Burkina Faso: 2018 Article IV Consultation; First Review Under the Extended Credit Facility Arrangement; Request for Waiver for Nonobservance of a Performance Criterion, and Modification of a Performance Criterion-Press Release; Staff Report; and Statement by the Executive Director for Burkina Faso

INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/15

BURKINA FASO

January 2019

2018 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BURKINA FASO

In the context of the 2018 Article IV Consultation, First Review Under the Extended Credit Facility Arrangement, Request for Waiver for Nonobservance of a Performance Criterion, and Modification of a Performance Criterion, the following documents have been released and are included in this package:

- **Press Releases** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 21, 2018 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement with Burkina Faso.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 21, 2018, following discussions that ended on October 30, 2018, with the officials of Burkina Faso on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 12, 2018.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Burkina Faso.

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

Letter of Intent sent to the IMF by the authorities of Burkina Faso*
Memorandum of Economic and Financial Policies by the authorities of Burkina Faso*
Technical Memorandum of Understanding*
Selected Issues
*Also included in Staff Report

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International Monetary Fund
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Press Release No. 19/01
FOR IMMEDIATE RELEASE
January 7, 2019

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2018 Article IV Consultation with Burkina Faso

On December 21, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Burkina Faso. The Board also completed the First Review of Burkina Faso's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF) arrangement; a press release on this was issued separately.

The Burkinabe economy has shown considerable resilience in the face of significant security shocks over the last two years. GDP grew by 6.3 percent in 2017, up from 5.9 percent in 2016 and is projected to stabilize at 6 percent in 2018. Activity has been supported by expansionary fiscal policy, including from a boost to capital spending in 2017. Inflation was 2.1 percent year-on-year at end-December 2017 and has remained at that level in 2018. Public debt eased to 38.4 percent of GDP in 2017, as the impact of new borrowing was offset by the appreciation of the euro against the dollar and robust GDP growth. The risks to the outlook are tilted to the downside, mainly from the threat of further terrorist attacks, which could weigh on mining and tourism, and social tensions and unrest, which could impact government revenue collection and add pressures on current spending.

Executive Board Assessment[2]

Directors agreed with the thrust of the staff appraisal. They welcomed the broadly satisfactory performance under the ECF-supported program. Directors noted that Burkina Faso has significant development challenges, which have recently intensified due to security shocks and social unrest. Despite some improvements in recent years, Burkina Faso's human development indicators remain among the lowest in the world and poverty remains high. In view of downside risks to the outlook, Directors emphasized the importance for the authorities to steadfastly

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

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

implement macroeconomic policies and structural reforms to preserve macroeconomic stability, foster inclusive growth, and improve living conditions.

Directors stressed the importance of strengthening fiscal discipline and transparency. They welcomed the authorities' commitment to a fiscal deficit of no more than 3 percent of GDP by 2019, and the authorities' decision to base their budgets on realistic revenue projections. In view of the growing security spending needs, combined with the large social and development agenda, Directors urged the authorities to intensify efforts to mobilize additional domestic revenue through both tax and customs administration reforms and tax policy measures. They welcomed the recent adjustment of retail fuel prices in response to higher international fuel prices, as well as the adoption of an automatic fuel price adjustment mechanism that should shield the budget against unforeseen subsidy needs, while encouraging the authorities to take measures to protect the most vulnerable. Directors also welcomed the authorities' commitment to budgeting ex ante for any remaining fuel subsidy needs.

Directors urged the authorities to expedite public-sector compensation reforms to reverse the rapidly rising public-sector wage bill, and convert the recommendations of the June 2018 stakeholder conference into specific actions. They stressed that short-term measures to contain the wage bill should focus on reducing recruitments in non-priority sectors and examining the scope to rationalize allowances and bonuses. Looking ahead, the authorities' commitment to contain the wage bill and ensure its sustainability should be formalized in the 2020-2022 multiannual budget and economic programming document.

Directors encouraged the authorities to continue to improve the quality and efficiency of public investments through prioritization and cost-benefit analysis of projects, including public-private partnerships. Directors also recommended strengthening debt management, including developing a robust and prudent medium-term debt strategy. External financing alternatives would need to remain on concessional terms and be considered carefully.

Directors encouraged further structural reforms to remove barriers that limit the competitiveness of the economy. Priority areas include alleviating infrastructure bottlenecks, notably in energy and transportation, increasing productivity and value-added in the agricultural sector, diversifying the economy, and enabling the financial sector to better support inclusive growth. Directors stressed that enhancing access to financial services is essential to support economic diversification and structural transformation. They encouraged the authorities to continue to strengthen the anti-corruption framework.

It is expected that the next Article IV consultation with Burkina Faso will be held in accordance with the Executive Board decision on consultation cycles for members with Fund arrangements.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2015–23

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.	Est.	SR 18/81	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
GDP and prices										
GDP at constant prices	3.9	5.9	6.4	6.3	6.0	6.0	6.0	6.0	6.0	6.0
GDP deflator	-3.1	-1.1	2.3	4.5	3.5	2.0	2.0	2.0	2.0	2.0
Consumer prices (annual average)	0.9	-0.2	...	0.4	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	1.3	-1.6	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Money and credit										
Net domestic assets (banking system) [1]	16.6	1.7	21.2	22.4	26.2	13.1	13.4	...	...	...
Credit to the government (banking system) [1]	-1.3	-4.5	12.4	5.9	7.9	4.1	4.6	...	...	...
Credit to the private sector	8.7	12.1	8.7	14.4	12.3	12.9	12.6	...	...	...
Broad money (M3)	19.3	11.8	15.6	21.6	21.6	12.4	12.7	...	...	...
Private sector credit/GDP	28.4	30.4	29.0	31.3	32.0	33.5	34.9	...	...	...
External sector										
Exports (f.o.b.; valued in CFA francs)	2.6	19.9	11.9	5.7	4.5	6.0	3.6	4.9	0.6	1.0
Imports (f.o.b.; valued in CFA francs)	3.3	8.8	19.5	17.2	4.8	6.8	1.6	3.8	3.5	3.8
Terms of trade	13.2	8.7	...	0.4	-4.9	-3.4	2.6	2.3	1.1	0.6
Current Account (percent of GDP)	-8.6	-7.6	-8.4	-9.7	-8.1	-8.3	-7.0	-7.3	-7.5	-7.7
Real effective exchange rate	-6.4	-5.3	...	-3.2	...	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Central government finances										
Current revenue	17.0	19.1	19.0	19.4	18.7	19.9	20.4	20.8	21.1	21.1
Of which: tax revenue	15.1	16.7	...	17.3	16.7	17.8	18.3	18.7	19.0	19.3
Total expenditure and net lending	22.9	25.3	29.9	29.9	27.5	25.8	26.0	26.3	26.6	26.6
Of which: current expenditure	15.0	17.3	...	18.4	17.3	18.8	17.6	16.8	17.0	16.6
Overall fiscal balance, incl. grants (commitments)	-2.2	-3.5	-8.2	-7.8	-4.7	-3.0	-3.0	-3.0	-3.0	-3.0
Total Public Debt	35.6	39.2	38.3	38.4	42.5	42.0	41.7	41.4	41.2	41.4
Of which: external debt	26.3	27.8	24.2	24.1	24.2	23.4	22.5	21.3	20.6	20.1
Memorandum items:										
Nominal GDP (CFAF billion)	6,163	6,457	7,302	7,174	7,873	8,512	9,202	9,952	10,763	11,637
Nominal GDP per capita (US$)	576	584	652	643	732	759	810	858	911	964

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

1/ Percent of beginning-of-period broad money.

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 18/496
FOR IMMEDIATE RELEASE
December 21, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Completes First Review Under the Extended Credit Facility and Approves US$25.1 Million Disbursement for Burkina Faso

- Burkina Faso faces large social and physical infrastructure gaps, a deteriorating security situation, and unease among the rapidly-expanding population about economic prospects.
- Burkina Faso's program aims to create fiscal space for priority spending.

On December 21, 2018, the Executive Board of the International Monetary Fund (IMF) completed the first review of Burkina Faso's economic performance under a three-year program supported by the IMF's Extended Credit Facility (ECF). Completion of the review enables the disbursement of the equivalent of SDR18.06 million (about US$25.1 million), bringing total disbursements under the arrangement to the equivalent of SDR36.12 million (about US$50.1 million). The Board also approved the authorities' request for a waiver for nonobservance of a performance criterion, and the modification of performance criterion.

Burkina Faso's three-year ECF-supported program for the equivalent of SDR108.36 million (about US$150.3 million or 90 percent of the country's quota at the time of approval of the arrangement), was approved on March 14, 2018 (see Press Release No. 18/86). A key objective of the program is to create fiscal space for priority spending by strengthening revenue mobilization, containing current spending and improving the efficiency of public investment.

The Board also concluded the 2018 Article IV consultation. A press release will be issued separately.

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, made the following statement:

"With recent policy actions, performance under the ECF-supported program is broadly on track. Burkina Faso is a low-income country with significant development challenges. Despite some improvements in recent years, Burkina Faso's human development indicators remain among the lowest in the world and poverty remains high. Priority areas for reform include alleviating infrastructure bottlenecks, notably in energy and transportation, increasing productivity and

value-added in the agricultural sector, diversifying the economy, and enabling the financial sector to better support inclusive growth.

“The Burkinabe authorities remain strongly committed to the ECF-supported program despite difficult challenges and risks to the outlook, including from security shocks and social tensions. The immediate challenge for the Burkinabe authorities is to pursue development and security objectives in a manner consistent with the authorities’ commitment to achieving a fiscal deficit of no more than 3 percent of GDP by 2019.

“Burkina Faso’s growing security spending needs combined with the large social and development agenda make the acceleration of reforms critical. For the short and medium term, efforts should focus on creating fiscal space for priority investment, social, and security spending through additional revenue mobilization; containment of recurrent spending, particularly the wage bill; and improved spending efficiency.

“The authorities are encouraged to expedite the comprehensive reforms of public-sector compensation already underway to stem the unsustainable rise of the public-sector wage bill. In the short term, efforts should be made to contain the growth of the wage bill, including from reducing recruitments in nonpriority sectors and examining the scope to rationalize allowances and bonuses.”

BURKINA FASO

December 12, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context. Burkina Faso faces large social and physical infrastructure gaps, a deteriorating security situation, and unease among the rapidly-expanding population about economic prospects. Growth has been robust, averaging more than 6 percent over the past two years. Activity has been supported by expansionary fiscal policy, including from a boost to capital spending in 2017. Revenue has not increased as expected and the wage bill has been rising.

Outlook and risks. GDP growth is projected to stabilize at around 6 percent in 2018 and the medium term. The balance of risks to the outlook is tilted to the downside. Security threats could weigh on mining and tourism. Social tensions could impact government revenues and add to pressures for increased current expenditures, thereby further reducing space for high-priority capital spending.

Program performance and policies. Performance under the ECF-supported program approved in March 2018 has been mixed. All but one performance criteria were met. The authorities are requesting a waiver for the nonobservance of the zero-ceiling on government guarantees on new bank pre-financing for public investment based on the issuance by the Prime Minister of a ministerial order prohibiting the guaranteeing of such bank pre-financing. Four of six structural benchmarks were met and progress was made on the other two that were not observed. The 2019 budget represents a credible fiscal framework that limits the overall fiscal deficit to 3 percent of GDP, consistent with the WAEMU convergence criterion. Steps are being taken to create fiscal space for priority capital, social, and security spending. First, the recent hike in fuel prices and the adoption of an automatic fuel price adjustment mechanism curtails energy subsidies. Second, comprehensive medium-term reforms of the public-sector pay and allowance system are being formulated to contain the wage bill, including revisions to the salary and indemnity scales. This aims to ensure a continuous reduction in the the wage bill to tax revenue ratio from its projected peak in 2019. Third, efforts are being made to mobilize additional revenues and strengthen the efficiency of capital spending. Continuing with efforts to improve the business climate and promote financial inclusion are also important for Burkina Faso's structural transformation.

Staff views. Based on corrective actions taken by the authorities, staff supports the authorities' request for a waiver of the nonobservance of a performance criterion and the release of the second disbursement under the ECF arrangement in the amount of SDR 18.06 million.

Approved By	
Dominique Desruelle (AFR) and Johannes Wiegand (SPR)	Discussions were held in Ouagadougou during October 18-30, 2018. The staff team comprised Ms. Hakura (head), Messrs. Arnason, Jenkinson, and Simione, and Ms. Nikaein Towfighian (all AFR), and Mr. Gbohoui (FAD). Mr. Ouattara (local economist) assisted the mission. Mr. Nguema Affane (OED) also participated. Administrative support was provided by Ms. Margevich, Ms. Ndome-Yandun and Ms. Ouedraogo (all AFR). The team met with Prime Minister Paul Kaba Thiéba, Minister of Economy, Finance, and Development Hadizatou Rosine Sori/Coulibaly, Minister Delegate responsible for the budget Edith Clémence Yaka, Minister of Agriculture Jacob Ouédraogo, Minister of Public Administration Séni Mahamoudou Ouédraogo, Minister of Security Clément Sawasogo and other senior government officials. The mission also met with the National Director of the Central Bank of West African States Charles Luanga Ki-Zerbo, and representatives of the private sector, civil society, and development partners.

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CONTEXT

1. **With recent policy actions, performance under the ECF-supported program approved by the Board in March 2018 is broadly on track.** The program aims to reconcile the authorities' ambitious National Plan for Economic and Social Development (PNDES) 2016-2020 with maintaining macroeconomic stability by reducing the overall fiscal deficit to no more than 3 percent of GDP (the WAEMU convergence criterion) by 2019. A key objective of the program is to create fiscal space for priority spending by strengthening revenue mobilization, containing current spending—particularly on wages and salaries—and improving the efficiency of public investment, broadly in line with the recommendations of the 2016 Article IV consultation (Text Table 1). Burkina Faso also joined the G20 Compact with Africa initiative during the 2018 IMF/World Bank Annual meetings. The aim of this initiative is to encourage alternative sources of financing of the PNDES, including from public-private partnerships (PPPs).

2. **The discussions for the 2018 Article IV focused on strengthening institutions and governance to promote growth, stability, and poverty reduction**. Halfway into its five-year term, the government is under pressure to accelerate development and improve living standards.[1] Implementation of the PNDES has been slower than expected due to a lack of resources, weak implementation capacity, deteriorating security conditions, and social tensions (see Figure 1). Key priorities are to improve budget management and fiscal transparency and to strengthen government accountability for the delivery of public services. Medium-term growth prospects depend on the effectiveness of policies to address social and infrastructure gaps, improve the business climate, reduce corruption, and expand financial inclusion.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. **Expansionary fiscal policy has supported growth and boosted imports, but also resulted in a sharp deviation from the WAEMU fiscal deficit convergence criterion intended to preserve fiscal and external sustainability.** In 2017:

- GDP grew by 6.3 percent, up from 5.9 percent in 2016. Mining and the services sectors were the main contributors to growth, while pests and low rainfall held back agricultural output (Figures 2-3, Table 1).
- Headline inflation remained moderate, at a twelve-month rate of 2.1 percent at end-year.
- The current account deficit widened to an estimated 9.7 percent of GDP, from 7.6 percent in 2016 (Table 2). Gold exports increased as new mines began production, but poor rainfall and agricultural pests weighed on cotton and agricultural exports. Import demand was buoyed by rising budget spending on investment and wages.

[1] Burkina Faso ranked 183rd (out of 189 countries) on the UN's Human Development Index in 2017. The fertility rate is among the highest in the world averaging close to 6 children per woman. As a result, population growth is averaging close to 3 percent per year.

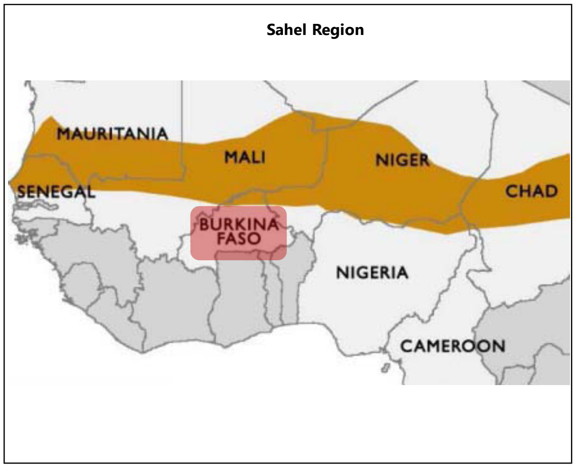
- Broad money growth remained robust at 21.6 percent. Net domestic assets growth has remained strong as private sector credit growth accelerated to 15.3 percent year-on-year at end-August 2018, from 14.4 percent at end-2017 (Table 3).

Text Table 1. Burkina Faso: Status of Key 2016 Article IV Consultation Recommendations

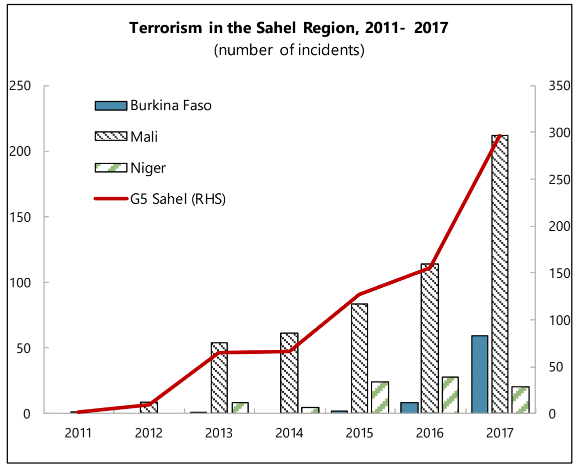
Recommendation	Status
Maintain progress in revenue mobilization. Domestic revenue mobilization increased significantly in 2016. In the short term, implementation of planned tax and customs administration measures, including standardized VAT invoicing and enhanced coordination between tax and customs services would be essential to reach revenue objectives. Over the medium term, efforts needed to be bolstered to increase the tax base and protect it from transfer pricing practices in the mining sector.	Progress has continued in revenue mobilization through both tax policy and administration measures.
Contain recurrent spending, including on wages, to ensure adequate fiscal space for key investment projects. Concerns about the wage bill were raised by recent government decisions to increase both salaries and employment levels. Care was needed to avoid the build up of contingent liabilities arising from subsidies in the energy and cotton sectors.	Pressures on recurrent spending, particularly wages but also subsidies for fuel and electricity, have persisted.
Carefully prioritize and sequence public investment projects, while addressing absorption capacity constraints. Take advantage of the forthcoming PIMA mission to identify measures to accelerate investment execution while maintaining quality and cost-effectiveness.	Progress has been made in strengthening investment project selection and execution but more needs to be done in line with PIMA recommendations.
Continue progress in energy sector reforms. Progress in improving the financial situation of the two state energy companies should be consolidated to ensure its sustainability. Adequate funding, including from the budget, needed to be secured for key projects to improve the supply of electricity.	Subsidies for electricity have been budgeted but not for transportation fuel subsidies. Funding for electricity projects has been limited but key projects, including a large solar power plant, have advanced.
Address fundamental barriers limiting the competitiveness of the economy. Priority areas included alleviating infrastructure bottlenecks, increasing productivity and value-added in agriculture, diversifying the economy, and enabling the financial sector to better support inclusive growth.	Progress in improving infrastructure has been slow both because of lack of resources and delays in the investment process. Progress in building forward-linkages for the cotton sector has been limited. Bank lending to the private sector has generally been limited, while work on a financial inclusion strategy continues.

Figure 1. Burkina Faso: Security Challenges

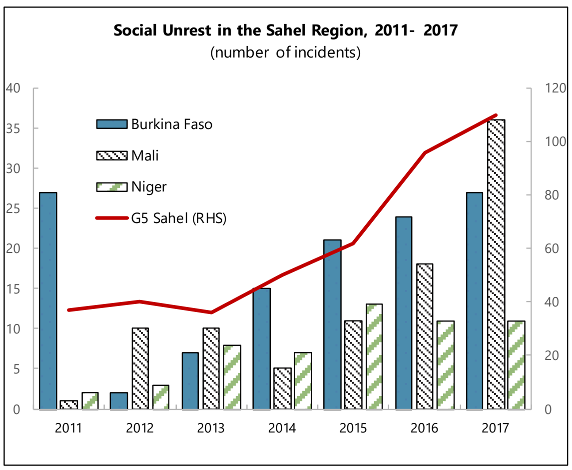
Reflecting cross-border spillovers…



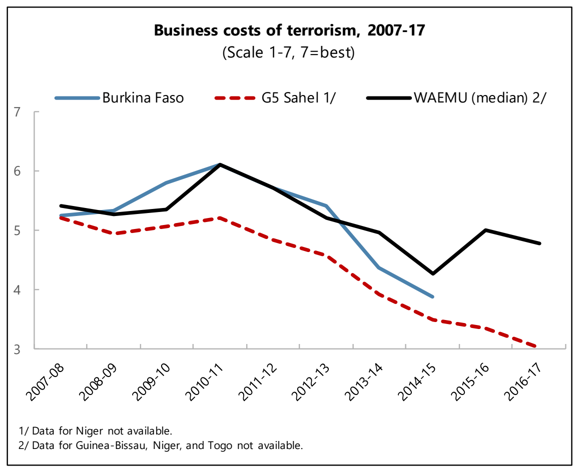
…terrorist activity has increased…



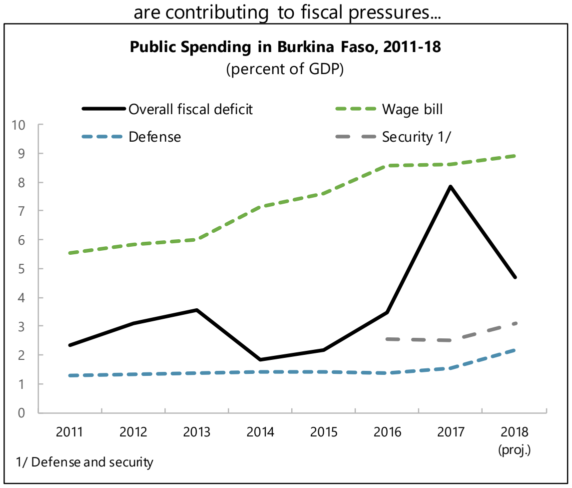
together with social unrest…



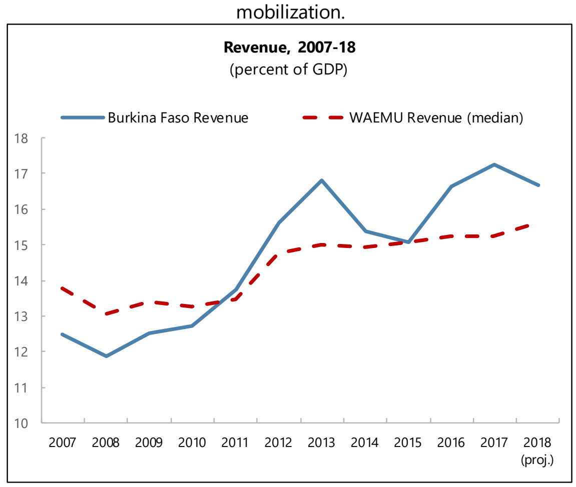
…and the business environment is adversely affected.



The uptick in military spending and sizable wage bill increases are contributing to fiscal pressures…



…offsetting some of the encouraging progress with revenue mobilization.



Source: Control Risks; World Economic Outlook; SIPRI; OECD; Global Competitiveness Index; and IMF staff estimates.

4. **Systemic macro-financial risks are broadly contained, but banks' risk aversion and a difficult business climate combine to hold back bank credit to the private sector**. The banking system remains profitable and well-capitalized, but banks prefer to invest in regional and domestic government bonds rather than lend to the private sector. Credit also remains concentrated to a few large borrowers and sectors of the economy (Table 4 and Box 1). Analysis of bank balance sheets also reveals significant exposure to nonresidents, but the underlying assets are mostly denominated in CFAF, which reduces exchange rate risks.

