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SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRTIERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BURKINA FASO

In the context of the second and third reviews under the Extended Credit Facility arrangement, and request for augmentation of access and modification of performance criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its June 5, 2015 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 5, 2015, following discussions that ended on March 19, 2015, with the officials of Burkina Faso on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on May 14, 2015.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Burkina Faso.

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

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IMF Executive Board Completes Second and Third Reviews for Burkina Faso and Approves US$32.28 Million Disbursement

The Executive Board of the International Monetary Fund today completed the second and third reviews of Burkina Faso's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF). The completion of the second and third reviews enables the immediate release of the equivalent of SDR 23.03 million (about US$32.28 million), bringing total disbursements under the arrangement to the equivalent of SDR 28.13 million (about US$39.42 million).

In completing the reviews, the Executive Board also approved the authorities' requests for augmentation of access and modification of performance criteria. The 36-month, SDR 27.09 million ECF arrangement (about US$37.97 million, or 45 percent of Burkina Faso's quota) was approved by the Executive Board in December 2013 (see Press Release 13/542).

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair issued the following statement:

"Burkina Faso's economy has faced severe challenges over the past year as a result of worsened terms of trade, spillovers from the Ebola crisis in the region, and internal political upheaval. In the run up to national elections in October, a transition government has taken action to safeguard macroeconomic stability and launch reforms to address long-standing structural problems. To support these efforts, the authorities plan to continue with the existing ECF arrangement with Fund.

"Low revenues and delayed budget support have forced a pro-cyclical compression of spending, particularly in public investment. Inflation has turned negative as a result of slower growth and lower food prices. Although reduced investment has narrowed the current account deficit somewhat, a large external imbalance persists and the country's imputed international reserves have declined sharply.

"Notwithstanding these very difficult conditions, program performance has remained satisfactory, with most quantitative targets and structural reforms met. Overall, the Burkinabe authorities have demonstrated a strong commitment to their Fund supported economic program. The government is taking measures to boost revenues and contain public wages to limit the impact on investment of a necessary fiscal adjustment. Long-term reforms underway aim to reduce costs at public enterprises and address bottlenecks in the energy sector that have held back inclusive and sustainable growth."

INTERNATIONAL MONETARY FUND

BURKINA FASO

May 14, 2015

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

A transition government has been put in place to lead the country to elections in October 2015 and wishes to continue the existing ECF arrangement. The authorities feel the program provides continuity for the transition, and helps safeguard macroeconomic stability, while supporting reforms to address long-standing structural problems. Program performance has been satisfactory, with all performance criteria and most quantitative targets and structural benchmarks met. Staff's assessment is that the transition authorities have the technical capacity and political will to implement the agreed measures.

Growth has been revised downwards following multiple shocks. Reductions in commodity prices for the country's two leading exports, the impact of Ebola in the region on tourism and services, and political uncertainty leading up to resignation of Compaoré's government in late October 2014 all contributed to a marked slowdown in growth. Real growth is estimated to have been 4 percent in 2014 and is projected at 5 percent for 2015. Lower fiscal revenues forced large spending reduction/import compression.

To eliminate large external and fiscal imbalances implied by the shocks and recent depreciation of the CFAF against the US dollar, through the CFAF peg to the euro, the transition government has reduced spending sharply. Even with spending adjustment, revenue measures, and additional budget support commitments from donors, large reserves drawdown will be required meet balance of payment needs. Together with approval of the delayed 2nd review and the 3rd review, the authorities request 40 percent of quota augmentation of access to help meet immediate balance of payments needs.

Forward-looking program commitments encompass wide-ranging measures that have both immediate and longer term impacts. Revenue measures aim to reduce fraud and increase revenue intake, along with passage of the long-awaited revised mining code. Spending measures aim to safeguard priority social spending and contain the public wage bill. Extensive reforms are underway to improve budget transparency and cash management, after cash rationing in 2014 gave rise to domestic arrears. Finally, the authorities will implement recommendations of recent audits of state-owned energy companies, including performance contracts to regularize financial obligations and reduce costs, providing scope for better cost recovery, including through more flexible price-setting, in the future.

Approved By
Abebe Aemro Selassie and Peter Allum

Discussions were held in Ouagadougou during March 5-19. The staff team was comprised of Laure Redifer (head), Liam O'Sullivan, Samba Mbaye, David Corvino (all AFR), and Frederik Toscani (FAD), aided by Jean-Baptiste Le Hen (ResRep) and Bamory Ouattara (senior economist). Mr. Tall (OED) accompanied the mission. HQ assistance was provided by Jean Vibar. The team met with President Michel Kafando, Prime Minister Isaac Zida, Minister for Finance and Economy Jean-Gustave Sanon, Minister of Agriculture Francois Lompo, Minister of Industry, Commerce and Crafts Hypolite Dah, Minister for Mines and Energy Boubacar Ba, and Mr. Charles Ki-Zerbo, National Director of the Central Bank of West African States, as well as various private sector representatives, development partners and the media.

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Acronyms

AfDB	African Development Bank
ASCE	Auditor And Controller General
BCEAO	Central Bank Of West African Economic And Monetary Union
CIT	Corporate Income Tax
CNE	National Savings Bank
DGB	Director General Of Budget
DGD	Customs
DGI	Internal Revenue Service
DGTCP	Director General Of Treasury
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
GDP	Gross Domestic Product
INSD	National Statistical Agency
MEFP	Memorandum Of Economic And Financial Policies
NPL	Non-Performing Loan
SCADD	Strategy For Accelerated Growth And Sustainable Development
SDR	Special Drawing Rights
SOFITEX	Sociéte Burkinabe Des Fibres Textiles (Largest Cotton Ginning Company)
SONABEL	Société Nationale D'électricité Du Burkina (State-Owned Electricity Provider)
SONABHY	Société Nationale Burkinabè D'hydrocarbures (Public Coil Importing Company)
SONAPOST	National Postal Agency
TA	Technical Assistance
TSA	Treasury Single Account
VAT	Value-Added Tax
WAEMU	West African Economic And Monetary Union
WEO	World Economic Outlook

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

A. Recent Developments

1. **Following the resignation of President Compaoré and the departure of his government in late 2014, a transition government was quickly formed to stay in power until elections in October, 2015**. Presidential and legislative elections have been scheduled for October, 2015, with local elections postponed until early 2016. Despite ongoing political tensions and strikes, most stakeholders share a strong common interest in holding elections this year, boding well for containing potential political turmoil and resulting public unrest. If successful, this will be the first democratic political transition in Burkina Faso's history.

2. **Economic activity hit the brakes over the course of 2014**, **due to multiple external shocks and political uncertainty** (Figures 1 and 2). Real GDP growth is estimated to have been 4 percent in 2014 (down from 6.6 percent in 2013), against the backdrop of spillovers from the Ebola crisis elsewhere in the region (impacting tourism and services), stagnating gold production and a drop off in new exploration due to low international prices, a drop in grain production by 8 percent (due to erratic rains and excess stocks), and a slowdown in investment due to ongoing political uncertainty leading up to the events in October. This motivated an increasingly contractionary fiscal policy stance which exacerbated the situation, as did the popular uprising that led to the fall of the government in the 4th quarter. However, high-frequency indicators show a consistent slowdown through the year, indicating the 4th quarter events themselves had a marginal impact. Headline inflation was negative through most of the year, driven by lower food prices and reduced activity.

3. **Low revenues and delayed budget support compelled a pro-cyclical reduction in public spending, mainly affecting investment spending** (Figure 3). In sharp contrast with recent years, revenues were 86 percent of target, and a large budget support disbursement from the World Bank was delayed.[1] Lower revenues were a function of the aforementioned growth factors, as well as disruptions in Q4 collections due to the fall of the government. Together, these forced large spending compression. Concurrently, a large hike in the public wage bill, agreed by the previous government in the first half of the year, forced re-composition of spending within the reduced envelope. Domestically-financed investment spending took the largest hit. Taken together with substantially lower-than-expected execution of externally-financed investment spending, the resulting estimated fiscal deficit was 1.8 percent of GDP, roughly half of the previous year.

[1] Due to delayed legislation relating to the mining code and anti-corruption.

4. The current account deficit is estimated to have narrowed modestly in 2014 due to spending adjustment, but lower financing led to sharply lower imputed reserves.[2] Estimated current account improvement was due to substantially lower imports related to reduced public investment spending, as well as lower international fuel prices (administered prices muted demand effects). Gold exports earnings dropped from the previous year, based on lower prices. Cotton exports increased despite falling prices, with a strong harvest and a large share of the crop pre-sold. Services exports are estimated to have dropped sharply due to foregone tourism revenues (including cancellation of 2-3 large African-wide events) but imports are estimated to have adjusted similarly. In the absence of strong public spending adjustment, the current account balance would have worsened considerably (Text Table 1).

B. Program Performance

5. In December, the transition authorities expressed their strong preference to continue the existing ECF-supported program. Staff's assessment is that the transition authorities possess both the capacity and ownership to continue implementation of an upper credit tranche arrangement. Although widespread changes were made at the Ministerial and Director General levels, the new officials have extensive technical experience and the government's plans to strengthen PFM will be supported by technical assistance, which together make the case that an upper credit tranche program can be implemented. Also, the authorities demonstrated commitment to sound macro policies through rapid submission of a 2015 budget and a 2014 supplemental budget consistent with discussions, completion of already-initiated audits of the public energy enterprises (benchmark) and voluntary implementation of recommendations from a study (benchmark) to improve the financial viability of the cotton stabilization fund**.**

6. Program performance on quantitative objectives for the 2nd and 3rd ECF reviews was satisfactory, particularly considering the various shocks. Quantitative targets on net domestic financing and the fiscal deficit were met for end-June and end-December, the latter due primarily to spending compression (Table 5). Indicative floors for revenue collection were not met by a large margin due to the growth slowdown. The indicative floor for poverty reducing spending was not met at end-June and end-December, the latter due to political events. The continuous performance criteria on accumulation of non-concessional external debt and external arrears were met. Based on estimates, the indicative target on zero accumulation of domestic arrears was not met at end-December. Given that domestic arrears arose in late 2014, the authorities and staff propose to revise relevant program monitoring to make it more effective (¶36).

7. Most structural benchmarks were implemented, despite the change in government (Table 7). Importantly, external audits of the state-owned oil importer, SONABHY, and the

[2] WAEMU international reserves are pooled, with imputed allocations to each country.

electricity company, SONABEL were implemented, with a delay due to the change in government, as was satellite tracking for customs goods in transit. Four other benchmarks were met on time, and two benchmarks were not met. Of these, one, a study on production and import options for energy, has been reprogrammed for early 2016, in order to take into account new performance contracts (¶25). The second has been reprogrammed for early 2016 and reformulated, to improve accountability, by requiring that SONAPOST adopt recommendations of a feasibility study on decentralized financial services, to improve access to basic cost-affordable financial services in rural areas.

POLICY DISCUSSIONS

8. **Growth projections for 2015 have been revised downward, with an improvement forecast for 2016.** For 2015, growth projections have been lowered to 5 percent, based on a continuation of trends observed in 2014. Mining production is expected to decrease by 4 percent, partly in light of international gold price projections. Other factors include recent vandalization of certain gold mines, suspension of a new production license for a large manganese mine pending reconsideration of the contract, termination of activity of some mines, and delays in the start of production of some new mines. Cotton production is expected to drop dramatically over 2015–2016, due to a projected 25 percent drop in international prices and a resulting reduction in cultivated area by a similar amount. Cotton is the main income source in rural areas where poverty is concentrated, so the consequences outweigh the macroeconomic impact. Depreciation of the CFAF against the US dollar, through the CFAF peg to the euro, will offset only part of these losses. The impact of the depreciation will be immediately felt, however, with a higher import bill. Growth should recover back towards historical trends in 2016, assuming improvement of the political situation, abatement of Ebola in the region, commodity price stabilization, and continued investment in the country's "growth poles" (MEFP, ¶16).

9. **The current account deficit is set to widen, as evidenced by movements in the trade balance.** Weak international gold and cotton prices are only partly offset by depreciation of the CFAF against the US dollar, leading to a fall in exports of goods of CFAF 70.3 billion relative to 1st review projections (Text Table 1 and Table 4). While the large fall in international fuel prices reduces the value of oil imports, this is more than offset by the impact of depreciation of the CFAF against the US dollar on the entire import bill. Overall, without spending compression, the external shocks affecting Burkina Faso would lead to a significant deterioration in 2015 trade balance projections relative to the 1st review, by CFAF 135.6 billion, or 2.1 percentage points of GDP. However, public investment spending compression will reduce the import bill, leaving balances in CFAF terms roughly in line with 1st review projections. Relative to 2014 (and as a percent of a lower GDP denominator), the overall current account balance will worsen significantly, causing a large projected reduction in imputed international reserves (of CFAF 93.9 billion or 1.4 percent of GDP). The reduction would have been much higher in the absence of sharp fiscal adjustment and new financing commitments by development partners. These figures assume the requested augmentation of access under the ECF arrangement, without which the reduction would be larger still.

Text Table 1. Impact of Commodity Price Shocks, Offset by Import Compression (Difference between 2nd/3rd Review and 1st Review, CFA billions)		
	2014	**2015**
Exports of Goods	**-42.7**	**-70.3**
Gold Price Shock (US$ price and volume effect, excl. CFA depreciation)	-69.0	-218.4
Cotton Price Shock (US$ price and volume effect, excl. CFA depreciation)	-0.9	-47.9
CFA Depreciation (all exports)	30.0	254.4
- *of which:* Gold	23.6	175.3
- *of which:* Cotton	1.6	38.3
Other	-2.8	-58.4
Imports of Goods	**-169.0**	**-77.8**
Fuel Price Shock (US$ price and volume effect, excl. CFA depreciation)	-32.3	-150.5
CFA Depreciation (all imports)	27.7	183.3
- *of which:* Fuel	12.5	60.8
Import Compression due to spending adjustment	-171.2	-143.1
Other	6.8	32.4
Trade Balance	**126.3**	**7.5**
Excluding Import Compression	-44.9	-135.6

Source: BCEAO and IMF staff projections.

A. Fiscal Policy for 2015

10. Groundwork for the fiscal policy discussions was laid during a December staff visit, with projections for severe fiscal and external imbalances for 2015. In December, preliminary 2014 results pointed to significantly lower tax receipts, a marked slowdown in growth, and delayed external assistance. For 2015, using nominal spending assumptions from the first review would have implied a fiscal deficit of 8.1 percent of GDP, and a remaining financing gap of 7.8 percent of GDP (Text Table 2). (Similar to shock scenarios considered by staff in the

Text Table 2. Overview of Changes to the 2015 Fiscal Framework (percent of GDP)				
	1st review	**1st review revised GDP**	**December 2014[1]**	**2nd/3rd review**
Revenue and Grants	**24.6**	**26.2**	**21.4**	**22.3**
Revenue	19.3	20.5	17.3	17.3
Grants	5.3	5.6	4.1	5.0
- *of which*: Program	1.8	1.9	1.3	2.2
Expenditure and net lending	**27.7**	**29.5**	**29.5**	**24.8**
Overall fiscal balance	**-3.1**	**-3.3**	**-8.1**	**-2.5**
Financing	**2.5**	**2.7**	**0.3**	**2.9**
Foreign financing	1.4	1.5	0.8	1.1
- of which: Program	0.6	0.6	0.2	0.9
Net domestic financing	1.1	1.2	-0.5	1.8
Financing gap	**0.6**	**0.6**	**7.8**	**0.5**
- *of which*: IMF disb./aug.	0.1	0.1	0.2	0.5
Memo: nominal GDP (CFA billions)	*6,983*	*6,561*	*6,561*	*6,561*

[1] *Excluding expenditure compression and new budget support.*

context of the 1st review.) To close the gaps, the authorities devised an "austerity budget" reflecting large expenditure compression. On this basis, staff prepared an assessment letter at the request of development partners in early 2015.

11. Even taking into account new measures, 2015 revenues are now expected to be 3.2 percentage points of (revised) GDP lower than 1st review projections. The authorities and staff agreed on measures to help mitigate the reduction in the resource envelope, including standard invoicing to reduce VAT fraud, an exhaustive census of medium-sized enterprises aimed at expanding the tax base, establishment of a new unit for audit and fraud prevention, satellite tracking and scanning systems to boost customs revenue mobilization, and more use of integrated internal revenue and customs databases (MEFP, ¶23, Table 2). The improvement in tax revenues related to these measures is as 0.3 percent of GDP in 2015, with another 0.2 percent of GDP gained from the assumed impact of 4th quarter political events in 2014.

12. Development partners plan to increase and/or accelerate budget support in 2015, merely restoring budget support to average historical levels. For reasons related to donor cycles, budget support would have declined in 2015, but new budget support commitments from principal donors will restore historical levels (Text Table 3). The authorities are still seeking additional financing, including for elections (MEFP, ¶22). The requested IMF augmentation is broadly equivalent to additional budget support commitments by the AfDB, and less than half of additional commitments by the World Bank and the EU.

Text Table 3. 2015 Budget Support Commitments
(CFA Billions)

	December 2014	New Commitments[1]	Total 2nd-3rd reviews
Budget Support	**83.3**	**120.1**	**203.4**
World Bank	35.0	52.0	87.0
EU	11.6	46.4	58.0
AfDB	16.0	19.1	35.1
Germany	1.5	2.6	4.1
Others	19.2	0.0	19.2

[1] Pledged in December and since.

13. Limited regional market absorptive capacity and the high level of debt falling due in 2015 constrain the scope for new domestic financing. As regards commercial bank financing, with significant amortization payments falling due, it is assumed that existing financing will effectively be rolled over. Nonbank financing is projected to be small in 2015 as amortization falls due on public enterprise bond. Around 1.1 percent of GDP that is already counted in the Treasury single account (TSA) system is being repatriated to the BCEAO from diverse accounts of the TSA system, with the government aiming for the maximum possible without unduly impacting commercial bank balance sheets. These amounts will be used to help finance spending, as well as reduce the "float" (spending commitments pending payment) which increased last year in response to financing pressures.

14. Expenditure compression will mainly affect investment, but savings on current spending are also being realized. The transition government is delaying implementation of part of a public wage bill increase in 2014, scaling back the Ebola prevention program with abatement of the crisis, and containing elections costs.[3] To avert the most negative effects of the spending cuts, the authorities announced a package amounting to 0.4 percent of GDP for health and education spending and job creation for youth and women, financed by cuts of all but critical travel. Taken together, spending adjustment is 4.5 percentage points of GDP compared to the 1st review (Text Table 4). Commitments under the program should produce additional savings and spending efficiency, albeit unquantified. These include measures to contain wage spending, automation of expenditure approvals, setting minimum thresholds for control procedures, and monthly budget execution reviews (MEFP, ¶25, ¶29). To better ration scarce resources for investment spending, the authorities are introducing new controls to identify highest priority investment spending (MEFP, ¶24).

Text Table 4. 2015 Budget Spending Adjustments
(CFA billions, unless otherwise indicated)

	1st Review	2nd/3rd Reviews	Difference CFA billions	Difference % of GDP
Total (excl. net lending)	**1924.7**	**1629.4**	**-295.3**	**-4.50**
Current Spending	**1023.9**	**965.7**	**-58.2**	**-0.89**
Wages and Salaries	469.2	456.7	-12.5	-0.19
Goods and Services	139.7	110.1	-29.6	-0.45
Transfers	377.1	359.2	-17.9	-0.27
- *of which:* Elections	0	25.0	25.0	0.38
- *of which:* SONABEL	27.3	27.3	0.0	0.00
- *of which:* SONABHY	4.3	0	-4.3	-0.07
Interest Payments	37.9	39.7	1.8	0.03
Investment Spending	**900.8**	**663.7**	**-237.1**	**-3.61**
Domestically Financed	558.6	424.4	-134.2	-2.05
Externally Financed	342.2	239.3	-102.9	-1.57

15. In sum, the deficit (commitment basis) reflects a contractionary stance in 2015 relative to the pre-shock era, but less so than in 2014. The fiscal deficit will be contained at 2.5 percent of GDP (commitment basis), relative to 1.8 percent of GDP in 2014. The deficit on a cash basis will be higher (3.4 percent of GDP) based on paying down the "float" (including arrears).

