New public sector loans on less favorable terms in 2014-2034 2	65	71	77	83	88	96	**156**	243
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	65	69	72	76	78	83	**124**	176
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	65	83	112	116	118	123	**170**	217
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	65	69	72	76	78	83	**124**	176
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	65	72	76	80	82	87	**128**	177
B5. Combination of B1-B4 using one-half standard deviation shocks	65	60	52	56	59	64	**103**	157
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	65	69	72	76	78	83	**124**	176
PV of debt-to-revenue ratio								
Baseline	78	80	82	85	88	92	**133**	187
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	78	80	81	84	86	89	**117**	195
A2. New public sector loans on less favorable terms in 2014-2034 2	78	83	88	94	100	106	**167**	260
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	78	83	87	90	94	97	**141**	199
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	78	89	108	109	111	114	**152**	194
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	78	85	92	95	99	103	**149**	210
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	78	84	88	90	93	96	**137**	189
B5. Combination of B1-B4 using one-half standard deviation shocks	78	77	70	74	78	83	**130**	198
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	78	113	116	120	125	130	**188**	265

Table 5. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014–34 (concluded)

(Percent)

				Debt service-to-exports ratio				
Baseline	4	4	4	5	5	6	**7**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	4	4	4	5	5	5	**6**	11
A2. New public sector loans on less favorable terms in 2014-2034 2	4	4	4	5	5	6	**8**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	4	4	4	5	5	6	**7**	12
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	4	5	6	7	7	8	**9**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	4	4	4	5	5	6	**7**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	4	4	5	5	5	6	**7**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	4	4	4	5	**6**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	4	4	4	5	5	6	**7**	12
				Debt service-to-revenue ratio				
Baseline	4	5	5	5	6	6	**8**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	4	5	5	5	6	6	**7**	11
A2. New public sector loans on less favorable terms in 2014-2034 2	4	5	5	5	6	6	**9**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	4	5	5	6	6	7	**8**	14
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	4	5	5	6	7	7	**8**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	4	5	6	6	7	7	**8**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	4	5	5	6	6	6	**8**	14
B5. Combination of B1-B4 using one-half standard deviation shocks	4	5	5	5	6	6	**8**	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	4	7	7	8	8	9	**11**	19
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	9	9	9	9	9	9	**9**	9

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar 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 assuming an 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.

Table 6. Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt, 2014–34

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	24	25	25	27	28	30	41	59
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	24	25	26	27	28	29	33	35
A2. Primary balance is unchanged from 2014	24	25	25	27	28	28	32	36
A3. Permanently lower GDP growth 1/	24	25	26	28	30	32	47	77
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	24	26	28	31	33	35	51	75
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	24	31	37	38	39	40	50	64
B3. Combination of B1-B2 using one half standard deviation shocks	24	28	32	34	36	38	51	72
B4. One-time 30 percent real depreciation in 2015	24	31	31	32	33	34	45	65
B5. 10 percent of GDP increase in other debt-creating flows in 2015	24	34	34	35	36	37	47	63
PV of Debt-to-Revenue Ratio 2/								
Baseline	97	100	103	112	119	125	188	276
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	97	100	104	113	116	120	148	166
A2. Primary balance is unchanged from 2014	97	100	103	112	115	118	147	167
A3. Permanently lower GDP growth 1/	97	101	104	115	123	132	210	357
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	97	104	113	127	137	147	230	352
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	97	125	151	159	163	168	226	303
B3. Combination of B1-B2 using one half standard deviation shocks	97	113	130	141	149	157	231	335
B4. One-time 30 percent real depreciation in 2015	97	124	125	133	138	143	206	305
B5. 10 percent of GDP increase in other debt-creating flows in 2015	97	137	138	146	151	156	216	296
Debt Service-to-Revenue Ratio 2/								
Baseline	10	11	11	11	10	11	13	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	10	11	11	11	11	11	11	13
A2. Primary balance is unchanged from 2014	10	11	11	11	10	11	10	13
A3. Permanently lower GDP growth 1/	10	11	11	11	11	11	14	26
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016	10	11	11	12	12	12	15	26
B2. Primary balance is at historical average minus one standard deviations in 2015-2016	10	11	12	15	15	13	15	23
B3. Combination of B1-B2 using one half standard deviation shocks	10	11	12	13	13	13	15	25
B4. One-time 30 percent real depreciation in 2015	10	11	12	13	13	13	16	28
B5. 10 percent of GDP increase in other debt-creating flows in 2015	10	11	13	16	12	13	14	23