5. **Program performance in the first half of 2018 was mixed**. All but one quantitative performance criteria and indicative targets were met, many with a large margin despite the tax revenue shortfall (MEFP Table 1). The zero-ceiling on government guarantees on new bank pre-financing for public investment was not observed in September 2018 when the government signed a pre-financing arrangement for a high priority road project. Negotiations for this project were initiated in the context of the temporary easing of PPP procurement procedures during the second half of 2017 (MEFP ¶32). The government is seeking a waiver for the non-observance of this performance criterion based on its commitment to adhere to the zero-ceiling going forward, as reflected in the Prime Minister's executive order of November 9, 2018 prohibiting any government guarantees of new bank pre-financing arrangements. Four of the six structural benchmarks relevant for the first review under the ECF-supported arrangement were completed, while progress is being made on the other two that were not observed (MEFP Table 2).

6. **Staff projects that GDP growth will stabilize around 6 percent in 2018 and beyond**. This is about one percentage point lower than the authorities' projections, reflecting the drag from the security situation, the adverse impact of public sector strikes on private sector economic activity, and fiscal consolidation. Anchored by the peg to the euro, inflation is projected to remain around 2 percent per year, while the current account deficit should narrow to 8.1 percent of GDP in 2018 before settling around 7½ percent of GDP over the medium-term.

7. **The balance of risks to the outlook is tilted to the downside.** The main domestic risks are further security threats and continued labor unrest (Text Table 2). The intensification of the former would weigh on mining and tourism, as well as on government revenue collection and expenditure execution. The continuation of the latter would add to pressures for increased current spending, thereby further reducing space for high-priority spending. Poor rains and agricultural pests would adversely affect agricultural output, which could also aggravate food insecurity. On the external side, Burkina Faso would be adversely affected by lower gold and cotton prices and/or higher oil prices. Moreover, the country could be affected by spillovers from tightening global financing conditions, intensified protectionism, and weaker-than-expected global growth.

8. **Burkina Faso's external position was weaker than consistent with macro-economic fundamentals in 2017, due largely to the fiscal expansion (Annex 1).** The current account deficit is projected to moderate over the medium term as fiscal consolidation restrains import growth and export growth picks up in line with gold and cotton production. Following Eurobond issuances by other WAEMU member-countries the BCEAO's international reserves reached 4.9 months of

prospective imports of goods and services at end-March 2018. Reserves started to decline gradually in the third quarter of 2018 and stood at 4.3 months of imports at end-September 2018.

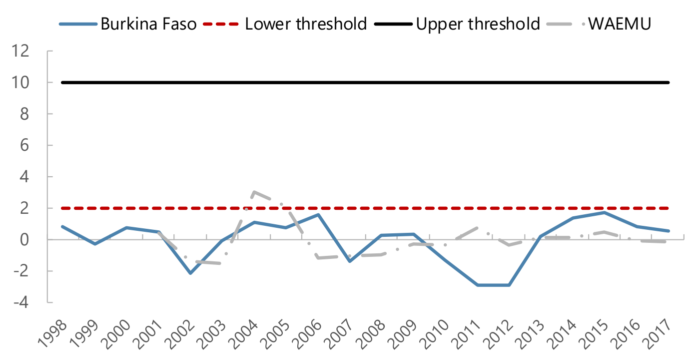
Box 1. Financial Sector

The Burkina Faso financial system is dominated by banks and traditional insurance companies, but also includes a vibrant microfinance sector that has been the main conduit to improve financial inclusion. The banking system is shallow and highly concentrated, with the top five banks (out of 14) accounting for over 70 percent of total assets at end-June 2018 (see Selected Issues Paper). The banking system primarily serves established clients and is a large purchaser of government bonds on the WAEMU regional securities market. The banking system continues to expand, with two new banks licensed in 2018, including a state-owned agricultural bank.

The financial system and financial deepening have been growing steadily. Although net domestic assets grew by 13 percent in 2017, the ratio of private credit to GDP was 31.3 percent at end-2017, up from 30.4 percent at end-2016. Despite a cyclical build up in credit during 2014-15, credit imbalances remain contained. A credit gap analysis (that analyses the difference between the credit-to-GDP ratio and its long-term trend) suggests that credit growth is within levels that do not give rise to a build up of financial vulnerabilities. The cyclical credit gap has consistently remained lower than the 2 percent of GDP threshold above which financial sector risks are deemed to start rising.

Burkina Faso: Credit Gap, 1998-2017

(in percent of GDP)



Source: Burkinabe authorities; Bank of International Settlements; and IMF staff estimates.

The tepid increase in financial penetration and subdued lending to the real economy by the banking system can in part be attributed to banks' ability to profitably deploy their liquidity on the regional market. The steady outflow of capital since the political transition of 2014-15, and associated increase in economic uncertainty, led to an increase in the net foreign assets (NFA) of domestic banks in 2016-17. This has coincided with a slowdown in private sector credit growth and in credit deepening.

9. **The updated Debt Sustainability Analysis (DSA), prepared under the new DSF, confirms that Burkina Faso's risk of external debt distress remains moderate**. The country's debt-carrying capacity has been upgraded to strong as the composite indicator, at 3.052, exceeds the threshold between medium and strong of 3.05. Under the baseline scenario, all the debt and debt service indicators remain below the relevant thresholds. However, under a customized scenario designed to take account of fiscal and external risks two thresholds are breached under an export shock. Furthermore, should the authorities finalize their plans to contract a large loan from a private

consortium, the breach of thresholds in the most extreme test would be amplified whether in the baseline or customized scenarios. The overall risk of public debt distress is also moderate.

Text Table 2. Burkina Faso: Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Possible Policy Response
External			
Tightening of global financial conditions	***High***	***Medium*** Tighter financing conditions in regional market	Limit domestic financing needs through adherence to fiscal deficit targets
Rising protectionism	***High***	***Medium*** Challenges for exports and diversification	Implement measures to improve competitiveness and the business environment
Weaker-than-expected global growth	***Medium***	***High*** Weaker demand for exports, lower external aid	Adhere to fiscal deficit targets to preserve international reserve adequacy. Implement measures to improve competitiveness and the
Lower gold and cotton prices, higher oil prices	***Medium***	***High*** Lower exports, higher fuel import prices, increased subsidy needs	Adhere to fiscal deficit targets to build buffers for shocks. Allow more flexibility in pump fuel prices.
Domestic			
Pressures for higher recurrent spending, particularly on wages	***High***	***Medium/High*** Crowding out of investment spending; pressure on fiscal deficit target	Contain recurrent spending, especially the wage bill. Intensify efforts to mobilize domestic revenues.
Further terrrorist attacks	***Medium/High***	***Medium/High*** Adverse impact on economic activity, notably tourism, and government revenue; longer term impact on foreign investment; crowding out of productive capital spending	Maintain efforts to strengthen security services; participate in regional security arrangements; adhere to fiscal deficit targets to create space for security spending.
Revenue mobilization lags	***Medium***	***High*** Reduced fiscal space and risk of higher fiscal deficit and financing needs	Pursue tax policy and revenue administration reforms; optimize current spending and re-prioritize public investment.
Poor weather conditions; agricultural pests	***Medium***	***High*** Lower agricultural output and exports, higher food prices; increased poverty	Adhere to fiscal deficit targets to address food emergencies. In the medium-term, provide support to farmers through better seeds, feritilizer, and irrigation.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff. The likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may materialize jointly and interact.

POLICY ISSUES FOR THE ARTICLE IV AND ECF DISCUSSIONS

10. The immediate economic challenges for Burkina Faso are to maintain macroeconomic stability through fiscal consolidation, and create fiscal space for priority investment, social, and security spending. To meet these challenges, three main channels are: (i) enhanced revenue mobilization; (ii) containment of recurrent spending, particularly the wage bill; and (iii) improved spending efficiency.

11. Strengthening institutions and governance are priorities to promote stability and inclusive growth. While Burkina Faso compares relatively well to sub-Saharan African peers on governance indicators, weaknesses remain in fiscal governance, which put progress in revenue mobilization at risk and may undermine the control of spending. Discussions with the authorities focused on steps to improve the realism of the medium-term fiscal framework and strengthening fiscal reporting and accountability. Efforts in this direction should help improve delivery of public services, enhance public accountability, and limit opportunities for corruption. Other subjects of discussion were structural reforms to support diversification and financial inclusion.

A. Fiscal Policy and Governance

12. The overall fiscal deficit widened sharply in 2017, driven by increases in both current and capital spending (Table 5). Tax revenue collection rose by 0.6 percentage points of GDP, to 17.3 percent. Domestically-financed investment spending rose by 2.7 percentage points of GDP, to 8.2 percent. Furthermore, current spending rose faster than expected, driven by higher spending on current transfers and wages and salaries. As a result, the overall fiscal deficit (on a commitment basis) widened to 7.8 percent of GDP, from 3.5 percent in 2016. Public debt eased to 38.4 percent of GDP, as the impact of new borrowing was offset by the appreciation of the euro against the dollar in 2017 and robust GDP growth.

13. Fiscal performance was broadly satisfactory in the first half of 2018, but pressures are mounting (Text Table 3). The overall fiscal deficit amounted to only CFAF 81 billion (1 percent of GDP), or less than a quarter of the initial projection for the full year. However, tax revenue collection was CFAF 38 billion (0.6 percentage points of GDP) lower than projected, while domestically-financed capital spending, at CFAF 127 billion (1.6 percent of GDP), was only one half of what had been projected. Both the shortfall in tax revenue and the under-execution of investment spending can largely be attributed to extensive work stoppages at the Ministry of Economy, Finance and Development during the first half of the year, the challenging security situation in parts of the country, and capacity constraints.

Text Table 3. Burkina Faso: Fiscal Outturn, June 2018
(percent of GDP)

	EBS/18/11	Y-o-Y (pct. ch.)	Outturn	Y-o-Y (pct. ch.)
Total revenue and grants	11.1	21	10.2	11
Total revenue	9.8	15	9.3	9
Tax revenue	8.8	18	8.2	10
Nontax revenue	0.9	-8	1.0	3
Grants	1.3	96	0.9	35
Project	0.8	57	0.6	23
Program	0.5	234	0.3	77
Expenditure and net lending 1/	13.6	10	11.2	-9
Current expenditure	8.6	8	8.3	5
Wages and salaries	4.1	9	4.2	12
Goods and services	1.1	36	0.9	11
Interest payments	0.6	60	0.8	120
Current transfers	2.8	-6	2.5	-18
Investment expenditure	5.0	12	2.9	-34
Domestically financed	3.1	-11	1.6	-54
Externally financed	1.9	94	1.3	35
Net lending	0.0		-0.1	
Overall balance 1/	-2.5		-1.0	

Sources: Burkinabè authorities; and IMF staff estimates and projections.
1/ Commitment ("engagement") basis.

14. **While revenue collection stabilized in the third quarter, the shortfall from the first half of the year is expected to result in substantially lower revenues than initially projected.** The supplementary budget for 2018 that was submitted to the National Assembly in October estimates that tax revenue collection will amount to CFAF 1314 billion, up in nominal terms from CFAF 1238 billion in 2017. However, relative to GDP, revenue collection is estimated to decline from 17.3 percent to 16.7 percent between 2017 and 2018. Spending pressures have also been rising from generous government pay awards following public sector strikes in recent years that have increased in frequency because of a growing sense of pay disparities across and within the public sector and between the public and private sectors. While the wage bill in the first half of 2018 was only marginally higher than projected under the program, the supplementary budget projects that the full wage bill for 2018 will be CFAF 700 billion, or CFAF 69 billion higher-than-initially budgeted. Moreover, it has been necessary to factor increased security spending needs as terrorist attacks have recently spread from the north to the south-west and east of the country. Military and security spending is projected to increase by 35 percent to 3.1 percent of GDP in 2018 and is planned to increase by another 28 percent in 2019. The implication is that the scope for investment spending in both 2018 and 2019 is lower than the program targets (Text Table 4).

Text Table 4. Burkina Faso: Fiscal Projections, 2017-19
(percent of GDP)

	2017	2018				2019		
	Prel.	Budget	EBS/18/11	Suppl. Budg.	Rev. Prog.	EBS/18/11	Initial Budg. Prop.	Rev. Budg.
Total revenue and grants	22.1	25.6	23.1	22.3	22.8	23.9	25.4	22.8
Total revenue	19.4	22.3	19.7	18.6	18.7	20.3	22.5	19.9
Tax revenue	17.3	20.4	17.8	16.6	16.7	18.3	20.4	17.8
Nontax revenue	2.1	1.9	1.9	2.0	2.0	2.0	2.1	2.2
Grants	2.7	3.2	3.4	3.7	4.1	3.7	2.9	2.8
Project	1.7	2.2	2.2	2.2	2.2	2.8	1.8	1.9
Program	1.0	1.1	1.2	1.5	1.9	0.9	1.1	0.9
Total Expenditure	29.9	30.9	28.1	27.3	27.5	27.0	28.5	25.8
Current expenditure	18.4	16.9	17.4	17.2	17.3	16.1	17.6	18.8
Wages and salaries	8.6	8.0	8.5	8.8	8.9	8.3	9.5	9.8
Goods and services	2.4	1.9	2.1	1.9	1.9	1.7	1.8	1.8
Interest payments	1.0	1.3	1.3	1.3	1.3	1.2	1.2	1.3
Current transfers	6.4	5.6	5.5	5.2	5.3	4.9	5.1	5.8
Investment expenditure	11.6	14.1	10.7	10.1	10.2	10.8	10.9	7.0
Domestically financed	8.2	10.2	6.9	6.2	6.3	6.3	7.6	3.6
Externally financed	3.4	3.9	3.9	3.9	3.9	4.5	3.3	3.4
Overall balance (commitment basis)	-7.8	-5.4	-5.0	-5.0	-4.7	-3.0	-3.0	-3.0
Memorandum items:								
Nominal GDP (CFAF billion)	7,174	7,873	7,896	7,920	7,873	8,540	8,775	8,512
Real GDP growth (percent)	6.3	6.0	6.0	6.7	6.0	6.0	6.9	6.0

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

15. **The authorities have underscored that they remain firmly committed to the program's fiscal deficit targets of no more than 5 percent and 3 percent of GDP in 2018 and 2019, respectively**. The revenue and spending figures from the supplementary budget form the basis for the fiscal framework for the ECF-supported program for 2018 and the starting point for the projections for 2019 (LOI and MEFP ¶55). Given the lower revenue collection and higher wage bill than previously projected for 2018, domestically-financed investment spending will need to be limited to 6.3 percent of GDP in 2018, compared with 8.2 percent in 2017. Whilst committed to respecting the deficit limits, the authorities nevertheless consider that additional spending pressures due to security concerns would warrant some flexibility in this regard. With current expenditure already constraining the fiscal space available for investment, these additional demands further reduce the scope to deliver critically needed development programs. The underlying deficit target for 2018 is 5 percent of GDP but owing to an emergency grant from the World Bank of CFAF 19 billion expected to be disbursed in 2018 but not spent until 2019, the actual deficit is projected at 4.7 percent of GDP. Staff highlighted the importance of raising revenue and constraining non-priority spending to meet priority needs in a sustainable manner.

16. **The 2019 fiscal framework targets a 1.1 percent of GDP increase in tax revenue to 17.8 percent of GDP** (Text Table 5, MEFP ¶59 and ¶60 and structural benchmarks in MEFP Table 4). This assumes that, in addition to the tax and administration measures included in the 2019 budget, conditions for tax collection will normalize following the disruptions of 2018. Staff estimates that tax collection will remain about ½ percentage point of GDP below trend in 2019. Other important

assumptions for the fiscal program for 2019 are that the wage bill will reach CFAF 836 billion (9.8 percent of GDP), based on already agreed undertakings between the government and social partners and that current transfers will amount to CFAF 496 billion (5.8 percent of GDP). This leaves room for CFAF 308 billion (3.6 percent of GDP) in domestically-financed capital spending under the overall fiscal deficit ceiling of 3 percent of GDP.

Text Table 5. Burkina Faso: Projected Yield of Revenue Measures, 2019
(percent of GDP)

Measure	Impact
Tax increase for non-alcoholic drinks, airline tickets and plastic bags	0.2
Opening of new tax collection point	0.1
Measures aimed at base broadening, improved compliance, and modernization of administration	0.4
Strengthened valuation procedures for imports through Sydonia	0.2
Tightened assessment procedures and reduced abatement for imported used vehicles	0.1
Reorganization of Bobo customs bureau into three specialized units	0.1
Total	**1.1**

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

17. The budgeting process in Burkina Faso is in urgent need of reform. Good governance requires proper and transparent budgeting procedures. The authorities practice of tabling budgets based on unrealistic revenue assumptions, which artificially creates room for ambitious investment plans, should be replaced by a more credible approach that enhances the effectiveness of the budget as a planning tool. The ECF-supported program required the freezing of CFAF 264 billion in planned investment spending to establish a viable fiscal deficit target for the program for 2018. The government agreed that this practice should end. On November 5, 2018, the Minister of Finance submitted amendments to the National Assembly to bring the draft 2019 budget into line with the fiscal framework outlined above.

18. Efforts to improve budget transparency can also help strengthen fiscal governance and reduce corruption. Burkina Faso's fiscal transparency is assessed to have regressed (Box 2). Improvements can be made by making budget preparation and execution reports available to the public in an easily-understood form. The authorities stressed their commitment to fiscal transparency and indicated that they had recommenced publication of in-year fiscal reports and budget documents (MEFP ¶77).

B. Borrowing Policies and Debt Management

19. The assessment of a moderate risk of debt distress hinges on fiscal risks highlighted in a customized scenario. The authorities concurred with the results of the updated DSA. The authorities have mainly relied on concessional loans for external financing, but are exploring

alternative sources of financing, including a large private concessional loan.This loan would allow the authorities to replace more expensive domestic and regional financing through debt management operations. The program contains adjustors should this loan materialize. Any part of the disbursements not used for debt management operations would be placed in an escrow account at the BCEAO or a commercial bank until they are used for debt management operations. The authorities emphasized that the loan involves no collateralization or side agreement (including related to PPP contracts). The authorities also recently reestablished relations with China following a 24-year hiatus and are exploring opportunities for economic cooperation.

Box 2. Fiscal Transparency Over Time and Compared to Peers

The 2017 Open Budget Index, as compiled by the International Budget Partnership, suggests that fiscal transparency in Burkina Faso has regressed in recent years. Burkina Faso now ranks substantially below its regional peers. The transparency indicators refer to the provision of budget information to the public and oversight by the legislature among other things.

- Burkina Faso's score for the Open Budget Index fell to 24 (out of 100) in 2017 from 43 in 2015. As a result, Burkina Faso now ranks below its WAEMU peers (whose median score is 31.5).

- Moreover, Burkina Faso is assessed to have weak oversight of the budget by the legislature with a score of 37 out of 100.

Source: International Budget Partnership https://www.internationalbudget.org/open-budget-survey/

20. Other diversification of external financing, for example through a Eurobond, would likely be more costly than regional financing and require significant capacity building, particularly in the "middle-office" analysis function and should be preceded by a robust medium-term debt strategy (MTDS). Staff encouraged the authorities to strengthen debt management, including by organizing the debt unit into a front, middle, and back office, in line with earlier TA recommendations. The authorities intend to articulate their debt policy in the context of a medium-term framework during 2019. At the same time, the authorities have reaffirmed their commitment to avoid pre-financing contracts and are considering how to better define the scope of the use of PPPs in revised legislation to limit any buildup of contingent liabilities (LOI and MEFP ¶75-¶76).

C. Enhancing Revenue Mobilization

21. Greater tax revenue collection is key to increase fiscal space over the medium term. With borrowing constrained by the need to contain the fiscal deficit and preserve debt sustainability, the mobilization of additional domestic revenue is key to obtaining the resources necessary to fund priority spending. The tax base needs to be broadened and tax compliance improved to raise the tax revenue-to-GDP ratio to the WAEMU criterion of 20 percent of GDP over the medium-term.

Box 3. Revenue Mobilization

Before the setback in early 2018, tax revenue collection recovered in recent years, reaching 17.3 percent of GDP in 2017. Renewed increases in the revenue ratio are expected next year and over the medium term. In terms of tax collection relative to GDP, except for trade taxes, Burkina Faso compares reasonably well with peers in WAEMU, but the tax revenue ratio remains well below the WAEMU 20 percent of GDP convergence criterion. A peer analysis suggests that Burkina Faso's revenue collection could be raised over the medium term toward the WAEMU criterion (20 percent of GDP, see Selected Issues Paper). The analysis also suggests that the greatest potential for further mobilizing revenue relative to other low-income sub-Saharan African peers is from taxes on goods and services.

There are several weaknesses in the application and structure of the tax system. Numerous exemptions, weak control of the tax base and divergence from regional tax directives are key factors impacting tax revenue performance, while aggravating inequality as their incidence is disproportionately in favor of higher income groups.

Priority tax policy measures in Burkina Faso should be centered on:

- *Ensuring strict application of the income tax laws on bonuses and allowance of civil servants.* In addition to mobilizing additional revenue, this will ensure equitable treatment with the private sector where the income tax law is properly applied;
- *Reducing tax exemptions* such as by introducing a VAT rate of 5 percent on currently exempted goods and services and applying the standard 18 percent VAT tax rate on household consumption of electricity and water. Consideration should also be given to revising the recently-adopted investment code to reduce tax expenditures.
- *Aligning tax rates with regional standards*, such as by increasing duties on tobacco in line with WAEMU ceilings.

Box 3. Revenue Mobilization (concluded)

Revenue and customs administration reforms are also key to increased tax collection. Some progress has been made in this area, including through the adoption of standardized VAT invoicing and e-filing procedures and better data sharing between the tax and customs administrations, but challenges remain. These are compounded by the recent security issues and capacity constraints. Key follow-up measures to further strengthen revenue and customs administrations include: (i) implementing follow-up procedures for non-filers; (ii) conducting an assessment of tax arrears and developing a strategy for collecting non-disputed debts and write-off uncollectable ones; (iii) developing issue-oriented audits; (iv) introducing streamlined procedures for small businesses; (v) eliminating administrative burdens and adopting a risk-based approach to improve the VAT refund system (structural benchmark); and (v) ensuring that the customs department is equipped and staffed to control the value of imports in line with WTO standards with the end of COTECNA's support.

Burkina Faso and WAEMU: Tax Revenue and Composition, 2013-17 Average
(percent of GDP)

Sources: World Economic Outlook; and IMF staff estimates.

22. While the 2019 budget proposal contains important measures to strengthen tax collection, including streamlining the excise tax on drinks, staff urged the authorities to consider additional tax policy measures and measures to further strengthen revenue and customs administration over the medium term (see Box 3). Staff recognized the efforts that the authorities are making to establish a customs valuation unit for the customs administration as the management contract with COTECNA ended in August 2018 (MEFP ¶63). Notwithstanding this, staff emphasizes the importance of ensuring that the customs administration is sufficiently staffed and equipped and emphasizes continued implementation of TA recommendations to strengthen the process to minimize risks to customs revenue collection. It is important to ensure that the procedures for customs clearance, inspection, and valuation are applied in a timely and transparent manner. Moreover, the authorities could consider establishing a rapid and agile dispute resolution mechanism to minimize disruption in contentious cases.

23. The authorities are confident that their tax policy and administration measures will continue to bear fruit despite the setback experienced in 2018 owing to widespread labor disruptions. They point to the mainstreaming of e-filing as a means of ensuring that tax revenues will continue to flow in the event of further labor unrest. At the same time, they consider that the transition from the management contract with COTECNA has proceeded fairly smoothly and should allow for increased customs revenue mobilization over time as the new valuation unit gains experience. A range of amendments to the Tax Code brought forward in the 2019 budget are designed to close loopholes and further reinforce compliance. The authorities have also recently revised the Investment Code to improve incentives to inward investment but intend to keep this under review to ensure revenue streams are optimized. While remaining open to removing VAT exemptions, and extending VAT to water and electricity, the authorities wish to evaluate the impact of fuel price liberalization on household finances before proceeding with further tax increases of this nature.

D. Controlling Current Spending

24. Containing the wage bill and transfer payments are also important to create fiscal space (Box 4). The former is on an unsustainable path, while the latter could be impacted by the accumulation of contingent liabilities from energy subsidies.