B. Fiscal Policy for the Medium Term

16. Tax and spending policy measures should have their main impact in 2016, bringing tax revenues back toward recent historical averages, despite cotton and gold production remaining muted. This should enable an expansion of investment spending more in line with the objectives of the Strategy for Growth and Durable Development (SCADD). The program

[3] Election costs are estimated at CFAF 61 billion (0.9 percent of GDP), for which CFAF 25 billion was included in the budget. Donors have committed another CFAF 17 billion, leaving a gap of CFAF 19 billion. Thanks to a series of pledges not yet formalized, it is likely that the final amount (to be covered in a supplemental budget in the summer) will be minor.

framework sets fiscal policy goals consistent with the WAEMU convergence criteria. A forthcoming FAD mission on revenue administration in the early fall should provide additional recommendations, and the authorities will request TA on tax policy. A financing gap of 0.9 percent of GDP is based on current grant and concessional financing commitments; should development partners make commitments to bring these back to historical levels, the remaining gap can be met. Otherwise, the authorities will need to consider a combination of additional domestic financing and spending adjustment to fill the gap.

C. Strengthening Budget Transparency and Public Financial Management

17. The transition government took immediate steps to improve the transparency of budget execution and Treasury cash management. In December, the transition authorities and staff discussed concerns that cash rationing had been used as a principal cash management tool in the second half of 2014. The "float" (spending commitments pending payment) was 1.7 percent of GDP at end October 2014 and had risen to 2.4 percent of GDP by end-December, given the difficult cash situation following the political events of Q4. The transition government began repatriating funds into the treasury single account (TSA) from disparate accounts in order to reduce the float, lowering it to 1.1 percent of GDP by end-February 2015, with a forward-looking plan to reduce it further. Moreover, the transition parliament passed a retroactive supplemental budget for 2014 to authorize higher wage bill spending that had been effected throughout the previous year: the former government submitted a 2014 supplemental budget twice to the former National Assembly but it was never passed.

18. The transition authorities were concerned that the growing "float" in the second half of 2014 could potentially mask domestic arrears and requested an urgent FAD TA mission. Distinguishing what portion of the "float" was payment arrears was not straightforward since the latter had not been recorded separately. The TA mission estimated that there were payment arrears as of end-2014, of around 0.9 percent of GDP, but follow-up TA is needed for a full stock-taking. Recording problems did not exist in previous years, and probably arose only late in 2014 as a result of the difficult Treasury situation. About one-third of arrears were VAT reimbursements, which came about as a result of increasing reimbursement claims by mining companies that could not be met by the fixed amounts allocated for this purpose. The authorities are considering how to revise VAT reimbursement system in the coming months, drawing from the TA recommendations.

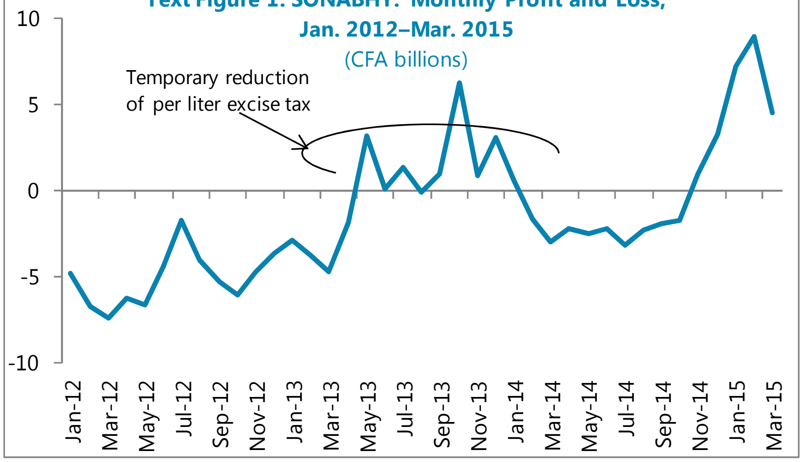
19. The authorities are now tracking the "float" and payment arrears more closely, and will benefit from the help of additional TA to strengthen procedures. In addition to implementing recommendations immediately to prevent the risk of additional accumulation of arrears, the authorities agreed with staff's recommendation to replace, for the time being, the current indicative quantitative target on non-accumulation of domestic arrears with two structural benchmarks. That is, from June 2015, the ministry of finance will begin comprehensive quarterly monitoring of outstanding payments and potential arrears. Starting in early 2016, the quarterly reports will be audited annually by the Burkinabe independent audit agency (ASCE), the financial court, and the government independent auditor. The transition authorities remain concerned about general government and "informal" arrears, liabilities for which payment orders do not exist, and have also requested follow up TA to design an approach for identifying, tracking and setting a repayment plan for these obligations.

20. The transition authorities are also strengthening treasury cash management to ensure better planning for cash needs and to improve the functioning of the TSA. The TA mission provided recommendations to improve treasury cash forecasting and management instruments. Moreover, the authorities are seeking to improve the functioning of the TSA system, which encompasses numerous accounts across different regions, including deposits of some 2.7 percent of GDP at commercial banks that are in the process of being repatriated (¶17).

D. Reducing Subsidies to Public Energy Companies

21. Remaining windfalls from lower fuel prices after depreciation of the CFAF against the US dollar have been partly passed to consumers through lower retail prices. The fall in international oil prices in late 2014 and early 2015 began to reverse some of the accrued financial losses of the state-owned oil importing company SONABHY, resulting from fixed retail prices and an elevated cost structure. However, depreciation of the CFAF against the US dollar in the first quarter of the year and two modest retail price reductions reduced SONABHY's projected monthly profits (Text Figure 1 shows part of the reduction, but does not contain a full month's data following the retail price reduction.) Staff advised the authorities that further reductions of retail fuel prices could risk triggering renewed losses for SONABHY if exchange rate trends continued and/or fuel price trends reversed. The authorities committed to avoiding further reductions in retail prices before the elections (MEFP, ¶33). SONABHY's accrued losses in 2014 were not covered by the government, so the profits realized for 2014 through mid-March this year are a modest CFAF 3.9 billion.

Text Figure 1. SONABHY: Monthly Profit and Loss, Jan. 2012–Mar. 2015
(CFA billions)



22. If current trends and policies remain unchanged, preliminary staff analysis suggests that the projected windfall for 2015 as whole would be shared mainly by SONABHY and consumers. Relative to the 1st review forecast for 2015, staff forecasts the fuel import bill to be CFAF 89.6 billion lower (Text Table 5). Tentative analysis suggests that retail price reductions will pass roughly 40 percent of that gain to consumers, with a small amount realized by the government through foregone subsidies (offset by reduced VAT intake), and the remainder to SONABHY. The public electricity company, SONABEL, and mining companies have special purchasing contracts, for which no price reductions have been made so far.

Text Table 5. Fuel windfall in 2nd/3rd Review vs. 1st Review Projections (CFA billions)					
	Central Government	SONABHY	Retail Consumers	Mines and SONABEL	Total
A. Reduction in import bill	**0.0**	**89.6**	**0.0**	**0.0**	**89.6**
B. Reduction in retail fuel prices	-16.3	-20.2	36.6	0.0	0.0
- of which: change in VAT Revenue	*-16.3*	*0.0*	*16.3*	*0.0*	*0.0*
- of which: change in SONABHY Profit	*0.0*	*-20.2*	*20.2*	*0.0*	*0.0*
C. Reduction in subsidies to cover losses	20.0	-20.0	0.0	0.0	0.0
Total change vs 1st Review Proj. (A+B+C)	**3.7**	**49.4**	**36.6**	**0.0**	89.6
Source: IMF staff estimates, based on SONABHY data.					

23. Given the uncertainty of the situation, staff encouraged the authorities to track SONABHY's monthly situation closely and, if warranted, consider redistribution options. If SONABHY's profits continue, the government could consider redistribution via a temporary increase in the per liter excise tax on fuel and/or through reducing prices for special contract users. Staff did not push for a specific option, but urged the authorities to track the situation closely and consider the options. The authorities indicated that should the gains continue, they would seriously consider increasing the per liter excise tax on fuel.

24. The authorities and staff also discussed that inter-connected payments and arrears between SONABEL, SONABHY and the central government have become an increasing burden for the transparency and efficiency of the energy sector in Burkina Faso (Box 1)**.** SONABEL has not benefitted from a reduction in prices charged by SONABHY, thus continues to make losses and incur arrears with SONABHY. Recent audits of the two companies' financial situation, carried out as program conditionality, reveal difficulties in the underlying cost structures, complicated and inappropriate pricing regulations, high debt levels and tight cash situations, as well as weak management structures, all of which contribute to the fiscal burden for the government and weaken investment in the energy sector.

25. Drawing from the audits, the transition government proposes to include in program conditionality fundamental reforms that can help address these issues over the medium term. For both SONABHY and SONABEL, performance contracts will be signed between the state and the entity (MEFP, ¶34-35), drawing on the model of the successful public water utility, ONEA. The performance contracts will draw from recommendations in the audits as well as expert advice from development partners, and will serve three main purposes: regularize financial subsidies brought about by the government's decision not to adjust retail prices; clarify financial inter-linkages between the two companies; and improve management and reduce underlying costs. The authorities also agreed to more immediate measures. For example, SONABHY's transporters are charged for fuel loss during the process of transport. This is currently charged at the port of arrival price (substantially below prices of selling illegally en route), but the penalties will be charged at delivery prices as of end-June (MEFP, ¶35)

Box 1. Financial Inter-Linkages in the Energy Sector

Tariffs for electricity and retail fuel prices are effectively both administered in Burkina Faso, with ad-hoc adjustments when losses become too high. Until this year, electricity tariffs and retail fuel prices had remained unchanged since 2008 and 2012, respectively. The fixed price structure and high operating costs left both SONABEL and SONABHY with consistent operational losses, relying government subsidies for support. The government provides three main types of subsidies: (1) investment subsidies, relevant for SONABEL, for infrastructure projects; (2) market-oriented subsidies, depending on sales volume of SONABHY to SONABEL and gas butane distributors, to cover under-market prices charged; and (3) recurrent subsidies, intended to cover operating losses by both entities, paid an ex-post and ad-hoc basis.

	SONABHY	Central Government	SONABEL
		(CFA billions)	
Net Transfers to the State Owned Enterprises 2014	492	-24,122	23,630
In percent of government expenditure	*0.03%*		*1.65%*
Explicit subsidies	10,892	-34,522	23,630
Recurrent subsidies	0	0	0
Market oriented (Oil and Gas)	10,892	-34,522	23,630
Investment	N/A		N/A
Government Revenue collection	-10,400	10,400	
Income taxes and others	-4,500	4,500	N/A
Dividends	-5,900	5,900	N/A
Sources: Government financial accounts, company documents, meeting minutes			

In recent years, transfers to the energy sector have been an increasing burden. As noted in the 1st ECF review, in 2013 net transfers totaled close to 10 percent of government expenditure (including to address past years' losses). In 2014, the government did not pay any recurrent subsidies and delayed payment of some market-oriented subsidies. Outstanding subsidy obligations to both companies therefore rose to around CFAF 38 billion by end-2014. As its financial situation worsened, SONABEL accrued arrears to SONABHY of around CFAF 42 billion. Meanwhile, SONABHY's overdrafts with commercial banks totaled some CFAF 93 billion at end-2014, generating large interest costs.

	SONABHY	Central Government	SONABEL
		(CFA billions)	
Intra-Fuel Sector Debts as of end-2014	72,316	-41,871	-30,445
Fuel and Electricity Bills	42,345	-3,900	-38,445
Unpaid Subsidies	29,971	-37,971	8,000
Sources: Government financial accounts, company documents, meeting minutes			

E. Financial Sector Stability

26. Financial indicators suggest commercial banks remain in a relatively sound position (Text Table 6). Although the regulatory risk weighted asset ratio just reaches the WAEMU minimum of 8 percent and is below the average, the ratio is weighed down by two banks that are undercapitalized but pose no social or systemic risks. Burkinabe banks have the lowest NPL ratios in WAEMU, but also the second-highest concentration ratios, signaling the sector's concentration around a limited number of highly solvent clients, many of whom are fully or partly owned government entities.

Text Table 6. Selected Financial Soundness Indicators

	Dec-11	Dec-12	Mar-13	Dec-13	Mar-14	Jun-14
			Burkina Faso			
Reg. capital to risk-weighted assets	10.4	9.3	10.1	7.3	8.1	8.0
Gross NPLs / Total loans	13.5	10.3	10.4	9.9	9.9	9.4
5 largest clients / equity	106.7	185.4	122.4	167.2	196.9	216.5
Liquid assets / total assets	34.0	34.8	34.3	34.7	35.1	35.1
			WAEMU			
Reg. capital to risk-weighted assets	10.7	10.7	10.7	10.1	10.6	9.3
Gross NPLs / Total loans	15.9	16.0	17.0	15.4	16.4	15.7
5 largest clients / equity	105.1	106.9	99.5	97.8	109.6	130.1
Liquid assets / total assets	33.6	32.5	31.9	32.2	30.2	31.2

F. Other Policy Discussions

27. The authorities have changed the reference price and formula to put the cotton sector stabilization fund on a more financially-sustainable basis. Drawing from analysis done as a part of program conditionality in 2014, the cotton sector association has changed the reference price used and the pricing formula for producers to make it less pro-cyclical (MEFP, ¶13). However, the stabilization fund will already be overdrawn this year, by CFAF 5 billion, and the ginning companies will provide loans to carry the fund through the current ginning season. Thereafter, the authorities will look into budget-neutral short-term options to repay the ginning companies. A more permanent solution for recapitalizing the fund will need to be found next year.

28. The national statistical agency (INSD) will re-initiate an informal sector survey needed to update the base year for the national accounts. It is not expected that the rebasing will result in large adjustments. INSD had hoped to conduct a new informal sector survey in late 2014, but was unable to do so due to political developments. INSD hopes to launch the survey in 2015, and also plan to devise a methodology for a specific survey on informal gold mining activity. The authorities have committed to publish, by June 2015, a new series of quarterly national accounts statistics, in constant prices (MEFP, ¶36).

29. The draft mining code submitted to the National Assembly in 2014 was never passed, but has now been resubmitted to the transition parliament. Staff was informed that previous fiscal provisions were maintained in the draft, except that a 10 percentage point reduction in the corporate income tax rate was removed, rendering the code less generous to mining companies. This change would keep the current draft code broadly in line with those of peer countries in the sub-region, moving it from one of the most generous to investors to broadly average.

30. The annual review of SCADD implementation is scheduled for late April. Due to the difficult sociopolitical context and expenditure cuts in 2014, only about 30 percent of the planned measures were implemented, in contrast to previous years' performance of around 60 percent. Nonetheless, 23 out of 50 performance indicators for 2014 were met. Some examples where progress was achieved include: improving access to agricultural inputs, equipment and technology; setting up microfinance lending for cattle and dairy activities; creating infrastructure for hydro-agriculture; increasing the energy supply by 90 MW; implementation of a special program to create jobs for women and youth in agriculture; progress on universal health insurance plan; progress on expanding school lunches; and passage of the anti-corruption law.

PROGRAM RISKS

31. The security situation and political stability hinges on the transition government orchestrating a peaceful transfer of power and elections. The transition government has been recognized internationally, and its plan for October elections has broad support. However, the political situation remains a central risk. There have been frequent strikes, wage and fuel price reduction demands from trade unions, as well as rifts within different factions of the military and among political parties. The tight budgetary situation also poses risks to the success of the transition. Still, stakeholders share a strong common interest in supporting the transition government until elections, and several sociopolitical problems that initially appeared serious have been resolved quickly and without violence.

32. The risk posed by external shocks is largely unchanged, although regional security issues are an increasing concern. Burkina Faso consistently faces risks of weather shocks, commodity price changes, and more recently, the impact of the regional Ebola crisis. On the security side, extremist activities are on the rise in neighboring countries. Burkina Faso has been widely seen as a moderating influence in the region, including through preventing extremist activities within its own borders, mediating security disputes elsewhere, providing military resources, and hosting refugees. Current political uncertainties make it more vulnerable.

PROGRAM MODALITIES

33. The authorities have requested an augmentation of access under the ECF arrangement by SDR 24.08 million (40 percent of quota). The augmentation would be used to meet balance of payments needs arising from price shocks to the country's two leading commodity exports (mitigated only partly by the positive shock to oil prices), as well as the various other aforementioned shocks. In the absence of this augmentation, additional spending reduction beyond what is already programmed would otherwise be needed. The size of augmentation is modest, due to the small size of the Burkina Faso's quota and its access already outstanding. 60 percent of this amount (SDR 14.45 million) would be disbursed with completion of the 2nd and 3rd reviews, and the remainder would be disbursed with completion of the 4th review. Together with the phased augmentation, completion of the 2nd and 3rd reviews would unlock SDR 23.03 million.

34. The authorities are also requesting an increase in the limit on external non-concessional debt by CFAF 50 billion. This increase would bring the ceiling to CFAF 200 billion (or 3 percent of GDP). Although the limit is untied, the authorities have stated that financing would be used for projects to expand drinking water supplies and sanitation, higher education infrastructure, and a road project.

35. A new joint Fund-Bank DSA indicates an unchanged moderate risk of debt distress (Annex 1). In the new DSA, a worse macroeconomic outlook is offset by recent fiscal tightening and US$ strengthening, leaving results broadly consistent with the 2014 DSA. Inclusion of the proposed augmentation and an increase in non-concessional debt does not change the results.

36. The authorities and staff agreed to propose a change in program monitoring of accumulation of domestic arrears. The indicative target for a continuous zero ceiling on domestic arrears accumulation should be removed in favor of ongoing structural benchmarks for quarterly reporting and annual audits of pending payments and arrears. FAD experts have advised that the zero ceiling is unrealistic, and effective monitoring as a continuous target is also unrealistic. The two proposed structural benchmarks will be more effective in developing systems to identify and reduce payment arrears (MEFP, ¶12).

37. Another proposed change is the scope of the performance criterion on net domestic financing, based on advice from FAD and STA experts. Given prospective changes to the coverage of the TSA and since fiscal accounts currently only cover central government spending and revenues, staff and the authorities propose that, going forward, the performance criterion on net domestic financing should be limited to central government financing (measured by the net position of the Treasury vis-à-vis the banking system and non-banks). An indicative target is proposed to be kept on "other government financing," which has historically been small, but increased sharply in 2014 due to accounting anomalies, e.g. inclusion in liabilities of several years of accrued interest in the National Savings Bank. Continuing to track "other government financing" is important, however, both for program purposes, as well as eventual migration to fiscal accounting according to GFS 2001. Proposed changes are included in the technical memorandum of understanding.

STAFF APPRAISAL

38. The transition authorities inherited a very difficult macroeconomic situation, which they are handling well. Large fiscal and external imbalances resulting from multiple shocks are being addressed mainly via spending reduction, with some additional support from development partners. The spending cuts are unavoidably pro-cyclical and do affect investment spending the most, but there are few financing options. The authorities are making genuine efforts to seek savings in current spending and rebalance the composition of spending more towards priority social spending and investment. Further, they are seeking to allocate scarce resources for investment spending more wisely to ensure that what is spent has the maximum impact for economic and social objectives.

39. The transition authorities' new commitments to address long-standing structural problems are particularly welcomed. Broad ranging program commitments include: addressing PFM issues, containing the wage bill, increasing revenues through policy and administrative measures, and containing subsidies to state-owned enterprises. For the latter, program commitments were drawn from the audit recommendations, and should make a significant difference in regularizing financial relationships and reducing underlying costs, providing more scope for the forthcoming elected government to seek better cost-recovery through more flexible fuel prices and more progressive electricity tariffs.

40. The authorities are strongly encouraged to closely monitor monthly SONABHY profits to ensure transparent decisions about how the fuel windfall should be shared. The authorities have committed not to reduce retail fuel prices further before the elections. The modest profits currently being realized by SONABHY provide some insurance against the risk that additional US$ strengthening and/or increases in international fuel prices could renew a loss-making situation. However, depending on how the situation evolves, these profits could also be recuperated for the budget to finance other high-priority spending, such as elections or job creation programs.

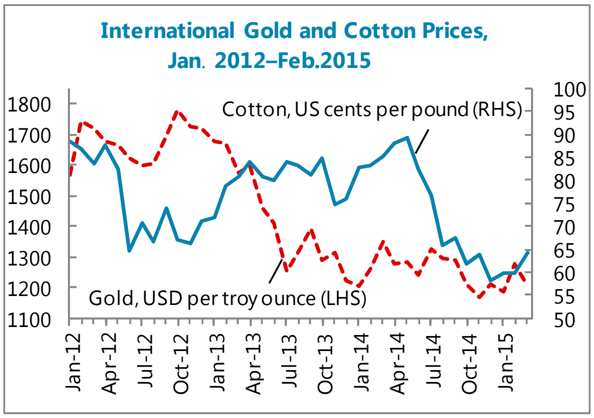
41. Finally, the authorities' immediate attention to transparency in budget execution, and better cash management is welcomed. Their efforts underway to reduce the spending "float," better identify and pay arrears, and improve Treasury cash forecasting will render a long term payoff for spending efficiency. Staff welcomes the authorities' efforts to finalize a mining code that balances attractiveness to international investors with the need to ensure adequate rent-sharing so that natural resource assets can help finance development and can be invested in the country's future. Mining companies' current concerns about physical security and input pricing are legitimate, but should not influence discussions about the fiscal regime.