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

BURKINA FASO

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY, AND REQUEST FOR WAIVER AND MODIFICATION OF PERFORMANCE CRITERIA —INFORMATIONAL ANNEX

June 18, 2014

Prepared By African Department

CONTENTS

RELATIONS WITH THE FUND

(As of March 30, 2014)

Membership Status Joined: May 02, 1963

General Resources Account

	SDR Million	%Quota
Quota	60.20	100.00
Fund holdings of currency (Exchange Rate)	52.62	87.40
Reserve Tranche Position	7.59	12.61

SDR Department

	SDR Million	%Allocation
Net cumulative allocation	57.58	100.00
Holdings	48.13	83.59

Outstanding Purchases and Loans

	SDR Million	%Quota
ECF Arrangements	139.24	231.30

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Dec 27, 2013	Dec 26, 2016	27.09	2.55
ECF	Jun 14, 2010	Dec 23, 2013	82.27	82.27
ECF[1]	Apr 23, 2007	Apr 22, 2010	48.16	47.16

Projected Payments to the Fund[1]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal	4.08	14.13	14.45	17.80	24.15
Charges/Interest	0.01	0.34	0.30	0.27	0.22
Total	4.09	14.47	14.75	18.06	24.36

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative

Commitment of HIPC assistance	Original Framework	Enhanced Framework	Total
Decision point date	Sep 1997	Jul 2000	
Assistance committed			
by all creditors (US$ Million)[2]	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	
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[3]	--	2.01	2.01
Total disbursements	16.30	29.68	45.98

Implementation of Multilateral Debt Relief Initiative (MDRI)

I. MDRI-eligible debt (SDR Million)[4]	62.12
Financed by: MDRI Trust	57.06
Remaining HIPC resources	5.06

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	**GRA**	**PRGT**	**Total**
January 2006	N/A	62.12	62.12

[2] 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.

[3] 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.

[4] The MDRI provides 100 percent debt relief to eligible member countries that 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.

Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). The latest assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

Exchange System

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU). The exchange system, common to all members of the union, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1.

The authorities confirmed that Burkina Faso had not imposed measures that could give rise to exchange restrictions subject to Fund jurisdiction. They will inform the Fund, if any such measure is introduced.

Aspects of the exchange system were also discussed in the report "WAEMU: Common Policies of Member Countries" (Country Report No. 13/92 of March 8, 2013).

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 took place in Ouagadougou during September 29–October 14, 2011 for the 2011 Article IV Consultation and the third review under the Extended Credit Facility. The latest Article IV consultation was completed by the Executive Board on December 21, 2011 (Country Report No.12/158). In concluding the 2011 Article IV consultation, Executive Directors welcomed the authorities' sustained implementation of sound policies and structural reforms, which has contributed to robust economic growth, low inflation, and a broadly favorable external position. They underscored that continued fiscal consolidation, improved social policies, and decisive implementation of structural reforms will be critical to achieve sustained, broad-based economic growth and poverty reduction. Directors agreed with the authorities' focus on scaling up investment to close the infrastructure gap and boost economic growth and stressed the need to improve investment efficiency, within financing strategies that are consistent with long-term debt sustainability.

Financial Sector Assessment Program (FSAP) and Report on the Observance of Standards and Codes (ROSC) Participation

A joint team of the World Bank and the International Monetary Fund conducted a mission under the FSAP program in 2008. A regional FSAP for the WAEMU was undertaken in 2007. A ROSC on the data module was published in 2002.