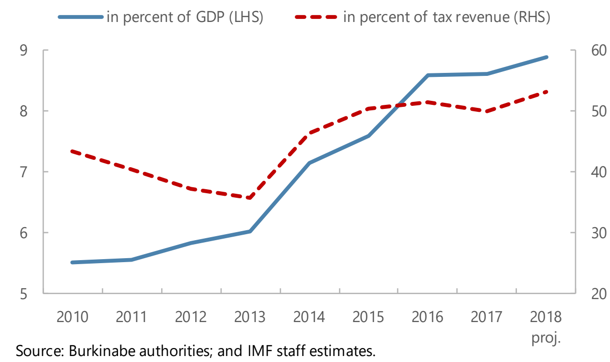
Containing the Wage Bill

25. Burkina Faso's public-sector wage bill is above its WAEMU peers. This is largely explained by higher average compensation levels in Burkina Faso than elsewhere in the WAEMU, whereas the staffing level relative to the size of the population, estimated at around 1.1 percent, is below the average for its peers (Text Figure 1). Thus, the challenge of containing the wage bill calls for addressing average compensation levels more so than limiting hiring. This is particularly true for education and health care, where there is strong demand given the young and rapidly growing population.

Box 4. Composition of Spending and the Rising Wage Bill

The share of the wage bill and subsidies and transfers (including for salaries to universities and hospitals) in total government spending has been rising rapidly. The wage bill rose to 8.6 percent of GDP in 2017, compared with 6 percent in 2013. This is well above the average for LIDCs (7.3 percent of GDP). The rapid increase in the wage bill to GDP ratio has been associated with social pressures and frequent strikes for higher wages and benefits. As a result, the wage bill is projected to exceed 50 percent of total tax revenue in 2018, well above the 35 percent WAEMU convergence criterion despite the improved tax revenue collection observed in recent years.

Burkina Faso: Indicators of the Rising Wage Bill, 2010-18

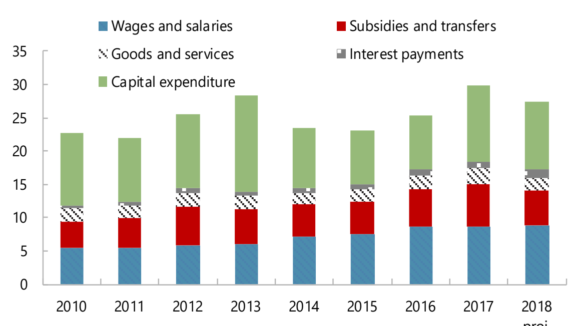


Source: Burkinabe authorities; and IMF staff estimates.

The large increase in the wage bill is mainly from increases in compensation and employment in the education and health sectors. The education sector accounted for 41 percent of the wage bill in 2017, the largest share of the wage bill. Of the remainder of the wage bill in 2017, 11 percent went to the health sector, 12 percent to the security sector, and 35 percent to other sectors. Burkina Faso's public-sector compensation structure appears to be unbalanced. Allowances and bonuses account for a large share of total compensation. There is a perception that the base salary is low, and allowances are not equitable, or fairly and effectively implemented.

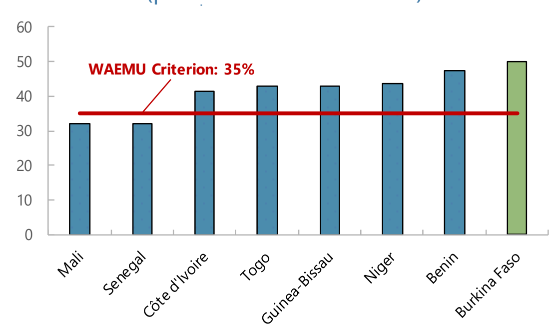
Given the limited growth of revenue and the overarching objective to observe the WAEMU convergence criterion on the fiscal deficit (3 percent of GDP), the higher spending on wages and subsidies reduces the scope for development spending on infrastructure and health and education while maintaining macroeconomic stability.

Burkina Faso: Total Expenditure, 2010-18
(percent of GDP)



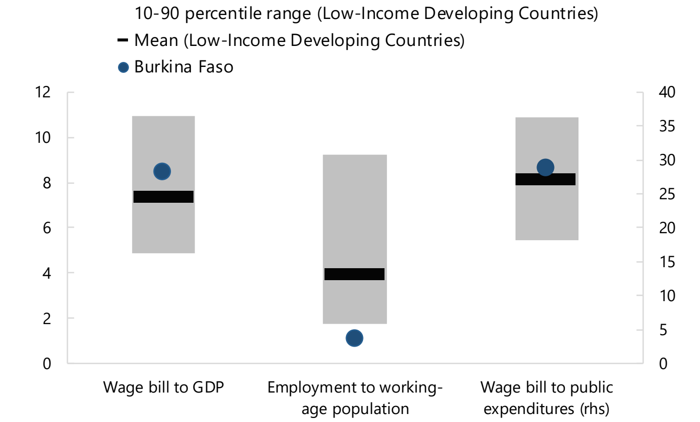
Source: Burkinabe authorities; and IMF staff estimates.

Burkina Faso and WAEMU Peers: Government Wage Bill, 2017
(percent of tax revenue)



Source: World Economic Outlook; Burkinabe authorities; and IMF staff estimates.

Text Figure 1. Burkina Faso: Benchmarking for Wage Bill and Employment, 2017 or most recent year
(in percent)



Sources: IMF FAD Expenditure Assessment Tool; and IMF staff estimates.

26. Public sector workers have forced higher wages and salaries through extensive strikes in recent years. A July TA mission projected that the wage bill would reach 10 percent of GDP by 2020, not counting the *Fonds communs* (see next paragraph), on current trends. Recommendations of a tripartite conference of all stakeholders in June 2018 to discuss reform options provide a basis for a medium term public sector strategy (MEFP ¶65 and ¶78). This strategy would consist of: (i) preparing framework legislation (organic law) that would establish the key principles governing the functioning of the public service; (ii) harmonizing job descriptions based on minimum qualifications for functional groups; (iii) revising salary and indemnity scales (structural benchmark); (iv) updating the indexation methodology; and (v) publication of the number of public servants according to grade, region, and ministry. This will be underpinned by a target for a continuous reduction in the ratio of the wage bill to tax revenue ratio in the 2020-2022 multiannual budget and economic programming document (structural benchmark). The authorities are considering if the full scope of their proposed legislation is compatible with the current constitution or should await the revised constitution for which a referendum is planned in March 2019. Work is also ongoing to prepare a civil service census and establish staffing and recruitment norms to ensure a balanced geographical distribution of public services. The authorities are also preparing a medium-term recruitment plan that would restrain recruitment relative to earlier projections. These measures are designed to both raise the efficiency of the public service and prevent further disruptions whilst containing the wage bill. Their success will, however, depend on the appropriate design of key parameters such as the revised salary structure. Staff urges the government to maintain the reform momentum that began with the June tripartite conference and operationalize their medium-term strategy as outlined above. The authorities are encouraged to make full use of technical assistance offered by development partners

27. Greater transparency and clearer policy are needed regarding the *Fonds Communs* and the incentive payments for which they are used. It has been a longstanding practice to use proceeds from fines and penalties collected by the Ministry of Finance and fees collected by some other ministries to pay bonuses to staff *(Fonds Communs)*. There are now 21 individual Fonds Communs spread across a dozen ministries, though they are most significant in the Ministry of Finance, which paid allowances of CFAF 55 billion (113 percent of the eligible base salaries) in 2017. Whilst awaiting more comprehensive reform, the draft 2019 budget envisages that payment of

allowances will be limited to the amounts collected in the previous year and amount to no more than 25 percent of the base salaries of civil servants in ministries eligible to receive such allowances (MEFP ¶80). At the same time, the 2020 budget will require the clear identification of the source and amounts to be paid in such allowances (structural benchmark).

28. The authorities consider that the entire pay and allowances system requires an overhaul. They recognize that payment of allowances and bonuses should be rationalized and codified but are cautious in proceeding before stakeholder consultations have been fully completed. The consultative process is expected to build on the conclusions of a national conference on these issues that was held in June 2018. The intention is to translate these conclusions into broad principles of pay and allowances into overarching legislation (organic law) that should govern the public service going forward. Once this is in place, the detailed regulations on rationalized wage and allowance scales could be brought forward.

29. Staff also encouraged the authorities to make every effort to contain the wage bill in the near term, including in 2019. This could involve the trimming of allowances, slowing the pace of promotions, and the limiting of hiring in lower priority sectors. The freezing of salary increases would be more difficult given the perception that base salaries are low and allowances not equitably distributed. Staff emphasized that for every percentage point of GDP less in public wage spending and commensurately more in domestically-financed capital spending could boost the trend growth rate by about a ¼ percentage point (October 2017 SSA REO). The Burkina Faso authorities emphasized that they could not go back on their commitment in 2019, but they agreed that the 2020-2022 multiannual budget and economic programming document would target a continuous reduction in the ratio of the wage bill to tax revenue ratio from its peak of 55 percent in 2019 (structural benchmark and MEFP¶78). In addition, they will reduce the number of new hires in the public service in 2019 from its projected level (structural benchmark and MEFP ¶65). The authorities will also begin to publish the number of public servants on the government payroll according to grade, region, and ministry (April structural benchmark).

Managing Energy Subsidies

30. The maintenance of fuel prices below cost-recovery levels has weighed on the fiscal position. Transportation fuel prices were lowered as world market prices fell in 2014 but had not been allowed to rise in response to the recovery in those prices since early 2017. The shortfall generated by the gap between import prices and pump prices results in a substantial revenue shortfall to the state-owned fuel importing company, SONABHY. While the government has budgeted a limited amount (CFAF 21 billion) to subsidize electricity prices, it has made no allowance for the shortfall for pump fuel prices. At average prices in October of about US$80 per barrel, this shortfall was estimated to amount to CFAF 100 billion (1.2 percent of GDP) for 2018 and not less than CFAF 120 billion (1.5 percent of GDP) in 2019.

31. The authorities committed to adjust retail fuel prices to cost-recovery levels going forward. On November 9, 2018 pump prices for gasoline and diesel were raised by CFAF 75 per liter

(an average of 13.4 percent). The President recently also issued a decree announcing a new automatic fuel price adjustment mechanism. Accordingly, retail fuel prices for gasoline and diesel will be adjusted on a quarterly basis to close the gap between the retail price and the cost-recovery price. The adjustment at any given time will not exceed CFAF 75 per liter for each type of fuel product. Should the gap between the market and domestic price exceed CFAF 50 per liter within a given quarter, this would trigger an immediate adjustment in the quarter. The authorities have chosen to maintain a subsidized price for butane, a fuel used for cooking. And they are exploring mechanisms through which vulnerable households can be protected. A budget transfer of CFAF 20 billion has been made to cover SONABHY's losses owing to below-cost-recovery sales of petroleum products in 2018. The government intends to securitize SONABHY's remaining 2017 and 2018 losses, which will be reflected in the fiscal accounts and debt stock as the securitization proceeds (MEFP ¶82). The government is committed to publish a monthly report on any implicit subsidies on pump fuel prices going forward (structural benchmark). As regards electricity subsidies, electricity tariffs should be increased when the budgeted subsidy allocation is exhausted in line with the 2016 tariff agreement. The need for the subsidy to SONABEL is expected to decline, however, as grid supply from Ghana rises from the current 50 MW to 100 MW by March 2019.

E. Improving Public Financial Management

32. In the context of severe resource constraints, efficient selection and execution of public investment projects is crucial. An efficiency frontier analysis shows that efficiency of public investment and education spending is relatively low compared to peers (Box 5). Building on PIMA recommendations, the authorities have prepared a reduced list of priority investment projects, including public-private partnerships (PPPs), the largest of which will be subject to standardized cost-benefit analysis. In January, the authorities reinstated regular public procurement procedures that were temporarily relaxed to speed up budget execution in 2017. Efforts are continuing to streamline and increase the transparency of public procurement procedures with World Bank support.

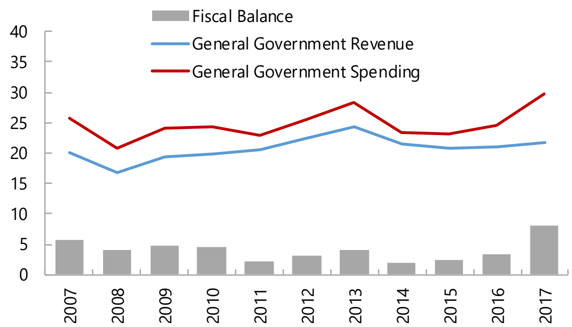
33. Staff encourages the authorities to continue to strengthen procedures for the selection and execution of projects, including by drawing on the manual for selecting projects and by integrating PPPs in the public investment process (structural benchmark), building on TA recommendations. Moreover, the government should continue to invest in human capital and social protection systems, particularly by strengthening higher education systems with World Bank support. Finally, the authorities should continue to eschew off-budget financing vehicles, such as supplier credits and pre-financing arrangements, and should carefully analyze PPPs' implications for fiscal risk, contingent liabilities, and debt sustainability. The definition of PPPs in the law on PPPs should be revised to exclude pre-financing and supplier credits.

Box 5. Benchmarking and Efficiency of Public Spending in Burkina Faso

Public spending in Burkina Faso has been steadily rising in recent years, resulting in gradual widening of the fiscal deficits. Total public expenditure in 2017 stood at 29.9 percent of GDP, above the sub-Saharan Africa median (25.4 percent of GDP), reflecting the government's efforts to scale up public investment as part of the implementation of its five-year national economic and social development plan (PNDES) to deliver tangible improvements in living standards to a rapidly growing population.

Burkina Faso: Fiscal Deficit, 2007-17

(percent of GDP)



Sources: Burkinabe authorities; and IMF staff estimates.

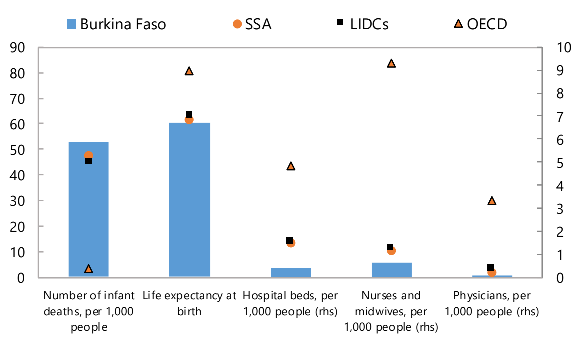
Expenditure outcomes in Burkina Faso suggest that there is important scope to increase the efficiency of spending to get more value for the money spent.

- **Capital expenditure has also typically been higher than in most other WAEMU countries and the median for SSA.** However, it appears that this has so far not translated to better quality of infrastructure than in other SSA countries. According to the most recent World Economic Forum's (WEF) Global Competitiveness report, the quality of electricity supply, railroads and roads scored below SSA benchmark countries' average.

- **Education spending as a percent of GDP is lower in Burkina Faso than in LICs and SSA.** While the net enrollment ratio in primary schools is broadly in line with the SSA average, the net enrollment ratio in secondary schools (28 percent) is lower than the SSA average (38 percent) and the adult literacy is less than half the rate in peer countries.

- **Health care spending represents about 5.7 percent of GDP, an amount in line with the SSA average and other LICs.** However, the number of infant deaths is higher than in other SSA countries. Also, the number of hospital beds, and other qualitative outcome metrics are lower than in other SSA countries and LICs.

Burkina Faso: Health Indicators and Health System Characteristics Indicators, Latest Value Available



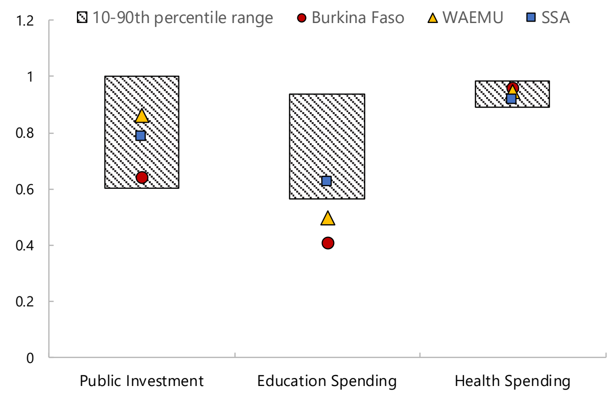
Source: IMF FAD Expenditure Assessment Tool.

Box 5. Benchmarking and Efficiency of Public Spending in Burkina Faso (continued)

There is a significant room to improve public spending efficiency. An efficiency frontier analysis (EFA) approach shows that efficiency of public spending is relatively low compared to peers. In a sample of 191 countries, the efficiency score of Burkina Faso for health spending is estimated at 0.958 close to the sample average, using the health-adjusted life expectancy (HALE) to measure the health outcome. Using secondary school enrollment rates as the education outcome, the efficiency of education spending in a Burkina Faso is about a third lower than in SSA. Similarly, Burkina Faso ranks low in the efficiency of public investment, with the efficiency gap with WAEMU estimated at about one-quarter for overall infrastructure quality.

Burkina Faso: Efficiency Scores of Health, Education and Infrastructure Spending

(scores 0-1, 1=most efficient)



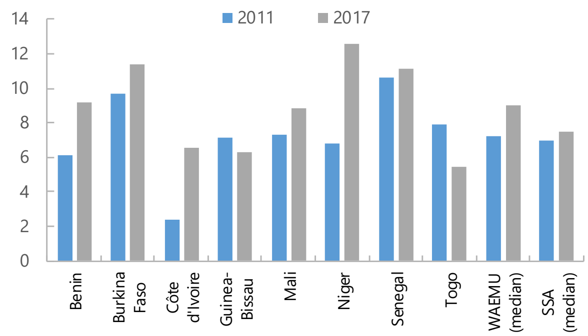
Sources: IMF FAD Expenditure Assessment Tool; and IMF staff estimates.

Reforms to improve the allocation of resources in the health and education sectors and strengthen public investment management institutions could help improve Burkina Faso's public spending efficiency. Improvements in health and education services require strengthened post-secondary training programs to ensure better trained teachers, doctors and nurses. Strengthening public investment management institutions would be critical to improve the selection, execution and monitoring of projects.

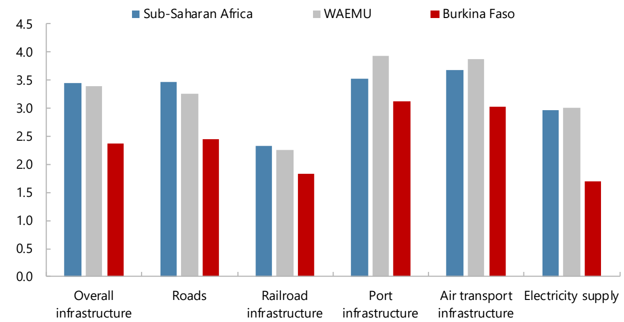
Box 5. Benchmarking and Efficiency of Public Spending in Burkina Faso (concluded)

Burkina Faso: Expenditure and Expenditure Outcomes

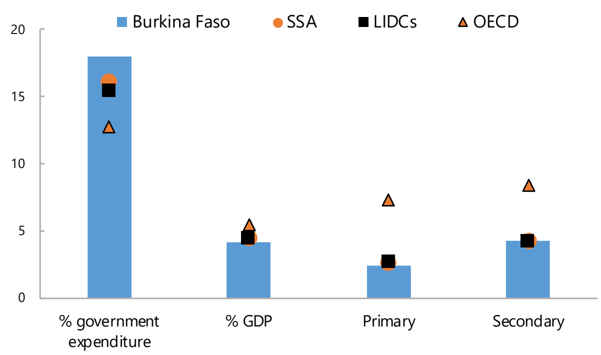
Public Investment, 2011-17
(percent of GDP)



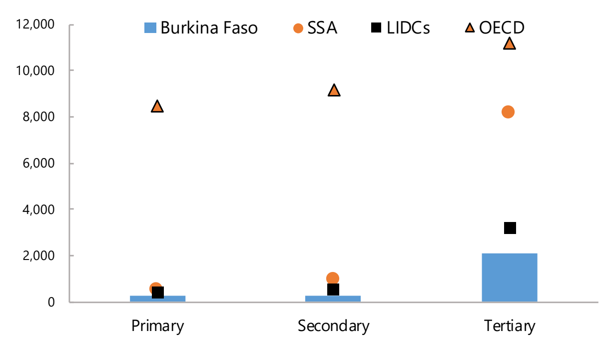
Selected Qualitative Indicators of Infrastructure, 2014
Score (1-7), 7=best



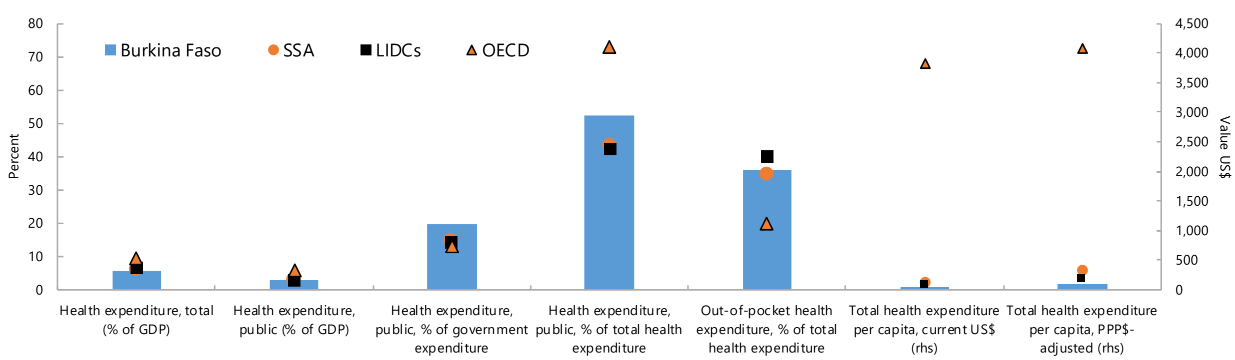
Government Education Expenditure, Latest Value Available



Government Education Expenditure per Student, PPP$ adjusted, Latest Value Available



Health Expenditure--Different Metrics, 2015



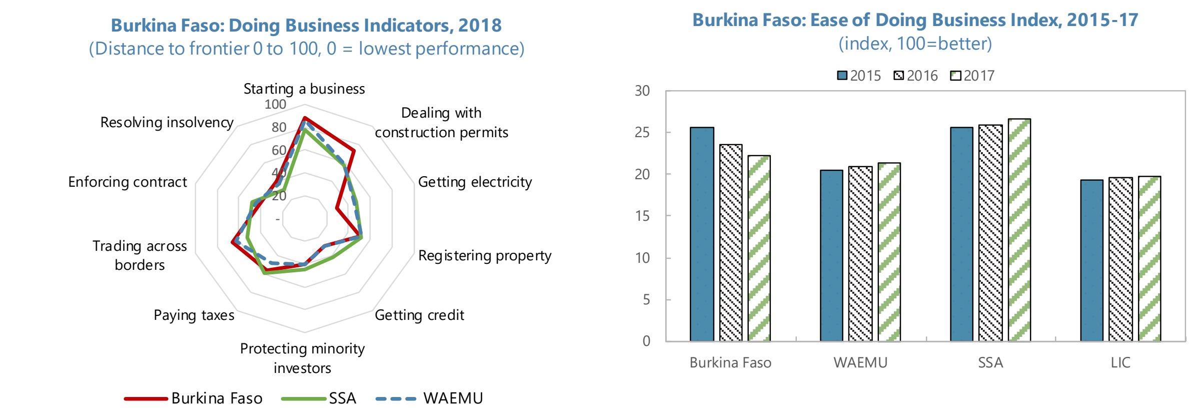
Sources: World Economic Outlook; Global Competitiveness Index; IMF FAD Expenditure Assessment Tool; and IMF staff estimates.

34. While some progress has been made, public financial management (PFM) systems need to be further strengthened. Burkina Faso was the first country in the WAEMU to implement program budgeting in 2017. A committee to strengthen fiscal reporting quality has begun work (MEFP ¶77). Moreover, progress has been made in regularizing VAT refunds and eliminating "irregular" domestic debts identified in 2015. Staff encourages the authorities to continue to strengthen fiscal reporting and cash management, including by moving to the issuance of a quarterly trial balance and establishing a single treasury account.