42. In sum, the transition authorities have agreed to a robust set of reforms that preserve macroeconomic stability and position the forthcoming new government well to continue program engagement should it choose to do so. The transition appointees, drawing from their extensive technical experience, have demonstrated good capacity to implement reforms and willingness to consider IMF policy advice. Staff encourages the transition authorities to continue the challenging task of managing the difficult situation in the short term, while initiating more fundamental reforms to improve fiscal sustainability over the medium term.

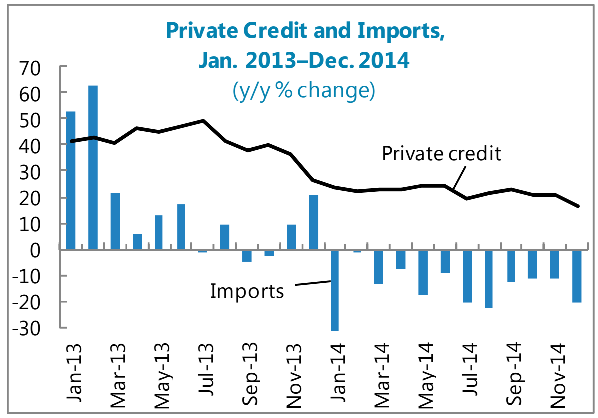
43. Staff supports completion of the 2nd and 3rd reviews, and the authorities' request for augmented program access in the amount of SDR 24.08 million. The request for augmentation is justified to avoid further investment spending reduction/import compression needed to eliminate fiscal and external imbalances, thus further undermining investment objectives of the SCADD and the ECF-supported program.

Figure 1. Burkina Faso: Recent Economic Developments

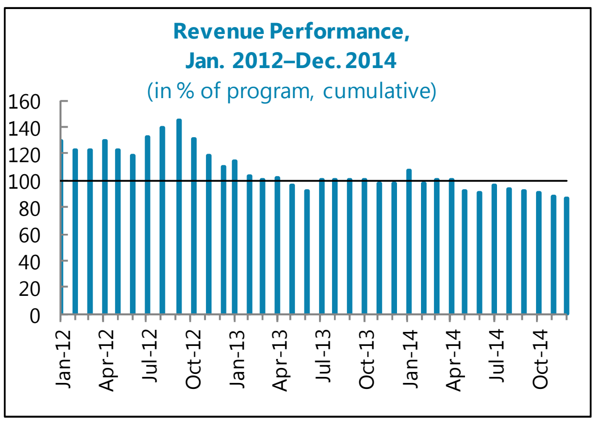
Gold prices remained lower than recent years, while cotton prices dropped sharply in 2014.



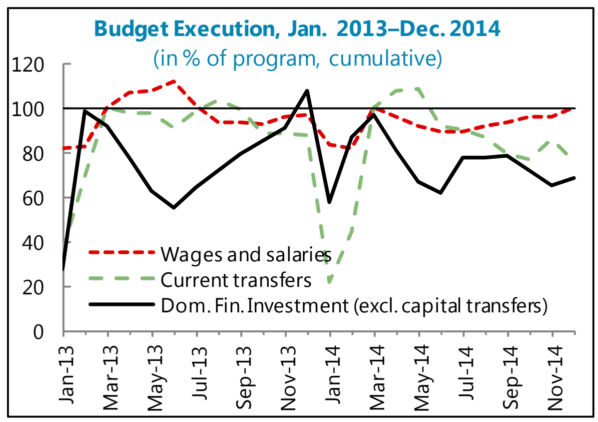
A slowdown of economic activity was mirrored by lower private credit growth and imports...



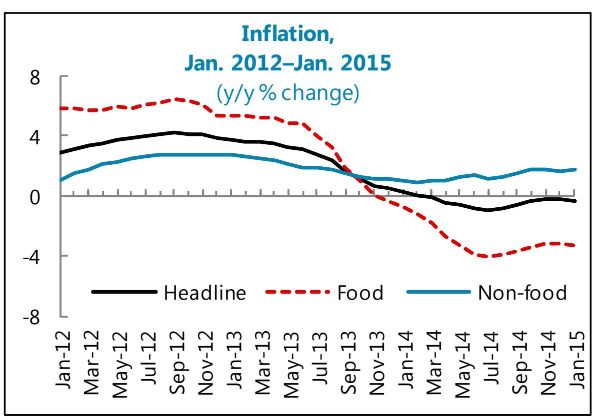
...and revenues were profondly affected.



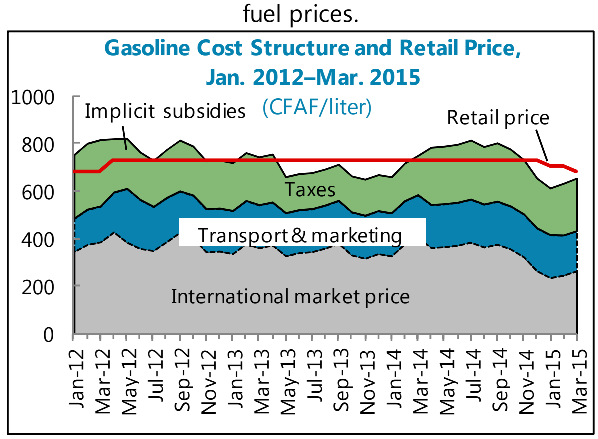
As a result, expenditure was reduced, especially domestically financed investment.



Inflation was negative for most of 2014 due to low food prices, partly resulting from public subsidies.



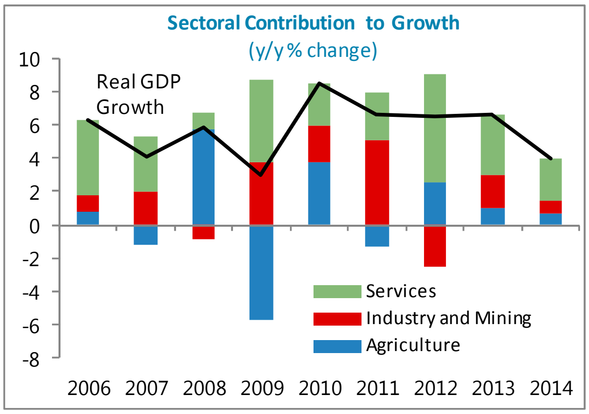
CFA depreciation and reductions of retail fuel price have reduced the windfall from lower international fuel prices.



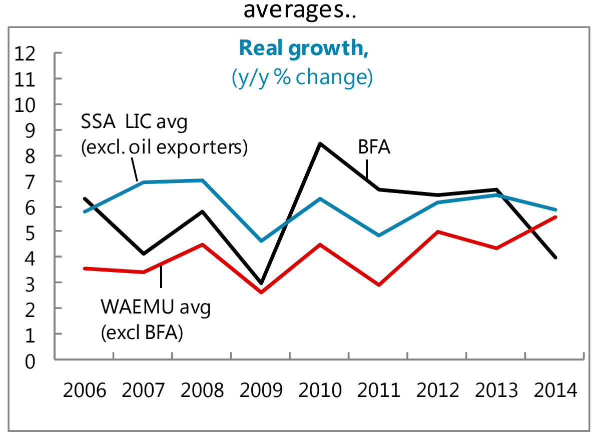
Sources: Burkinabè authorities and IMF staff calculations.

Figure 2. Burkina Faso: Real and External Developments, 2006–14

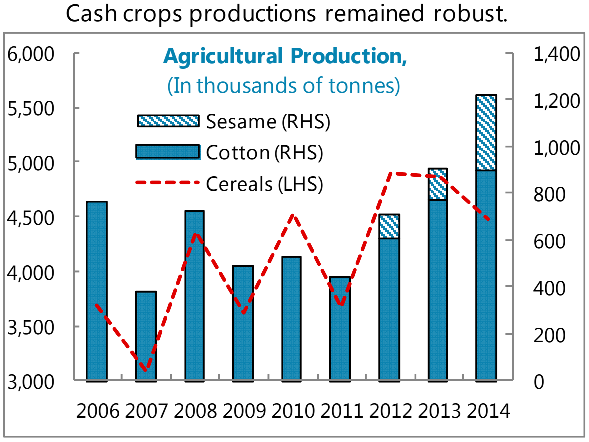
Activity in 2014 slowed down in all sectors…



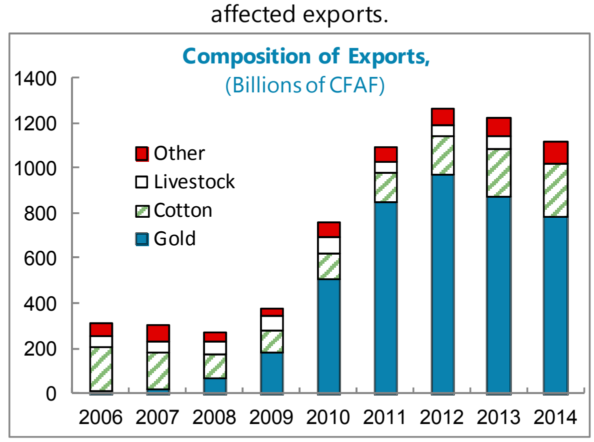
…leading growth below historical and regional averages..



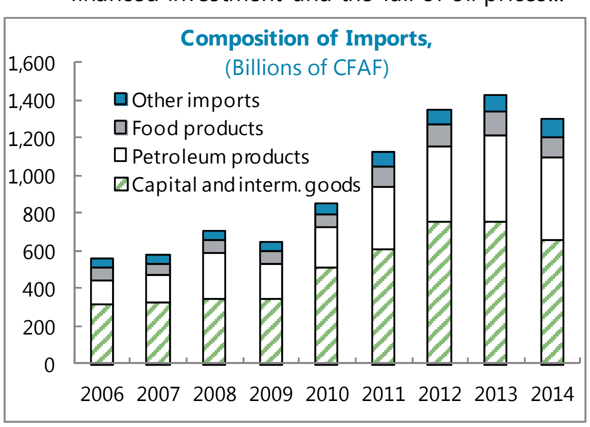
Cereal production dropped due to erratic rain. Cash crops productions remained robust.



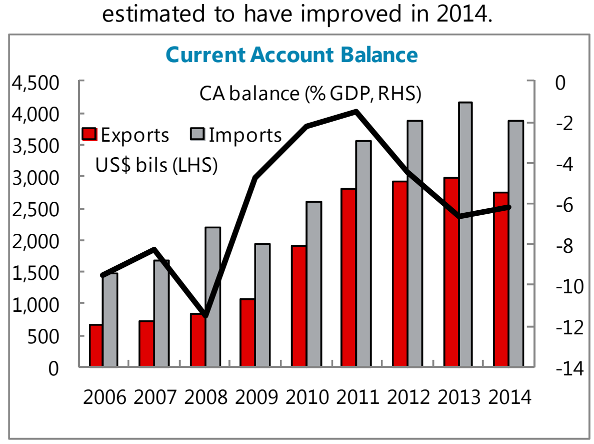
Lower international gold and cotton prices have affected exports.



Imports dropped due to compression of domestically financed investment and the fall of oil prices…



and as a result, the current account balance is estimated to have improved in 2014.

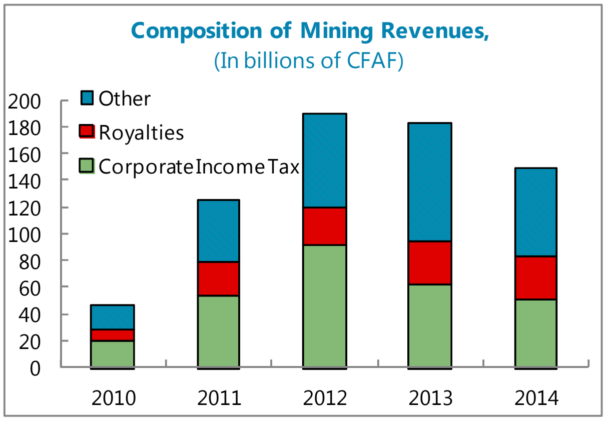


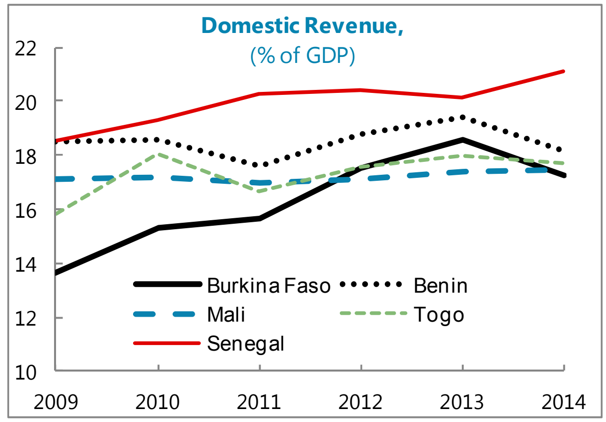
Sources: Burkinabè authorities and IMF staff calculations.

Figure 3. Burkina Faso: Fiscal Developments, 2009–14

Revenues dropped due to shocks, as highlighted by mining revenues...

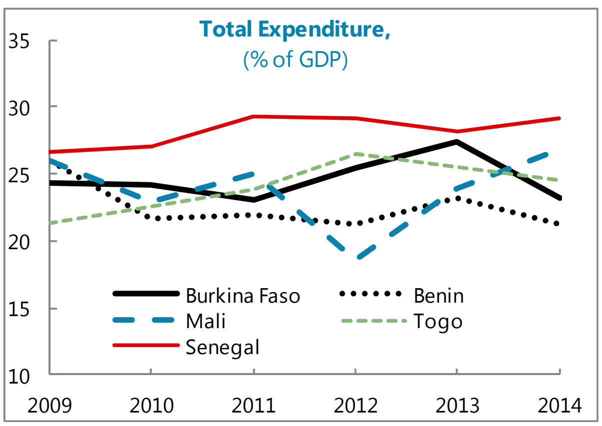
...reversing the gains relative to peer countries.

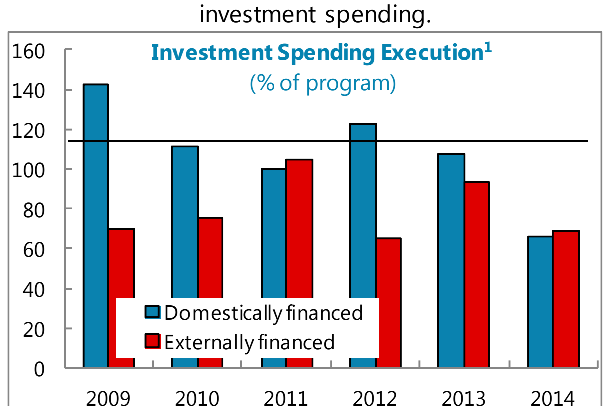




This drop was mirrored in expenditures...

...and the spending compression mainly impacted investment spending.

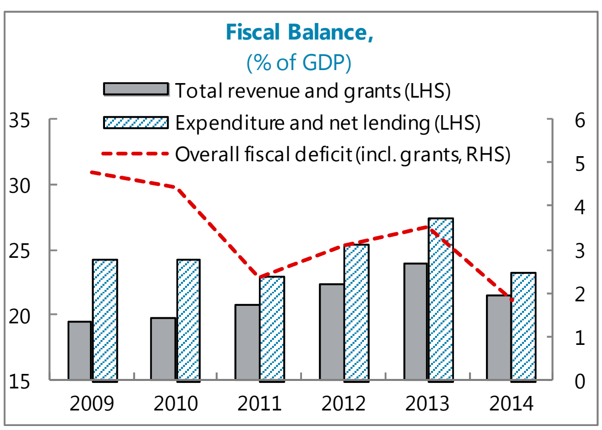


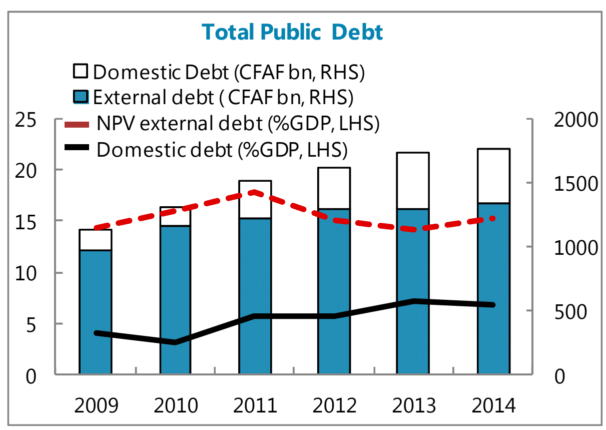


[1] Excluding capital transfer in 2013

The fiscal deficit was halved.

Debt levels remain modest, but rising.





Sources: Burkinabè authorities and IMF staff calculations.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2013–16

	2013	2014		2015		2016
		1st review	Est.	1st review	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)					
GDP and prices						
GDP at constant prices	6.6	6.7	4.0	6.8	5.0	6.0
GDP deflator	-0.8	1.1	-1.6	1.9	1.3	1.9
Consumer prices (annual average)	0.5	1.5	-0.3	2.0	0.7	1.8
Consumer prices (end of period)	0.1	2.0	-0.1	2.0	1.6	1.8
Money and credit						
Net domestic assets (banking system)[1]	19.6	15.4	16.4	15.0	18.1	16.7
Credit to the government (banking system)[1]	5.3	4.0	4.9	2.3	5.2	1.4
Credit to the private sector	26.3	15.1	16.5	16.4	15.1	16.8
Broad money (M3)	11.3	14.3	13.0	14.9	14.3	15.0
External sector						
Exports (f.o.b.; valued in CFA francs)	-3.3	-0.9	-4.3	4.4	2.3	2.0
Imports (f.o.b.; valued in CFA francs)	5.6	2.5	-9.2	3.4	10.9	5.0
Terms of trade	-13.7	-4.0	-4.6	1.2	-3.4	-3.3
Real effective exchange rate	1.8	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)					
Central government finances						
Current revenue	18.5	19.3	17.3	19.3	17.3	17.9
Of which: tax revenue	16.5	17.3	15.2	17.2	15.7	16.1
Total expenditure and net lending	27.4	27.8	23.2	27.7	24.8	25.6
Of which: current expenditure	13.6	14.7	14.4	14.7	14.7	14.1
Overall fiscal balance, excl. grants (commitments)	-8.9	-8.4	-6.0	-8.4	-7.5	-7.7
Overall fiscal balance, incl. grants (commitments)	-3.5	-3.1	-1.8	-3.1	-2.5	-3.0
NPV of external debt	14.0	15.0	15.2	15.4	15.5	15.8
Memorandum items:						
Nominal GDP (CFAF billion)	6,026	6,413	6,171	6,983	6,561	7,085
CFAF/US$ (annual average)	494	479	494	…	…	…
Euro/US$ (annual average)	1.33	1.37	1.33	…	…	…
Gold price (USD/KG)	45,400	42,681	40,740	43,219	37,952	37,931
Cotton price (USD/ton)	1,772	1,852	1,779	1,730	1,345	1,393
Petroleum spot price (USD/ton)	783	784	724	737	438	494

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

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

Table 2a. Burkina Faso: Consolidated Operations of the Central Government, 2013–16

	2013	2014		2015	2015	2016
	Act.	1st Review	Est.	1st Review	Proj.	Proj.
		(CFAF billions)				
Total revenue and grants	1441.7	1582.0	1321.1	1717.2	1462.8	1603.4
Total revenue	1117.4	1238.3	1064.7	1347.1	1137.2	1270.4
Tax revenue [1]	992.6	1106.3	940.7	1203.1	1032.5	1142.4
Of which: Gold Mining CIT	49.4	70.2	50.0	75.1	51.1	53.0
Nontax revenue [2]	124.8	132.0	124.0	144.0	104.8	128.0
Of which: Royalties from gold	33.6	41.4	32.0	44.4	31.7	32.9
Grants	324.4	343.7	256.4	370.1	325.6	333.0
Project	205.2	216.8	157.5	244.4	181.6	198.4
Program	119.1	126.9	98.9	125.7	143.9	134.6
Expenditure and net lending [3]	1652.6	1779.7	1434.5	1934.7	1626.5	1812.9
Current expenditure	818.9	942.9	886.7	1023.9	965.7	1001.1
Wages and salaries	355.5	441.4	437.3	469.2	456.7	488.8
Goods and services	118.6	118.4	102.4	139.7	110.1	116.2
Interest payments	34.7	28.9	44.0	37.9	39.7	41.8
Domestic	21.9	16.9	29.3	17.8	24.0	24.7
External	12.8	12.0	14.7	20.2	15.7	17.1
Current transfers	310.1	354.2	303.0	377.1	359.2	354.2
Investment expenditure	858.4	823.7	554.1	900.8	663.7	814.7
Domestically financed	592.7	509.5	338.4	558.6	424.4	510.1
Externally financed	265.7	314.2	215.7	342.2	239.3	304.6
Net lending	-24.8	13.1	-6.2	10.0	-2.9	-2.9
Overall balance [3]	-210.8	-197.7	-113.4	-217.5	-163.7	-209.5
Cash basis adjustment	50.8	0.0	75.9	0.0	-60.0	0.0
Overall balance (cash basis)	-160.0	-197.7	-37.5	-217.5	-223.7	-209.5
Financing	162.5	190.7	42.0	175.4	193.3	148.5
Foreign financing	34.4	123.4	51.4	95.4	74.4	103.5
Drawings	60.5	150.7	82.2	139.7	117.2	141.7
Project loans	60.5	97.4	58.2	97.8	57.7	106.3
Program loans	0.0	53.3	24.0	41.9	59.5	35.4
Amortization (excl. IMF)	-26.0	-27.3	-30.8	-44.3	-42.7	-38.1
Domestic financing	128.1	67.4	-9.4	80.0	118.9	45.0
Bank financing	92.4	77.9	-34.7	50.0	114.1	35.0
Central bank	75.8	55.3	-58.5	10.0	114.1	35.0
Commercial banks	16.7	22.6	23.8	40.0	0.0	0.0
Nonbank financing	35.7	-10.5	25.3	30.0	4.8	10.0
Errors and Omissions	-2.5		-4.5			
Financing gap	0.0	7.0	0.0	42.1	30.3	61.0
Of which: IMF future disbursements	0.0	7.0	0.0	7.0	10.6	7.0
Of which: IMF potential augmentation					19.7	
Memorandum items:						
Gold mining revenue	183.1	188.9	149.4	193.1	155.7	163.1
Overall Balance excl. gold mining revenue	-343.1	-386.7	-262.8	-410.5	-319.4	-372.6

[1] 2015 projection includes measures for: satellite tracking, scanners, facture normalise, new thresholds for companies to pay VAT.