Technical Assistance

Subject		Date
Review of the Implementation of the WAEMU Harmonized Public Financial Management Framework		April 2014
Medium Term Budgeting		February 2014
Review the Implementation of PFM Reforms		February 2014
Finalize Preparation of the New Audit Manual		February 2014
Real Sector Statistics and National Accounts		September 2013
Mining Sector Fiscal Regime		July 2013
PFM Training for Courts of Account		July 2013
Review of Progress of the Strategy to Implement the WAEMU Harmonized PFM Framework		April 2013
Report on the Government Finance Statistics Mission		April 2013
Real Sector Statistics		April 2013
Program Budgeting		February 2013
Customs Administration		January 2013
Debt Sustainability Analysis		November 2012
Public Debt Management		September 2012
Expenditure Chain		September 2012
Implementation of Electronic Transfer of Funds for Tax Collection		September 2012
A Framework for Managing Fiscal Risks from Public-Private Partnerships		July 2012
Tax Policy		June 2012
A Strategy to Implement WAEMU Public Finances Framework		January 2012
Tax Administration on Strengthening the Management of Tax Arrears		April 2012
Bank Supervision		(long-term expert March 2011-2012)
Program-based Budgets		November 2011
Public Debt/Portfolio Risk Management		October 2011

Resident Representative

Mr. Jean-Baptiste Le-Hen was appointed Resident Representative to Burkina Faso in September 2012 and has been stationed in Ouagadougou since that time.

JOINT MANAGEMENT ACTION PLAN IMPLEMENTATION

Title	Products	Mission	Delivery
	A. Mutual information on relevant work programs		
Bank work program in the next 12 months	• Poverty Monitoring		Oct 2014
	• Public Expenditure Review (including Public Investment Management)	Nov 2014	May 2015
	• Financial sector policy note		
	• Study on the M&E System for the Cotton Input Fund	June 2014	Dec 2014
	• Study on the mechanism and the functioning of a Guarantee fund in the transport sector	June 2014	Dec 2014
	• Performance assessment of customs		Done
IMF work in the next 12 months	**IMF-supported program**		
	• Second ECF review	Oct 2014	Dec 2014
	• Third ECF review	Mar 2015	May 2015
	• Implementation of new debt policy, as needed		
	• Work at a national and regional level, on fiscal rule to manage natural resource revenues		
	• Analysis of regional energy needs		
	Technical assistance		
	• GFSM 2001		
	• BPM 6		
	• Follow up TA on mining taxation		
	• TA on program budgeting		
	• TA on National Accounts (quarterly and base year)		
	B. Mutual requests		
Fund request	• TA on public procurement	To be determined	
	• TA on judiciary sector		
	• Work on energy sector		
	• Artisanal mining issues (child work, environment, etc).		
Bank request	• Regular updates of medium-term macro projections		
	• Fund Relation Note (for budget support operations)		
	C. Agreement on joint products and missions		
Joint product	• Follow up TA on debt management (Bank lead)		

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. The most affected areas are: national accounts and price statistics. Burkina Faso has received technical assistance (TA) from the IMF; the TA has been partially financed by Japan.

National accounts: Annual GDP estimates are compiled by economic activity, by institutional sector accounts and by expenditure categories at current and constant prices (1999=100). Data quality is affected by the scarcity of suitable sources and deficiencies in statistical practices. Weaknesses include: coverage of the informal sector (due to limited, out of date surveys, and a failure of small enterprises to submit accounting statements or tax declarations); private household consumption, which is not adequately validated with supply-use tables and updated household budget-consumption surveys.

Price statistics: The CPI (2008=100) only covers African households in the capital; it excludes various types of purchased goods and services, and services of owner-occupied dwellings and prices of unavailable products are presumed unchanged for up to three months rather than imputed from recorded prices changes of closely related products. The producer price index and the wholesale price index are neither compiled nor envisaged due to budgetary constraints.

Government finance statistics: A committee was put in place to oversee the compilation of government finance statistics and strengthen coordination among fiscal agencies. The provision of expenditure data has also improved with the adoption of functional presentation of expenditure. The remaining areas for improvement include mainly the extension of the TOFE coverage to the general government and basing its compilation on the Treasury ledger.

Monetary finance statistics: Most of the problems in monetary statistics are not specific to Burkina Faso but affect all member countries of the WAEMU. 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.