F. Structural Reforms to Support Diversification and Financial Inclusion

35. As a large, landlocked country, Burkina Faso faces challenges to diversify its economy and address a weak business climate. The World Bank's Doing Business indicators point to some areas for improving the business environment relative to comparator sub-Saharan African economies, particularly access to electricity and credit (Text Figure 2). The indicators also highlight weaknesses Burkina Faso shares with its peers, namely resolving insolvency and enforcing contracts, which bring forward concerns with the speed and efficacy of the judicial system to regulate financial matters. Burkina Faso would also benefit from increasing the pace of structural reforms, as the economy has lost ground in recent years when compared to peer economies. While the authorities have prepared a draft investment code which has been submitted to the Council of Ministers, it significantly broadens the scope of tax exemptions and can be improved in terms of investor protection.

Text Figure 2. Burkina Faso: Doing Business Indicators



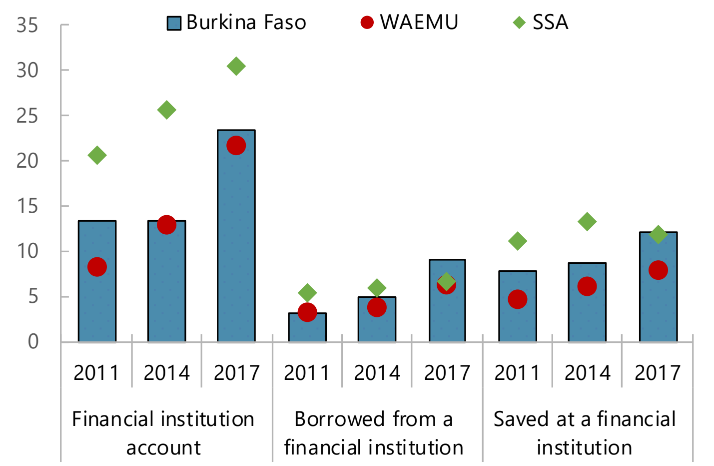
Source: World Bank Doing Business Report 2018.

36. The pace of reforms to improve governance should be sustained. Since 2015, the government has strengthened the anti-corruption legal and institutional framework by introducing anti-corruption laws on asset declarations and access to information and an organic law on the High Authority for State Control and Anti-Corruption (ASCE-LE).

37. There is ample scope to enhance financial inclusion (Text Figure 3). The authorities in 2017 adopted a financial inclusion strategy aligned to the WAEMU regional strategy in this area. It emphasizes mobile banking, microfinance, and the reduction of administrative barriers. In this context, staff recommends that the authorities accelerate efforts to fully operationalize the credit bureau with the aim to minimize information gaps and support access to credit. It also urges the authorities to translate the financial inclusion strategy into concrete actions, building on the Action Plan expected to be finalized in 2018. The authorities are in the process of operationalizing a Caisse de Depots (along the French model), and setting up a recently licensed agricultural development bank (MEFP ¶85). While these projects seek to address the financial exclusion of agriculture and other sectors, staff also highlights the fiscal and governance risks associated with state-owned financial institutions, especially if they are regulated and supervised under a different regime than other financial institutions.

Text Figure 3. Burkina Faso: Financial Inclusion, 2011-17

(percent of population)



Source: FINDEX; and IMF staff estimates.

38. While the banking system appears to be sound and stable with potential to expand into underserved portions of the economy, security risks have risen. Recent terrorist attacks have somewhat increased banks' operational risk in remote areas, leading a few banks to temporarily close their branches. While the deterioration in security conditions has not led to major disruptions in the banking system, it could undermine banks' ability to expand into underserved remote areas and hence hamper the authorities' efforts to promote financial inclusion.

39. The Burkina Faso authorities reiterated their commitment to improve the business environment. While the authorities are striving to improve the legal and regulatory frameworks for investment, one of their priorities is to combat the threat of terrorism by improving the socio-economic conditions of the population living in the Sahel region of the country which is the most exposed to attacks and radicalization. A central focus is to implement the Emergency Program for the Sahel region and engage in the G5 Sahel Alliance to improve security. The authorities highlighted the institution of an annual audit of the management of the government by the higher authority of ASCE-LC (MEFP ¶92). The management audit report for the year 2016 is available and that of 2017 is being finalized. Moreover, progress is being made in establishing full compliance for wealth and asset declarations for government members, members of parliament, and judges. The authorities are committed to making this available in an online consultable form in early 2019 (MEFP ¶93).

POVERTY REDUCTION AND INCLUSION

40. The authorities are pursuing efforts to reduce poverty and strengthen economic inclusion (MEFP ¶87-¶90). They are striving to expand the program providing free healthcare to cover more vulnerable persons as well as implementing projects that promote the role of women as dynamic actors in development and reduce social and gender inequalities. Steps have been taken to establish an institutional and legal framework to establish a universal health insurance system. In regard to efforts to reduce inter- and intra-regional disparities, the implementation of the Program to Support the Development of Local Economies (PADEL) and the Emergency Program for the Sahel (PUS-BF) are ongoing and there are plans for continued implementation of the PADEL in six additional regions and continued investments to support the PUS-BF.

OTHER ISSUES

41. The quality of macroeconomic statistics is adequate for surveillance purposes. The authorities are committed to disseminating e-GDDS data through a National Summary Data Page by December 5, 2018. The authorities are also continuing efforts to update and improve national accounts data. As they adopt SNA2008 methodology, the authorities will rebase the national accounts from 1999 to 2015 and broaden their coverage of informal sector activity. The 2015 rebased estimates will be somewhat higher than current estimates and have been enriched by several data sources, such as the 2015 annual agriculture survey, the 2015 non-profit institution (NPI) survey, the 2015 national survey on employment and informal sector (first time survey), and the 2017 survey on gold extraction. Key recommendations of the SNA2008 have also been implemented (creation of a new sector for NPI serving households, calculation of the financial intermediation services indirectly measured, etc.) (MEFP ¶91).

42. Capacity Development. Staff and the authorities agreed on technical assistance priorities under the capacity building framework. The authorities have been receiving extensive technical assistance in the agreed areas, including mobilization of domestic revenues (customs and taxation), management of fiscal risks, control of re-current spending, particularly on wages and salaries, and reforms to strengthen spending efficiency, especially regarding public investment spending, public financial management, and debt management. Further technical assistance to reinforce capacity in these areas and facilitate implementation of recommendations is expected to continue.

43. Safeguards assessments. An updated safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards (IFRS) were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

PROGRAM ISSUES

44. Completion of the review will release a second disbursement under the ECF arrangement in the amount of SDR 18.06 million, in line with the disbursement schedule approved at the outset of the arrangement (Table 6). Quantitative performance criteria (PC) and indicative targets (IT) for the second (December 2018) and third (June 2019) reviews are set out in Tables 1 and 3 of the MEFP. It is proposed that beginning with the end-June 2019 test date that the performance criterion on the contracting of external debt be changed from a ceiling on the contracting of non-concessional debt to a ceiling on the present value (PV) of the contracting of all external debt, in line with the debt limits policy for a country with a sufficient debt monitoring capacity and a moderate risk of debt distress rating. The structural benchmarks to support the program's objectives are listed in Tables 2 and 4 in the MEFP.

45. The program is fully financed (Table 7). The external financing requirement will be met through budget support and project loans from other IFIs and bilateral donors, as well as limited non-concessional borrowing. While project support (grants and loans) are projected to remain robust over the program period, direct budget support (loans and grants) are projected to continue a downward trend.

46. The authorities' commitment to program engagement with the Fund along with the design of the quantitative performance criteria and indicative targets and structural benchmarks mitigates risks to the program. The main fiscal risks pertain to the possibility of disappointing domestic revenue performance, a shortfall in external support, and inability to control the wage bill amid social pressures. Other risks to the baseline scenario relate to a potential deterioration in the security environment, adverse weather conditions (e.g. drought/flood), and terms of trade shocks. In this case, keeping the program on track would require proactive adjustment in macroeconomic policies in consultation with Fund staff. The capacity to repay the Fund is assessed to be adequate (Table 8).

STAFF APPRAISAL

47. Burkina Faso is a low-income country with significant development challenges, which have recently intensified due to security shocks and social unrest. Despite some improvements in recent years, Burkina Faso's human development indicators remain among the lowest in the world and poverty remains high. The authorities are striving to improve security and economic prospects in the context of significant resource and capacity constraints.

48. Growth has been robust, averaging more than 6 percent over the past two years. Activity has been supported by expansionary fiscal policy, including from a boost to capital spending in 2017. Inflation remains contained, anchored by the CFAF's peg to the euro.

49. Program performance was mixed in the first half of 2018. Domestic revenue fell somewhat short of projection in the first half of 2018, but the program floor was nevertheless

exceeded. All but one quantitative performance criteria and all indicative targets for the first review were met. The authorities have taken corrective action to ensure that the non-observance of the prohibition of the contracting of pre-financing arrangements will not be repeated. Performance on structural benchmarks has also been broadly satisfactory, with four out of six benchmarks for the review fully completed and progress has been made on the other two that were not observed.

50. Growth is projected to stabilize at 6 percent in 2018, but risks are tilted to the downside. The main risks to the outlook are the threat of further terrorist attacks, which could weigh on mining and tourism, and social tensions and unrest, which could impact government revenue collection and add pressures on current spending, particularly wages and benefits, to the detriment of priority investment, and social and security spending. Systemic macro-financial risks are broadly contained as the banking system is characterized as solvent and liquid.

51. Staff welcomes the authorities' commitment to the fiscal anchor of the ECF-supported program, an overall fiscal deficit of no more than 3 percent of GDP by 2019, despite difficult circumstances. In September, the authorities presented a supplementary budget for 2018 that aligns spending plans for the year with available resources under the 5 percent of GDP overall fiscal deficit ceiling. The budget proposal for 2019 currently under discussion in Parliament is aligned with the program's fiscal framework and based on realistic projections of domestic revenues, thus obviating the need for a delayed spending list that was a key feature of the original program design. This represents a significant step forward in improved and more transparent budgeting.

52. Burkina Faso's growing security spending needs combined with the large social and development spending needs make it critical for the authorities to accelerate reforms to raise domestic revenue. Under the program, tax and customs administration reforms will focus on expanding use of online tax filing and payments, further strengthen tax compliance and audit capacities, and modernize collection procedures. Staff emphasizes the importance of continuing to progress with the establishment of a customs valuation unit in line with WTO standards and ensure adequate staffing and capacity of customs administration. Over the medium term, additional tax policy measures should be considered building on the January 2018 FAD tax policy TA.

53. Staff urges the authorities to expedite public-sector compensation reforms to stem the unsustainable rise of the public-sector wage bill. The authorities should formalize their commitment to contain the wage bill and put it on a declining trend from its peak at 55 percent of tax revenue in 2019 in the context of the 2020-2022 multiannual budget and economic framework document. They should also make progress in translating the recommendations of the stakeholder conference on these issues held in June 2018 into specific actions. The organic law that is being prepared is intended to define the broad principles of pay and allowances that should govern the public service going forward. Follow up actions should include (i) harmonizing job descriptions based on minimum qualifications for functional groups; (ii) revising salary and indemnity scales; and (iii) updating the indexation methodology.

54. In the short term, efforts should be made to contain the growth of the wage bill, including from reducing recruitments in nonpriority sectors and examining the scope to

rationalize allowances and bonuses. Staff encourages the authorities to move forward with their efforts to properly account for incentive payments in the budget (*fonds communs*) and further clarify the rules for how these payments are allocated, reduce their size, and subject them to income tax.

55. The recent adjustment of retail fuel prices and adoption of an automatic price adjustment mechanism should help protect the budget against rising international oil prices. Staff welcome the authorities' commitment to budget *ex ante* for remaining fuel subsidy needs.

56. Staff encourages the authorities to continue to improve the quality and efficiency of investments through prioritization and cost-benefit analysis for projects, including PPPs. The legal and institutional framework for public investment management and PPPs should continue to be strengthened, including by including PPPs in the public investment program. The definition of PPPs in the law on PPPs should be revised to exclude pre-financing and supplier credits. The authorities should carefully analyze PPPs' implications for fiscal risk, contingent liabilities, and debt sustainability. Efforts should also focus on strengthening debt management, including developing a robust medium-term debt strategy before embarking on potentially costly alternatives for debt diversification.

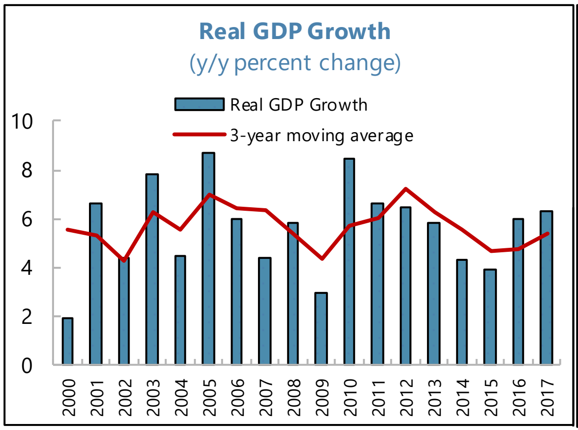
57. The authorities should continue to pursue efforts to remove barriers that limit the competitiveness of the economy. Priority areas include alleviating infrastructure bottlenecks, notably in energy and transportation, increasing productivity and value-added in the agricultural sector, diversifying the economy, and enabling the financial sector to better support inclusive growth. Enhancing access to financial services is essential to support economic diversification and structural transformation.

58. Staff supports the authorities' request for a waiver of the non-observance of a performance criterion and the release of the second disbursement under the ECF arrangement in the amount of SDR 18.06 million. The LOI and MEFP set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate and risks to the program are manageable.

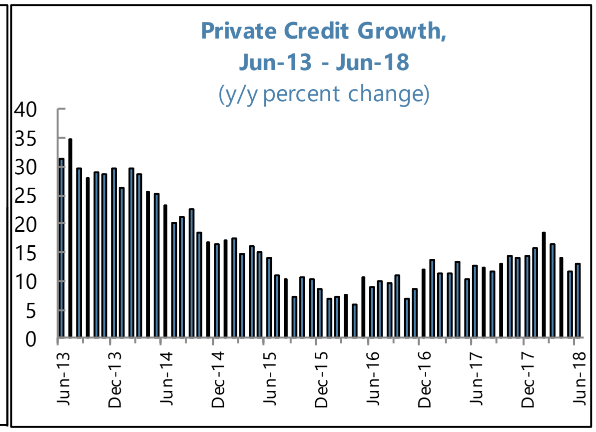
59. The next Article IV Consultation is expected to take place on a 24-month cycle.

Figure 2. Burkina Faso: Recent Economic Developments

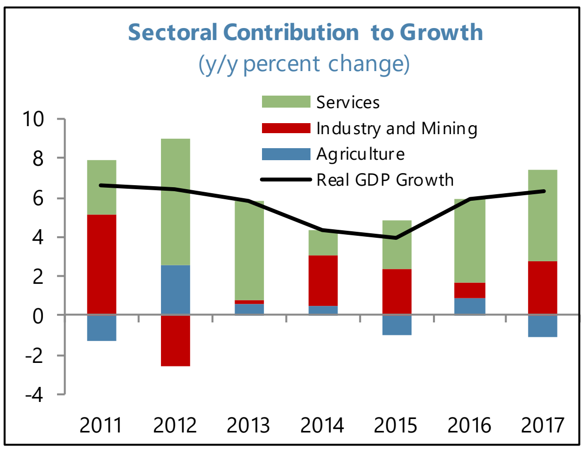
Growth averaged 6 percent in recent years



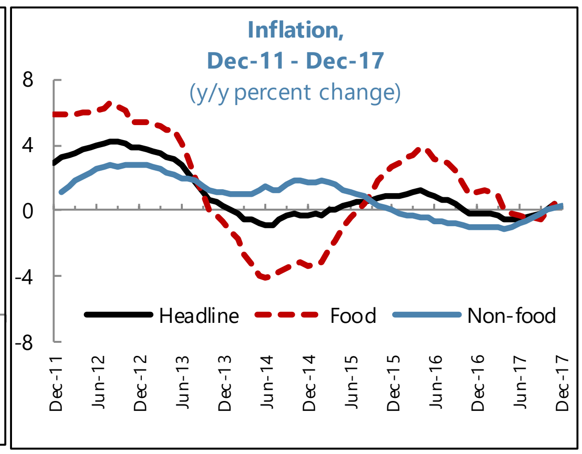
Credit growth has been relatively subdued.



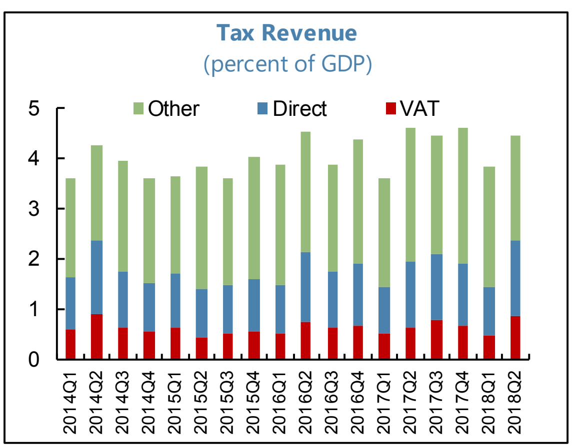
Industry and mining contributed importantly to growth in 2017.



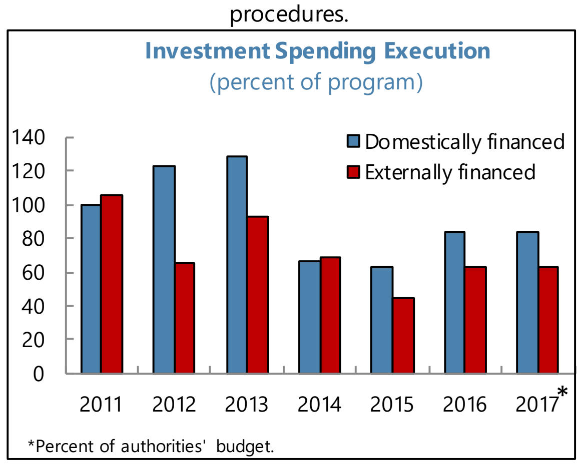
Inflation remained subdued in 2017.



Tax revenues continued to recover in 2017



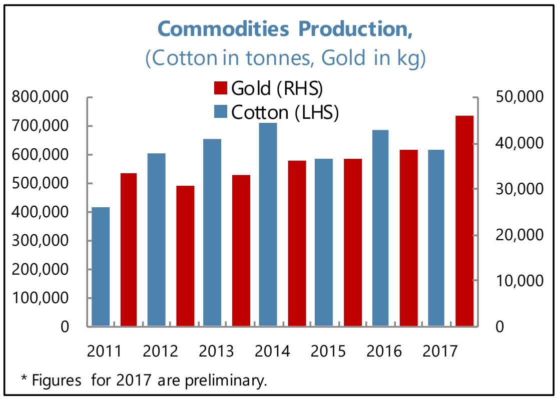
...and public investment execution increased buttressed by the temporary easing of investment procedures.



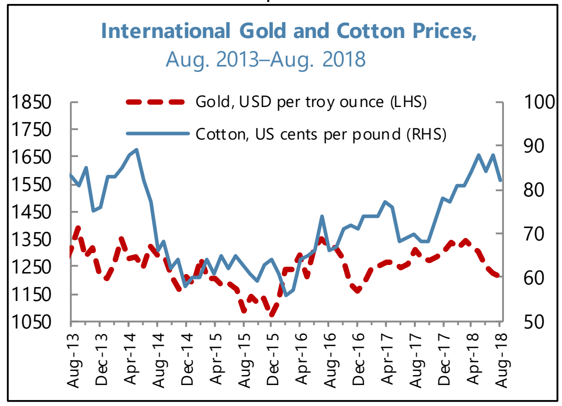
Source: Burkinabè authorities; and IMF staff calculations.

Figure 3. Burkina Faso: Real and External Developments

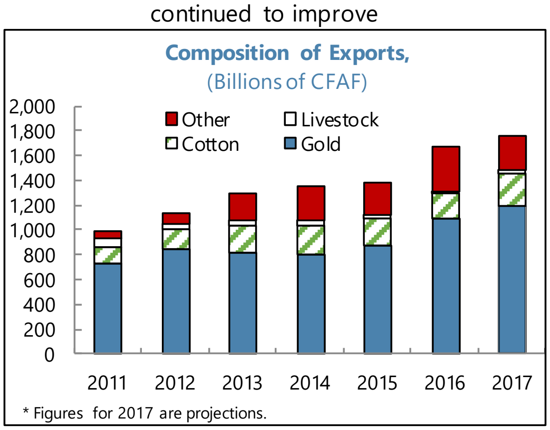
Cotton production recovered due to abundant rainfall



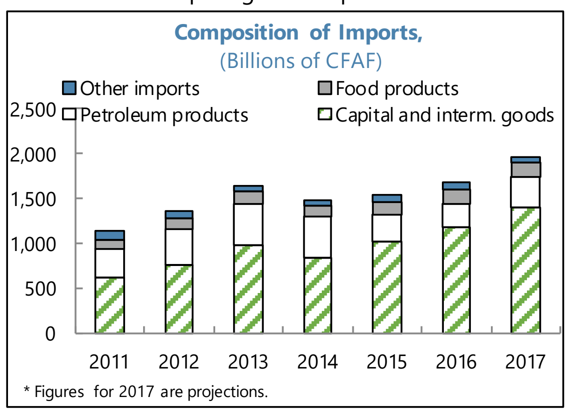
...while higher cotton and gold prices boosted exports.



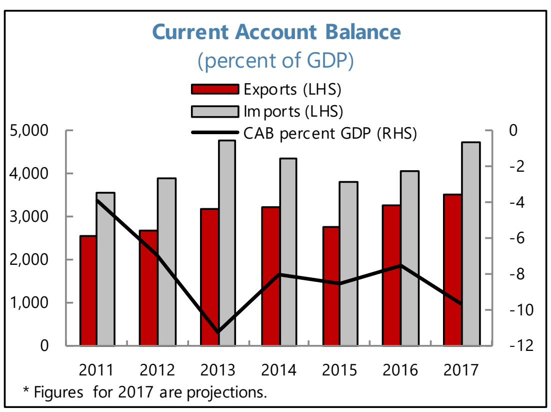
Prospects for cotton and gold exports continued to improve



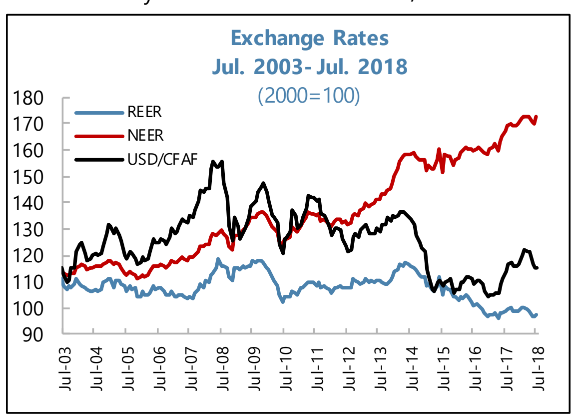
...while mining and public investment increased capital goods imports



...so the current account deficit is estimated to have widened in 2017.



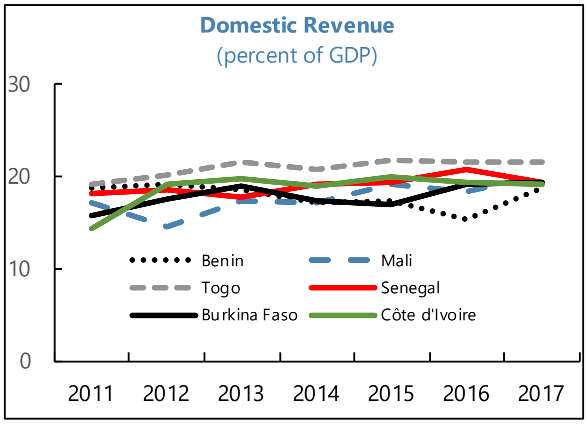
The real exchange rate has been depreciating, driven by moves in the U.S. dollar/euro rate.