[2] 2014 includes several one-offs such as large dividend payments and fines.

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

Table 2b. Burkina Faso: Consolidated Operations of the Central Government, 2013–16

	2013	2014		2015		2016
	Act.	1st Review	Est.	1st Review	Proj.	Proj.
	(In percent of GDP)					
Total revenue and grants	23.9	24.7	21.4	24.6	22.3	22.6
Total revenue	18.5	19.3	17.3	19.3	17.3	17.9
Tax revenue	16.5	17.3	15.2	17.2	15.7	16.1
Of which: Gold Mining CIT	0.8	1.1	0.8	1.1	0.8	0.7
Nontax revenue [1]	2.1	2.1	2.0	2.1	1.6	1.8
Of which: Royalties from gold	0.6	0.6	0.5	0.6	0.5	0.5
Grants	5.4	5.4	4.2	5.3	5.0	4.7
Project	3.4	3.4	2.6	3.5	2.8	2.8
Program	2.0	2.0	1.6	1.8	2.2	1.9
Expenditure and net lending [2]	27.4	27.8	23.2	27.7	24.8	25.6
Current expenditure	13.6	14.7	14.4	14.7	14.7	14.1
Wages and salaries	5.9	6.9	7.1	6.7	7.0	6.9
Goods and services	2.0	1.8	1.7	2.0	1.7	1.6
Interest payments	0.6	0.5	0.7	0.5	0.6	0.6
Domestic	0.4	0.3	0.5	0.3	0.4	0.3
External	0.2	0.2	0.2	0.3	0.2	0.2
Current transfers	5.1	5.5	4.9	5.4	5.5	5.0
Investment expenditure	14.2	12.8	9.0	12.9	10.1	11.5
Domestically financed	9.8	7.9	5.5	8.0	6.5	7.2
Externally financed	4.4	4.9	3.5	4.9	3.6	4.3
Net lending	-0.4	0.2	-0.1	0.1	0.0	0.0
Overall balance [2]	-3.5	-3.1	-1.8	-3.1	-2.5	-3.0
Cash basis adjustment	0.8		1.2	0.0	-0.9	0.0
Overall balance (cash basis)	-2.7	-3.1	-0.6	-3.1	-3.4	-3.0
Financing	2.7	3.0	0.7	2.5	2.9	2.1
Foreign financing	0.6	1.9	0.8	1.4	1.1	1.5
Drawings	1.0	2.3	1.3	2.0	1.8	2.0
Project loans	1.0	1.5	0.9	1.4	0.9	1.5
Program loans	0.0	0.8	0.4	0.6	0.9	0.5
Amortization (excl. IMF)	-0.4	-0.4	-0.5	-0.6	-0.7	-0.5
Domestic financing	2.1	1.1	-0.2	1.1	1.8	0.6
Bank financing	1.5	1.2	-0.6	0.7	1.8	0.5
Central bank	1.3	0.9	-0.9	0.1	1.7	0.5
Commercial banks	0.3	0.4	0.4	0.6	0.0	0.0
Nonbank financing	0.6	-0.2	0.4	0.4	0.1	0.1
Errors and Omissions	0.0	0.0	-0.1	0.0	0.0	0.0
Financing gap	0.0	0.1	0.0	0.6	0.5	0.9
Of which: IMF future disbursements	0.0	0.1	0.0	0.1	0.2	0.1
Of which: IMF potential augmentation					0.3	
Memorandum items:						
Gold Mining Revenue	3.0	2.9	2.4	2.8	2.4	2.3
Overall Balance excl. gold mining revenue	-5.7	-6.0	-4.3	-5.9	-4.9	-5.3
Nominal GDP (CFAF billions)	6,026	6,413	6,171	6,983	6,561	7,085

[1] 2014 includes several one-offs such as large dividend payments and fines.

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

Table 3. Burkina Faso: Monetary Survey, 2013–16

	2013	2014		2015		2016
		1st Review	Est.	1st Review	Proj.	Proj.
	(CFAF Billions)					
Net foreign assets	534.9	512.7	468.4	509.7	386.0	344.2
BCEAO	45.2	22.9	-36.6	20.0	-118.9	-160.7
Assets	297.7	271.6	163.1	254.5	138.1	84.2
Liabilities	252.5	248.7	268.6	234.5	257.0	244.9
Commercial banks	489.7	489.7	504.9	489.7	504.9	504.9
Net domestic assets	1402.3	1701.4	1720.7	2033.8	2116.2	2533.2
Net domestic credit	1540.5	1839.6	1809.1	2171.9	2254.5	2626.6
Net credit to government	44.2	122.0	139.0	172.0	253.1	288.1
Treasury	79.8	157.7	45.1	207.7	159.2	194.2
BCEAO	79.2	134.5	20.7	144.5	134.8	169.8
Commercial banks	0.6	23.2	24.5	63.2	24.5	24.5
- of which CNE accrued interest[1]			35.9			
Other central government	-35.7	-35.7	93.8	-35.7	93.8	93.8
Credit to the economy	1492.3	1717.6	1739.0	1999.9	2001.4	2338.5
Other items (net)	-138.1	-138.1	-88.4	-138.1	-138.4	-93.4
Broad money	1937.2	2214.1	2189.1	2543.5	2502.2	2877.4
	(Annual % change, unless otherwise indicated)					
Memorandum items:						
Net foreign assets	-21.2	-4.2	-12.4	-0.6	-17.6	-10.8
Net domestic assets [2]	19.6	15.4	16.4	15.0	18.1	16.7
Net credit to government [2]	5.3	4.0	4.9	2.3	5.2	1.4
Credit to the private sector	26.3	15.1	16.5	16.4	15.1	16.8
Money supply	11.3	14.3	13.0	14.9	14.3	15.0

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

[1] Accrued interest over past years was booked in 2014 on the accounts at the CNE (National Saving Agency).

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

Table 4. Burkina Faso: Balance of Payments, 2013–16

	2013	2014		2015		2016
		1st review	Est.	1st review	Proj.	Proj.
	(CFAF billions)					
Current account	-398.4	-462.5	-378.9	-489.0	-500.6	-551.8
Trade balance	-197.8	-246.1	-119.8	-242.3	-234.8	-282.9
Exports of goods	1234.5	1223.5	1180.8	1278.0	1207.7	1232.2
Of which: cotton	217.0	236.4	237.1	236.7	227.2	225.3
gold	872.7	827.9	782.6	864.8	821.7	820.4
Imports of goods	-1432.4	-1469.6	-1300.7	-1520.3	-1442.5	-1515.0
Of which: oil	-450.7	-452.9	-433.2	-443.7	-354.1	-387.1
Of which: food	-129.7	-120.9	-114.0	-115.3	-144.5	-147.6
Of which: public investment	-610.3	-626.6	-436.0	-672.6	-524.9	-623.8
Services, net	-401.7	-433.6	-436.8	-463.5	-502.0	-470.0
Income, net	-33.9	-29.1	-30.8	-34.4	-40.0	-41.1
Current transfers	235.1	246.3	208.6	251.3	276.2	242.1
Of which: Official transfers, net	157.7	167.3	129.6	170.7	178.6	162.0
Capital account	231.4	243.0	183.7	270.6	209.6	226.4
Project grants	205.2	216.8	157.5	244.4	181.6	198.4
Financial account	39.4	190.3	128.7	173.3	178.3	222.6
Direct investment	78.3	84.4	80.2	81.9	109.5	130.1
Portfolio investment	10.0	10.0	5.0	10.0	10.7	4.0
Other investment	-48.9	95.9	43.4	81.4	58.0	88.5
Long-term investment	-53.9	90.9	38.4	76.4	53.0	83.5
Project loans	60.5	97.4	58.2	97.8	57.7	106.3
Program loans	0.0	53.3	24.0	41.9	59.5	35.4
Amortization of public loans (excl. IMF)	-27.5	-27.3	-30.8	-44.3	-42.7	-38.1
Other private	-86.9	-32.5	-13.0	-18.9	-21.4	-20.0
Short-term investment	5.0	5.0	5.0	5.0	5.0	5.0
Errors and omissions	-16.4	0.0	0.0	0.0	0.0	0.0
Overall balance	-144.0	-29.2	-66.5	-45.1	-112.7	-102.8
Financing	144.0	22.2	66.5	2.9	82.3	41.8
Net change in foreign assets of the central bank	188.7	22.2	81.7	2.9	82.3	41.8
Of which: gross official reserves	211.5	32.8	83.3	23.6	93.9	53.9
IMF net financing	1.0	-10.6	-1.6	-20.7	-11.6	-12.1
Disbursements	4.8	0.0	3.8	0.0	0.0	0.0
Repayments (excluding charges)	-3.8	-10.6	-5.4	-20.7	-11.6	-12.1
Net foreign assets of commercial banks	-44.8	0.0	-15.2	0.0	0.0	0.0
Financing Gap	0.0	7.0	0.0	42.1	30.3	61.0
Of which: IMF future disbursements	0.0	7.0	0.0	7.0	10.6	7.0
Of which: IMF potential augmentation					19.7	
Memorandum items:	(Percent of GDP)					
Current account (– = deficit)	-6.6	-7.2	-6.1	-7.0	-7.6	-7.8
Imputed Country Reserves (in percent of Broad Mone	15.5	12.3	9.9	9.5	4.9	2.3
Imputed Reserves (in billions of USD)	0.6	1.6	0.4	0.2	0.2	0.1
GDP at current prices (CFAF billions)	6,026	6,413	6,171	6,983	6,561	7,085

Table 5. Burkina Faso: Quantitative Performance Criteria and Indicative Targets June 2014–March 2015

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

	2014									2015	
	Jun.			Sept.[6]			Dec.			Mar.[6]	
	Adj. Prog.	Act.		Adj. Prog.	Act.		Adj. Prog.	Act.		Prog.	Est.
Quantitative Performance Criteria											
Ceiling on net domestic financing of government[1, 2]	84.4	65.2	Met	66.3	68.7	Not met	100.6	84.3	Met	55.0	n.a.
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government [3, 4]	150.0	83.2	Met	150.0	83.2	Met	150.0	121.2	Met	150.0	n.a.
Accumulation of external arrears [3]	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	n.a.
Indicative targets											
Ceiling on the overall fiscal deficit including grants	148.0	66.8	Met	157.3	103.2	Met	155.5	113.4	Met	79.4	n.a.
Floor on Government revenue	593.8	537.4	Not met	884.3	820.8	Not met	1238.3	1064.7	Not met	276.8	n.a.
Floor on Poverty-reducing social expenditures[5]	244.7	219.5	Not met	367.1	371.2	Met	489.5	445.3	Not met	117.5	n.a.
Accumulation of new domestic arrears	0.0	n.a.	n.a.	0.0	n.a.	n.a.	0.0	n.a.	n.a.	0.0	n.a.

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

[1] Including on-lending of prospective IMF disbursements.

[2] Past year accumulated interest at the CNE account in 2014 is not included (in accordance with 1986 GFS and TMU).

[3] To be observed continuously.

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

[5] Includes identified financing only.

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

Table 6. Structural Benchmarks for the Second and Third Reviews of the ECF Arrangement

Measures	Date	Status
Submit to the Cabinet a report with recommendations to improve the quality of investment expenditure	Sep-14	Met
Conduct a study to identify options for strengthening the price smoothing fund (fonds de lissage) and putting it on a financially sustainable basis	Sep-14	Met
Have the Board of Directors adopt an action plan to implement the option selected for improving the quality of financial services provided by SONAPOST	Dec-14	Not met
Update SOFITEX's business plan by taking into account all the new assumptions, and submit the update to the Board of Directors for approval	Dec-14	Met
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	Dec-14	Not met
Implement a satellite tracking system for goods in transit	Dec-14	Implemented with delay
Initiate the process to update the base year used by the INSD for the production of national accounts	Dec-14	Met
Conduct an external audit of SONABHY and SONABEL, under the supervision of the higher authority for government supervision	Nov-14	Implemented with delay

Table 7. Burkina Faso: Schedule of Disbursements Under ECF Arrangement 2014–16, Including Proposed Augmentation

Amount	Date available	Conditions for disbursement [1]
SDR 2.55 million	December 27, 2013	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	Obervance of the performance criteria for end-June 2014, and completion of the second review under the arrangement
SDR 18.92 million	May 15, 2015	Observance of the performance criteria for end-December 2014, and completion of the third review under the arrangement
SDR 14.10 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. Burkina Faso: Indicators of Capacity to Repay the Fund, 2013–25

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
	Actual						Projections						
Fund obligations based on existing and prospective credit													
(in millions of SDRs)													
Principal	7.2	14.1	14.5	17.8	24.2	23.6	19.0	22.6	18.3	11.5	10.0	6.9	1.3
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.3	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Total obligations based on existing and prospective credit													
In millions of SDRs	7.2	14.1	14.5	17.8	24.2	23.9	19.2	22.7	18.4	11.6	10.0	6.9	1.4
In billions of CFAF	5.4	11.5	11.8	14.5	19.6	19.3	15.4	18.2	14.8	9.3	8.0	5.6	1.1
In percent of government revenue	0.5	1.0	0.9	1.0	1.3	1.1	0.8	0.9	0.7	0.4	0.3	0.2	0.0
In percent of exports of goods and services	0.4	0.8	0.8	0.9	1.2	1.0	0.8	0.8	0.6	0.4	0.3	0.2	0.0
In percent of debt service[2]	5.3	10.2	10.0	10.8	12.5	11.2	8.6	9.3	6.9	4.1	3.1	1.9	0.3
In percent of GDP	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0
In percent of quota	11.9	23.4	24.0	29.6	40.1	39.7	32.0	37.8	30.5	19.3	16.6	11.5	2.2
Outstanding IMF credit													
In millions of SDRs	137.7	160.7	155.2	137.4	113.3	89.6	70.6	48.0	29.8	18.2	8.3	1.3	0.0
In billions of CFAF	103.3	131.4	127.1	112.2	92.0	72.5	56.7	38.5	23.9	14.6	6.6	1.1	0.0
In percent of government revenue	9.7	11.6	10.0	7.9	5.9	4.2	3.0	1.9	1.1	0.6	0.3	0.0	0.0
In percent of exports of goods and services	7.7	9.4	8.7	7.2	5.4	3.9	2.8	1.7	1.0	0.6	0.2	0.0	0.0
In percent of debt service[2]	102.5	116.5	107.3	83.1	58.5	41.9	31.6	19.6	11.2	6.4	2.6	0.4	0.0
In percent of GDP	1.7	2.0	1.8	1.5	1.1	0.8	0.6	0.4	0.2	0.1	0.0	0.0	0.0
In percent of quota	228.8	267.0	257.8	228.3	188.1	148.9	117.3	79.8	49.4	30.3	13.7	2.2	0.0
Net use of IMF credit (millions of SDRs)	-2.1	23.0	-5.5	-17.8	-24.2	-23.6	-19.0	-22.6	-18.3	-11.5	-10.0	-6.9	-1.3
Disbursements	5.1	37.1	8.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	7.2	14.1	14.5	17.8	24.2	23.6	19.0	22.6	18.3	11.5	10.0	6.9	1.3
Memorandum items:													
Nominal GDP (in billions of CFAF)	6170.6	6561.1	7084.6	7699.4	8371.7	9102.6	9897.3	10758.0	11686.5	12685.1	13768.0	14932.9	16201.3
Exports of goods and services (in billions of CFAF)	1349.1	1391.7	1466.2	1560.6	1705.3	1872.4	2038.8	2227.5	2414.6	2484.9	2683.8	2865.4	3047.0
Government revenue (in billions of CFAF)	1064.7	1137.2	1270.4	1425.0	1565.5	1720.4	1870.6	2033.3	2208.7	2359.4	2519.5	2665.5	2835.2
Debt service (in billions of CFAF)[2 3]	100.8	112.8	118.5	135.0	157.2	173.2	179.6	196.3	213.5	228.0	257.5	293.0	343.8
CFAF/SDR (period average)	750.0	817.9	819.0	816.3	812.2	808.6	802.5	802.5	802.5	802.5	802.5	802.5	802.5

Sources: IMF staff estimates and projections.

[1] Includes the proposed augmentation of access.

[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
N°2015/……../MEF/SG/DGCOOP

Ouagadougou, May 13, 2015

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 three-year economic program supported by the arrangement under the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) for the period 2013-2016. Also, the transition government established following the popular uprising on October 30-31, 2014 reaffirms its determination to continue the implementation of sound economic and financial policies, and to organize free and transparent elections in October 2015.

The transition government will maintain efforts geared towards consolidation of public finances and strengthening social policy. It will carry on the implementation of reforms needed to accelerate the pace of growth and poverty reduction, in a context of budgetary austerity. The government is aware that the implementation of the program in 2015 will take place in an unusual and difficult context, still characterized by the negative effects of exogenous shocks related to the price decline of major export goods (gold and cotton) and by the sociopolitical crisis of end-2014. In order to alleviate the impact on the most vulnerable sectors of the population, the government, despite a context of budget austerity, adopted an emergency social program, amounting to CFAF 25 billion (0.4 percent of GDP), which will be financed by current spending cuts and trimming public sector wage costs. This social program focuses on supporting employment for youth and women, and strengthening education and health infrastructure. Furthermore, the government intends to implement medium term measures to increase revenue mobilization and streamline current expenditure. Similarly, it will continue reforms aimed at improving the business climate, to bolster private investment and external financial inflows that can improve the fundamentals for sustainable growth. Furthermore, the government will continue its efforts to restore a calm sociopolitical environment, and maintain its prevention program against the Ebola virus and new spending to eradicate bird flu.

The attached Memorandum of Economic and Financial Policies (MEFP) examines program performance in 2014, presents the policies that the government intends to pursue in 2015, and sets program targets and reforms for 2015-16. It explains the country's balance of payments needs and outlines the government's 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 Sustainable Development (SCADD).

Performance under the program supported by the ECF is satisfactory. Indeed, the end-December performance criteria on the ceiling on net domestic financing, the ceiling on new non-concessional loans contracted or guaranteed by the State, as well as on external arrears accumulation, were all met. While the indicative target for the overall deficit on a commitment basis has been met, the other targets relating to overall revenue collection, the level of implementation of social spending to reduce poverty and the accumulation of domestic arrears were not achieved due to the aforementioned shocks.

Regarding structural benchmarks, six (6) out of eight (8) benchmarks for 2014 were completed. The two benchmarks to be achieved by SONAPOST and SONABEL have been reformulated and reprogrammed to be completed in early 2016.