II. Data Standards and Quality

Burkina Faso participates in the General Data Dissemination Standard since December 28, 2001. A data ROSC visited Burkina Faso during May 8-21, 2003.

III. Reporting to STA

Balance of payments (BOP): The coverage of informal trade is incomplete and that of services and transfers (especially workers' remittances) depends on contacts with reporting bodies. Annual surveys, reporting FDI transactions, are conducted yearly. BCEAO authorities have indicated that quarterly data derived from banking settlement reports are used to assess BOP reports; payment statements provide early information and support data quality controls. The BCEAO has started publishing IIP data in line with the BPM 6 format and has revised its surveys design and software accordingly. The BCEAO does not provide any metadata (describing its methodology). It participates in ECID surveys corresponding to direct investment presented on a bilateral basis (with partner countries).

Government Finance: Since October 2010, annual data and quarterly data covering budgetary central government are reported to STA for publication in International Financial Statistics and the Government Finance Statistics yearbook. The latest reported data cover 2012. The BCEAO reports monetary data to STA with a lag of at most three months.

Burkina Faso: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8]	
						Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange Rates	Current	Current	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/2014	4/2014	M	M	M		
Reserve/Base Money	2/2014	5/2014	M	M	M	LO, LO, LNO, O	LO, O, O, O, O
Broad Money	2/2014	5/2014	M	M	M		
Central Bank Balance Sheet	12/2013	2/2014	M	M	M		
Consolidated Balance Sheet of the Banking System	12/2013	3/2011	M	M	M		
Interest Rates[2]	3/2014	5/2014	M	M	M		
Consumer Price Index	3/2014	4/2014	M	M	M	O, LNO, O, O	LNO, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/2013	3/2014	I	I	I	O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/2013	3/2014	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2013	3/2014	A	A	A		
External Current Account Balance	2012	3/2014	A	A	A	O, O, O, O	LO, O, LO, O, O
Exports and Imports of Goods and Services	2012	3/2014	A	A	A		
GDP/GNP	2011	3/2014	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO,
International Investment Position[6]	2012	3/2014	A	A	A		

Burkina Faso: Table of Common Indicators Required for Surveillance (concluded)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Memo Items:[8] Data Quality – Accuracy and reliability[10]
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/2013	3/2014	I	I	I	O, LO, O, O	O, LO, O, O, LNO
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	12/2013	3/2014	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2013	3/2014	A	A	A		
External Current Account Balance	2012	3/2014	A	A	A		
Exports and Imports of Goods and Services	2012	3/2014	A	A	A		
GDP/GNP	2011	3/2014	A	A	A	LO, LNO, LNO, LO	LNO, LNO, LO, LO, LNO
International Investment Position[6]	2012	3/2014	A	A	A		

1/ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

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/ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

7/ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

8/ These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

9/ Reflects the assessment provided in the data ROSC or the Substantive Update (published on March 10, 2004, and based on the findings of the mission that took place during May 8-21, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording, respectively, are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

10/ Same as footnote 9 except referring to international standards concerning, respectively, source data, assessment of source data, statistical techniques, assessment and validation

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IMF Executive Board Completes First Review Under Extended Credit Facility Arrangement, Approves US$3.9 Million Disbursement, and Concludes 2014 Article IV Consultation with Burkina Faso

On July 3, 2014, the Executive Board of the International Monetary Fund completed the first review of Burkina Faso's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF) arrangement, and also concluded the 2014 Article IV Consultation[1] with Burkina Faso. The completion of the first review enables the immediate release of an amount equivalent to SDR 2.55 million (about US$3.9 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 5.1 million (about US$7.9 million).

In completing the first review, the Executive Board also approved the authorities' requests for a waiver for nonobservance of the end-December 2013 performance criterion on net domestic financing, and for modification of the continuous performance criterion on non-concessional external debt and modification of the performance criterion on net domestic financing for the end-June and end-December 2014 periods. The 36-month ECF arrangement in the amount equivalent to SDR 27.09 million (about US$41.9 million, or 45 percent of Burkina Faso's quota at the IMF) was approved by the Executive Board on December 27, 2013 (see Press Release 13/542).