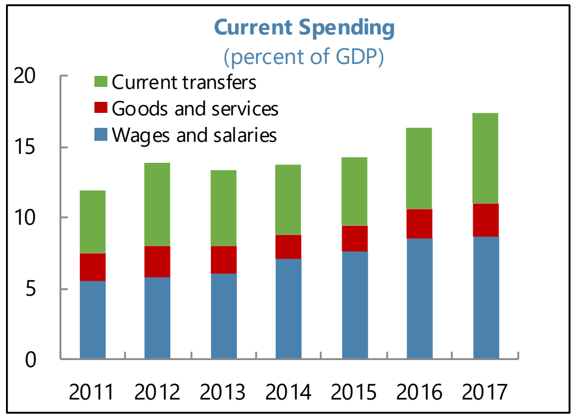
Sources: Burkinabè authorities; and IMF staff calculations.

Figure 4. Burkina Faso: Fiscal Developments

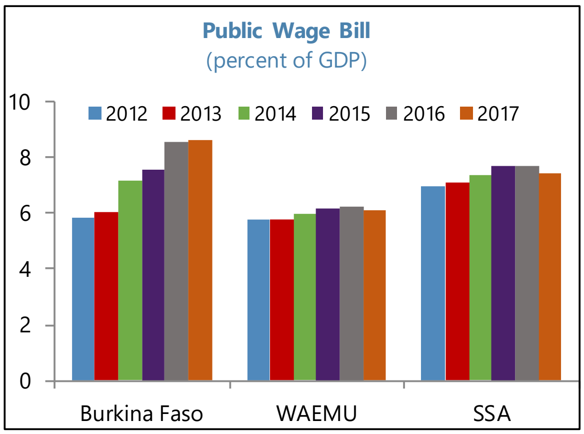
Domestic revenue continued to trend up in 2017.



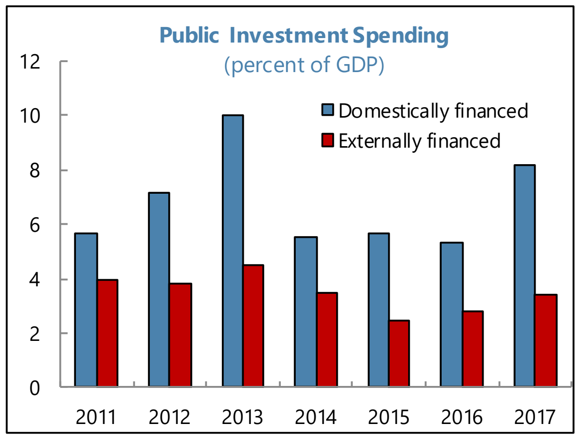
Current spending also increased.



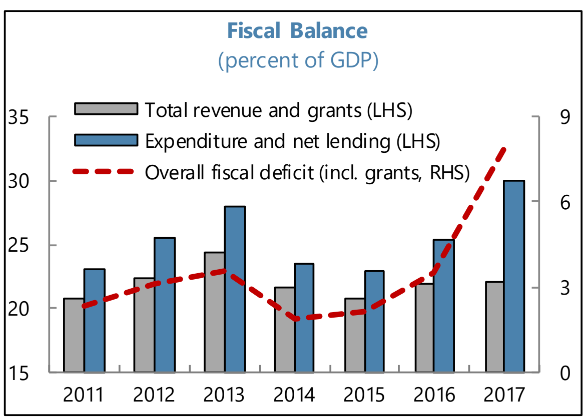
The wage bill is higher than in peers.



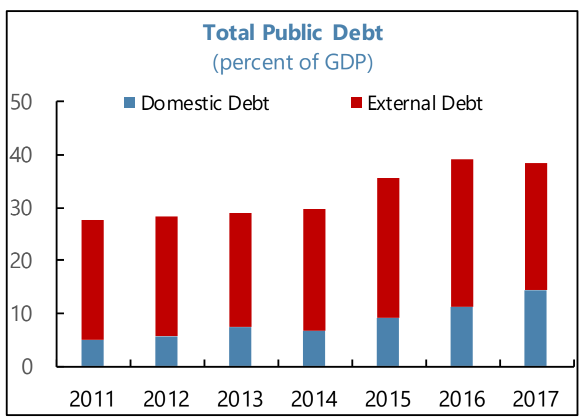
Investment spending is estimated to have sharply increased in 2017.



The fiscal deficit widened markedly…



…keeping public debt at its current level as the share of domestic debt rose.



Sources: Burkinabè authorities; and IMF staff calculations.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 2015–23

	2015	2016	2017		2018	2019	2020	2021	2022	2023
	Act.	Est.	SR 18/81	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise indicated)									
GDP and prices										
GDP at constant prices	3.9	5.9	6.4	6.3	6.0	6.0	6.0	6.0	6.0	6.0
GDP deflator	-3.1	-1.1	2.3	4.5	3.5	2.0	2.0	2.0	2.0	2.0
Consumer prices (annual average)	0.9	-0.2	…	0.4	2.0	2.0	2.0	2.0	2.0	2.0
Consumer prices (end of period)	1.3	-1.6	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Money and credit										
Net domestic assets (banking system) 1/	16.6	1.7	21.2	22.4	26.2	13.1	13.4	…	…	…
Credit to the government (banking system) 1/	-1.3	-4.5	12.4	5.9	7.9	4.1	4.6	…	…	…
Credit to Private Sector	8.7	12.1	8.7	14.4	12.3	12.9	12.6	…	…	…
Broad money (M3)	19.3	11.8	15.6	21.6	21.6	12.4	12.7	…	…	…
Private sector credit/GDP	28.4	30.4	29.0	31.3	32.0	33.5	34.9	…	…	…
External sector										
Exports (f.o.b.; valued in CFA francs)	2.6	19.9	11.9	5.7	4.5	6.0	3.6	4.9	0.6	1.0
Imports (f.o.b.; valued in CFA francs)	3.3	8.8	19.5	17.2	4.8	6.8	1.6	3.8	3.5	3.8
Terms of trade	13.2	8.7	…	0.4	-4.9	-3.4	2.6	2.3	1.1	0.6
Current account (percent of GDP)	-8.6	-7.6	-8.4	-9.7	-8.1	-8.3	-7.0	-7.3	-7.5	-7.7
Real effective exchange rate	-6.4	-5.3	…	-3.2	…	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)									
Central government finances										
Current revenue	17.0	19.1	19.0	19.4	18.7	19.9	20.4	20.8	21.1	21.1
Of which: tax revenue	15.1	16.7	…	17.3	16.7	17.8	18.3	18.7	19.0	19.3
Total expenditure and net lending	22.9	25.3	29.9	29.9	27.5	25.8	26.0	26.3	26.6	26.6
Of which: current expenditure	15.0	17.3	…	18.4	17.3	18.8	17.6	17.2	17.2	17.2
Overall fiscal balance, incl. grants (commitments)	-2.2	-3.5	-8.2	-7.8	-4.7	-3.0	-3.0	-3.0	-3.0	-3.0
Total Public Debt	35.6	39.2	38.3	38.4	42.5	42.0	41.7	41.4	41.2	41.1
Of which: external debt	26.3	27.8	24.2	24.1	24.2	23.4	22.5	21.3	20.6	20.1
Memorandum items:										
Nominal GDP (CFAF billion)	6,163	6,457	7,302	7,174	7,873	8,512	9,202	9,952	10,763	11,637
Nominal GDP per capita (US$)	576	584	652	643	732	759	810	858	911	964

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

1/ Percent of beginning-of-period broad money.

Table 2. Burkina Faso: Balance of Payments, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
	Est.	Est.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(CFAF billions, unless otherwise indicated)								
Current account	-529	-488	-696	-639	-708	-646	-725	-810	-896
Trade balance	-143	0	-194	-207	-235	-199	-185	-253	-321
Exports of goods	1,398	1,676	1,771	1,851	1,963	2,034	2,133	2,147	2,169
Of which: cotton	213	198	256	221	234	247	248	260	272
Of which: gold	876	1,092	1,199	1,264	1,249	1,304	1,354	1,307	1,261
Imports of goods	-1,540	-1,677	-1,965	-2,059	-2,198	-2,233	-2,319	-2,399	-2,490
Of which: oil	-299	-258	-338	-445	-471	-464	-446	-454	-471
Of which: food	-150	-159	-167	-173	-185	-196	-202	-215	-229
Of which: public investment	363	400	628	600	461	600	702	780	839
Services, net	-459	-471	-501	-511	-485	-477	-556	-582	-608
Income, net	-199	-232	-230	-229	-228	-228	-229	-230	-231
Current transfers	272	215	229	308	241	258	245	254	264
Of which: Official transfers, net	140	95	88	171	101	99	104	113	121
Capital account	154	165	169	223	208	175	172	181	189
Project grants	105	99	120	174	159	167	167	176	184
Financial account	375	560	524	286	490	462	544	648	725
Direct investment	129	202	213	238	249	255	234	184	181
Portfolio investment	3	8	15	12	13	14	15	16	17
Other investment	243	351	296	35	229	193	295	448	527
Long-term investment	235	316	227	25	188	157	220	347	382
Project loans	46	82	124	134	131	125	125	141	160
Program loans	76	63	0	36	40	16	27	52	56
Amortization of public loans (excl. IMF)	-33	-39	-50	-50	-71	-59	-64	-67	-74
Other private	146	210	153	-95	88	75	133	221	241
Short-term investment	8	35	69	10	41	36	75	101	145
Errors and omissions	70	6	0	0	0	0	0	0	0
Overall balance	70	243	-3	-131	-10	-10	-8	18	19
Financing	-69	-243	4	131	10	9	8	-18	-19
Net change in foreign assets of the central bank	226	73	145	62	69	66	28	-72	-67
of which: IMF net financing	7	7	-11	20	9	13	-17	-15	-11
Disbursements (past and prospective)	19	19	4	28	28	28	0	0	0
Repayments (excluding charges)	-12	-12	-14	-9	-19	-15	-17	-15	-11
Net change in foreign assets of commercial banks	-295	-316	-142	69	-59	-57	-19	54	48
Financing Gap	0	0	0	0	0	0	0	0	0
	(Percent of GDP, unless otherwise indicated)								
Memorandum items:									
Trade balance (goods)	-2.3	0.0	-2.7	-2.6	-2.8	-2.2	-1.9	-2.3	-2.8
Trade balance (goods and services)	-9.8	-7.3	-9.7	-9.1	-8.5	-7.3	-7.5	-7.8	-8.0
Exports of goods	22.7	26.0	24.7	23.5	23.1	22.1	21.4	19.9	18.6
Imports of goods	-25.0	-26.0	-27.4	-26.1	-25.8	-24.3	-23.3	-22.3	-21.4
Current account (– = deficit)	-8.6	-7.6	-9.7	-8.1	-8.3	-7.0	-7.3	-7.5	-7.7
GDP at current prices (CFAF billions)	6,163	6,457	7,174	7,873	8,512	9,202	9,952	10,763	11,637
FDI inflows	2.1	3.1	3.0	3.0	2.9	2.8	2.4	1.7	1.6
BCEAO Reserves									
In million USD	12,474	10,494	12,963	16,011	16,132	16,958	18,448	20,124	24,246
In months of next year's WAEMU imports	5.0	3.8	3.8	4.4	4.1	4.0	4.2	4.4	4.6
In percent of broad money	47.0	37.7	38.7	39.5	35.9	34.0	33.2	32.3	34.7

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

Table 3. Burkina Faso: Monetary Survey, 2015–20

	2015	2016	2017	2018			2019	2020
	Act.	Act.	Act.	June	August	Proj.	Proj.	Proj.
	(CFAF billions, unless otherwise indicated)							
Net foreign assets	220	463	459	412	225	328	318	309
BCEAO 1/	-654	-727	-872	-655	-845	-934	-1,003	-1,069
Assets	41	32	27	33	31	31	35	40
Liabilities	695	758	899	688	876	964	1,038	1,109
Commercial banks	874	1,189	1,331	1,067	1,070	1,262	1,321	1,378
Net domestic assets	2,197	2,238	2,823	3,187	3,254	3,654	4,158	4,738
Domestic credit	2,042	2,064	2,444	2,548	2,604	2,988	3,492	4,072
Net Bank credit to government	24	-80	74	-1	61	324	483	681
BCEAO	-8	-142	-48	-100	-56	-48	-38	-25
Commercial banks	32	61	122	99	117	372	521	706
Credit to other sectors	2,018	2,144	2,370	2,549	2,543	2,664	3,009	3,391
of which: Credit to private sector	1,751	1,963	2,246	2,377	2,391	2,522	2,848	3,207
Other items (net)	-468	-570	-842	-1,062	-1,089	-1,089	-1,089	-1,089
Shares and other equities	313	396	464	424	439	424	424	424
Total broad money liabilities	2,416	2,700	3,282	3,599	3,479	3,982	4,477	5,048
Liquid liabilities	2,335	2,610	3,174	3,440	3,350	3,860	4,337	4,888
Non-liquid liabilites (excl. from broad money)	82	91	108	159	129	123	140	160
	(Annual percentage change, unless otherwise indicated)							
Memorandum items:								
Net foreign assets	46.2	110.5	-0.8	8.1	-40.5	-28.5	-3.1	-2.9
Net domestic assets 2/	16.6	1.7	22.4	20.3	22.6	26.2	13.1	13.4
Net credit to government 2/	-1.3	-4.5	5.9	0.4	3.3	7.9	4.1	4.6
Credit to Private Sector	8.7	12.1	14.4	13.0	15.3	12.3	12.9	12.7
Private sector credit (percentage of GDP)	28.4	30.4	31.3	30.2	26.0	32.0	33.5	34.9
Money supply	19.3	11.8	21.6	19.3	16.2	21.6	12.4	12.7
Velocity of money (GDP/M2) 3/	2.6	2.5	2.3			2.0	2.0	1.9

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

1/ Only includes current reserves in BCEAO Ouagadougou. It does not include all regional reserves.

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

3/ End-of-period average.

Table 4. Burkina Faso: Financial Soundness Indicators, 2012–June 2018

	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17	Jun-18
Capital Adequacy							
Reg. capital to risk-weighted assets	12.4	10.2	11.4	11.1	13.0	12.2	11.4
Asset Quality							
Gross NPLs / Total loans	10.3	9.9	8.6	8.9	8.9	8.8	9.2
Provisions / NPLs	67.7	62.6	64.9	67.6	70.4	66.4	69.9
Loan Concentration							
5 largest clients / equity	157.9	108.4	158.4	179.6	114.5	79.8	60.8
By Sector: (share of total)							
Agriculture	1.8	3.3	2.8	1.9	3.7	4.4	5.5
Extractive Industries	1.0	1.1	2.0	2.3	1.5	2.0	2.1
Manufacturing	9.8	13.9	16.1	15.2	13.2	13.6	11.6
Electricity, gas, water	1.9	1.3	1.3	1.0	0.8	1.2	0.8
Buildings/Public Works	13.2	14.6	13.6	16.6	16.2	16.9	17.1
Commercial (restaurants, hotels)	38.3	33.2	26.0	28.3	25.6	23.9	21.9
Transportation/communication	9.6	11.7	9.5	8.4	10.3	8.8	9.6
Insurance, real estate, business services	3.9	3.4	3.7	3.0	5.0	5.6	6.1
Other	20.6	17.5	25.1	23.1	23.7	23.7	25.3
Liquidity							
Loans to deposits	82.1	87.7	99.8	91.2	86.1	83.9	96.2
Liquid assets / total assets	34.8	34.7	34.8	29.2	23.2	24.7	...

Sources: Central bank (BCEAO) authorities and IMF staff estimates.

Table 5a. Burkina Faso: Consolidated Operations of the Central Government, 2017–23
(CFAF billions)

	2017	2018				2019			2020	2021	2022	2023
	Prel.	Budget	EBS/18/11	Suppl. Budg.	Rev. Prog.	EBS/18/11	Initial Budg. Prop.	Rev. Budg.	Rev. Prog.	Proj.	Proj.	Proj.
Total revenue and grants	1,584	2,012	1,822	1,766	1,795	2,043	2,231	1,937	2,117	2,317	2,533	2,741
Total revenue	1,389	1,757	1,553	1,473	1,473	1,730	1,978	1,697	1,873	2,067	2,268	2,461
Tax revenue	1,238	1,608	1,404	1,314	1,314	1,561	1,792	1,511	1,679	1,856	2,040	2,240
Of which: Gold Mining CIT	39	45	45		45	51		51	59	68	72	69
Nontax revenue	151	149	149	159	159	169	186	186	193	211	229	221
Of which: Royalties from gold	51	46	46		46	46		46	52	54	52	50
Grants	194	255	269	292	322	314	253	240	244	250	265	280
Project	120	172	172	174	174	240	159	159	167	167	176	184
Program	74	83	97	118	147	74	93	80	77	82	89	96
Expenditure and net lending 1/	2,146	2,435	2,217	2,163	2,166	2,303	2,497	2,196	2,396	2,619	2,860	3,095
Current expenditure	1,319	1,328	1,372	1,366	1,365	1,378	1,545	1,597	1,618	1,672	1,825	1,930
Wages and salaries	618	631	669	700	700	710	836	836	878	915	945	970
Goods and services	174	152	167	152	152	145	155	155	164	161	195	214
Interest payments	70	100	100	100	100	106	108	110	124	139	156	173
Domestic	49	67	67	75	67	82	81	90	101	115	130	144
External	20	34	34	25	33	24	27	20	22	24	26	29
Current transfers	457	445	436	414	414	417	446	496	452	457	529	572
Investment expenditure	831	1,111	848	801	804	925	959	598	778	947	1,035	1,166
Domestically financed	587	805	542	492	495	540	669	308	487	656	718	822
Externally financed	244	306	306	309	309	384	290	290	292	292	317	344
Net lending	-4	-3	-3	-3	-3	0	-6	0	0	0	0	0
Overall balance 1/	-563	-423	-395	-397	-371	-260	-266	-259	-280	-303	-327	-354
Cash basis adjustment	75	0	0	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	-488	-423	-395	-397	-371	-260	-266	-259	-280	-303	-327	-354
Financing	440	423	395	396	371	260	266	259	280	303	327	354
Foreign financing	74	104	133	108	120	96	98	100	82	87	126	141
Drawings	124	162	190	165	171	150	179	171	140	152	193	215
Project loans	124	134	134	134	134	144	131	131	125	125	141	160
Program loans	0	27	56	31	36	6	48	40	16	27	52	56
Amortization (excl. IMF)	-50	-57	-57	-57	-50	-54	-80	-71	-59	-64	-67	-74
Domestic financing	366	319	263	288	250	163	167	159	198	215	201	213
Bank financing	95	321	258	135	250	120	170	159	198	215	201	213
Central bank	88	3	16	-18	0	4	-7	10	13	-17	-14	-11
of which: IMF net financing	-11	3	10	-13	20	10	0	9	13	-17	-15	-11
Disbursements	4	29	29	8	28	29	29	28	28	0	0	0
Repayments	-14	-26	-19	-21	-9	-19	-29	-19	-15	-17	-15	-11
Commercial banks	8	318	242	153	250	117	178	149	185	232	215	224
Nonbank financing	270	-2	4	153	0	43	-3	0	0	0	0	0
Errors and Omissions	48											
Financing gap	0	0	0	1	0	0	0	0	0	0	0	0

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

1/ Commitment ("engagement") basis.

Table 5b. Burkina Faso: Consolidated Operations of the Central Government, 2017–23
(percent of GDP)

	2017	2018				2019			2020	2021	2022	2023
	Prel.	Budget	EBS/18/11	Suppl. Budg.	Rev. Prog.	EBS/18/11	Initial Budg. Prop.	Rev. Budg.	Rev. Prog.	Proj.	Proj.	Proj.
Total revenue and grants	22.1	25.6	23.1	22.3	22.8	23.9	25.4	22.8	23.0	23.3	23.5	23.6
Total revenue	19.4	22.3	19.7	18.6	18.7	20.3	22.5	19.9	20.4	20.8	21.1	21.1
Tax revenue	17.3	20.4	17.8	16.6	16.7	18.3	20.4	17.8	18.3	18.7	19.0	19.3
Of which: Gold Mining CIT	0.5	0.6	0.6		0.6	0.6		0.6	0.6	0.7	0.7	0.6
Nontax revenue	2.1	1.9	1.9	2.0	2.0	2.0	2.1	2.2	2.1	2.1	2.1	1.9
Of which: Royalties from gold	0.7	0.6	0.6		0.6	0.5		0.5	0.6	0.5	0.5	0.4
Grants	2.7	3.2	3.4	3.7	4.1	3.7	2.9	2.8	2.6	2.5	2.5	2.4
Project	1.7	2.2	2.2	2.2	2.2	2.8	1.8	1.9	1.8	1.7	1.6	1.6
Program	1.0	1.1	1.2	1.5	1.9	0.9	1.1	0.9	0.8	0.8	0.8	0.8
Expenditure and net lending 1/	29.9	30.9	28.1	27.3	27.5	27.0	28.5	25.8	26.0	26.3	26.6	26.6
Current expenditure	18.4	16.9	17.4	17.2	17.3	16.1	17.6	18.8	17.6	16.8	17.0	16.6
Wages and salaries	8.6	8.0	8.5	8.8	8.9	8.3	9.5	9.8	9.5	9.2	8.8	8.3
Goods and services	2.4	1.9	2.1	1.9	1.9	1.7	1.8	1.8	1.8	1.6	1.8	1.8
Interest payments	1.0	1.3	1.3	1.3	1.3	1.2	1.2	1.3	1.3	1.4	1.5	1.5
Domestic	0.7	0.8	0.8	1.0	0.8	1.0	0.9	1.1	1.1	1.2	1.2	1.2
External	0.3	0.4	0.4	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Current transfers	6.4	5.6	5.5	5.2	5.3	4.9	5.1	5.8	4.9	4.6	4.9	4.9
Investment expenditure	11.6	14.1	10.7	10.1	10.2	10.8	10.9	7.0	8.5	9.5	9.6	10.0
Domestically financed	8.2	10.2	6.9	6.2	6.3	6.3	7.6	3.6	5.3	6.6	6.7	7.1
Externally financed	3.4	3.9	3.9	3.9	3.9	4.5	3.3	3.4	3.2	2.9	2.9	3.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance 1/	-7.8	-5.4	-5.0	-5.0	-4.7	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Cash basis adjustment	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash basis)	-6.8	-5.4	-5.0	-5.0	-4.7	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Financing	6.1		5.0	5.0	4.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Foreign financing	1.0		1.7	1.4	1.5	1.1	1.1	1.2	0.9	0.9	1.2	1.2
Drawings	1.7		2.4	2.1	2.2	1.8	2.0	2.0	1.5	1.5	1.8	1.9
Project loans	1.7		1.7	1.7	1.7	1.7	1.5	1.5	1.4	1.3	1.3	1.4
Program loans	0.0		0.7	0.4	0.5	0.1	0.5	0.5	0.2	0.3	0.5	0.5
Amortization (excl. IMF)	-0.7		-0.7	-0.7	-0.6	-0.6	-0.9	-0.8	-0.6	-0.6	-0.6	-0.6
Domestic financing	5.1		3.3	3.6	3.2	1.9	1.9	1.9	2.2	2.2	1.9	1.8
Bank financing	1.3		3.3	1.7	3.2	1.4	1.9	1.9	2.2	2.2	1.9	1.8
Central bank	1.2		0.2	-0.2	0.0	0.0	-0.1	0.1	0.1	-0.2	-0.1	-0.1
of which: IMF net financing	-0.1		0.1	-0.2	0.3	0.1	0.0	0.1	0.1	-0.2	-0.1	-0.1
Disbursements	0.1		0.4	0.1	0.4	0.3	0.3	0.3	0.3	0.0	0.0	0.0
Repayments	-0.2		-0.2	-0.3	-0.1	-0.2	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1
Commercial banks	0.1		3.1	1.9	3.2	1.4	2.0	1.8	2.0	2.3	2.0	1.9
Nonbank financing	3.8		0.1	1.9	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.7											
Financing gap	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Nominal GDP (CFAF billion)	7,174	7,873	7,896	7,920	7,873	8,540	8,775	8,512	9,202	9,952	10,763	11,637
Wage bill to tax revenue ratio (percent)	49.9	39.2	47.6	53.3	53.3	45.5	46.6	55.3	52.3	49.3	46.3	43.3

Sources: Burkinabè authorities; and IMF staff estimates and projections.
1/ Commitment ("engagement") basis.