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 second and third reviews under the ECF arrangement. To this end, we request disbursements in the amounts of SDR 4.11 million, and SDR 4.47 million, respectively, under the second and third reviews of the ECF arrangement. In order to facilitate adjustment to the aforementioned exogenous shocks and address significant additional financing needs without jeopardizing the objectives of the national development strategy, the government also requests increased access under the ECF arrangement in an amount equivalent to SDR 24.08 million. Furthermore, we request an increase of the ceiling on the continuous performance criterion on nonconcessional external debt from CFAF 150 billion to CFAF 200 billion and a modification of the definition of the net domestic financing performance criterion.

The government believes that the policies set forth in the attached MEFP are adequate to achieve the economic and social objectives of its program, but it will take any further measures that may become appropriate for this purpose, including ensuring the program is fully financed. 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. 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.

Sincerely,

/s/

Jean-Gustave Sanon

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

Attachment I. Memorandum of Economic and Financial Policies 2015–2016

INTRODUCTION

1. Burkina Faso's economic and financial program for the period 2014-2016, supported by the International Monetary Fund (IMF) under the Extended Credit Facility (ECF), aims to preserve macroeconomic stability and strengthen the basis for sustained and inclusive growth in line with the objectives of the Strategy for Accelerated Growth and Sustainable Development (SCADD). This Memorandum of Economic and Financial Policies (MEFP) presents the economic situation at end-June and end-December 2014. It also reviews the quantitative criteria and structural benchmarks at these same dates and sets out program objectives for 2015 and 2016.

ECONOMIC DEVELOPMENTS IN 2014

2. In 2014, Burkina Faso's economic and financial position was affected by several concurrent shocks to the economy: unsatisfactory rainfall, the fall in cotton and gold prices (main exports) the impact of the Ebola crisis in the region and the appreciation of the dollar against the CFA franc. This was compounded by the impact of the domestic sociopolitical crisis and the popular insurrection of October 30 and 31, 2014 which culminated in a sweeping change in the leadership of the country. Lower oil prices helped to mitigate partly the combined adverse effects of the other shocks.

3. These various factors led economic agents to adopt a wait-and-see attitude. This, as well as the postponement of several international events that were to be held in Burkina Faso, resulted in significant losses for the service sector and a slowdown in growth. Thus, real GDP growth, which had initially been projected at 6.7 percent at end-June 2014, and revised downwards to 5.0 percent in October, was estimated at 4.0 percent at end-December 2014 compared to 6.6 percent in 2013. The deceleration of 2.6 points of GDP growth is attributable to a decline in all sectors, most pointedly in the tertiary sector (hotels and tourism sector output fell by 1.4 percentage points). The primary sector grew by only 2.7 percent, reflecting a decline in grain production by 8.2 percent as well as other food crops (24 percent), offset by the strong growth of production of cash crops (23 percent). Growth in the secondary sector declined by 4.5 percentage points to 4 percent, mainly due to the slowdown in activity in the construction sector and in manufacturing, resulting from the effects of the socio-political situation.

4. With respect to consumer prices, the annual average inflation rate stood at -0.3 percent at end-December 2014 compared to 0.5 percent at end-December 2013. The decline in global food prices, the relative sufficiency of farmer inventories, and government measures implemented to contain the rising cost of living (sale of grain at subsidized prices in areas with shortages and establishment of special retail outlets with controlled prices for food staples) all helped to limit inflation.

5. Imports are expected to have dropped by 9.1 percent year on year, owing mainly to the shrinkage of imports of capital goods (-21.1 percent) and intermediate goods (-9.3 percent). This compression of imports is in fact a reflection of the marked reduction in government spending as well as interruption of new investments in the mining sector. Exports are expected to have been 4.8 percent lower in 2014 than in 2013, based on lower cotton and gold prices and unchanged gold volumes. Exports of services are likely to show a steep decline weighed down by the impact of the Ebola crisis on hotel and tourism services. The trade balance is expected to be -1.9 percent of GDP in 2014 (compared to -3.3 percent in 2013), and the current account balance is expected to move from -6.6 percent of GDP in 2013 to -6.1 percent in 2014.

6. In 2014, the monetary aggregates were impacted by a steep, year-on-year decline of 12.4 percent in net foreign assets, weighed down by an increase in payments abroad, in particular for services and capital income, resulting from high levels of foreign investment in large national enterprises. This coincided with an increase in domestic credit of 17.4 percent, including a 16.5 percent increase in credit directed to the private sector.

7. On the fiscal front, the simultaneous occurrence of the aforementioned series of shocks took a severe toll on economic activity with a strong adverse knock-on effect on revenue collection related, in particular, to imports of goods, tourism, and government investment spending. As of end-December 2014, revenue collection for the year amounted to 86.0 percent of anticipations, that is, 17.3 percent of GDP, compared to 18.5 percent in 2013. With regard to grants, 74.6 percent of the forecast amount forecast was disbursed. Compared to 2013, grants declined by 21.0 percent.

8. Execution of total expenditure and net lending at end-December 2014 stood at 80.6 percent of initial projections. Current expenditure execution was 94.0 percent of target. The reductions in spending were mainly in the area of domestically-financed capital expenditure, of which 66.4 percent of target was executed, that is, 5.5 percent of GDP, versus 9.8 percent in 2013. Expenditure compression was necessary in order to balance the fiscal accounts. Externally-financed capital expenditure was executed at 68.7 percent of the targeted amount.

9. The overall fiscal deficit (commitment basis), stood at 1.8 percent of GDP as of end-December 2014, compared to projections of 3.1 percent. In turn, the overall balance on a cash basis posted a deficit of 0.6 percent of GDP, which was financed mostly by net external flows amounting to 0.8 percent of GDP while net domestic financing was -0.2 percent of GDP.

A. Performance Under the Program

10. All the performance criteria, consisting of the ceiling on net domestic financing at end-June 2014 and at end-December 2014, the ceiling on new nonconcessional debt contracted or guaranteed by the government, and the accumulation of external arrears (both continuous), were met. Net domestic financing totaled CFAF 65.2 billion at end-June and CFAF 84.3 billion at end-December 2014, against adjusted ceilings of CFAF 84.4 billion and CFAF 100.6 billion, respectively. As for new non-concessional borrowing, this amounted to CFAF 83.2 billion at end June and end December 2014. However at end February 2015 it reached CFAF 121,2 billion against a program ceiling of CFAF 150.0 billion.

11. Looking at indicative targets, the overall deficit (commitment basis) stood at CFAF 66.8 billion and CFAF 113.4 billion against adjusted program ceilings of CFAF 148 billion and CFAF 155.5 billion for end-June and end-December, respectively. However, targets related to revenue collection and execution of poverty-reducing expenditures were not met. Revenue collection amounted to CFAF 537 billion and CFAF 1,065 billion against adjusted program floors of CFAF 594 billion and CFAF 1,238 billion at end-June and end-December, respectively. Poverty-reducing social expenditures reached CFAF 219.5 billion and CFAF 445.3 billion against adjusted program floors of CFAF244.7 billion and CFAF 489.5 billion at end-June and end-December, respectively.

12. Domestic arrears amounting to 0.9 percent of GDP were accumulated by end-December 2014, breaching the program ceiling of zero. A redefinition of the criterion has been proposed to improve program monitoring: (i) a quarterly report will be produced for monitoring pending payments; and (ii) the quarterly reports will be audited by the ASCE on an annual basis.

13. The two structural measures with a target date set for end-September 2014 were implemented. A study to identify options for putting the cotton price stabilization fund on a more financially sustainable basis recommended a review of the fund's operational parameters and recapitalization. As regards the second measure, a report on improving the quality of investment spending was adopted by the Council of Ministers at its meeting of October 1, 2014 along with an action plan for its implementation.

14. A measure set for end-November 2014 regarding the conduct of external audits of SONABHY (National Hydrocarbon Company) and SONABEL (National Electricity Company) under the supervision of the national external control agency (ASCE) was implemented. The audit reports were submitted in December 2014 with numerous recommendations for lowering the costs of the two state-owned companies.

15. Of the five measures that were to be observed at end-December 2014, two were met on time and one was implemented with a delay. The first two measures related to the adoption of an updated business plan by the cotton company SOFITEX and initiation of the process to update the base year for the national accounts. The third measure, concerning implementation of a satellite tracking system for goods in customs transit was completed with a delay, the official launch having taken place on February 16, 2015. Two measures were not implemented. In the case of adoption of an action plan by the Board of Directors of SONAPOST to improve the quality of financial services provided, the difficulty lay in finding suitable providers. The new proposal is to replace this measure with a more efficient one aimed at improving access to banking services. Regarding the conduct of the SONABEL study on the viability of production and import options, the deadline for implementing this measure has been changed to March 2016 to take into account the new performance contract with the government.

B. Implementation and Outlook for the Strategy for Accelerated Growth and Sustained Development (SCADD)

16. Over the course of 2014, the government continued the process of promoting the growth poles. Implementation of the "Bagré growth pole" pilot project continued through a public-private partnership. Further, national conferences on the "Sahel growth pole" were held to reinforce project preparation.

17. In line with the monitoring and evaluation mechanism of the SCADD, in 2014, the Burkinabè government conducted a review of implementation at end-2013 to measure performance, identify constraints, and make adjustments as needed for future years. The evaluation report stated that 66.7 percent of the measures in the performance matrix had been implemented and 58.7 percent of the targets had been met.

18. The results of the evaluation showed that major progress has been made towards meeting certain Millennium Development Goals (MDGs), such as the prevalence of underweight children under five years of age, the infant mortality rate, the proportion of children aged 12-23 months immunized against measles, and the ratio of girls to boys in primary enrollment. Other targets such as improving maternal health and access to potable water in urban areas can potentially be met in 2015. Nevertheless, Burkina Faso will not be able to achieve all the MDGs targeted for 2015, due to slow progress with respect to the objectives on universal primary education and environmental sustainability. The evaluation also identified factors that could undermine the sustainability of the results achieved, namely social and political crises, frequent institutional changes associated with the structure of ministerial departments, and the high dependence on external funding of several bodies involved in implementing the SCADD.

ECONOMIC POLICIES FOR THE PERIOD 2015–2016

A. Macroeconomic Framework

19. Economic activity will pick up pace slightly in 2015, with real GDP growth reaching 5 percent, as a result of a small improvement across all sectors. This forecast for 2015 is based on the assumption of a peaceful political transition, coupled with an abatement of the Ebola crisis in the region. For the medium term, a gradual recovery in economic activity is expected to begin in 2016 with a growth rate at around 6.0 percent. Assuming favorable rainfall and the continuation of government measures to contain the cost of living as well as favorable oil-price trends, average annual inflation should reach 0.7 percent in 2015 and 1.8 percent in 2016.

20. A deterioration of the current account deficit is expected in 2015, to 7.6 percent of GDP. This change is due mainly to the rising price of imports following the appreciation of the dollar, coupled with only a slight upturn in exports. Cotton exports are set to fall by 4.2 percent, pushed down by the drop in international prices, partially offset by the appreciation of the dollar. Gold production is expected to dip by 4 percent, as production in certain mines will soon come to a halt. In value terms, gold exports will increase by 5 percent reflecting the appreciation of the dollar. For 2016, the current account is expected to settle at -7.8 percent of GDP. The money supply is expected to increase by 14.3 percent at end-December 2015 compared to end-December 2014, despite a forecast reduction of 17.6 percent in net foreign assets.

B. Fiscal Policy

21. The 2015 budget was prepared against the backdrop of a popular uprising on October 30 and 31, 2014 that culminated in the drawing up of a transition charter and the formation of a transition government. As a result of the external shocks faced by Burkina Faso and their impact on government revenues, an austerity budget needed to be prepared. Thus, the priorities set in the context of the preparation of the 2015 budget before the popular uprising were reviewed to take account of both the new mission assigned to the transition government and the new, more difficult socio-political and economic environment. Consequently, the transition government, while continuing to take action to reduce poverty by stepping up growth and wealth creation for inclusive development, will put greater emphasis on:

- **improving justice** by taking strong measures to restore the confidence of the people in the judiciary and the justice system in general;

- **restoring governance** through the construction and normalization of new jurisdictions, courts, and penitentiaries, the humanization of conditions in penitentiaries, increasing support for oversight structures, and publication and outreach activities with respect to the law on preventing and combating corruption in Burkina Faso. Particular attention will be paid to the organization of presidential and legislative elections for which an allocation of CFAF 25 billion (0.4 percent of GDP) has been included in the initial budget law for 2015. The total cost of elections is estimated at CFAF 54 billion (0.8 percent of GDP), resulting in a financing gap of CFAF 29 billion for which funding requests have been made to technical and financial partners. The government will make the necessary adjustments to the 2015 budget to ensure that the elections budget is fully funded once it has a clear picture of the level of contributions from partners;

- **consolidating social gains** through high labor-intensity programs (HIMO), enhancing the capacity of the education system, preparing a response plan to deal with epidemics, including the Ebola virus; and

- **strengthening internal security and national defense.**

22. In 2015, domestic revenues are expected to amount to 17.3 percent of GDP, program grants to 1.9 percent of GDP, and total expenditure to 24.8 percent of GDP. The overall fiscal deficit (commitment basis) is expected to be 2.5 percent of GDP which will be covered by both external (budget support) financing and domestic bond issuances. The 2015 government budget execution program has identified several reforms and support measures pertaining both to revenue collection and to the programming and execution of capital spending.

23. Significant measures have recently been implemented to strengthen the efficiency of revenue collection, including interconnection of the DGI and DGD (GERIF) databases, which has made it possible to detect more than 250 cases of fraud. Additional measures will build on these achievements and will focus particularly on: (i) putting in place an efficient system for managing and monitoring exemptions to improve tax revenue collection; (ii) improving the inspection mechanism for mining sector operations with the preparation of the standard protocol for installation of customs posts at mining sites; (iii) strengthening arrangements for collection of value-added-tax (VAT) with the introduction of a standardized invoice; (iv) an exhaustive survey of medium-sized enterprises for better monitoring and efficient control of the new classification of enterprises in order to increase the number of taxpayers; (v) launching the Virtual Liaison System for Import and Export operations (SYLVIE) to ensure transparent, reliable, and rapid production and delivery of the documents required for customs clearance operations; (vi) using the satellite tracking system for vehicles in transit to improve the control of merchandise in transit, which would make it possible to redeploy at least 120 agents previously deployed to carry out physical escorts; (vii) the introduction of scanners in customs offices to improve efficiency in combating fraudulent shipments and tracing hidden compartments; (viii) the creation of an Investigations and Intelligence Directorate with a view to increasing the number of audits by 10 percent.

24. To improve investment spending quality and execution, a planning procedures guide/manual will be prepared to put in place a formal programming process as well as an operational mechanism for decision-making on priority investment spending commitments. Furthermore, hearings with ministries and institutions will be reintroduced to ensure a more realistic public investment program.

25. Significant progress has been made on managing the government expenditure chain, notably the time frame for verification, which was reduced to 17 days in December 2014 from 35 days in 2013 following the implementation of reforms within the framework of procedures and responsibilities of participants in the public expenditure chain. It has been decided to continue these reforms which will include (i) implementing the action plan on the computerization of the public expenditure chain; (ii) strengthening the activities of the committee responsible for monitoring expenditures on development projects and programs for more effective execution of capital spending; (iii) putting in place a sectoral committee to monitor public expenditure execution for a monthly review of budget execution; (iv) easing ex ante control by prioritizing invoices above a certain threshold; (v) giving project and program coordinators greater responsibility for the execution of funds released by delegation of signature.

C. Debt Policy

26. The government intends to continue implementing the debt policy adopted in 2008 and to update the medium-term debt management strategy. This will imply maintaining the current strategy of using highly concessional resources to finance the needs of the economy. Further, external financing denominated in euros will be given preference in view of the low risk involved. 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.

27. Financing needs in 2015 have been estimated at 2.9 percent of GDP, broken down as follows: 1.1 percent of GDP in net external financing; and net domestic financing of 1.8 percent of GDP, including the use of amounts held in the Treasury Single Account. This leaves a remaining financing gap of 0.5 percent of GDP. Approval of the second and third reviews under the ECF arrangement should result in the disbursement of SDR 8.58 million with SDR 4.47 million programmed for disbursement under the fourth review later in 2015. To bridge the outstanding financing gap, the government requests an augmentation of access under the ECF arrangement of SDR 24.08. For 2016, a financing gap is estimated at CFAF 54 billion (0.9 percent of GDP). The government will seek new external concessional financing to close this gap, and stands ready to adjust its policies as needed to ensure that its 2016 budget is fully-financed.

28. For the current program, the government is proposing an increase in the ceiling of nonconcessional financing from CFAF 150.0 billion to 200.0 billion to finance road, hydroagricultural, and market infrastructure projects that have already been identified. These consist of the drinking water supply project for Ouagadougou from the Ziga dam, the University campus project for Bobo Dioulasso, the road paving project Guiba-Garango, and the sanitation project for peripheral zones of Ouagadougou.

OTHER STRUCTURAL REFORMS 2015 AND 2016

A. Public Finance Reforms

29. Wage bill and administrative management reform for state employees through measures including: (i) boosting the system for redeploying personnel from areas with a high concentration of workers to underserved areas so as to minimize the need for additional staff recruitment; (ii) the implementation in 2015 of cash payment operations for all government employees to monitor staffing and streamline the components of remuneration to supplement the biometric operation conducted in 2012 that made it possible to identify 1,235 persons in irregular status and stop their salaries from January 2014; (iii) adoption of regulations, making it compulsory to state the identity and identification number of incoming and outgoing officials on appointment documents to facilitate automatic updating of the salary status .

30. The reform of public debt management that will focus on the following four broad areas: (i) issuance of domestic debt, cash-flow forecasting, and management of cash balances; (ii) institutional arrangements, including the coordination of public debt procurement and external and internal audit procedures; (iii) debt and risk management strategies, including the issuance of guarantees; and (iv) operational risk management. A study is underway, the conclusions of which will feed into an action plan.

B. Mining Sector Reforms

31. Following the withdrawal of the draft mining code, there have been ongoing discussions on the points of disagreement between the government and the various actors in the mining sector. These exchanges resulted in a consensus on a draft code that was adopted by the Council of Ministers and which took on board most of the concerns of technical and financial partners. The draft was adopted by the government on February 18, 2015 and sent to the National Transition Committee (CNT) on February 23, 2015.

32. With a view to creating a conducive environment for better facilitating artisanal mining operations and generating additional revenues for the country, a number of measures are being envisaged. They include : (i) bringing on stream the National Support Agency for Artisanal and Semi-mechanized Artisanal Mining Operations; (ii) revising the inter-ministerial order of February 3, 2009, establishing the licensing requirements and specifications for the purchase, sale, and export of gold in Burkina Faso particularly with respect to taxes and royalties; (iii) revisit the antifraud law with respect to the marketing of gold to strengthen the operations of the National Anti Gold-Fraud Brigade; (iv) setting up the National Board for Securing Mining Sites; (v) strengthen the operating capacities of the Directorate responsible for Artisanal and Semi-mechanized Artisanal Mining Operations to better equip it to monitor artisanal mining activities; and (v) develop a methodology and action plan for an in-depth study on traditional gold prospecting (orpaillage) sector, to better gauge the importance of this sector for the Burkinabè economy.

C. Energy Sector Reforms

33. Conditions in the energy sector in Burkina remain difficult. Insufficient electricity supply is one of the major constraints for growth, and the financial situation of the national oil company (SONABHY) and the electricity utility (SONABEL) remains tight after years of losses. SONABHY's financial performance improved at end-2014 as it benefited from lower petroleum product prices in the international market, which generated a financial surplus. This trend continued through to February 2015, thus boosting SONABHY's weak financial situation and cash position. However, the depreciation of the CFA franc against the US dollar and the reduction of pump prices in January and February 2015 by the government in response to pressure from trade unions reduced these gains. Taking this into account, the Government committed not to further decrease pump prices ahead of the elections in October.

34. With a view to meeting the objectives of strengthening the infrastructure of the public service electricity utility and improving the quality of service to customers, a performance contract between the government and SONABEL will be prepared for the period 2015-2019 to establish the modalities for cooperation and support from the state for the efforts of SONABEL. This should allow SONABEL, *inter alia*, to optimize its fuel consumption costs and improve its financial balance through better cost control, regularize its financial relations with the government, enhance its technical performance and distribution to customers and improve the continuity and quality of supply. Regarding investments, SONABEL is seeking to diversify its sources of production, by pursuing the building of new thermal and solar power plants and interconnections with neighboring countries. Over the 2015-2016 period, the principal new investment projects will be targeted towards: (i) the increase of thermal production capacity; (ii) establishment of the interconnections including the one with Ghana planned for 2017; (iii) the development of renewable energies; (iv) the development of independent electricity production; and (v) improving access to electricity. Thus, in the context of improving its financial situation and based on the recommendations of the audit of its expenses, SONABEL has developed a program to optimize its cost management over the period 2015-2017. A study on the rate structure is also envisaged to take into account certain parameters identified in the conclusions of the audit.