Following the Executive Board's discussion on Burkina Faso, Mr. David Lipton, First Deputy Managing Director and Acting Chair issued the following statement:

"Burkina Faso has a long track record of strong macroeconomic policy management, supported by IMF programs. Structural reforms to improve productivity and resilience in agriculture and increased spending for poverty reduction and food security have resulted in robust growth rates and progress toward the Millennium Development Goals.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

"Burkina Faso's performance under the new ECF-supported program has been satisfactory, with all structural reforms implemented and most quantitative targets reached. Growth has remained robust and the fiscal deficit has been contained. While the outlook for growth remains strong, there are challenges arising from unfavorable terms of trade in the near term. However, fiscal deficits should remain contained around 3 percent of GDP, due to spending adjustment and increased grants. As gold prices recover over the medium term, external balances should improve. The risk of debt distress remains classified as "moderate".

"The authorities have reaffirmed their strong commitment to the program against the backdrop of a more challenging policy environment. Three macroeconomic challenges have been identified to set the foundation for progress over the longer term. First, ensuring that the quality and composition of spending allows scaling up critical investment, both in infrastructure and people, needed to support private sector-led growth. Second, accelerating investments for increased and more reliable electricity supplies to meet growing demand, while putting the energy sector on a more financially-sustainable footing and scaling down untargeted subsidies. Finally, updating the mining code to harness natural resource revenues, and creating mechanisms, such as a fiscal rule, to direct them toward growth-enhancing spending over a multi-year horizon."

The Executive Board also completed the 2014 Article IV consultation with Burkina Faso.

Over the past two decades, Burkina Faso has experienced sustained stable and higher growth, with progress toward achieving the Millennium Development Goals. The country has a long track record of strong macroeconomic policy management, supported by consecutive IMF-supported economic programs. The authorities have taken a number of measures to improve productivity and resilience in agriculture, boost revenue collection, and increase spending for poverty reduction and food security.

Growth remained robust in 2013 at 6.6 percent, although slightly lower than average due to the impact of erratic rain on agricultural yield and weaker terms of trade. Inflation hovered around zero, reflecting low food prices. The fiscal deficit was 3.5 percent, slightly higher than expected, mainly due to revenue shortfalls. The current account deficit worsened, due to lower gold prices and sustained imports.

For this year, the authorities have submitted a supplemental budget reflecting an increase in the wage bill (0.6 percent of GDP) and increased social transfers (0.6 percent of GDP). However, to maintain an unchanged fiscal deficit, the new spending will be financed by additional grants and reduced non-priority spending, mainly in investment, also reflecting a reprioritization in favor of energy projects and more "shovel-ready" projects.

Going forward, growth is expected to remain around 7 percent, inflation around 2 percent, and the fiscal deficit (including grants) at around 3 percent of GDP. The current account deficit is expected to stabilize at 7 per cent of GDP as terms of trade improve over the medium term. Risks to the outlook are weather, further terms of trade deterioration, pressure to spend more on untargeted subsidies and public wage increases, and political transition.

Executive Board Assessment[2]:

Executive Directors commended the authorities for their long track record of sound macroeconomic management and structural reforms that have led to robust growth. Good progress has been made towards achieving the development goals, supported by increased investment and poverty-reducing spending. Performance under the Fund-supported program has been satisfactory. While the medium-term outlook is favorable, significant challenges are posed by public spending pressures, energy constraints, and liabilities associated with public enterprises. Directors emphasized that continued strong ownership and commitment to prudent policies and structural reforms will safeguard the macroeconomic gains and foster long-term sustainable and inclusive growth.

Directors underscored the need to contain fiscal expenditure, including by bringing the wage bill back in line with WAEMU rules, while maintaining priority spending in the areas of infrastructure, health, and education. Directors supported plans to continue improving revenue collection through new administrative measures. While welcoming the planned audit of key public enterprises, Directors encouraged the authorities to give consideration to gradual adjustments of retail fuel prices. At the same time, and recognizing the complexity of this issue, they also called for addressing energy supply constraints through planned acceleration of projects to increase power generation and operational efficiency which are critical to alleviating growth constraints. Noting that energy supply shortages are an issue throughout the region, Directors encouraged more focus on regional approaches to help address the problem.