Table 5c. Burkina Faso: Consolidated Operations of the Central Government, 2018
(CFAF billions)

	June						September			December		
	EBS/18/11	Exec. Rate (pct.)	Y-o-Y (pct. ch.)	Act.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)	Prog.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)	Prog.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)
Total revenue and grants	870	48	21	800	45	11	1,247	69	14	1,795	100	13
Total revenue	769	49	15	731	50	9	1,097	74	7	1,473	100	6
Tax revenue	696	50	18	649	49	10	973	74	7	1,314	100	6
Nontax revenue	73	49	-8	81	51	3	124	78	8	159	100	6
Grants	102	38	96	70	22	35	149	46	100	322	100	66
Project	64	37	57	49	28	23	89	51	41	174	100	45
Program	38	39	234	20	14	77	60	41	426	147	100	98
Expenditure and net lending 1/	1,067	48	10	881	41	-9	1445	67	-2	2,166	100	1
Current expenditure	676	49	8	656	48	5	1005	74	9	1,365	100	4
Wages and salaries	320	48	9	328	47	12	510	73	13	700	100	13
Goods and services	88	53	36	72	47	11	108	71	12	152	100	-13
Interest payments	44	43	60	60	60	120	85	85	146	100	100	43
Domestic	31	43	201	47	70	178	63	95	189	67	100	35
External	13	43	-25	13	39	26	21	64	70	33	100	65
Current transfers	224	51	-6	196	48	-18	302	73	-11	414	100	-10
Investment expenditure	393	46	12	231	29	-34	448	56	-19	804	100	-3
Domestically financed	245	45	-11	127	26	-54	277	56	-36	495	100	-16
Externally financed	149	49	94	104	34	35	171	55	44	309	100	26
Net lending	-2			-6						-3		
Overall balance 1/	-197			-81			-199			-371		
Cash basis adjustment	0			69			69			0		
Overall balance (cash basis)	-197			-150			-268			-371		
Financing	197			163			281			370		
Foreign financing	40			59			80			120		
Drawings	64			82			110			171		
Project loans	64			54			82			134		
Program loans	0			28			28			36		
Amortization (excl. IMF)	-25			-24			-30			-50		
Domestic financing	157			104			201			250		
Bank financing	155			-5			58			250		
Central bank	8			-27			-27			0		
Commercial banks	147			23			85			250		
Nonbank financing	2			109			143			0		
Errors and Omissions	0			-13			-13			-13		

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

1/ Commitment ("engagement") basis.

Table 5d. Burkina Faso: Consolidated Operations of the Central Government, 2019
(CFAF billions)

	March			June			September			December		
	Prog.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)	Prog.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)	Prog.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)	Prog.	Exec. Rate (pct.)	Y-o-Y (pct. ch.)
Total revenue and grants	415	21	12	934	48	17	1,427	74	14	1,937	100	8
Total revenue	376	22	13	840	49	15	1,262	74	15	1,697	100	15
Tax revenue	346	23	15	749	50	15	1122	74	15	1,511	100	15
Nontax revenue	30	16	-7	90	49	11	141	76	13	186	100	17
Grants	38	16	4	94	39	35	165	69	10	240	100	-25
Project	30	19	31	78	49	57	114	71	28	159	100	-9
Program	8	10	-41	17	21	-17	51	63	-15	80	100	-45
Expenditure and net lending 1/	402	18	-13	1,058	48	20	1623	74	12	2,196	100	1
Current expenditure	314	20	-13	785	49	20	1193	75	19	1,597	100	17
Wages and salaries	196	23	21	400	48	22	618	74	21	836	100	19
Goods and services	26	17	-23	78	50	8	115	74	6	155	100	2
Interest payments	7	7	-76	55	50	-8	83	75	-2	110	100	11
Domestic	4		-84	45		-4	68		7	90		36
External	3		-21	10		-23	15		-30	20		-40
Current transfers	85	17	-37	252	51	28	378	76	25	496	100	20
Investment expenditure	88	15	-19	273	46	18	430	72	-4	598	100	-26
Domestically financed	30	10	-44	132	43	4	225	73	-18	308	100	-38
Externally financed	57	20	6	141	49	36	204	70	19	290	100	-6
Net lending	0			0						0		
Overall balance 1/	13			-124			-196			-259		
Cash basis adjustment	0			0			0			0		
Overall balance (cash basis)	13			-124			-196			-259		
Financing	-13			124			196			259		
Foreign financing	17			32			50			100		
Drawings	27			63			90			171		
Project loans	27			63			90			131		
Program loans	0			0			0			40		
Amortization (excl. IMF)	-10			-31			-40			-71		
Domestic financing	-30			92			146			159		
Bank financing	87			78			136			159		
Central bank	0			5			5			10		
Commercial banks	87			73			131			149		
Nonbank financing	-116			14			10			0		
Errors and Omissions	0			0			0			0		

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

1/ Commitment ("engagement") basis.

Table 6. Burkina Faso: Schedule of Disbursements Under Three-year ECF Arrangement 2018–20

Amount	Availability date	Conditions for disbursement 1/
SDR 18.06 million	March 14, 2018	Executive Board Approval of a new arrangement under the Extended Credit Facility
SDR 18.06 million	December 15, 2018	Observance of continuous and end-June 2018 performance criteria, and completion of the first review under the arrangement
SDR 18.06 million	June 15, 2019	Observance of continuous and end-December 2018 performance criteria, and completion of the second review under the arrangement
SDR 18.06 million	December 15, 2019	Observance of continuous and end-June 2019 performance criteria, and completion of the third review under the arrangement
SDR 18.06 million	June 15, 2020	Observance of continuous and end-December 2019 performance criteria, and completion of the fourth review under the arrangement
SDR 18.06 million	December 15, 2020	Observance of continuous and end-June 2020 performance criteria and completion of the fifth review under the arrangement

Sources: Burkinabè authorities; and IMF staff estimates.

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

Table 7. Burkina Faso: External Financing Requirements, 2017–21
(CFAF billions)

	2017	2018	2019	2020	2021
	Prel.	Staff Proj.	Staff Proj.	Staff Proj.	Staff Proj.
Financing need	-492	-586	-519	-488	-452
Current account balance (excl. official transfers)	-784	-811	-809	-745	-830
IMF repayments	-14	-9	-19	-15	-17
Private capital flows	356	284	380	331	459
Amortization of public loans (excl. IMF)	-50	-50	-71	-59	-64
Financing	489	558	491	459	451
Project loans:	124	134	131	125	125
of which: World Bank	34				
AfDB	13				
Islamic Development Bank	9				
BOAD	14				
Program loans (excl. IMF):	0	36	40	16	27
of which: World Bank	31				
AfDB	15				
Official transfers, net	88	171	101	99	104
of which: budget support EU	53				
World Bank	26				
Denmark	8				
Swizterland	5				
France	-				
NFA central bank (excl. prospective IMF disbursements and repayments)	156	42	60	53	28
Project grants	120	174	159	167	167
Eurobond	0	0	0	0	0
Residual Gap	-4	-28	-28	-28	0
IMF ECF-Financing (past and prospective)	4	28	28	28	0

Sources: Burkinabè authorities and IMF staff estimates and projections.

Table 8. Burkina Faso: Indicators of Capacity to Repay the IMF, 2016–32 1/

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Act.	Prel.	Projections														
Fund obligations based on existing and prospective credit (in millions of SDRs)																	
Principal	14.4	17.8	10.9	23.6	19.0	21.2	18.3	14.2	19.9	24.1	25.3	22.6	19.9	12.6	5.4	0.0	0.0
Charges and interest	0.0	0.0	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Total obligations based on existing and prospective credit																	
In millions of SDRs	14.4	17.8	11.0	24.1	19.5	21.6	18.7	14.7	20.4	24.5	25.8	23.0	20.3	13.1	5.9	0.5	0.5
In billions of CFAF	11.9	14.3	8.6	19.0	15.2	16.9	14.6	11.4	15.8	19.0	20.0	17.9	15.8	10.2	4.6	0.3	0.3
In percent of government revenues	1.0	1.0	0.6	1.1	0.8	0.8	0.6	0.5	0.6	0.7	0.6	0.5	0.4	0.3	0.1	0.0	0.0
In percent of exports of goods and services	0.6	0.7	0.4	0.8	0.6	0.7	0.6	0.4	0.6	0.7	0.7	0.6	0.5	0.3	0.1	0.0	0.0
In percent of debt service 2/	17.2	18.1	9.2	17.3	15.9	16.0	13.6	10.0	11.6	12.1	11.2	9.4	7.8	4.8	2.0	0.1	0.1
In percent of GDP	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
In percent of quota	12.0	14.8	9.1	20.0	16.2	17.9	15.6	12.2	16.9	20.4	21.4	19.1	16.9	10.9	4.9	0.4	0.4
Outstanding IMF credit																	
In millions of SDRs	155.2	141.9	153.9	166.3	183.4	162.3	144.0	129.8	109.9	85.8	60.5	37.9	18.1	5.4	0.0	0.0	0.0
In billions of CFAF	127.9	114.3	120.7	131.1	143.4	126.6	111.9	100.8	85.3	66.6	47.0	29.4	14.0	4.2	0.0	0.0	0.0
In percent of government revenues	10.4	8.2	8.2	7.7	7.7	6.1	4.9	4.1	3.2	2.3	1.5	0.8	0.4	0.1	0.0	0.0	0.0
In percent of exports of goods and services	6.6	5.6	5.6	5.7	6.0	5.0	4.4	3.9	3.2	2.4	1.6	1.0	0.4	0.1	0.0	0.0	0.0
In percent of debt service 2/	184.6	144.0	129.8	119.7	149.3	120.4	104.5	88.2	62.4	42.2	26.3	15.4	6.9	2.0	0.0	0.0	0.0
In percent of GDP	2.0	1.6	1.5	1.5	1.6	1.3	1.0	0.9	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0
In percent of quota	128.9	117.8	127.8	138.2	152.4	134.8	119.6	107.8	91.3	71.3	50.2	31.5	15.0	4.5	0.0	0.0	0.0
Net use of IMF credit (in millions of SDRs)	8.6	-13.3	25.2	12.0	16.6	-21.6	-18.7	-14.7	-20.4	-24.5	-25.8	-23.0	-20.3	-13.1	-5.9	-0.5	-0.5
Disbursements	23.0	4.5	36.1	36.1	36.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	14.4	17.8	11.0	24.1	19.5	21.6	18.7	14.7	20.4	24.5	25.8	23.0	20.3	13.1	5.9	0.5	0.5
Memorandum items:																	
Nominal GDP (in billions of CFAF)	6,457	7,174	7,873	8,512	9,202	9,952	10,763	11,637	12,582	13,604	14,708	15,902	17,194	18,590	20,099	21,731	23,496
Exports of goods and services (in billions of CFAF)	1,939	2,051	2,168	2,306	2,404	2,516	2,560	2,616	2,666	2,725	2,852	2,988	3,132	3,287	3,451	3,628	3,816
Government revenue (in billions of CFAF)	1,231	1,389	1,473	1,697	1,873	2,067	2,268	2,461	2,673	2,906	3,173	3,465	3,749	4,058	4,394	4,736	5,106
Debt service (in billions of CFAF) 2/ 3/	69	79	93	110	96	105	107	114	137	158	179	191	203	212	222	239	269
CFAF/SDR (period average)	824	805	785	788	782	780	777	776	776	776	776	776	776	776	776	776	776

Sources: IMF staff estimates and projections.

1/ Includes proposed disbursements under the new ECF of 90 percent of quota.

2/ Total external debt service includes IMF repurchases and repayments.

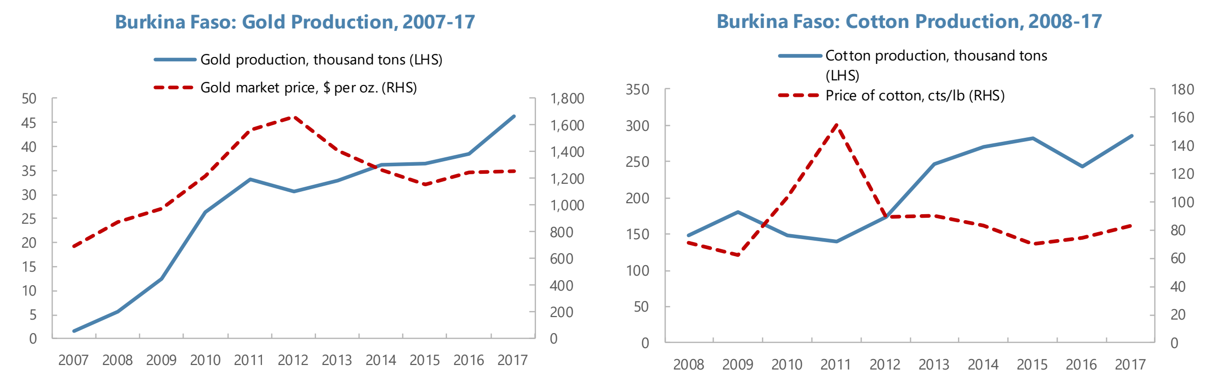
3/ Includes state-owned enterprises debt.

Annex I. External Sector Assessment[1]

1. In 2017, Burkina Faso's exchange rate was somewhat overvalued and its external position weaker than fundamentals and policy settings, driven mainly by fiscal expansion. The real effective exchange rate (REER) is assessed based on the IMF's External Balance Assessment Lite (EBA-Lite) methodology, using the current account model (CAM) and REER index model approaches. The real exchange rate shows a potential overvaluation of 10.6 percent with the CAM (Figure A1.2 and Table A1.1). While the REER index model suggests an undervaluation, staff's view is that the CAM results are more salient for Burkina Faso as macroeconomic variables play a larger role compared to the REER index model, which instead relies on financial variables that are to a greater extent influenced by the overall health of the WAEMU region, rather than the country-specific context.

2. Burkina Faso's current account balance has stayed in a perpetual deficit, consistent with its development goals and the current structure of the economy. The economy's two major exports, gold and cotton, have registered consistent growth over the last decade, but these gains have been counterbalanced by strong import demand.

Figure A1.1. Burkina Faso: Gold and Cotton Exports

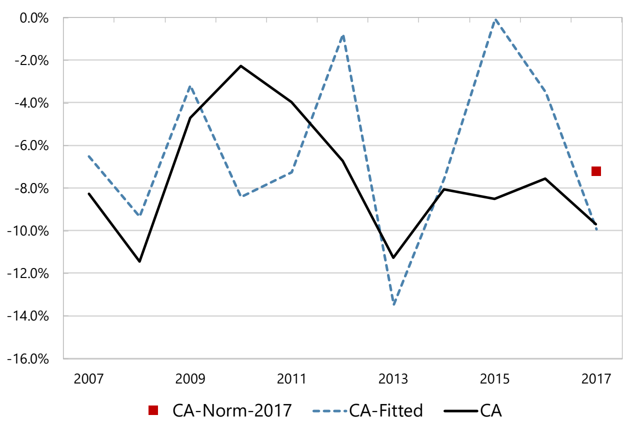


Sources: Burkina Faso authorities; IMF staff estimates.

3. Over the medium term, the current account deficit is expected to narrow gradually, reflecting the effects of fiscal consolidation on import demand and a resumption of steady growth in the extractive industries and agricultural sectors. Staff projects the current account deficit to narrow to 8.1 percent of GDP in 2018 as fiscal consolidation reins in import demand. Over the medium term the current account deficit is expected to moderate to an average of around 7½ percent as gold production rises and the agricultural sector improves both the quantity and value-added of exports.

[1] Prepared by Trevor Lessard.

Figure A1.2. Current Account, Actual, Fitted and Norm, 2007–2017
(percent of GDP)



Source: IMF staff estimates.

Table A1.1. Summary of EBA-Lite Findings
(percent of GDP, unless otherwise stated)

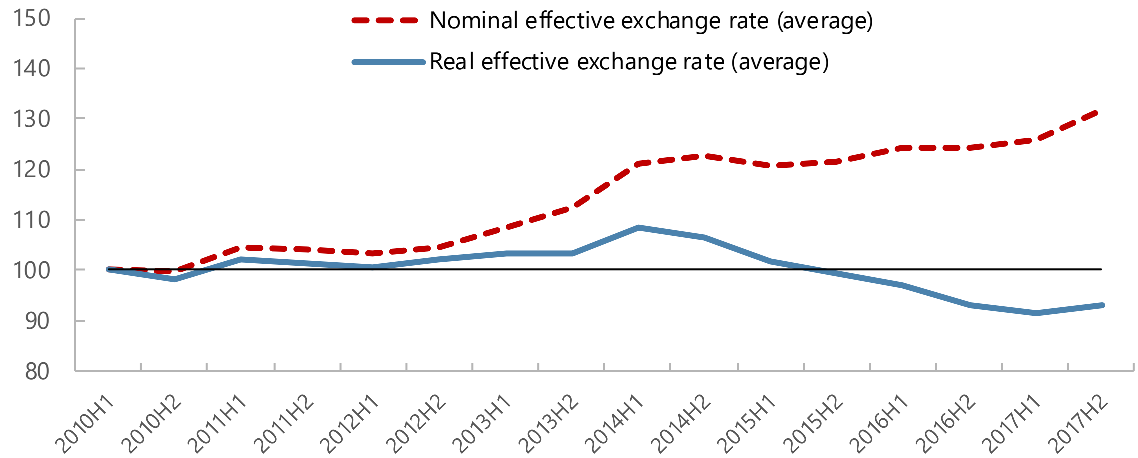
Current Account: Projected	-9.7
Current Account: Norm	-7.2
Current Account gap	-2.5
Elasticity of CA to REER (ratio)	-0.2
Real Exchange rate gap (percent)	10.6

Source: IMF staff estimates.

4. **Risks to the external outlook are tilted to the downside, but some upside risks exist**. The baseline scenario assumes a gradual improvement in the security environment as increased security spending and coordination through the G5 Sahel Joint Force to combat terrorism achieve durable results. The baseline also assumes steady improvements in productivity and resilience of the agricultural sector, including through increased irrigation to mitigate against the volatility of rainfall, and physical infrastructure investment to reduce the costs of getting goods to market and facilitating diversification. A failure to materially improve the security situation and productivity of agriculture would negatively affect the country's external position, as well as dampen GDP growth and place additional pressure on the fiscal stance. Upside risks to the outlook include the resolution of legal issues surrounding Burkina Faso's manganese mine, which if resolved could provide a new large scale, long term, commodity export.

5. **Burkina Faso's real effective exchange rate (REER) has depreciated by roughly 7 percent since 2010, with almost all of the movement taking place during the 2015-2017 period**. In contrast, during the same period the nominal effective exchange rate has appreciated, reflecting the movement of the euro (to which the CFA franc is pegged) against major currencies, amongst other factors. The relatively lower inflation performance in Burkina Faso compared to its main trading partners explains the decline in the REER. While this is generally welcome in terms of competitiveness, broader structural constraints have prevented significant export diversification.

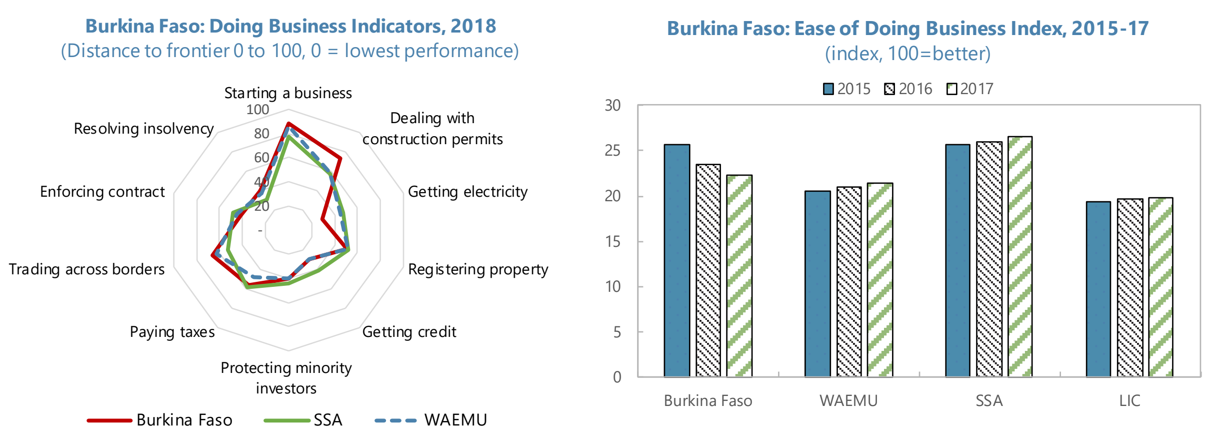
Figure A1.3. Burkina Faso: Real and Nominal Effective Exchange Rates, 2010-2017
(Index 2010=100)



Source: IMF International Financial Statistics.

6. **Building on structural reforms conducted in areas where known bottlenecks exist, there is scope for Burkina Faso to improve competitiveness.** The World Bank's Doing Business indicators point to some areas for improving the business environment relative to comparator sub-Saharan African economies, particularly access to electricity and credit, but the indicators also highlight weaknesses Burkina Faso shares with its peers, namely resolving insolvency and enforcing contracts, which bring forward concerns with the speed and efficacy of the judicial system to regulate financial matters. Burkina Faso would also benefit from increasing the pace of structural reforms, as the economy has lost ground in recent years when compared to peer economies.

Figure A1.4. Burkina Faso: Doing Business Indicators



Source: World Bank Doing Business Report 2018.

Appendix I. Letter of Intent

December 12, 2018

MINISTRY OF THE ECONOMY,

FINANCE, AND DEVELOPMENT

SECRETARIAT GENERAL

DIRECTORATE GENERAL

OF COOPERATION

N°2018__________/MINEFID/SG/DGCOOP/DSPF

Ministry of the Economy
Finance, and Development

To

Mme. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431 (U.S.A.)

Subject: Letter of Intent of Economic and Financial Policies

Madame Managing Director:

Burkina Faso's 2018-2020 economic and financial program, supported by the IMF Extended Credit Facility (ECF), has been implemented against a background of persistent terrorist attacks, public sector labor unrest, and a food security crisis stemming from low rainfall and crop damage caused by agricultural pests. Despite these difficult circumstances, the Burkinabe economy has shown resilience and, GDP growth is expected to exceed 6 percent in 2018, while inflation remains comfortably below the WAEMU convergence criterion of 3 percent.

Performance under the program has been satisfactory overall. All quantitative performance criteria and indicative targets have been met except for the performance criterion relating to the zero ceiling for new pre-financing of public investments.

In fact, the government signed a pre-financing agreement in September 2018 for a high-priority project for road infrastructure. It should be noted that although the signing took place during the execution of the program, all the assessment of tenders, partner selection, and negotiation phases had been completed in November 2017. Consequently, from the government's point of view, this project, which was virtually completed, did not fall within the scope of the program commitments that were approved in March 2018, since the signing was a mere formality. The project, will have a major impact by enhancing the flow of goods transport, creating employment, and restructuring the Ouagadougou conurbation and surrounding rural municipalities.

While reaffirming its commitment to continue and strengthen its partnership with the IMF, the government is seeking a waiver for the non-fulfillment of the zero-ceiling criterion for new pre-financing. In order to underscore its strong resolve to adhere to the understandings reached under the program, the government adopted and published Ministerial Order No. 2018-479 / PM / MINEFID / CAB dated 09 November 2018 which formally prohibits the negotiation and signing of contracts with pre-financing features.

In addition, the expenditures related to this project will be included in the 2019 budget and subsequent budgets and recorded as public debt in accordance with the best practices described in the 2017 IMF technical assistance report on PPP fiscal risk management.

With regard to structural benchmarks, three have been achieved in full and the other two are in the process of being met with very significant progress made.

The government remains determined to continue implementing sound economic and financial policies, and the necessary accompanying structural reforms, in order to achieve the program objectives. In this regard, the draft supplementary budget law for fiscal year 2018, which was submitted to parliament in October, respects the program objectives in particular the maximum of 5 percent for budget deficit as a share of GDP.

Furthermore, the draft budget law for fiscal year 2019 is consistent with the budget deficit limit of 3 percent of GDP set for the WAEMU community and is also in line with the objectives agreed under the ECF program. The 2019 deficit will be financed by issuing government securities on the regional financial market, as well as a combination of concessional and non-concessional borrowing. In this context. the government will ensure that it does not grant preferential treatment to any private partner or its subsidiaries that grant it concessional loans.