35. In order to reduce the cost burdens of SONABHY and improve its financial situation, the Government is committed to implement the recommendations of the cost audit carried out in 2014. Also, a performance contract will be prepared to define the cooperation framework between SONABHY and the state, as part of its investment plan to increase its capacities for storage and bottling of butane gas to overcome shortages. In addition, important measures will be taken in the context of implementing the findings of the expenditure audit conducted in December 2014. A key focus will involve streamlining the transport sector. To reduce the incentive for haulers to commit fraud, there are plans to redraft regulations to penalize leakages of hydrocarbons. To this end, it is planned to begin invoicing haulers at market prices for any transport leakages.

D. Reforms to Improve Macroeconomic Monitoring

36. Several reforms are envisaged to improve macroeconomic monitoring and strengthen the analysis of structural trends, in order to identify the most efficient sectors for promoting growth and creating jobs. To achieve this, the National Statistics and Demographic Institute intends to publish by June 2015, quarterly national accounts on an output basis at constant prices. In addition, the updating work on the new base year for the national accounts should be continued, with the completion of the informal sector survey and other specific studies.

PROGRAM MODALITIES

37. The government intends to take all the necessary measures to achieve the objectives and criteria, as presented in Tables 1 and 2 of this Memorandum of Understanding. The program will be examined in keeping with the Technical Memorandum of Understanding that defines the quantitative performance criteria and requirements regarding data reporting to Fund staff. The 4th, 5th and 6th program reviews are expected to take place on or after December 1, 2015, May 16, 2016 and December 1, 2016, respectively.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, June 2015-June 2016

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

	2015			2016	
	Jun.	Sept.[6]	Dec.	Mar.[6]	Jun.
	Proj.	Proj.	Proj.	Proj.	Proj.
Quantitative Performance Criteria					
Ceiling on net domestic financing of central government[1]	97.3	150.7	149.2	56.3	96.0
Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by government [2, 3]	200	200	200	200	200
Accumulation of external arrears [2]	0.0	0.0	0.0	0.0	0.0
Indicative targets					
Ceiling on domestic financing outside central government[4]	14	22	29	15	22
Ceiling on the overall fiscal deficit including grants	110.7	179.5	163.7	82.4	164.8
Floor on Government revenue	556	800	1137	268	585
Floor on Poverty-reducing social expenditures[5]	218	327	436	118	237

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

[1] Defined in the TMU, and including on-lending of prospective IMF disbursements.

[2] To be observed continuously.

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

[4] Defined in the TMU.

[5] 90 percent of budget amount.

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

Table 2. Structural Benchmarks for end-June 2015 to end-March 2016		
Measure	**Explanation**	**Completion date**[1]
Sign a performance contract between the government and SONABEL to increase its efficiency and put it on a stable footing for medium-term development. (**SONABEL)**	Strengthen control of the government's contingent liabilities and ensure the viability of public enterprises	June 2015
Completion of an exhaustive survey of medium-sized enterprises for proper monitoring and efficient control of the new classification of enterprises. **(DGI)**	Optimize revenue collection through increasing revenue base	June 2015
Draft regulations ensuring that invoicing is based on delivery prices instead of import prices to penalize losses above the specified norms during the transport of petroleum products from the ports to SONABHY. (**SONABHY)**	Lower the costs of public enterprises through reducing fraud	June 2015
Publish a quarterly report on pending payments to avoid the accumulation of arrears. **(DGTCP, DGB, DGD)**	Improve cash management and budget execution	Quarterly, starting in June 2015
Adopt an action plan for implementing suggestions contained in the SONABHY audit report. **(SONABHY)**	Improve the efficiency of public enterprises	August 2015
Adopt regulations making it compulsory to state the identity and identification number on appointment authorizations to facilitate automatic updating of the salary status of incoming and outgoing officials.**(DGB)**	Safeguard the sustainability of the government wage bill	August 2015
Install and operate of scanners with a view to improving and expediting customs controls. (**DGD)**	Improve revenue collection	Sept 2015
Implement ad-hoc cash payment operations of the salaries of all government employees to monitor staffing and to streamline the components of remuneration. **(DGB)**	Safeguard the sustainability of the government wage bill	Sept 2015
Sign a performance contract between the government and SONABHY to increase its efficiency and put it on a stable footing for medium-term development. **(SONABHY)**	Strengthen control of the government's contingent liabilities and ensure the viability of public enterprises	Sept 2015
Begin operations of the Virtual Liaison System for Import and Export operations (SYLVIE) to ensure transparent, reliable, and rapid production and delivery of the documents required for customs clearance operations. **(DGD)**	Improve the efficiency of the customs system and combat fraud	Dec 2015

[1] End of the month.

Implement regulations requiring large enterprises to use the standardized invoice by end-July 2015 and medium-sized enterprises by end-January 2016, to improve the traceability of transactions carried out by taxpayers with respect to VAT. **(DGI)**	Improve revenue collection	Jan 2016
Finalize a study on the viability of production and import options, to take account of changes in the energy sector at both the national and sub-regional level. **(SONABEL)**	Improve the reliability and efficiency of electricity supply	March 2016
Conduct an annual audit of pending payments and arrears. (**ASCE)**	Improve cash management and budget execution	March 2016
Establish an Investigations and Intelligence Directorate. **(DGI)**	Improve revenue collection through increasing the number of tax audits	March 2016
Adoption by Board of Directors of SONAPOST the recommendations of a feasibility study on the provision of decentralized financial services. **(SONAPOST)**	Improve access to decentralized financial services	Jan 2016

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 2015 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 the period between end-May 2015, and end-June 2016 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. 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), as 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. 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. The discount rates 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.

QUANTITATIVE PERFORMANCE CRITERIA

7. The revised quantitative performance criteria proposed for 2015 are as follows: (i) a ceiling on net domestic financing of the Treasury 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 of the Treasury

8. For the purposes of the relevant performance criteria, net domestic financing is defined as the sum of (i) net bank credit to the Treasury, including net bank credit to the Treasury as defined below vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed Treasury bills and bonds held outside national commercial banks; (iii) privatization receipts and other Treasury 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 national banking institutions. Treasury claims include the cash holdings of the Burkinabè Treasury, deposits with the central bank, deposits with commercial banks, and secured obligations, and Treasury 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), Treasury securities held by the central bank, and funding from commercial banks (including Treasury securities held by commercial banks). Net bank credit to the Treasury 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 Treasury budget execution report presented each month in the Treasury flow-of-funds table 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 to central government, excluding project grants and project loans, falls short of the amount projected, in the event the external program assistance is lower than programmed, up to a maximum of CFAF 65 billion. The shortfall will be calculated in reference to the projections in Table 1 below. The ceiling will not be adjusted downward in the event the external program assistance is higher than programmed. In the event prospective IMF financing is delayed, the cumulative ceiling on net domestic financing will not be reduced by a concomitant amount.

Table 1. Projected External Program Assistance (Cumulative, CFAF Billions)

	End-June 2015	End-September 2015	End-December 2015
Grants and loans	88.8	167.4	203.4

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

B. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

11. The government undertakes 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 utilizes 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 debt 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 suppliers' normal short-term credits, 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 approval of the ECF, and no adjustment factor will apply.

Reporting deadlines

12. 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

13. 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

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

OTHER QUANTITATIVE INDICATIVE TARGETS

15. The program also includes indicative targets for the ceiling on net domestic financing beyond the Treasury, the overall deficit (commitment basis, grants included) as defined in paragraph 19 below; total government revenue; poverty-reducing social expenditures.

A. Ceiling on Net Domestic Financing beyond the Treasury

16. For the purposes of the indicative target, net domestic financing beyond the Treasury is defined as the sum of (i) net bank credit to public bodies beyond the Treasury, including net bank credit to these bodies as defined below vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed bills and bonds held outside national commercial banks; (iii) privatization receipts and other claims and debts of public bodies beyond the Treasury vis-à-vis national nonbank institutions. Net bank credit to the public bodies beyond the Treasury is the balance of the claims and debts of the bodies concerned vis-à-vis national banking institutions. These include (i) deposits of public bodies (beyond the Treasury) at the BCEAO, (ii) deposits of public bodies (beyond the Treasury) at the commercial banks, (iii) commercial liabilities of public bodies beyond the Treasury, (iv) commercial bank liabilities of the postal savings bank (CCP), (v) remaining Treasury deposits in postal checking accounts (CCP), (vi) Treasury deposits at the CNE, (vii) other net liabilities of the State (Secured obligations). 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, and funding from commercial banks (including any government securities held by commercial banks). Net bank credit to public bodies beyond the Treasury is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes.

B. 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 foreign 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 support, excluding grants and project loans, falls short of the projected amount, in the event the actual figures are lower than projected, up to a maximum of CFAF 65 billion. The shortfall will be calculated in reference to the projections in Table 2 above. The ceiling will not be adjusted downward in the event that actual external program assistance is higher than projected.

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 in the event 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 in the event the actual figures are higher than projected. The difference in the amount will be calculated in reference to the projections in Table 3 below.

Table 3. Projected External Program Grants and Project Loans (Cumulative, CFAF billions)			
	End-June 2015	End-September 2015	End-December 2015
Grants	43.9	122.4	143.9
Project loans	32.4	55.2	57.7

C. Total Government Revenue

Definition

20. 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.

D. Poverty-Reducing Social Expenditures Definition

21. Poverty-reducing social expenditures are defined as the expenditures of sectors sponsoring the priority programs identified in the Strategy for Accelerated Growth and Sustainable Development (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 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. 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.

Non-accumulation of Domestic Payment Arrears

22. The government will not accumulate payment arrears on domestic obligations during the program period. This is a structural benchmark. 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 in keeping with the following definition:

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

Additional Information for Program Monitoring

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

Table 4. Summary of Data Reporting Requirements			
Information	**Institution Responsible**	**Data Frequency**	**Reporting Frequency**
Public Finance			
The government flow-of-funds table (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 budgetary financing (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 financing sources	MEF	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt repayment	MEF	Quarterly	6 weeks
Social poverty-reducing expenditures in table format	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-MED 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 subsidies unpaid	MEF	Monthly	4 weeks
A monthly statement of the accounts with the treasury, broken out by major category (administrative services, state enterprises, joint public-private enterprises, public administrative enterprises, international organizations, private depositors, and others)	MEF	Monthly	6 weeks
The consolidated balance sheet of monetary institutions			
The consolidated balance sheet of monetary institutions	NDs of the BCEAO	Monthly	6 weeks

Table 4. Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
The monetary survey: provisional data	BCEAO	Monthly	6 weeks
The monetary survey: final data	BCEAO	Monthly	10 weeks
The lending and borrowing interest rates	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 transactions)	BCEAO	As they occur	2 weeks
Real Sector			
Provisional national accounts; and any revision of the national accounts	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 the date of entry into force.	MEF		2 weeks

INTERNATIONAL MONETARY FUND

BURKINA FASO

May 14, 2015

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR AUGMENTATION OF ACCESS AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

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

Based on this updated assessment, Burkina Faso continues to face moderate risk of debt distress. Under the baseline scenario, all relevant debt ratios are projected to remain comfortably below indicative thresholds over the projection period. Under the most extreme standardized stress test, the debt-to-exports ratio breaches the debt distress threshold around 2025, which is the basis for the "moderate" assessment. This is despite an overall deterioration in macroeconomic conditions and a stronger dollar relative to the CFA Franc, with the latter having a mixed impact on DSA indicators. The proposed requests for augmentation of access of the ECF arrangement and an increase in the program ceiling on NCB, if approved, would not change the assessment, nor would different US$ exchange rate assumptions.

BACKGROUND AND UNDERLYING DSA ASSUMPTIONS

A. Burkina Faso's Public Debt Profile and Evolution

1. Despite a slight increase in nominal terms, Burkina Faso's stock of public debt remained broadly constant as a share of GDP (at around 29 percent), based on preliminary end-2014 data[1]. Consistent with the government's tightening fiscal policy, debt accumulation has significantly slowed down in 2014 (Figure 1), with the nominal stock of debt growing only by 2 percent (versus 4 percent projected in the previous DSA projection and 7 percent in 2013). The nominal increase was exclusively driven by external debt, which grew by 4 percent, as opposed to domestic debt which contracted by 4 percent due to tightening liquidity conditions in the regional market.

Figure 1. Growth Rate of Nominal Public Debt in CFAF, 2011-2014

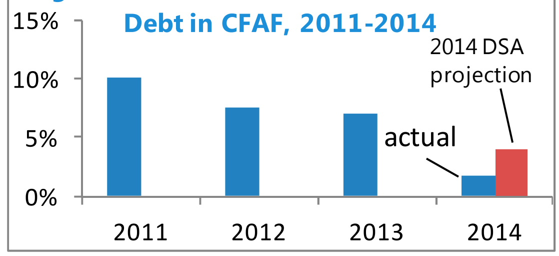


Table 1. Public Debt, 2007-2014

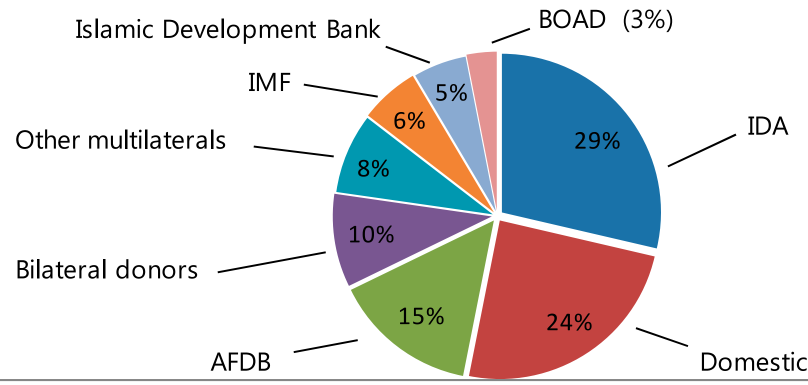
	2007	2011	2012	2013	**2014 Prel.**
			(US$ billions)		
Public debt	1.7	3.2	3.2	3.5	3.6
External	1.5	2.6	2.5	2.6	2.7
Domestic	0.3	0.6	0.6	0.9	0.8
			(CFAF billions)		
Public debt	832	1508	1616	1729	1760
External	710	1216	1290	1291	1341
Domestic	122	292	326	438	419
			(percent of GDP)		
Public debt	25.6	29.7	28.3	28.7	28.5
External	21.9	24.0	22.6	21.4	21.7
Domestic	3.8	5.7	5.7	7.3	6.8
			(percent of total debt)		
External	85	81	80	75	76
Domestic	15	19	20	25	24

[1] Burkina Faso's public debt statistics cover external debt issued by the general government (including fully state-owned enterprises) and domestic debt contracted by the central government. External debt is defined on a currency basis, except for liabilities to the BOAD which register as external debt despite being denominated in CFA given the international standing of the institution. Burkina Faso's policy performance is ranked "strong" by the CPIA with a score of 3.8, stable over the last 5 available rankings (2009-2013).

2. Domestic debt remains quite low at 7 percent of GDP, but accounts for a gradually increasing overall share of debt (Table 1). Burkina Faso has made significant progress in tapping the domestic debt market for its financing needs. Since 2007 the share of domestic borrowing in the overall debt stock has increased to around 25 percent. Such progress is the result of consistent efforts to develop the sovereign bond market both at the national and WAEMU levels, in line with the country's medium term debt strategy.

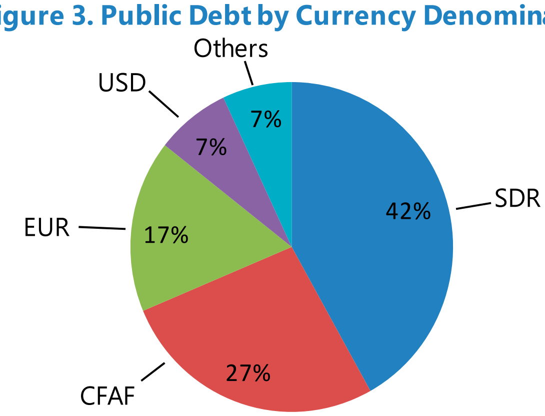
3. Most of this debt is concessional and is held by multilateral institutions, with IDA and AFDB accounting for the lion's share. The IDA and the AFDB account for the largest shares with 29 and 15 percent, respectively, while other multilaterals (excluding the IMF) and bilateral donors respectively combine for 8 and 10 percent. The IMF holds 6 percent of Burkina Faso's total public debt stock and 8 percent of its external debt.

Figure 2. Public Debt by Creditor



4. Recent appreciation of the US dollar reduces slightly the dollar value of Burkina Faso's external debt. About one-quarter of external debt is directly or indirectly linked to the dollar, including through its influence on SDR debts (Figure 3). For the remaining non-US dollar denominated debt, the recorded value in dollar terms will decrease with the dollar appreciation. This reduces slightly the dollar value of total external debt.

Figure 3. Public Debt by Currency Denomination



B. DSA Assumptions

5. Macroeconomic projections are, on the whole, less favorable relative to the 2014 DSA, as reflected in Table 2. Gold price projections have dropped by roughly $200/ounce over the long run, while projected prices of cotton decreased by 26% over the same period, leading to lower average exports. Gold production is projected to start declining in 2022, with an impact on exports and mining-related fiscal revenues. This, plus near term impacts on services of Ebola in the region and a much stronger US$ over the medium term (which intensifies the trade deficit) lead to higher current account deficits over the projection period. In the near term, fiscal deficits and debt accrual are much lower than assumed in 2014 as a result of already-observed expenditure adjustment. They are somewhat higher in the medium term as fiscal revenues are impacted, but fiscal revenues recover over the longer term and some spending adjustment is assumed.

Table 2. Changes in assumptions relative to the previous DSA

		2014	2015	2016	2017	2018	2033	2034	2035
Gold (USD/ounce)	Current DSA (WEO)	1266	1180	1172	1187	1206	1284	1284	1284
	2014 DSA	1327	1343	1370	1398	1438	1487	1487	1487
Cotton prices (cts/lb)	Current DSA (WEO)	83	63	65	65	59	44	44	44
	2014 DSA	85	79	78	72	68	58	58	58
Real GDP growth (y/y)	Current DSA	4.0	5.0	6.0	6.5	6.6	6.0	6.0	6.0
	2014 DSA	6.7	6.8	7.0	6.8	6.7	6.0	6.0	6.0
Current account (% of GDP)	Current DSA	-6.1	-7.6	-7.8	-7.9	-8.0	-8.3	-8.3	-8.3
	2014 DSA	-7.2	-7.0	-7.0	-7.0	-7.1	-7.3	-7.3	-7.3
Overall fiscal balance (% of GDP)	Current DSA	-1.8	-2.5	-3.0	-3.7	-4.1	-6.1	-6.1	-6.1
	2014 DSA	-3.1	-3.1	-3.0	-3.6	-3.8	-5.9	-5.9	-5.9

6. The baseline scenario assumes lower growth prospects relative to the 2014 DSA over the medium run, reflecting the investment spending reductions over 2014-16 due to the combined effects of shocks. Over the long run, growth is assumed to revert to the same trends as in the 2014 DSA (which was already conservative relative to recent historical averages which are closer over 6.5 percent).

7. Relative to the 2014 DSA, more non-concessional financing is assumed in the outer years. The authorities are still strongly committed to seeking concessional financing to the largest extent possible, but it is clear that the supply of such financing will be more constrained. As for the program limit on non-concessional borrowing, about 80 percent of the program limit (CFA 150 billion, or about US$70 million or 2.2 percent of GDP) has been used, mainly to finance a solar plant in Zagtouli and a national road connecting three cities in the northwest, Didyr, Toma and Tougan. Based on similar projects in the planning stages, the authorities are requesting an increase in the program ceiling to CFAF 200 billion (about US$90 million, or 3.0 percent of GDP).

DSA RESULTS

A. External Debt

8. The basic analysis remains unchanged from the 2014 DSA, with indicators suggesting a moderate risk of debt distress. As in the 2014 DSA, the ratio of debt-to-exports is projected to breach under the most extreme standardized stress test scenario corresponding to a one-standard-deviation drop in exports growth relative to historical levels. All other debt indicator ratios remain comfortably below corresponding thresholds.