Directors stressed the importance of harnessing natural resource revenues to finance development. They welcomed Burkina Faso's EITI compliance, and looked forward to an updated mining tax code that is aligned with best international practice, since these revenues will be critical for financing the country's development needs. To help manage the use of natural resource revenues in the face of volatile commodity prices and investment capacity constraints, they encouraged consideration of a fiscal rule, consistent with WAEMU rules. To ensure debt sustainability, Directors recommended that the authorities limit non-concessional borrowing to high-return projects, and continue to improve debt management capacity.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' commitment to enhance spending in key priority areas, as outlined in their development program. In scaling up investment spending for human and infrastructure capital, Directors encouraged a strong focus on the quality of spending, through careful project selection and results-monitoring. In particular, they called for more attention to higher education and job training programs. Directors supported the authorities' efforts to expand access to financial services.

Directors encouraged the authorities to continue efforts to update the base year for national accounts statistics, in order to better assess evolving sources of economic growth and structural transformation.

Burkina Faso: Selected Economic and Financial Indicators, 2012–16

	2012		2013		2014		2015	2016
	Appr. Prog.	Prel.	Appr. Prog.	Est.	Appr. Prog.	Proj.	Proj.	
	(Annual percentage change, unless otherwise indicated)							
GDP and prices								
GDP at constant prices	9.0	9.0	6.8	6.6	6.8	6.7	6.8	7.0
GDP deflator	4.6	4.6	0.9	-0.9	1.7	1.1	1.9	2.0
Consumer prices (annual average)	3.8	3.8	2.0	0.5	2.0	1.5	2.0	2.0
Consumer prices (end of period)	1.6	1.6	2.0	0.1	2.0	2.0	2.0	2.0
Money and credit								
Net domestic assets (banking system) [1]	16.1	16.1	12.9	19.6	18.2	15.4	15.0	17.5
Credit to the government (banking system) [1]	-2.7	-2.7	3.1	5.3	5.7	4.0	2.3	2.0
Credit to the private sector	24.1	24.1	20.7	26.3	20.0	15.1	16.4	19.8
Broad money (M3)	15.9	15.9	14.0	11.3	14.9	14.3	14.9	16.8
External sector								
Exports (f.o.b.; valued in CFA francs)	31.4	12.7	-7.2	-3.3	-0.5	-0.9	4.4	6.7
Imports (f.o.b.; valued in CFA francs)	25.3	19.8	1.1	5.7	5.8	2.5	3.4	6.6
Terms of trade	6.1	11.5	-11.4	-13.7	-3.1	-4.0	1.2	2.5
Real effective exchange rate	...	-0.7	...	...	...	...	...	...
CFAF/US$ (annual average)	510.0	510.2	...	493.9	...	...	...	...
	(Percent of GDP, unless otherwise indicated) [2]							
Central government finances								
Current revenue	17.8	17.7	19.3	18.8	19.4	19.3	19.3	19.3
Of which: tax revenue	15.8	15.8	17.3	16.7	17.3	17.3	17.2	17.3
Total expenditure and net lending	26.0	25.8	27.5	27.8	27.4	27.8	27.7	27.5
Of which: current expenditure	14.7	14.7	14.8	13.8	14.0	14.7	14.7	14.7
Overall fiscal balance, excl. grants (commitments)	-8.2	-8.1	-8.2	-9.0	-8.0	-8.4	-8.4	-8.3
Overall fiscal balance, incl. grants (commitments)	-3.3	-3.1	-3.3	-3.5	-3.1	-3.1	-3.1	-3.0
Savings and investment								
Current account balance (incl official transfers)	-0.8	-4.5	-3.6	-7.0	-6.0	-7.2	-7.0	-7.0
Gross investment	22.8	21.4	23.0	20.6	19.9	18.0	18.4	18.7
Government	7.8	7.8	8.8	10.1	9.2	9.0	9.0	8.9
Private	15.0	13.6	14.2	10.5	10.7	9.1	9.4	9.9
Gross national savings	22.0	16.9	19.4	13.6	13.9	10.8	11.4	11.7
Government	7.5	7.3	9.7	8.4	9.0	8.8	8.8	8.9
Private	14.5	9.5	9.7	5.1	4.9	2.0	2.6	2.8
Debt indicators								
External debt	23.2	22.9	25.4	21.8	25.9	22.2	21.9	21.8
NPV of external debt (percent of exports)	63.0	61.5	78.4	57.4	85.0	64.6	68.6	71.6
Memorandum items:								
Nominal GDP (CFAF billion)	5,629	5,629	6,062	5,947	6,582	6,413	6,983	7,621
Nominal GDP per capita (US$)	674	670	...	...	...	...	...	...
Gold price (US$ per once)	1,669	1,669	1,462	1,411	1,396	1,327	1,343	1,370