Turning to control of the wage bill, as part of the implementation of the conclusions of the June 2018 national conference on streamlining the public employees' compensation system, the government is currently preparing an organic law to specify the basic principles governing the functioning of the public service with the aim of ensuring compliance with regional standards by 2021.

To reflect the rise in the oil price, the government is employing a communication strategy to raise awareness among the general population for the need to establish a more flexible mechanism to adjust pump prices. It has recently adopted strong measures to: (i) clear SONABHY's operating shortfall through budgetary transfers and securitization and (ii) reducing the subsidy per liter for retail fuel prices. In this context, the Council of Ministers, at its meeting of November 8, 2018,

decided to adjust the structure of hydrocarbon prices to ensure a price increase at the pump of 75 FCFA, representing an increase of 12.5%.

In addition, it adopted by decree No. 2018-1012 / PRES / PM / MINEFID / MCIA / ME of November 14, 2018 a new mechanism for determining retail fuel prices, the objective of which is to align domestic and market prices through a quarterly adjustment mechanism.

The attached Memorandum of Economic and Financial Policies (MEFP) describes the economic and financial position as at end-June 2018. It also sets out the macroeconomic framework and structural measures for the rest of 2018 and 2019. In particular, it aims to maintain macroeconomic stability while creating fiscal space through increased domestic revenue mobilization and an enhanced efficiency in public expenditure in line with the national social and economic development plan (PNDES).

Given its commitment to maintaining macroeconomic stability and on the strength of the policies set forth in the attached MEFP, the government requests the completion of the first review under the ECF arrangement. Against this background, we request the disbursement of the equivalent of SDR 18.06 million.

The government believes that the measures presented in the MEFP will serve to achieve the economic and social objectives of its program. It is determined nonetheless to take any further measures that may prove necessary to this end.

The government will consult with the IMF before adopting such measures, and before modifying the policies provided in the MEFP, in accordance with applicable IMF policies. Furthermore, the government will provide the IMF with information on implementation of the agreed measures and program execution, as provided in the attached revised Technical Memorandum of Understanding, or at the request of the IMF.

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

Very truly yours,

Attachments:

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

/s/

Hadizatou Rosine COULIBALY/SORI

Attachment I. Memorandum of Economic and Financial Policies

INTRODUCTION

1. This memorandum reviews Burkina Faso's economic and financial program with the International Monetary Fund (IMF) for the period 2018-2020 in the context of the Extended Credit Facility (ECF).

2. The program aims to maintain macroeconomic stability whilst creating fiscal space through increased domestic revenue mobilization and improving the efficiency of public expenditure. It is fully consistent with our country's commitments in the context of the West African Economic and Monetary Union (WAEMU), in particular the objective to keep the fiscal deficit within the agreed convergence criterion 3 percent of GDP while preserving priority spending on social services and public investments.

3. This memorandum describes recent economic developments and the observance of the program quantitative criteria and structural benchmarks at end-September 2018. It also defines the key objectives for the remainder of 2018 and 2019.

RECENT ECONOMIC DEVELOPMENTS AND STATUS OF PROGRAM IMPLEMENTATION AT END-JUNE AND SEPTEMBER 2018

4. Growth remained strong in 2017 at 6.3 percent and is projected to remain resilient in 2018 despite the impact of heightened security concerns, food security concerns, and labor unrest. As regards program implementation, all except one of the quantitative performance criteria were met and all indicative targets at end-June 2018 were met, while most of the structural benchmarks were also met.

A. Recent Economic Developments at End-June and September 2018

5. Economic activity in 2018 was marked by a relatively difficult socio-political context with the persistence of terrorist attacks and continued labor unrest. However, the economy is expected to remain resilient and show stronger accelerated growth over the medium term.

6. Growth is expected to continue at 6.0 percent in 2018 with balanced contributions across all sectors. The primary sector should see a recovery driven by more favorable rainfall, improved irrigation, support to producers, and the maintenance of producer price incentives.

7. As regards the secondary sector, performance should reflect the buoyant extractive industries, particularly with the start of production at the gold mine operated by SEMAFO Boungou BF S.A. in 2018, and the construction and civil engineering subsector, supported by major capital projects. These include, inter alia, the maintenance, rehabilitation, and development of roughly 1400 kilometers of rural roads in the country's 13 regions; the paving, rehabilitation, and improvement of roads (Didyr – Toma –Tougan; Kantchari – Diapaga – Tansarga – Benin border; Dédougou – Tougan,

Kongoussi – Djibo; CU9 corridor; Koupéla – Tenkodogo – Bittou – Togo border; Koupéla – Gounghin) representing a total of 600 kilometers; and urban street project in the regions, including works in Manga in connection with the National Day festivities on December 11.

8. The tertiary sector, in turn, is expected to benefit from the dynamism of the telecommunications, financial services, and transportation sectors, with the continuation of reforms to improve the business environment and increased financial inclusion in addition to contributions from several international events (the Ouagadougou International Artisanal Exhibition (SIAO), the Ouagadougou International Tourism and Hotel Trade Show (SITHO), West African Mining Industry Week (SAMAO), the International Cotton and Textile Exposition (SICOT), National Culture Week (SNC), and the Tour du Faso international bicycle stage race). At the same time, however, activity in the tourism and hotel subsector is being hindered by the deteriorating security situation.

9. At end-June 2018, the inflation rate stood at 2.5 percent year-on-year and an annual average of 1.3 percent, compared to -0.4 percent and -5 percent, respectively, at end-June 2017. The continuation of government measures to contain the cost of living (sales of cereals at social prices in areas facing shortages and price controls on consumer goods) should allow inflation to remain within the WAEMU community maximum of 3.0 percent at end-December 2018.

10. In regard to the balance of payments, trade with the rest of the world generated a current account surplus of CFAF 35.9 billion in the first half of 2018, an improvement of CFAF 58.9 billion compared to the first half of 2017. This performance is attributable, notably, to trade in goods, for which the surplus increased from CFAF 20.5 billion in the first half of 2017 to CFAF 87.6 billion during the period under review, and a CFAF 20.4 billion increase in the surplus on secondary income. In parallel, the current account deficit for services widened by CFAF 28.5 billion. The improved trade balance is the product of increased exports (+CFAF 136.0 billion) and, to a lesser extent, imports (+CFAF 68.9 billion). The increased surplus on secondary income, in turn, is attributable to increased budget support (+CFAF 8.9 billion) and migrant remittances (+CFAF 7.8 billion). The capital account posted a surplus of CFAF 74.5 billion in the first half of 2018 compared to a surplus of CFAF 64.1 billion during the same period of 2017. The overall balance of payments stood at a deficit of CFAF 42.3 billion in the first half of 2018, an improvement of CFAF 49.4 billion compared to the same period of 2017.

11. Developments in the monetary situation led to an 8.4 percent increase in the money supply at end-June 2018 compared to end-December 2017, reflecting a 4.3 percent increase in domestic claims dampened by a 9.3 percent contraction of deposit institutions' net foreign assets (NFA). The increase in domestic credit is attributable entirely to a 7.5 percent increase in claims on the economy, the result of increased bank credit to the private sector. The reduction in NFA essentially reflects a decrease in commercial banks' NFA (-CFAF 264.3 billion, or -19.9 percent) following a contraction of the banks' gross claims on nonresidents (-CFAF 428.3 billion, or -21.7 percent), partially offset by a decrease in their exposures in respect of nonresidents (-CFAF 164.0 billion, or -25.4 percent). The decrease in banks' gross external claims is primarily attributable to decreased credit to nonresidents (-CFAF 193.4 billion), government securities of other WAEMU States (-CFAF 125.9 billion), and their deposits with foreign correspondents (-CFAF 97.3 billion). The reduction of

banks' external exposures reflects, inter alia, decreased nonresident deposits (-CFAF 111.6 billion) and credit from foreign financial institutions (-CFAF 59.7 billion).

12. At end-June 2018, the money supply posted a decline of 8.1 percent with respect to end-December 2017 under the combined effect of decreased NFA (-9.3 percent) and domestic claims (+4.2 percent).

13. In regard to the public finances, total revenue and grants raised during the first half of 2018 stood at CFAF 800.3 billion compared to CFAF 719.3 billion for the same period of 2017, or an increase of 11.3 percent. They represented 10.1 percent of GDP at end-June 2018 compared to 10.0 percent of GDP during the same period of 2017. This performance is due to increased revenue (+CFAF 63.0 billion) as well as grants (+CFAF 18.0 billion). At end-September 2018, revenue and grants totaled CFAF 1213.4 billion, compared to CFAF 1096.6 billion for the same period of 2017, or an increase of 10.6 percent.

14. Tax revenue increased by 10.3 percent with respect to end-June 2017, to total CFAF 649.3 billion at end-June 2018. Tax revenue represented 8.2 percent of GDP, as in the same period of 2017. The increase is essentially attributable to the increases in "income and profits taxes" (+CFAF 33.9 billion), the "goods and services tax" (+CFAF 17.5 billion), and the "taxes on international trade and transactions" (+CFAF 9.3 billion). At end-September 2018, tax revenue performance stood at CFAF 1007.1 billion compared to CFAF 907.0 billion for the same period of 2017, or an increase of CFAF 100.2 billion in absolute value (+11.1 percent).

15. Mining receipts at end-June 2018 recovered to CFAF 122.5 billion compared to CFAF 107.2 billion at end-June 2017, or an increase of 14.3 percent. At end-September 2018, mining receipts totaled CFAF 187.9 billion compared to CFAF 168.9 billion for the same period of 2017, or an increase of 11.2 percent. This performance reflects increased gold production combined with the favorable gold price.

16. Domestic revenue mobilization measures comprised the following:

- stepped-up efforts to collect tax arrears through a targeted, individual approach aimed at negotiating repayment plans with large taxpayers;
- expanded implementation of the - procedure for payment of taxes by notification of credit, through outreach to the taxpayers concerned to encourage the regular submission of tax returns;
- verification of the use of the standardized invoice in Ouagadougou and Bobo-Dioulasso and the imposition of fines on offenders;
- the rationalization of tax exemptions;
- automated management of the most recent tax arrears through the use of the SINTAX 2 application and the establishment of arrears collection groups in each decentralized unit;
- interconnection of the Burkina Faso and Togo customs information systems;
- continued efforts to combat customs fraud;

- continued satellite monitoring of goods traffic (the system is currently in operation and covers all main transit routes); and
- connection of licensed customs brokers to ASYCUDA WORLD thus allowing the closing of physical customs posts (des unités banalisées de dédouanement).

17. In regard to grants, a total of CFAF 69.8 billion grants were raised (0.9 percent of GDP) in the first half of 2018 compared to CFAF 51.8 billion (0.7 percent of GDP) during the same period of 2017, or an increase of 34.7 percent. This increase is attributable to both project grants (+CFAF 9.1 billion) and program grants (+CFAF 8.9 billion). The amount of grants raised at end-September 2018 stood at CFAF 93.4 billion, compared to CFAF 74.8 billion during the same period of 2017, or an increase of 24.8 percent.

18. Total expenditure and net lending stood at CFAF 881.2 billion at end-June 2018 compared to CFAF 972.8 billion at end-June 2017, or a decrease of CFAF 91.6 billion (-9.4 percent). Total expenditure execution represented 11.1 percent of GDP at end-June 2018 compared to 13.6 percent of GDP during the same period of 2017. The decrease is attributable to decreased capital spending (-CFAF 120.1 billion, or 1.5 percent of GDP), as current spending increased by CFAF 48.8 billion. The decrease in capital expenditure is due in part to labor unrest involving staff responsible for processing expenditure, and in part to the precautionary withholding of CFAF 264 billion from all categories of expenditure in early 2018. At end-September 2018, total executed expenditure and net lending stood at CFAF 1385.5 billion compared to CFAF 1472.5 billion for the same period of 2017, or a contraction of 5.9 percent.

19. Current expenditure execution, up 7.8 percent compared to end-June 2017, stood at CFAF 671.9 billion as at end-June 2018. The increase reflects personnel expenditure (+CFAF 35.5 billion), debt service (+CFAF 32.7 billion), and goods and services purchases (+CFAF 7.1 billion), mitigated by a decrease in current transfer expenditure (-CFAF 26.6 billion). The increased personnel expenditure essentially reflects the accounting recognition of the government's liabilities to management and labor and the correction of employee salary situations through wage scale adjustments. Current personnel expenditure execution stood at CFAF 1007.2 billion at end-September 2018 compared to CFAF 921.3 billion the previous year, or an increase of 9.3 percent.

20. The government took a number of measures to contain salary expenditure as a proportion of total expenditure and domestic revenue including, in particular:

- slowing the pace of civil service hiring and opting not to systematically replace every employee who leaves. This approach reduced hiring by roughly 40 percent in 2018, resulting in 10,000 new positions compared to an initial projection of about 15,000 new positions;
- redeploying personnel from areas of high concentration to areas with shortages;
- limiting new hiring to priority sectors with the approval of the Council of Ministers;
- establishing a policy of hiring within the limits of financial limits through the definition of a total budget each year for direct competitive hiring to the civil service.

These actions, combined with a number of reforms to substantially increase domestic revenue, will facilitate compliance with the WAEMU convergence criterion which limits wage expenditure to 35 percent of domestic revenue by 2021.

21. The overall fiscal balance (commitment basis) posted a deficit, widening from CFAF 80.8 billion at end-June 2018 to CFAF 172.2 billion at end-September 2018, compared to deficits of CFAF 253.4 billion and CFAF 375.8 billion, respectively, for the same periods of 2017.

22. In regard to improving the quality of capital expenditure, Burkina Faso established new general regulations on development projects and programs in February 2018 through the adoption of Decree No. 2018-0092/PRES/PM/MINEFID. The decree governs the management of public investments from project conception to closure, including project management and implementation and the accounting treatment of fixed and intangible assets.

23. Also, in regard to programming, a new criterion was introduced in the process of project and program selection whereby any new project must include a gross fixed capital formation (GFCF) component of at least 85 percent. In addition, a guide for ex ante evaluation, selection, and prioritization of projects has been established to ensure a harmonized approach to the design and preparation of public investment projects and programs. Finally, to ensure that projects to be included in the budget are of sufficient quality, an oversight committee has been established to screen all proposals.

24. With respect to implementation, the rationalization of project management units into a single technical unit for each program, headed by the budget program manager, aims to minimize wasted resources and shift the units' focus toward investment per se rather than operations. To ensure the quality of the infrastructure, a particular emphasis will be placed on the monitoring and control of infrastructure projects at all stages of their implementation, thereby guaranteeing their quality.

25. In the area of energy, investments designed to increase electricity production and expand the populations' access to reliable energy services increased the theoretical installed electric power by 134.1 MW following completion of construction of photovoltaic solar plants at Zagtouli (33 MWp) and Ziga (1.1 MWp) and completion of the interconnection with Ghana (100 MW).

26. To increase the populations' access to electricity, the principal actions carried out include: (i) the electrical interconnection of a number of Burkinabè cities, (ii) the connection work in progress by SONABEL in 63 towns and cities, including 57 departmental administrative centers, (iii) the solar-powered electrification of 385 socio-community infrastructures in 120 villages of the rural communes of the Centre and Hauts-Bassins regions and 100 districts of the Ouagadougou and Bobo-Dioulasso arrondissements, (iv) the installation of 79,413 LED lights in 79,413 households and installation of an additional 115,510 in progress in the context of efforts to increase energy efficiency, and (v) the installation of 3000 LED streetlights to replace high-pressure sodium- and mercury-vapor lamps used for street lighting in Ouagadougou.

27. In the area of security, the actions undertaken served, inter alia, to strengthen security measures and coverage of the territory, in particular the construction of functional security services in the Sahel. In addition to the construction of new security services, operational and special-

purpose equipment was purchased for police units (armaments, vehicles, operational equipment, and special-purpose equipment).

28. In the area of health, the principal achievements include: (i) the construction and equipping of 158 new health and social promotion centers (CSPS) and the conversion of the Ouahigouya regional hospital center (CHR) to a university hospital center (CHU); (ii) completion of construction of the Bogodo district hospital in Ouagadougou; (iii) expansion of community health services with the hiring and training of 17,668 community health workers, 35 percent of them women, and the hiring of 3995 new health workers, including 787 physicians; and (iv) the installation of hospital pharmacies at the Tingandogo CHU, the Charles de Gaulle pediatric CHU, the Bogodogo CHU, and the Gaoua regional CHU.

29. In the area of employment, the investments concerned the implementation of the Youth Employment for National Education Program (PEJEN), with the hiring of 2100 young university graduates now under way, and the financing of 49 projects and micro-projects for "downsized" and retired workers. Also, as part of efforts to improve the employability and promote the socioeconomic empowerment of women, 1270 women were trained in processing local products, 9480 women in entrepreneurship and business management, and 970 women in collective/association management through the Fund to Support Income-Producing Activities for Women (FAARF). In addition, 884 women's associations were provided with working capital and investment credits.

B. Results in Terms of Program Quantitative and Structural Criteria

30. All the quantitative performance criteria and indicative objectives at end-June 2018 were met except for the performance criterion relating to the zero ceiling for new pre-financing of public investments.

31. In regard to the quantitative performance criteria, net domestic financing of the government stood at CFAF 104.4 billion at end-June 2018 and CFAF 237.7 billion at end-September 2018 compared to a ceiling of CFAF 200 billion at end-June and CFAF 263 billion at end-September. Nonconcessional external debt contracted or guaranteed by the government stood at CFAF 52.4 billion at end-September 2018 compared to a ceiling of CFAF 200 billion at end-December 2018.

32. A pre-financing agreement for the construction of a ring road around Ouagadougou was signed in September 28 with the firm EBOMAF. Note that all the phases of bid analysis, selection of the partner, and negotiation had been completed in November 2017. Accordingly, in the government's view, the nearly finalized contract was not subject to commitments under the program which was approved in March 2018, since contract signature was no more than a formality at that point to permit the start of works, which are now under way. In view of the project's critical nature, it will improve the flow of goods transport, create jobs, and restructure the Ouagadougou metropolitan area and surrounding rural communes.

33. From the foregoing considerations and based on the measures it intends to undertake, the government requests a waiver of nonobservance of the performance criterion of zero ceiling on new pre-financing arrangements. By order no. 20018-479/PM/MINEFID/CAB of November 9, 2018, the

Head of Government advised all ministerial department heads of the prohibition on negotiating contracts that entail the characteristics of pre-financing. In addition, expenditures relating to this project will be included in the 2019 budget and in subsequent budgets in line with progress in project execution, and will be included in public debt data in accordance with the best practices described in the 2017 IMF technical assistance report on PPP fiscal risk management.

34. The results in terms of the program indicative targets are as follows: no domestic arrears were accumulated at end-June or end-September 2018. The overall fiscal deficit (including grants) stood at CFAF 80.8 billion at end-June 2018 compared to a ceiling of CFAF 236 billion, and CFAF 172.2 billion at end-September 2018 compared to a ceiling of CFAF 316 billion. A total of CFAF 730.5 billion in own revenue was collected at end-June compared to a floor of CFAF 692 billion (exceeding the target by CFAF 38.5 billion), and CFAF 1120.0 billion at end-September compared to a floor of CFAF 1087 billion. Current social expenditure to reduce poverty totaled CFAF 119.8 billion at end-June 2018 compared to a floor of CFAF 88 billion, and CFAF 184.0 billion at end-September compared to a floor of CFAF 132 billion. The government continued refunding VAT credits. The stock of certified VAT refund requests more than 30 days outstanding stood at CFAF 33.4 billion at end-June 2018 compared to a ceiling of CFAF 55 billion, and CFAF 40.54 billion at end-September 2018 compared to a ceiling of CFAF 55.0 billion. No PPP project has been contracted at end-September 2018.

35. The status with respect to structural benchmarks is as follows:

36. Three of the measures to be implemented by end-April 2018 were met: (i) "create and update semiannually a database of all official government guarantees containing, in particular, information on the beneficiary, the underlying contract, the signature date, the expiration date, and any budget implications," (ii) "create and semiannually update a database of all projects signed or planned as PPPs, pre-financing, or supplier credit arrangements. The database should include information on the type of contract, total cost, payments made, and the schedule of remaining principal and interest payments," and (iii) "approval, by the ministry in charge of finance, SONAPOST, and the ministry in charge of the digital economy, of a plan for SONAPOST's repayment of Treasury assets held in postal accounts."

37. The implementation of two additional benchmarks is in progress: (i) adopt a text establishing limits or thresholds for the total value of PPPs contracted by public administrations, and (ii) hire an independent external auditor to audit SONABHY's operations, financial position, and accounting practices. The draft text establishing contracting limits or thresholds is available. To ensure that it is aligned with the measure's intended objectives, it was submitted for opinion to the IMF technical assistance team, which provided comments prior to finalization. The final version will be submitted for signature during November 2018. Regarding the hiring of the auditor, the only steps remaining are the negotiation and signature of the contract, which will be finalized during November 2018.

38. Two measures were planned to be implemented by end-September and end-December, respectively: (i) a study on mitigating the impact of the flexible fuel pricing mechanism on the vulnerable; and (ii) the inclusion of a cost-benefit and risk analysis of the 10 largest investment projects, including PPPs, as an annex to the 2019 budget law, respectively. The first has been completed, capitalizing on a benchmarking mission in Côte d'Ivoire and Senegal. The second was

also completed, and the analysis was annexed to the 2019 budget law submitted to the National Assembly.

39. With respect to the other four measures to be implemented by end-December 2018, implementation has been broadly satisfactory and is expected to be completed on schedule. The measures in question are: (i) revision of national accounting systems with the new base year and publication of revised series, (ii) incorporation of the results of the study on artisanal gold mining in the national accounting system, (iii) the development and adoption of a mechanism for operation of the Treasury single account, and (iv) the automation of asset reporting by persons subject to the provisions of Law 04/CNT/2018 and implementation of a searchable database (online reporting and online query).

IMPLEMENTATION OF THE PNDES

40. Implementation of the National Economic and Social Development Strategy (PNDES) was marked by a difficult context and events that produced different impacts on the achievement of expected outcomes. The favorable economic effects of the economic growth seen in all regions of the world (United States, Europe, Asia, and Africa), the start of production at new industrial gold mines, and increased public investment expenditure were undermined by unforeseen events including: (i) increased terrorist attacks, (ii) intensified labor protests affecting nearly all spheres of government, (iii) disappointing crop production following an early end to the rainy season, legionnaire caterpillar infestations, and damage from granivorous birds. Despite the difficult national context and the factors discussed in this memorandum in the areas of security, health, energy, the agro-sylvo-pastoral sector, and economic governance, the results of implementation of the PNDS are presented below by pillar:

41. In the area of institutional reform and modernization of the administration (Pillar I), the government's actions produced substantial gains including:

- strengthening of the mechanism for financing the economy with the establishment of specialized institutions such as the Burkina STARTUP Program and the Youth and Women's Economic Empowerment Program. Also, the Caisse des Dépôts et Consignations and the Agriculture Financing Bank are currently being established.
- Improved access to the legal system with offsite hearings (audiences foraines) conducted in a number of jurisdictions, payment of legal fees for 239 vulnerable persons, the establishment of 25 assistance centers, the construction of a regional court, and strengthening of the legal system with the hiring of personnel and establishment of centers specializing in economic and financial crimes and terrorist acts.

42. In the area of human capital development (Pillar II), the achievements were also substantial and numerous. In regard to health, efforts to expand healthcare infrastructures, equip health facilities, increase the number of healthcare personnel, and reform maternal and infant healthcare through the introduction of free healthcare for children under age 5 and pregnant women were accompanied by a reduction of maternal and infant mortality rates in healthcare facilities. The number of maternal deaths per 100,000 births declined from 135 in 2015 to 120.9 in 2017, and the

overall in-hospital mortality rate declined from 109.9 per 1000 in 2015 to 52.2 per 1000 in 2017, or a reduction of 111 percent.