9. The strength of the US dollar and changes in macro developments have a mixed impact on debt sustainability. As discussed above, the dollar value of external debt is somewhat reduced as a result of the recent and projected strength of the US dollar. This reduces external debt and debt service ratios in relation to exports, as the dollar value of the latter is less affected by dollar strength (Figure 5). Against this, external debt and debt service indicators deteriorate slightly in relation to GDP and revenues, as the latter decline in dollar terms by proportionately more than external debt as a result of dollar strength (Figure 4). In terms of macro developments, a lower-than-anticipated starting point for nominal external debt in 2014 and lower deficits in the near term due to expenditure compression help strengthen the debt metrics, though this is set against weaker prospects for GDP and export growth and more reliance on non concessional borrowing (see below). Overall, the DSA points to an unchanged moderate risk of external debt distress.

Figure 4. PV of Debt-to-GDP Ratio Under Alternative Exchange Rate Scenario

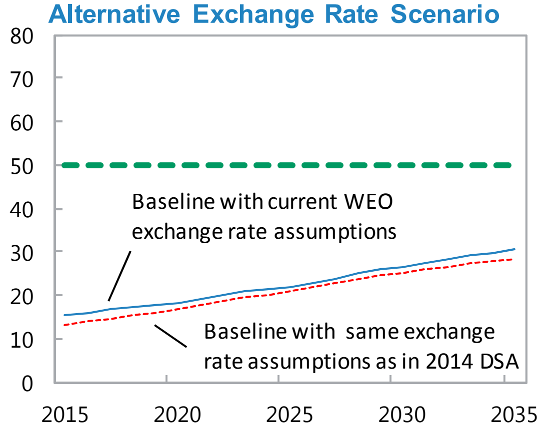
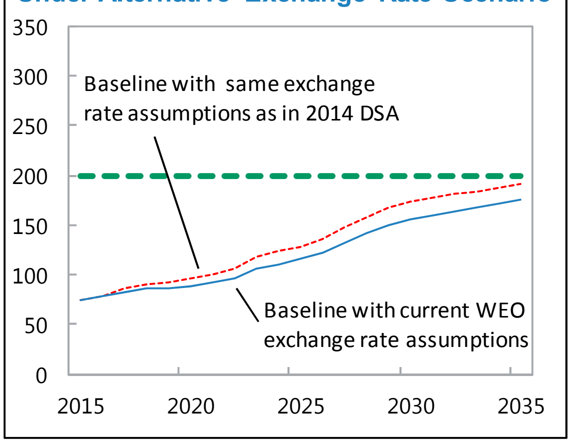
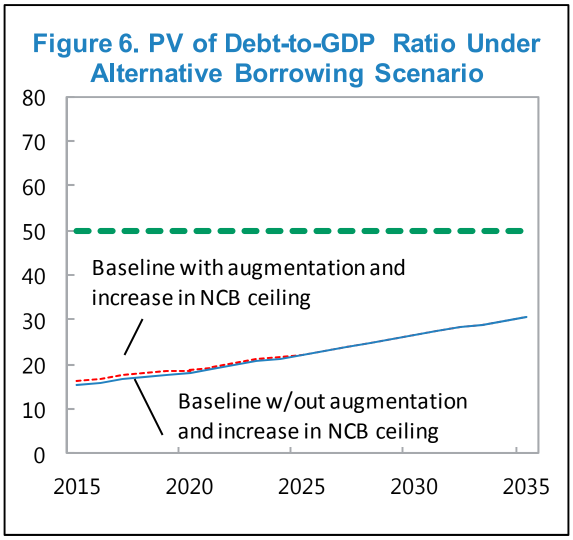
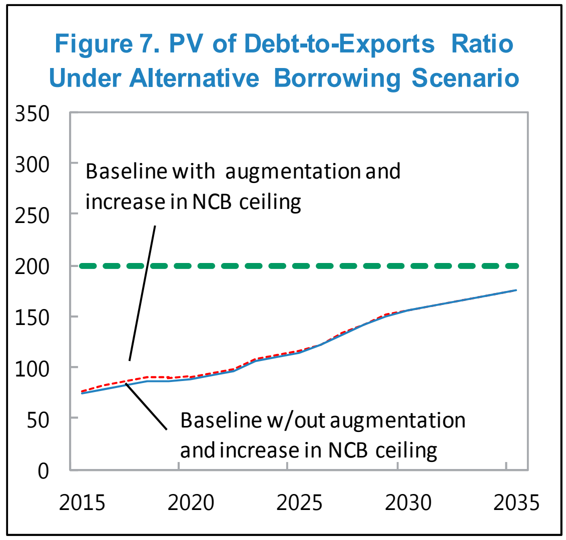


Figure 5. PV of Debt-to-Exports Ratio Under Alternative Exchange Rate Scenario



10. The authorities' requests to increase the level of access under the ECF arrangement and increase the program ceiling on non concessional external borrowing (NCB) have no impact on these conclusions. To ensure that the proposed augmentation of access (by CFAF 19.7) and increase of NCB ceiling to CFAF 200 billion (from CFAF 150 billion currently) will not put the sustainability of the country's debt into jeopardy, staff constructed an alternative baseline scenario integrating both of these changes. The results are visually and substantively similar to our baseline, as summarized for the debt-to-GDP and exports-to-GDP ratios in Figures 4 and 5 below.





B. Total Public Debt

11. Burkina Faso's total public debt is expected to remain below indicative thresholds by ample margins. Under the baseline scenario, Burkina Faso's total public debt stock over GDP is projected to rise steadily to 53 percent by 2035, leaving ample room below the 74 percent benchmark, both under the baseline and stress test scenarios. This profile accommodates an increased tapping of the domestic debt market, with the size of net domestic borrowing projected to increase from an average of 1 percent in recent years to 2.6 percent in 2035.

C. Debt Management

12. Ongoing technical assistance should help strengthen debt management capacity. Although Burkina Faso's CPIA and PEFA scores reflect a capacity broadly adequate for a low income country, the most recent DEMPA assessment shows that debt management capacity should be strengthened going forward. In particular, given the projected gradual transition from highly concessional financing to more market-based borrowing, the authorities have requested World Bank and IMF TA to strengthen capacity. A Reform Plan under discussion aims at modernizing the structure of DGTCP by consolidating functions spread across several units; improving the quality of the debt management strategy by linking it more closely to the macro program; and making a more efficient use of the regional debt market by reviewing the issuance program and improving the management of the government cash balances. Reforms have not yet been put into place, since these recommendations are still being discussed under ongoing TA.

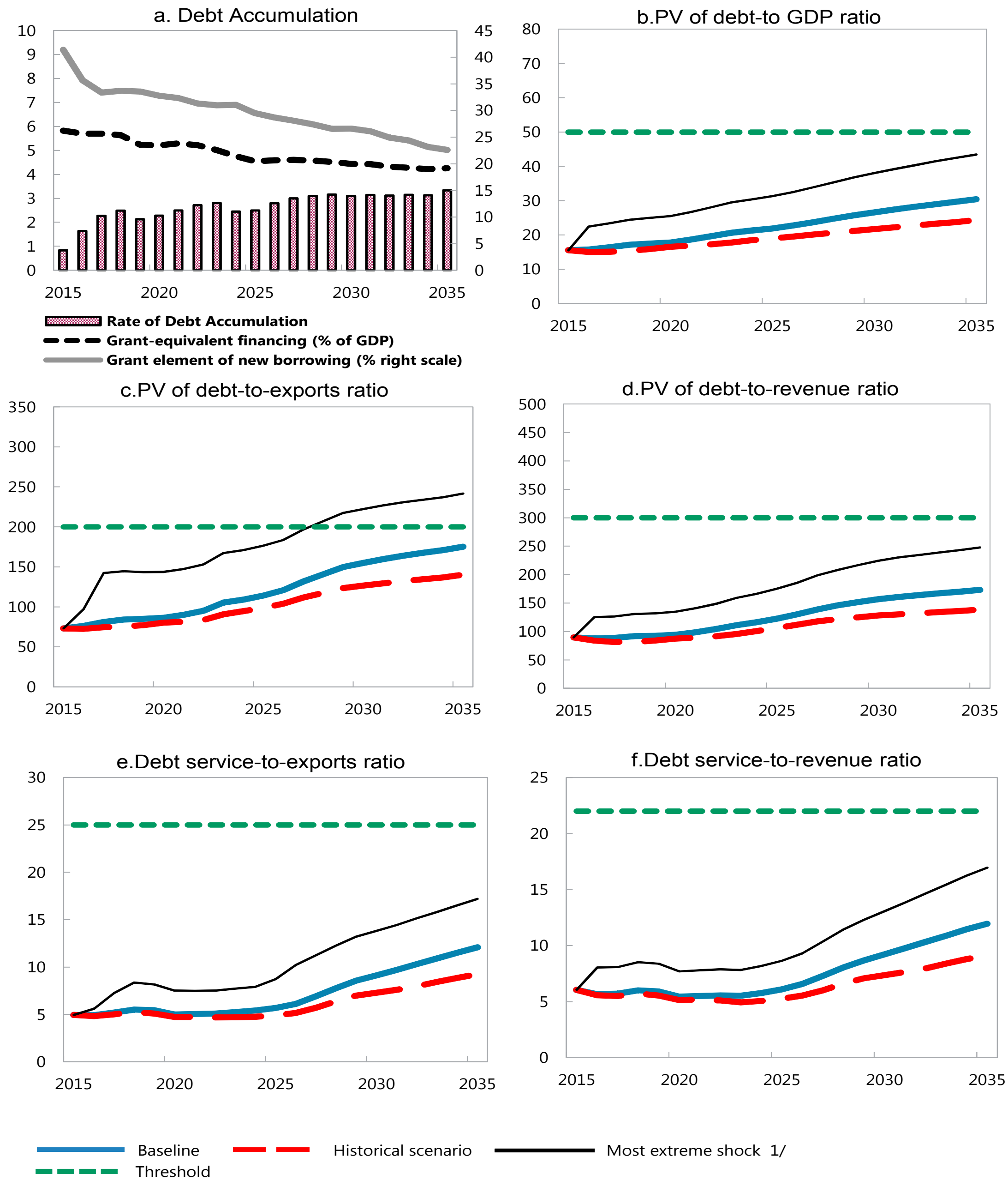
CONCLUSION

13. The DSA results indicate that Burkina Faso's risk of external debt distress remains "moderate." All relevant ratios remain below indicative thresholds under the baseline scenario. The stress test analysis indentifies risks to the projection only in the case of the debt-to-export ratio, which breaches the 200 percent threshold under a scenario of significant slowdown of exports. The proposed requests for augmentation of access of the ECF arrangement and an increase in the program ceiling on NCB would not change the assessment.

AUTHORITIES' VIEWS

The conclusions of the DSA were shared with the authorities who broadly concurred with the assessment and with maintaining a "moderate" debt risk rating. They stressed that Burkina Faso's debt management capacity is broadly appropriate for a low income country mostly borrowing in highly concessional terms, but reiterated the need for reinforcement of capacity in anticipation of the country's gradual transition to market sources.

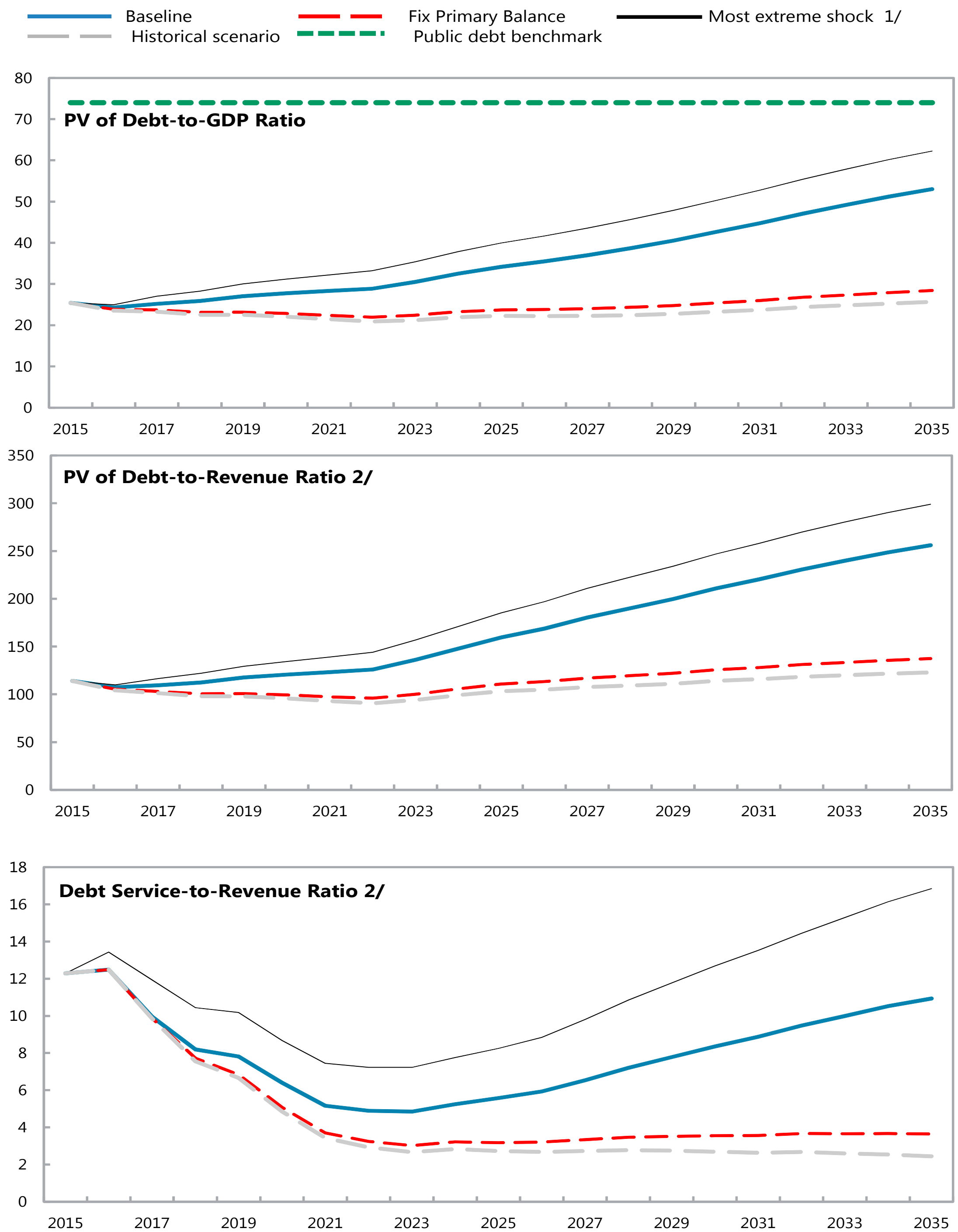
Figure 8. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 1/



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 2025. 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 9. Burkina Faso: Indicators of Public Debt Under Alternative Scenarios, 2015–2035 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 2025.

2/ Revenues are defined inclusive of grants.

Table 3. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2014–2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual	Hist. Aver. 6/	Std. Dev. 6/	Projections										
	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2021	2025	2030	2035
External debt (nominal) 1/	**21.7**			**23.6**	**23.8**	**24.5**	**25.5**	**25.8**	**26.1**		**27.1**	**30.7**	**35.8**	**39.8**
of which: public and publicly guaranteed (PPG)	21.7			23.6	23.8	24.5	25.5	25.8	26.1		27.1	30.7	35.8	39.8
Change in external debt	0.3			1.9	0.2	0.7	1.0	0.3	0.3		1.0	0.6	1.0	0.7
Identified net debt-creating flows	4.3			5.1	4.7	4.6	4.7	3.7	3.7		4.4	3.8	4.2	3.9
Non-interest current account deficit	**5.9**	**6.4**	**3.6**	**7.6**	**7.5**	**7.6**	**7.7**	**6.7**	**6.7**		**7.5**	**6.9**	**7.4**	**7.3**
Deficit in balance of goods and services	9.0			11.2	10.6	10.8	10.8	9.7	9.8		10.5	9.7	9.9	9.5
Exports	21.9			21.2	20.7	20.3	20.4	20.6	20.6		20.7	19.2	17.2	17.3
Imports	30.9			32.4	31.3	31.1	31.2	30.3	30.4		31.3	28.9	27.1	26.8
Net current transfers (negative = inflow)	-3.4	-4.8	0.9	-3.9	-3.4	-3.4	-3.3	-3.2	-3.1		-3.1	-2.7	-2.4	-1.8
of which: official	-2.1			-2.7	-2.3	-2.3	-2.2	-2.1	-2.1		-2.1	-1.7	-1.4	-1.0
Other current account flows (negative = net inflow)	0.3			0.3	0.3	0.2	0.2	0.1	0.1		0.1	0.0	-0.1	-0.3
Net FDI (negative = inflow)	**-1.3**	**-1.4**	**1.4**	**-1.7**	**-1.8**	**-1.9**	**-1.9**	**-1.9**	**-1.9**		**-1.9**	**-2.0**	**-2.1**	**-2.2**
Endogenous debt dynamics 2/	**-0.3**			**-0.9**	**-1.0**	**-1.1**	**-1.1**	**-1.1**	**-1.1**		**-1.1**	**-1.1**	**-1.2**	**-1.2**
Contribution from nominal interest rate	0.2			0.3	0.3	0.3	0.4	0.4	0.4		0.5	0.6	0.8	1.0
Contribution from real GDP growth	-0.8			-1.2	-1.3	-1.4	-1.5	-1.5	-1.5		-1.6	-1.8	-2.0	-2.2
Contribution from price and exchange rate changes	0.3			...	...	...	...	...	...		...	...	...	...
Residual (3-4) 3/ with changes in project grants	**-1.5**			**-0.4**	**-1.7**	**-1.2**	**-1.1**	**-0.9**	**-0.9**		**-0.9**	**-0.9**	**-0.9**	**-0.9**
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/	14.3			15.5	15.8	16.4	17.2	17.5	17.8		18.7	21.9	26.6	30.4
In percent of exports	65.2			73.3	76.3	81.1	84.3	85.0	86.5		90.2	114.1	155.0	175.2
PV of PPG external debt	**14.3**			**15.5**	**15.8**	**16.4**	**17.2**	**17.5**	**17.8**		**18.7**	**21.9**	**26.6**	**30.4**
In percent of exports	**65.2**			**73.3**	**76.3**	**81.1**	**84.3**	**85.0**	**86.5**		**90.2**	**114.1**	**155.0**	**175.2**
In percent of government revenues	**82.6**			**89.7**	**88.1**	**88.8**	**91.8**	**92.5**	**94.3**		**98.8**	**122.7**	**156.8**	**173.2**
Debt service-to-exports ratio (in percent)	**3.7**			**4.9**	**4.9**	**5.2**	**5.5**	**5.4**	**5.0**		**5.0**	**5.7**	**9.1**	**12.1**
PPG debt service-to-exports ratio (in percent)	**3.7**			**4.9**	**4.9**	**5.2**	**5.5**	**5.4**	**5.0**		**5.0**	**5.7**	**9.1**	**12.1**
PPG debt service-to-revenue ratio (in percent)	**4.7**			**6.1**	**5.7**	**5.7**	**6.0**	**5.9**	**5.4**		**5.5**	**6.1**	**9.2**	**11.9**
Total gross financing need (Billions of U.S. dollars)	0.7			0.8	0.8	0.9	1.0	1.0	1.0		1.3	1.6	2.8	4.3
Non-interest current account deficit that stabilizes debt ratio	5.6			5.8	7.3	6.9	6.7	6.4	6.4		6.4	6.4	6.5	6.6
Key macroeconomic assumptions														
Real GDP growth (in percent)	4.0	6.0	1.9	5.0	6.0	6.5	6.6	6.6	6.6	6.2	6.6	6.3	6.2	6.0
GDP deflator in US dollar terms (change in percent)	-1.5	3.9	6.9	-13.7	2.0	3.0	3.2	3.3	3.8	0.3	2.0	2.0	2.0	2.3
Effective interest rate (percent) 5/	1.0	1.0	0.2	1.2	1.3	1.5	1.7	1.8	1.9	1.6	2.0	2.3	2.6	2.8
Growth of exports of G&S (US dollar terms, in percent)	-7.8	19.8	27.2	-12.1	5.5	7.5	10.6	11.1	10.8	5.6	9.3	6.8	8.3	8.4
Growth of imports of G&S (US dollar terms, in percent)	-7.6	13.1	16.4	-4.9	4.4	8.8	10.4	7.0	10.9	6.1	11.8	7.4	7.5	8.4
Grant element of new public sector borrowing (in percent)	...	...	...	41.4	35.7	33.3	33.7	33.6	32.7	35.1	32.3	29.5	26.6	22.6
Government revenues (excluding grants, in percent of GDP)	17.3			17.3	17.9	18.5	18.7	18.9	18.9		18.9	17.9	17.0	17.6
Aid flows (in Billions of US dollars) 7/	0.6			0.7	0.6	0.7	0.7	0.7	0.8		0.9	1.1	1.4	2.1
of which: Grants	0.5			0.6	0.6	0.6	0.6	0.7	0.7		0.8	1.0	1.3	1.9
of which: Concessional loans	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	0.1	0.2
Grant-equivalent financing (in percent of GDP) 8/	...			5.8	5.7	5.7	5.6	5.2	5.2		5.3	4.6	4.4	4.3
Grant-equivalent financing (in percent of external financing) 8/	...			82.7	75.9	70.4	68.2	69.9	69.5		67.9	65.5	57.9	52.9
Memorandum items:														
Nominal GDP (Billions of US dollars)	12.5			11.3	12.2	13.4	14.8	16.3	18.0		19.6	27.2	40.6	60.3
Nominal dollar GDP growth	2.5			-9.4	8.1	9.8	10.0	10.1	10.7	6.5	8.7	8.5	8.3	8.5
PV of PPG external debt (in Billions of US dollars)	1.7			1.8	1.9	2.2	2.6	2.9	3.2		3.7	6.0	10.9	18.5
(PVt-PVt-1)/GDPt-1 (in percent)				0.8	1.6	2.3	2.5	2.1	2.3	1.9	2.5	2.5	3.1	3.3
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	0.5
PV of PPG external debt (in percent of GDP + remittances)	14.0			15.3	15.6	16.2	17.0	17.3	17.6		18.5	21.7	26.3	30.1
PV of PPG external debt (in percent of exports + remittances)	61.1			68.7	71.7	76.2	79.3	80.1	81.7		85.2	107.9	146.4	166.7
Debt service of PPG external debt (in percent of exports + remittances)	3.5			4.6	4.6	4.9	5.2	5.1	4.7		4.7	5.4	8.6	11.5