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

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

[2] 7th review numbers are calculated in percent of revised nominal GDP.

Statement by Kossi Assimaidou, Executive Director for Burkina Faso and Ngueto Tiraina Yambaye, Alternate Executive Director July 3, 2014

On behalf of our Burkinabe authorities, we would like to thank the Management and the Board for the Fund's continuous support to Burkina Faso. The authorities are also thankful for staff's timely and constructive policy advice and for the technical assistance. The close dialogue and mutual understanding which characterized the first ECF program review and article IV consultations discussions are well reflected in the staff papers.

Background

Burkina Faso is at a crossroads. While much progress has been realized in poverty reduction with the support of the international community, the countries' development needs remain significant. Notably the economy remains vulnerable to commodities price volatility and agricultural activities remain exposed to weather and rain variations. Besides addressing immediate social needs, there is a pressing demand for increased employment opportunities particularly for women and the youth. After several years of superior growth performance, the authorities are faced with increasing social demands to translate high growth rates into inclusive and shared prosperity.

Against this background, the authorities have intensified their efforts to maintain macroeconomic stability while strengthening the foundations for a sustained and inclusive growth, in line with their homegrown Strategy for Accelerated Growth and Sustained Development (SCADD).

A mid-period review of SCADD implementation found that 63.2 of actions planned were already implemented. An evaluation of social spending was also conducted which led the authorities to adjust their spending priorities and unveil a new package of targeted expenditures, including transfers to vulnerable groups and the creation of additional labor-intensive shovel ready jobs programs.

Burkina Faso has met all the program's structural benchmarks for end-January and end-March 2014, as well as all quantitative performance criteria except for the performance criterion for net domestic financing for which corrective action was taken. To help complement their reforms efforts, and catalyze external support, the authorities are requesting continued Fund assistance and the completion of the first ECF program review.

Recent Economic Developments

The economy registered a 6.6 percent growth rate in 2013 driven by services and the growth in mining sector activities. At 0.1 percent in December 2013, inflation was comfortably below regional standards. The current account deteriorated to 7 percent of GDP as imports of capital goods and oil products increased, while exports fell, driven by lower gold prices. The net foreign assets position declined sharply in 2013 due to one-off factors including the failure by some financial institutions to comply with the region-wide foreign exchange surrender requirements.

Fiscal policy focused on creating the fiscal space for inclusive growth measures and preserving medium term fiscal sustainability. Years of modernization efforts, a broadened tax base, and improvements in tax compliance enforcement continued to pay off as revenue mobilization grew by 12 percent in 2013. A key milestone was reached in the launch of the Tax Information Cross-Checking Management software, GERIF.

Although poverty reducing spending increased and domestically financed capital spending turned out as planned, spending under-execution continued. The authorities took steps to address these including by providing for increased social spending in the second quarter of 2014. Moreover, the findings of the workshop on procedural reforms and the definition of responsibilities for all expenditure chain participants was incorporated in the Budget law with the view to improving spending quality and execution rate.

Spending was reallocated towards priority sectors. As mentioned above, a package of social spending initiatives was unveiled by the authorities to foster a shared prosperity in Burkina. These measures aimed at providing labor intensive employment opportunities, job training programs and support to small and medium-sized enterprises with a focus on opportunities for woman and the youth. In order to preserve fiscal sustainability, the authorities off set the additional spending with cuts in budget appropriations to non-priority sectors and investments allocation that was not yet ready to be executed. As a result the projected budget deficit target was maintained.