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 chang
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: External Debt Sustainability Framework, Baseline Scenario, 2014–2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Estimate				Projections					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2030	2035
Public sector debt 1/	28.3	28.7	28.5	33.5	32.3	33.3	34.2	35.4	36.0		42.9	51.9	62.4
of which: foreign-currency denominated	22.6	21.4	21.7	23.6	23.8	24.5	25.5	25.8	26.1		30.7	35.8	39.8
Change in public sector debt	-1.5	0.3	-0.2	4.9	-1.2	1.0	0.9	1.2	0.6		1.6	2.2	1.8
Identified debt-creating flows	-0.2	1.0	3.5	2.6	0.3	0.9	1.2	0.9	0.7		1.4	1.8	1.4
Primary deficit	2.6	3.0	1.2	1.8	2.4	3.2	3.6	3.5	3.5	3.0	3.9	4.6	4.9
Revenue and grants	22.4	23.9	21.4	22.3	22.6	23.0	23.0	23.0	23.0		21.4	20.2	20.7
of which: grants	4.9	5.4	4.2	5.0	4.7	4.5	4.3	4.1	4.1		3.6	3.3	3.2
Primary (noninterest) expenditure	25.0	26.9	22.6	24.0	25.0	26.2	26.6	26.5	26.5		25.3	24.9	25.6
Automatic debt dynamics	-2.7	-2.0	2.3	0.9	-2.0	-2.3	-2.4	-2.5	-2.7		-2.5	-2.9	-3.6
Contribution from interest rate/growth differential	-2.8	-1.0	-0.1	-1.0	-1.9	-2.0	-2.2	-2.2	-2.3		-2.5	-2.9	-3.6
of which: contribution from average real interest rate	-1.0	0.7	1.0	0.4	0.0	-0.1	-0.1	-0.1	-0.1		0.0	0.0	-0.1
of which: contribution from real GDP growth	-1.8	-1.8	-1.1	-1.4	-1.9	-2.0	-2.1	-2.1	-2.2		-2.5	-2.9	-3.4
Contribution from real exchange rate depreciation	0.1	-0.9	2.4	1.9	-0.2	-0.2	-0.3	-0.3	-0.4		...	...	...
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	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	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	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	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	0.0
Residual, including asset changes	-1.3	-0.7	-3.7	2.3	-1.5	0.1	-0.3	0.3	-0.1		0.2	0.4	0.4
Other Sustainability Indicators													
PV of public sector debt	...	...	21.0	25.4	24.3	25.2	25.9	27.1	27.8		34.1	42.6	53.0
of which: foreign-currency denominated	...	...	14.3	15.5	15.8	16.4	17.2	17.5	17.8		21.9	26.6	30.4
of which: external	...	...	14.3	15.5	15.8	16.4	17.2	17.5	17.8		21.9	26.6	30.4
PV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...	...	...	...		...	...	...
Gross financing need 2/	4.0	4.8	3.6	4.5	5.2	5.5	5.5	5.3	4.9		5.1	6.3	7.2
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	98.3	113.9	107.4	109.6	112.5	117.7	120.7		159.5	210.9	256.1
PV of public sector debt-to-revenue ratio (in percent)	...	...	122.0	146.6	135.6	136.2	138.4	143.2	146.8		191.3	251.6	302.0
of which: external 3/	...	...	82.6	89.7	88.1	88.8	91.8	92.5	94.3		122.7	156.8	173.2
Debt service-to-revenue and grants ratio (in percent) 4/	6.6	7.5	11.1	12.3	12.5	10.0	8.2	7.8	6.4		5.6	8.4	10.9
Debt service-to-revenue ratio (in percent) 4/	8.5	9.6	13.7	15.8	15.8	12.4	10.1	9.5	7.8		6.7	10.0	12.9
Primary deficit that stabilizes the debt-to-GDP ratio	4.0	2.7	1.4	-3.2	3.5	2.2	2.7	2.3	2.8		2.3	2.5	3.1
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	6.5	6.6	4.0	5.0	6.0	6.5	6.6	6.6	6.6	6.2	6.3	6.2	6.0
Average nominal interest rate on forex debt (in percent)	1.2	1.0	1.0	1.2	1.3	1.5	1.7	1.8	1.9	1.6	2.3	2.6	2.8
Average real interest rate on domestic debt (in percent)	-0.8	6.0	7.3	6.0	1.3	0.6	-0.3	-0.4	-1.0	1.0	-1.0	-1.1	-1.4
Real exchange rate depreciation (in percent, + indicates depreciation)	0.5	-4.3	11.2	9.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	5.8	-0.8	-1.6	1.3	1.9	2.0	2.0	2.0	2.0	1.9	2.0	2.0	2.3
Growth of real primary spending (deflated by GDP deflator, in percent)	17.5	15.1	-12.6	11.5	10.2	11.6	8.3	6.1	6.6	9.0	4.1	6.4	6.3
Grant element of new external borrowing (in percent)	...	...	...	41.4	35.7	33.3	33.7	33.6	32.7	35.1	29.5	26.6	22.6

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

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

Table 5. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to GDP ratio								
Baseline	16	16	16	17	17	18	**22**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	16	15	15	15	16	17	**19**	24
A2. New public sector loans on less favorable terms in 2015-2035 2	16	17	18	20	21	22	**30**	45
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	16	16	17	18	18	19	**23**	32
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	16	18	22	22	22	22	**26**	32
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	16	17	18	19	20	20	**25**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	16	17	18	19	19	20	**23**	31
B5. Combination of B1-B4 using one-half standard deviation shocks	16	16	18	19	19	20	**24**	33
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	16	22	23	24	25	25	**31**	43
PV of debt-to-exports ratio								
Baseline	73	76	81	84	85	87	**114**	175
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	73	73	75	75	77	80	**99**	140
A2. New public sector loans on less favorable terms in 2015-2035 2	73	80	89	97	101	106	**154**	261
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	73	77	81	85	86	87	**115**	177
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	73	97	142	145	144	144	**176**	242
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	73	77	81	85	86	87	**115**	177
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	73	81	90	93	94	95	**121**	179
B5. Combination of B1-B4 using one-half standard deviation shocks	73	76	84	87	88	90	**117**	178
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	73	77	81	85	86	87	**115**	177
PV of debt-to-revenue ratio								
Baseline	90	88	89	92	92	94	**123**	173
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	90	84	82	82	84	88	**106**	139
A2. New public sector loans on less favorable terms in 2015-2035 2	90	92	98	106	110	116	**165**	258
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	90	90	93	96	97	99	**129**	182
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	90	99	118	119	118	119	**144**	181
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	90	93	100	103	104	106	**138**	195
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	90	94	99	102	102	103	**131**	177
B5. Combination of B1-B4 using one-half standard deviation shocks	90	91	98	101	102	103	**134**	187
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	90	125	126	131	132	135	**175**	248

Table 5. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015–35

(In percent)

				Debt service-to-exports ratio				
Baseline	5	5	5	6	5	5	**6**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	5	5	5	5	5	5	**5**	9
A2. New public sector loans on less favorable terms in 2015-2035 2	5	5	5	6	6	6	**8**	18
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	5	5	5	6	5	5	**6**	12
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	5	6	7	8	8	7	**9**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	5	5	5	6	5	5	**6**	12
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	5	5	5	6	6	5	**6**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	5	6	6	5	**6**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	5	5	5	6	5	5	**6**	12
				Debt service-to-revenue ratio				
Baseline	6	6	6	6	6	5	**6**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	6	6	6	6	6	5	**5**	9
A2. New public sector loans on less favorable terms in 2015-2035 2	6	6	6	6	7	6	**9**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	6	6	6	6	6	6	**6**	12
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	6	6	6	7	7	6	**7**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	6	6	6	7	7	6	**7**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	6	6	6	6	6	6	**7**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	6	6	6	6	6	6	**7**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	6	8	8	9	8	8	**9**	17
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	27	27	27	27	27	27	**27**	27

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 a 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, 2015–35

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	25	24	25	26	27	28	34	53
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	24	23	23	23	22	22	26
A2. Primary balance is unchanged from 2015	25	24	24	23	23	23	24	28
A3. Permanently lower GDP growth 1/	25	24	26	26	28	29	38	66
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	25	25	27	28	30	31	40	62
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	25	29	33	33	34	34	39	56
B3. Combination of B1-B2 using one half standard deviation shocks	25	26	29	29	31	32	39	59
B4. One-time 30 percent real depreciation in 2016	25	30	30	30	31	31	35	54
B5. 10 percent of GDP increase in other debt-creating flows in 2016	25	32	32	32	33	34	39	56
PV of Debt-to-Revenue Ratio 2/								
Baseline	114	107	110	113	118	121	160	256
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	114	104	101	98	98	96	103	123
A2. Primary balance is unchanged from 2015	114	105	103	100	101	99	111	137
A3. Permanently lower GDP growth 1/	114	108	111	115	121	126	177	313
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	114	110	117	122	129	135	185	299
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	114	126	143	144	147	148	183	270
B3. Combination of B1-B2 using one half standard deviation shocks	114	116	123	127	133	137	181	284
B4. One-time 30 percent real depreciation in 2016	114	134	132	131	133	133	166	259
B5. 10 percent of GDP increase in other debt-creating flows in 2016	114	140	141	141	145	146	182	269
Debt Service-to-Revenue Ratio 2/								
Baseline	12	12	10	8	8	6	6	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	12	10	8	7	5	3	2
A2. Primary balance is unchanged from 2015	12	12	10	8	7	5	3	4
A3. Permanently lower GDP growth 1/	12	13	10	8	8	7	6	14
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	12	13	10	9	9	7	7	14
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	12	12	11	12	11	8	6	12
B3. Combination of B1-B2 using one half standard deviation shocks	12	13	10	10	9	7	6	13
B4. One-time 30 percent real depreciation in 2016	12	13	12	10	10	9	8	17
B5. 10 percent of GDP increase in other debt-creating flows in 2016	12	12	11	13	9	8	6	12

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.

Statement by Mr. Yambaye, Executive Director for Burkina Faso and Mr. Tall, Advisor to the Executive Director
May 27, 2015

We would like first to express Burkina Faso's authorities' appreciation for the quality of the policy dialogue with staff, and the technical and financial assistance that the Fund has provided over the past years. The authorities are particularly thankful for the constructive discussions held with staff and management during their missions in Ouagadougou and in Washington, for the second and third reviews of the ECF-supported program. They broadly share the assessment made by staff on the challenges facing the country and policies going forward.

Following the resignation of President Compaore, a new Transition Government was ushered in, led by President Michel Kafando with a mandate to organize elections within a year. The authorities are determined to achieve this goal and are thankful for the unwavering support of the international community to Burkina Faso in strengthening democratic institutions, as well as promoting pro-poor growth policies.

Burkina Faso's economic and financial situation was adversely affected by a number of events and shocks since 2014: lower global prices for the country's main exports (cotton and gold), a lack of rainfall which caused a fall in agricultural output, the impact of the Ebola crisis in the region, the appreciation of the dollar against the CFA, and the socio-political crisis. Even though the October uprising was brief, the political uncertainty and socio-political tensions in the run-up to these events led to a wait and see policy by economic agents which saw a significant decline in new capital investments.

Faced with these negative shocks, the authorities' steadfastly implemented the ECF supported program, with the view to consolidating macroeconomic stability and realizing progress in poverty reduction in line with their medium term development strategy, SCADD. Although there was an abrupt change in government, the new authorities have the technical capacity and political will to implement difficult, but needed economic and financial reforms.

Notably, they adjusted to the shocks through sizeable fiscal consolidation efforts as detailed below. As a result, performance under the ECF-supported program remained on track. All the end-June and end-December 2014 performance criteria were met. All structural benchmarks and indicative targets were met, except a few. The revenue collection and poverty reducing expenditures targets that have not been met were impacted by the series of shocks mentioned above.

The authorities are requesting the conclusion of the second and third review of the ECF-supported program, and an augmentation of access in order to facilitate the adjustment to theses exogenous shocks, address partly the severe balance of payments needs, and consolidate macroeconomic stability without jeopardizing the development goals of the SCADD.

I. Recent Economic Developments

Real GDP decelerated to 4 percent from a growth rate of 6.6 percent in 2013. Imports declined, reflecting lower investments in imported capital goods and interruptions in the mining sector. The current account deficit stood at 6.1 percent of GDP in 2014, and is expected to worsen significantly, causing a sharp reduction in international reserves.

The series of shocks had a severe impact on ***fiscal policy***. Revenue collected were 14 percent lower than anticipated in 2014, due to lower economic activity and imports. Economic agents and development partners' wait-and-see policy drove aggregate demand further lower. Grants in particular declined by 21 percent.

Faced with this drastic reduction in revenues and with limited financing options, the authorities were forced to compress *expenditures*, in order to maintain macroeconomic stability and preserve some fiscal space for priority spending. Domestically financed capital expenditure were thus compressed, and efforts to reallocate spending to projects that were shovel ready and contributed the most towards achieving the goals of the national development strategy were intensified. With the view to improving further public expenditure efficiency, the Council of Ministers adopted a report, as well as an action plan, to improve the quality of investment spending.

Progress was also made in ***structural reforms***. A periodic review of the homegrown accelerated development strategy, SCADD, found that about 30 percent of the planned measures had been implemented in 2014, a sharp decline compared to the 66.7 percent rate for 2013, reflecting the severe expenditure cuts and the difficult socio-political context. The performance indicators met in 2014 cover priority areas such as business climate improvements, and infrastructure investments. The authorities also focused on finalizing the public-private partnership for the Bagré growth pole project, and started consultation with stakeholders on a second growth pole project in the Sahel.

The authorities pursued efforts to improve the financial soundness of State-Owned Enterprises. An external audit of two key state-owned enterprises, the National Hydrocarbon Company (SONABHY) and National Electricity Company (SONABEL) were completed and recommendations were made towards improving their cost-efficiency.

In the mining sector, the new authorities are finalizing the new mining code after extensive consultation with stakeholders, and with the benefit of Fund and World Bank's technical assistance. They reiterated their commitment to honor mining contracts and licenses signed by the previous government.

However, the difficult social environment and declining international commodities prices impacted activities in the key mining and cotton sectors. Tensions between a few mining companies and local communities turned into protests and lootings. The authorities reacted by deploying security services to protect the mining sites concerned. They also undertook to enforce commitments made to local communities, with the view to appeasing social tensions.

II. Policies for 2015 and Beyond

Economic activity is expected to decline in 2015 before gradually normalizing, and reach a growth rate of 6 percent in 2016, as economic agent's confidence is restored, notably after an anticipated successful political transition and an easing of Ebola fears in the region.

The transition Government's first priority is to restore democratic governance in a timely fashion. Preparations for elections are well advanced, with presidential and legislative elections planned for October 2015, and local elections for January 2016. The authorities are committed to ensuring the fairness of the upcoming elections, and are doing everything to ensure full transparency in the political and election process.

On the economic front, they are determined to pursue implementation of the national development strategy, mindful of macroeconomic stability consolidation goals in the short run.

Fiscal Policy

Following the succession of exogenous shocks to revenues, the authorities had to amend the FY 2015 budget and adopted austerity measures in order to meet priority spending needs while preserving fiscal sustainability. The authorities are also committed to strengthening budget transparency and public financial management. ***Spending*** was reallocated to reflect the Government's new mission, and provisions were made for the organization of upcoming elections and to improve the justice system. The government will also aim at protecting the most vulnerable households, and preserving hard achieved social gains in response to the shocks. Notably, they will pursue labor-intensive programs and implement their Ebola prevention strategy.

While improving spending allocation to priority sectors, they are determined to control non essential spending. In this vein, they have initiated a number of measures aimed at reducing public sector overhead, and at controlling the wage bill. On the latter, in particular, they plan to start by end May 2015 cash payment operations for all government employees to clean the payroll of ghost workers.

They will also strive to improve spending efficiency, notably by improving investment spending execution rate, and its quality. In addition to preparing a new guideline, they will continue initiatives underway to improve the management of the government expenditure chain such as plans for the computerization of the public expenditure chains, and efforts to monitor public expenditure execution.

On the ***revenue side***, the authorities plan to intensify reforms aimed at improving revenue collection. Efforts will be made along two axes: i) broadening the tax base through a streamlining of tax exemptions and investigations aimed at uncovering enterprises that are improperly categorized in a preferential tax bracket; ii) improving efficiency of tax and customs administration, including through modernized equipment, such as scanners, satellite tracking system, and the launch of the SYLVIE system.

Debt Policy

The authorities remain committed to implementing prudent debt policies and to continue improving debt management capabilities. They will continue to seek highly concessional financing, and would recourse to non-concessional financing only within the limits agreed upon with staff, for high growth impact priority projects, for which no concessional financing alternative is available. This limited recourse to non-concessional resources, and to regional markets will contribute to the diversification of the sources of financing and promote financial development.

On debt management capabilities, the authorities will focus on strengthening the monitoring of domestic spending commitments, with technical assistance from the IMF.

Structural Reforms

The authorities will intensify structural reform efforts to foster an inclusive and resilient growth path. Actions planned in the SCADD, notably the promotion of the Sahel growth pole, and critical infrastructure investment will be furthered.

Removing growth bottlenecks will also be a priority for the authorities. They will particularly focus on addressing energy sector difficulties. Indeed electricity shortages represent a major impediment to doing business in the region, in addition to creating unhelpful social tensions. The authorities plan to improve and diversify the supply of electricity, including through investment in geothermal generators, as well as new interconnections with neighboring countries grid.

They will also draw lessons from recently conducted audits to reform the state-owned-companies, with the aim of improving their efficiency and financial situation. Amongst the reforms of the SOE planned, are the preparation of performance contracts for SONABEL (the electricity utility company) and SONABHY (the national oil company) which will define the framework for cooperation between the State and these corporations. Measures are also planned to reduce fuel transport leakages, and to improve the storage and bottling of butane gas.

On the mining sector, the authorities will pursue efforts to modernize the mining sector's regulatory framework with the adoption of a new mining code that is in line with international standards. They will also seek to make the most of the sector's growth potential, including through the most efficient use of proceeds from this sector.

III. Conclusion

The transition government that stepped in following the October 2014 uprisings has been able to appease socio-political tensions, and restore stability within a short timeframe. It faced a particularly difficult economic situations marked by a succession of shocks. Against this background the authorities have steadfastly implemented the ECF-supported program, while addressing the other social and political challenges.

With external assistance, for which they are thankful, they have been able not only to prevent a deterioration of the economic and social situation, but also implemented measures which are helping to meet the program's objectives. Our authorities are confident that the road map they have in pace will help Burkina Faso achieve its medium term goals of higher inclusive growth. On the basis of this strong track record, and in order to support their adjustment efforts while continuing progress in implementing their development agenda we call on Directors to give their support to the authorities' requests.