With respect to the financial sector, the authorities continued implementing their financial development strategy with the adoption by SONAPOST of options to expand access to financial services leveraging its geographical range. Regulatory and supervisory efforts were also stepped up to ensure that the financial system remained sound.

On structural reforms, the authorities pursued the implementation of SCADD. Notably a public-private corporation was set up to facilitate investments in the Bagré growth hub. Efforts were also made to improve the financial soundness of state owed companies as well as public sector efficiency. In this vein, the state-owned electricity company, SONABEL's financial model was revised, and the committee responsible for coordinating the implementation of the computerization initiative and make it operational was installed.
To remove energy supply constraints and diversify the sources of electricity, the authorities undertook a number of projects, including the construction of solar and thermal plants.
With respect to the mining sector, the authorities pursued efforts to increase transparency in the management of this sector. Hence, Burkina Faso reached a key EITI milestone by achieving compliance status.

Policies for the Remainder of 2014 and the Medium-Term Framework

The authorities' policies going forward will continue to be anchored by SCADD. A major accomplishment of SCADD includes the successful launch of the Bagré growth hub. Plans are underway to strengthen further implementation capacity at the regional and sector level and to leverage public-private partnerships in achieving SCADD's objectives.

The authorities plan, going forward, to scale up their efforts to promote an inclusive growth agenda and shared prosperity, while preserving macroeconomic stability.

Fiscal Policy

Fiscal policy will continue to remain prudent, seeking to achieve the Government's growth and social advancement initiatives while preserving fiscal sustainability. Efforts will continue to be made to further improve revenue mobilization including with the expansion of the deployment of the Tax Information Cross-Checking Management software, GERIF.

Spending aimed at promoting a higher and shared prosperity will be scaled up. Amongst major programs planned is the launch of four new growth hubs, major infrastructure spending, and labor intensive projects. The authorities also plan to take measures to increase access to financing for female entrepreneurship, informal sector associations and small and medium term enterprises. To strengthen the social safety net, the authorities plan to implement a universal health insurance; and further education spending including the hiring of teachers, and enhancing university infrastructure.

To achieve these goals while preserving fiscal sustainability they plan to improve spending efficiency, cut non-priority outlays and implement additional reforms aimed at improving public financial management. Progress will continue to be made towards the adoption of program budgeting. To address recurring delays in spending execution, the authorities plan to implement the streamlined budget process, and to further improve the procurement processes.

Debt policy

The authorities remain committed to preserving debt sustainability. Steps will be taken to improve debt management capabilities. They are also committed to have to recourse to concessional financing in priority and to rely on non-concessional financing only for vetted high economic impact projects within the program's limits.

Financial Sector Policies

The authorities will continue to implement their financial sector strategy with the view to promoting access to financial services, including for SME's and bolstering the sectors soundness.

Structural Reforms

The authorities plan to intensify efforts towards a structural transformation of the economy with the view to i) accelerate inclusive growth; ii) strengthen the resilience of the economy through economic diversification; and iii) improve the economy's competitiveness.

Efforts to shore up the financial situation of SONABHY and SONABEL will be pursued. An audit of the two companies will be undertaken to lay the ground for future reforms.

As the country's mining sector steadily grows, the authorities are keen to make the most of their potential to boost the economy's prospects. Strengthening further the governance of the sector will be the authorities' near term priority. Burkina Faso is ranked as one of the most favorable countries' for investors in the mining sector. In addition to furthering transparency, the authorities are committed to ensuring that the revised mining code remain in line with international standards and balances the need to provide an attractive and stable legal framework for investors and leveraging the sector's contribution to growth and poverty reduction.

Reforms to improve the climate for business and to strengthen the cotton sector will also be stepped up.

Conclusion

Amidst a difficult environment, Burkina Faso's authorities' maintained their strong track record of program implementation. Looking forward, daunting challenges remain including in fostering inclusive growth, while maintaining macroeconomic stability during the upcoming electoral cycle.

Our authorities remain committed to adhere to sound policies as they pro-actively take measures to address these challenges. On this basis, we call on Directors to support the authorities' request for conclusion of the first review under the ECF program.