43. In education, the clearer impact of the increased supply and quality of educational services was seen in the improved post-primary completion rate, which climbed to 32.95 percent in 2017 compared to 24.24 percent in 2016 and a target of 30.2 percent. Also, the first two scientific secondary schools were opened in Ouagadougou and Bobo-Dioulasso, and preparatory classes for professional engineering schools were inaugurated at Ouaga I University. To shift the focus of education toward teaching and technical training, facilities were completed to house university teacher training and administrative buildings, including the Virtual University of Burkina Faso, and to provide space for social services.

44. In regard to safe drinking water, a number of infrastructures were built and rehabilitated, providing an additional 646,000 persons with access to safe drinking water and increasing the rate of access from 71 percent in 2015 to 73.4 percent in 2017.

45. In the transformation of the economy (Pillar III), appreciable results were achieved in implementation reforms and putting investments in place. With the construction of 11 new dams and rehabilitation of 11 existing dams, Burkina Faso's surface water storage capacities increased by 6,135.35 million cubic meters relative to a target of 6,126.12 million cubic meters. In addition, work commenced on the paving of 756.6 kilometers of roads, of which 171 kilometers were completed.

46. In the agriculture sector, the major reform concerned the adoption of the investment code and implementing decrees for the agro-sylvo-pastoral, fisheries, and wildlife segments in order to enhance the attractiveness of the agriculture sector.

47. In information and communications technologies (ICT), 1795 kilometers of fiber optic cable were installed and put in service in 7 regional and 42 communal administrative centers under the National Telecommunications Backbone project, and another 1020 kilometers are being deployed.

48. Also, to promote processing industries and expand market services, the Law for the Promotion of SMEs/SMIs was adopted and the implementing regulations promulgated. The SME/SMI promotion agency and the National SME Commission were also created.

ECONOMIC AND FINANCIAL OBJECTIVES FOR THE REMAINDER OF 2018 AND 2019

A. Macroeconomic Framework for 2019

49. Economic activity is expected to continue accelerating in 2019. The outlook for growth remains solid in view of favorable rainfall, control of the security situation, de-escalation of labor conflicts, and continued implementation of critical PNDES investments.

50. Accordingly, economic growth should attain a minimum of 6.0 percent in 2019, as in 2018. Growth should be driven primarily by all sectors, in particular the solid performance of the mining,

construction and civil engineering, manufacturing, services, and the agro-sylvo-pastoral activities following intensified investment.

51. Inflation is expected to remain within the community maximum of 3 percent in 2019, reflecting continued actions to control consumer product prices and good prospects for the 2018/2019 crop year.

52. Concerning the balance of payments, foreign trade in 2018 will be marked by stronger growth of imports than exports in a context of rising petroleum prices and higher prices for the two key export products, gold and cotton fiber. An improvement of net capital inflows is also expected, attributable mainly to the public sector and net financial flows with the rest of the world. Collectively, transactions with the rest of the world will serve to improve the current trade deficit, which will narrow to 6.6 percent of GDP, and generate an overall balance of payments surplus in 2018 following an estimated deficit in 2017.

53. In 2019, the current account deficit is expected to widen to 8.0 percent of GDP due to stronger growth of imports, driven by the momentum of domestic activities amid stabilization of petroleum prices at elevated levels.

B. Fiscal Policy for the Remainder of 2018 (Supplemental Budget Law) and 2019

2018 Supplemental Budget Law

54. The government's 2018 budget was executed in a particularly difficult context during the first half of 2018, marked by terrorist attacks and labor unrest in the ministries of education; health; and economy, finance, and development. These various factors adversely impacted budget execution in terms of both revenue and expenditure, necessitating adjustments by means of a supplemental budget law.

55. The 2018 supplemental budget law, which was submitted to the legislature for approval in October, therefore incorporates the objectives of the ECF-supported program, in particular the limit of the overall fiscal deficit to 5 percent of GDP. It provides for reductions in both revenue and expenditure. Total revenue and grants are reduced by CFAF 246 billion (or 3.2 percent of GDP) compared to the initial 2018 budget law and stand at CFAF 1766 billion (or 22.3 percent of GDP). Total expenditure and net lending were also reduced by CFAF 246 billion compared to the initial 2018 budget law and stand at CFAF 2189 billion, representing 27.6 percent of GDP.

56. The 2018 fiscal deficit will be financed through the use of budgetary support, drawings on IMF resources, the issuance of securities on the financial and money markets, and through concessional loans from other partners.

57. In addition to the measures cited above, the launch and/or continuation of the following measures will serve to achieve the 2018 revenue collection targets for the tax administration (DGI) and customs administration (DGD). Those measures include:

- the continued clearing of validated tax arrears through the organization of intensive collection campaigns by all collections units;
- the continuation of audit operations and sanctions on the use of the standardized invoice;
- the continued implementation of measures provided in the General Tax Code (CGI);
- stepped up investigations and cross-check of information to improve tax audits through targeted verifications;
- systematic unloading of trucks transporting more than two different articles;
- suspension of individual licensed customs brokers for regulatory violations;
- observance of reference values for consumer product imports and exports;
- continued scanning at the Ouagadougou (highway transport) and Bobo-Dioulasso (railroad transport) customs bureaus;
- strengthening of regional directors' oversight of offsite reviews conducted by customs staff, and audits by the Office of the Technical Inspector;
- monitoring of the tax and customs provisions of public contracts financed from own resources;
- collections associated with the implementation of re-registration of automobiles throughout the national territory;
- strengthening of inspectors' and staff expertise to improve merchandise valuation according to World Trade Organization methodology in the context of exit from the Import Verification Program through COTECNA: and
- continued efforts to combat all forms of customs fraud (contraband, undeclared imports, false declarations, and breach of commitments).

2019 Initial Budget Law

58. The proposed 2019 budget law submitted to the National Assembly will be amended to conform to the ECF-supported program, in particular the limit on the overall fiscal deficit to a maximum of 3 percent of nominal GDP.

59. The government recognizes the importance of measures to increase domestic revenue in order to generate the resources to cover capital expenditure. This will call for expanding the tax base and improving taxpayer compliance and the tax administration's efficiency to meet the WAEMU community objective of a 20 percent tax ratio in the medium term. In this regard, the 2019 budget law includes measures to expand the tax base, institute new taxes, and raise the rates of a number of existing taxes; it also provides additional strengthening of revenue mobilization. The implementation of the new measures provided in the 2019 budget law and special collection measures will serve to achieve the projected level for 2019. The measures include:

- expanding the scope of application of the tax on capital gains from the transfer of mining permits;
- bringing the drinks sector into the general tax system through the revocation of exemptions granted to taxpayers previously subject to the Beverage Sector Contribution (CSB);
- instituting a tax on heavy duty vehicles;
- increasing the tax rate on arms;
- increasing the tax on airline tickets;
- increasing the rate of the specific tax on perfume and cosmetic products;
- broadening the scope for licenses for drinking establishments;
- eliminating the system of flat taxes on beverage sector activities and applying generally applicable tax laws to the sector, with the institution of a 5 percent estimated income tax;
- increasing the tax rate for nonalcoholic beverages from 10 percent to 15 percent;
- increasing the tax rate for biodegradable and authorized non-biodegradable plastic wrapping and bags;
- increasing receipts from the property tax on improved and unimproved properties (TF B/NB), the residence tax, and the microenterprise contribution through the use of data from the general census of Ouagadougou and Bobo-Dioulasso taxpayers;
- the anticipated proceeds of the campaign to collect tax arrears;
- enhancing off-site surveillance through implementation of the ASYCUDA value module;
- ongoing offsite surveillance of merchandise valuation by the Valuation Control Unit;
- pursuing outsourcing of the valuation of used vehicles less than 10 years old and heavy machinery to the Motor Vehicle Control Center (CCVA), and reducing the allowance from 50 percent to 25 percent of the value;
- continuing efforts to interconnect the Burkinabè customs IT systems with those of Togo pending receipt of data on all merchandise exported to Burkina Faso;
- interconnecting the Burkinabè customs IT systems with those of Côte d'Ivoire to manage merchandise flows into Burkina Faso;
- dividing the Bobo international customs bureau into three bureaus (roads, railway, and hydrocarbons), introducing specialization in order to better control merchandise flows; and
- automating revenue management in customs offices and mobile brigades not connected to the ASYCUDA system.

60. In addition to these measures, the government intends to establish inspection certificates as a mandatory requirement to verify transactions in the clearance process, and institute scanning of documents in ASYCUDA World by end-April 2019; by November 2018, it also plans to harmonize

taxes on tobacco in line with the new WAEMU directive, raising the rate to a minimum of 50 percent (structural benchmarks).

61. The government is continuing to review options to identify new tax measures while avoiding the adoption of too many measures in a short period of time, which could prove counterproductive.

62. We also intend to strengthen revenue administration by monitoring procedures for taxpayers who do not file declarations, in particular through enhanced cooperation between the DGD and the DGI; the launch of an effort to evaluate tax arrears and develop a strategy to collect non-contested debts and write off unrecoverable debts; institute targeted audits for specific issues; conduct a study on the taxation of small businesses and microenterprises (structural benchmark), reform the taxation of the informal sector; and increase online declarations and payments.

63. To reduce the risk of loss of revenue following termination of the contract with COTECNA, the DGD: (i) instituted the use of the ASYCUDA valuation module, (ii) created a value control team to perform daily monitoring of merchandise values in the clearance bureaus and assist inspectors with decisions concerning merchandise value, (iii) implemented a transition and supervision committee consisting of the director general, the deputy director general, and all headquarters directors to provide weekly oversight of clearance operations in the customs bureaus, (iv) monitored the clearing of 20 targeted products in 2018 and 50 products in 2019 that are likely to be associated with fraud or are subject to particular import regulations.

64. With regard to expenditure, the total amount stood at CFAF 2196 billion compared to CFAF 2166 billion in 2018. This broadly unchanged expenditure profile, despite increased revenue, reflects the need to reduce the overall fiscal deficit by 2 percentage points of GDP, as well as a slight reduction in projected grants. With a wage bill of CFAF 836 billion (9.8 percent of GDP) and transfers of CFAF 496 billion (5.2 percent of GDP), capital expenditure financed from domestic resources will represent only CFAF 306 billion (3.6 percent of GDP).

65. The authorities are committed to reduce personnel expenses as a percentage of tax revenue to within the WAEMU community limit of 35 percent by 2021. To this end, the following actions are planned:

- implementation of the conclusions of the national stakeholders conference (CFVN) on the civil service compensation system;
- clearing of arrears on the payment of monetary benefits payable to employees for prior fiscal years, in order to adhere to the one-year budget rule;
- heightened internal control of the components of compensation provided to government employees;
- continued consolidation of the wage bill combined with implementation of the biometric census of government personnel; and
- continued efforts to reduce new civil service hiring in 2019 with respect to the initial forecast of 14700 new hires (structural benchmark).

- publish the number of public servants on the government payroll according to grade, region and ministry (structural benchmark); and
- adoption of salary and indemnity scales which are consistent with the medium term objective to contain the overall wage bill within the WAMEU convergence criterion of 35 percent of tax revenues (structural benchmark).

66. Also, the effort to rationalize public sector operating expenditure will continue with:

- the adoption and implementation of a policy to rationalize the government's vehicle fleet;
- restrictions on staff travel;
- the effective implementation of assets inventories; and
- the monitoring of electricity, telephone, and water consumption.

67. To improve the effectiveness of budget management, the following actions have been or will be conducted:

- early implementation of procurement processes and actions aimed at reconciling physical and financial budget execution, including in the context of delegated project management;
- the hiring of program managers to strengthen the management of public projects; and
- implementation of the decentralized mechanism for monitoring and oversight of physical works funded from the government budget, and the effective application of policies on subsidies and the provision of services to populations free of charge.

C. Debt Management Policy

68. The government's medium-term debt strategy aims to reduce the reliance on national and regional borrowing in favor of a gradual reorientation of financing toward external sources offering lower costs and more favorable terms. The government will pursue a prudent debt policy in order to maintain its moderate risk of external debt distress. As in previous years, the objective of debt management is to meet the government's financing needs while enabling it to meet its payment obligations at the lowest possible cost in the long term, maintaining risks at an acceptable level, and supporting the development of the subregional financial market. The government is also aware of the need to monitor and contain the accumulation of contingent liabilities. In the context of declining concessional resources, the use of nonconcessional financing will be limited to critical projects offering substantial, guaranteed economic returns.

69. At July 31, 2018, the estimated stock of debt stood at CFAF 2972.4 billion, representing CFAF 1140.9 billion in domestic debt and CFAF 1831.5 billion in external debt, or 38.4 percent and 61.6 percent, respectively. At the same date, the debt ratio is estimated at 37.5 percent compared to 38.6 percent at end-December 2017.

70. In regard to disbursements, an estimated total of CFAF 75.5 billion of external debt was disbursed at end-September 2018. For domestic debt, a total of CFAF 213.7 billion was raised during the same period through the issuance of bonds on the financial market.

71. The program provides for a ceiling on external debt contracted or guaranteed by the government in 2019 (net present value of CFAF 370 billion). In 2019, the deficit will be covered by the issuance of government securities on the regional financial market and by a combination of concessional and nonconcessional loans. Moreover, the government remains determined to meet the program objectives for the fiscal deficit, i.e., 5 percent and 3 percent of GDP, respectively, in 2018 and 2019.

72. In the context of its debt management strategy, the authorities may seek to replace domestic debt falling due with concessional external borrowing. The proceeds of such operations will only be used for debt and cash management purposes and not to increase overall spending beyond that implied by the program fiscal deficit limits of 5 percent and 3 percent of GDP in 2018 and 2019, respectively. Before undertaking any such debt-management operation, we commit to consult with the IMF staff and provide full details of financing terms. Any proceeds of borrowing in excess of that needed to finance the deficit and repay debt falling due will be saved in a dedicated account. In addition, the government will continue to refrain from extending preferential treatment to any private partner or the subsidiaries of any private partner that has provided concessional loans, including for public sector contracts or PPPs.

73. Regarding strengthening debt management capacities, discussions are under way in regard to improving effectiveness and efficiency in accordance with best practices and standards in this area, drawing in particular on the recommendations of technical assistance missions from specialized institutions.

D. Improved Efficiency of Expenditure

74. In order to improve public investment efficiency, guidelines for project selection and appraisal have been elaborated. In addition, a cost-benefit analysis guide is being developed with the assistance of rom technical assistance from West Afritac. A cost-benefit analysis of the major investment projects included in the 2019 budget was annexed to the draft Budget Law 2019 that was transmitted to the National Assembly.

75. In January 2018, the regular public procurement procedures, which had been temporarily simplified in order to speed execution of the 2017 budget, were reinstated. We are firmly committed to retaining those procedures and avoiding the use of costly supplier credits and pre-financing arrangements. We will continue our efforts to rationalize and increase the transparency of public procurement procedures.

76. PPPs will be implemented according to best practices with a view to ensuring that any potential for contingent liabilities will be strictly contained. To this end, we will transmit to IMF staff the results of the analyses of budgetary risks of the projects to be completed as well as analyses of their potential effects on Burkina Faso's debt sustainability. In the interest of optimizing the monitoring of PPPs, a database was created and is updated semiannually. Also, to mitigate fiscal risks, the government will include PPPs in the public investment program by end-December 2019 (structural benchmark). As recommended by the November 2017 IMF technical assistance mission on fiscal risks related to PPPs, the government will incorporate PPPs in the public investment process, and will include PPP contracts it plans to sign in the short term or has already signed in the

multiyear budget and economic programming document (DBEP), as well as their budgetary implications.

STRUCTURAL REFORMS FOR THE REMAINDER OF 2018 AND 2019

A. Public Finance Reforms

77. In the area of public finance, Burkina Faso will continue the actions undertaken to promote sound, effective, and rational management of resources. To this end, the modernization of management procedures and tools will continue in terms of implementing the recent innovations induced by program budgets, which began with the 2017 budget year and is to be completed in 2019. The following actions will be conducted:

- the continued adaptation of information systems to integrate new modules on accounting and control;
- the determination of government assets, the effective implementation of materials accounting, and preparation of the first opening balance sheet for fiscal year 2019;
- review of the budget program templates;
- review of guides and model formats (monitoring-evaluation, annual performance plan, annual performance report);
- publication of budget execution reports on the Ministry of Finance website (regularly within 15 days following adoption by the Council of Ministers) in addition to the publication of proposed budget laws and supplemental budget laws, as well as the budget execution law (loi de reglement);
- We produced the first monthly Treasury account balance for the period January through April 2018. Also, we established an audit committee to improve the quality of financial reports.;
- preparation for implementation of accrual accounting. A new Chart of Accounts, consistent with the budget classification, was prepared and took effect in January 2017;
- continuation of the process of implementing a Treasury single account.

78. To control operating expenditure, the conclusions of the national conference on rationalizing the civil service compensation system will be implemented. The government is preparing a medium-term strategy to manage the growing wage bill and is preparing a framework law that will establish the basic principles governing the operation of the public services. This strategy aims to ensure adherence to regional standards by 2021. The combined effect of implementing this strategy and boosting revenue mobilization will eventually lead to a reduction of the wage bill to tax revenue ratio, and lead to a gradual convergence toward the WAEMU community limit of 35 percent. In this light, the government is committed to adopt a multi-annual budget and economic programming document with a continuous reduction in the ratio of the wage bill to tax revenue ratio from its peak of 55 percent in 2019.

79. To improve and speed procedures for the reimbursement of VAT credits (structural benchmark), the government plans to establish a Special Treasury Appropriations Account (CAST) to be used exclusively for this purpose. This mechanism will ensure transparency, clarity, timeliness, and autonomy in managing refunds of VAT credits. The CAST revenue will come from VAT collected by the DGD when mining companies import goods for consumption during the production phase and their subcontractors plus 20 percent of all VAT revenues collected throughout the country by the DGI.

80. Concerning the issue of common funds, measures have been taken to standardize the use of the funds and to rationalize the amounts paid in the context of the 2019 budget law. The 2019 budget envisages that payment of allowances will be limited to the amounts collected in the previous year and amount to no more than 25 percent of the base salaries of civil servants in ministries eligible to receive such allowances. The source will be the amounts collected from penalties and fine. In addition, the funds received and paid from common funds will be budgeted and accounted for in the appropriate budget accounts in the 2020 initial budget law (structural benchmark).

B. Improved Energy Sector Results

81. The implementation of the MOU between the government, SONABEL, and SONABHY continued in 2018. The government cleared the full amount of SONABEL arrears. For SONABHY, a report has been submitted to the Council of Ministers for the adoption of measures to clear the arrears.

C. Pump Price Adjustment Mechanism

82. Rising fuel prices on the international market since early 2017 have led to a substantial loss of revenue (estimated at CFAF 67 billion at end-October 2018) for the fuel importer SONABHY, which is liable to become a substantial contingent liability. In addition, if pump prices remain unchanged and the upward trend in international petroleum prices continues, the 2018 and 2019 subsidies will represent close to CFAF 100 billion. Those subsidies, which are financed by the government, continue to burden public finances and crowd out public investment and priority social spending, which are indispensable. For this reason, at the Council of Ministers session of November 8, 2018, the government approved decisive measures to (i) clear arrears to SONABHY, protecting its mission of supplying the country, and (ii) reduce the hydrocarbon subsidy. The shortfall to SONABHY is projected to amount to about CFAF 100 billion at the end of 2018. It will be consolidated in the debt stock, of which a tranche of CFAF 20 billion immediately due was paid, and the remainder will be securitized. In this context, the decision was made on 8th November 2018 to adjust the structure of hydrocarbon prices to ensure an increase in pump prices of about CFAF 75 per liter, representing an increase of about 12.5 percent (prior action). In addition, the government adopted Decree No. 2018-1012/PRES/PM/MINEFID/MCIA/ME of November 14, 2018 that aims to adjust domestic pump prices quarterly to align them with market prices at least every three months. Also, the amount of the implicit subsidy of pump prices will be published each month on the website of the Ministry of Economy, Finance, and Development (structural benchmark).

Cotton and Other Agriculture Sectors

83. In the cotton sector, replenishment of the income-smoothing fund and launch of the cotton inputs fund helped consolidate the sector's financial soundness. Also, in coordination with cotton producers and corporations, the government plans to continue the strategy to increase productivity, improve the quality of cotton, and promote diversification. The sector is expected to pursue innovative reforms to improve resiliency to exogenous shocks (continual improvement of sector management tools, adaptation to the effects of climate change). The government intends to support private or public initiatives aimed at increasing value added, including processing of local cotton fiber in order to create additional jobs and wealth through the sector strategy.

84. Also, to ensure the development of a productive, resilient, and more market-oriented agro-sylvo-pastoral, wildlife, and fisheries sector, the government has undertaken large-scale actions concerning, inter alia, (i) the introduction of an innovative mechanism to improve the delivery of agricultural advisory services; (ii) the implementation of a new input subsidy mechanism; (iii) the implementation of an innovative incubator for agricultural entrepreneurs at rural promotion centers (CPR) and the multidisciplinary agriculture center in Matroukou; (iv) increasing the pace of agricultural mechanization through the provision of power tillers and 500 tractors at subsidized prices and the creation of units for the production of agricultural materials and equipment fabrication units in the medium term; (v) the promotion and development of innovative mechanisms for access to agricultural credits such as agricultural insurance, warehousing, and inventory credit arrangements (*warrantage*); (vi) signature of a framework agreement with OCP [Office Chérifienne des Phosphates] to build a fertilizer plant using natural phosphate from Khodjiari; and (vii) reform of agricultural cooperatives to comply with the OHADA uniform act.

85. In addition, the licensing application submitted to the West African Monetary Union (WAMU) Banking Commission for the creation of an agricultural bank was approved and arrangements are being made for the start of operations. Other major reforms have been undertaken, including the National Assembly's adoption in May 2018 of a law establishing the Agro-Sylvo-Pastoral, Fisheries, and Wildlife Investment Code in order to improve the business environment in the agriculture sector, and signature of the technical assistance agreement with China for large-scale irrigation facilities and agricultural advice and support services.

Financial Inclusion

86. Financial inclusion is a major priority for the government. One of the objectives of the PNDES is to increase the expanded bank penetration rate (total base population) to 35 percent by 2020. To this end, the government undertook to prepare the National Strategy for Inclusive Finance (SNFI) to be accompanied by an implementing action plan based on the "Making Access Possible" (MAP) approach. In preparation of the strategy, two surveys were conducted to establish the status of the supply and demand for financial products and services; furthermore, these surveys made it possible to prepare a diagnostic report and roadmap for financial inclusion in Burkina Faso. Those two components served as inputs in preparation of the SNFI. To guide implementation, a draft Action Plan for the National Strategy for Inclusive Finance (PASNFI) was compiled in late October

2018 and is expected to be finalized in 2018. A roundtable of donors will be organized in November 2018 to raise financing.

Poverty Reduction

87. In the context of reducing poverty, the program of free healthcare (rolled out in April 2016) for children under 5 and pregnant women was expanded to include the poor elderly, resulting in the delivery of over 41 million medical services at a cost of more than CFAF 45 billion. The government plans to ensure the continuity of the reform and expand free healthcare to vulnerable persons.

88. To promote the role of women as dynamic actors in development and reduce social and gender inequalities, the government will implement the Integrated Program for the Empowerment of Women in Burkina Faso (PIAF-BF) and the project to promote the socioeconomic integration of homeless children and youth. The aim is cover 57 percent of the vulnerable children identified and reduce the number of homeless children to 4000 and continue actions to promote the economic empowerment of women through (i) the registration of 8550 informal women-owned businesses, (ii) the provision of working capital and investment credits for women's associations, and (iii) entrepreneurship training for 1195 women.

89. Concerning the establishment of an institutional and legal framework favorable to the promotion of health insurance, a financial and actuarial evaluation of the Universal Health Insurance System (RAMU) was conducted to take account of financial data relating to free healthcare for children under five and pregnant women. Going forward, it is anticipated that 15 percent of RAMU coverage will be implemented, and the institutional and legal framework will be put in place.

90. In regard to efforts to reduce inter- and intra-regional disparities, the implementation of the Program to Support the Development of Local Economies (PADEL) and the Emergency Program for the Sahel (PUS-BF), at a cost of CFAF 339 billion and CFAF 455.3 billion, respectively, led to the construction of infrastructures (strengthening of the administration, improvement of the framework for educational and health structures), the identification of 3000 vulnerable persons to benefit from cash transfers (CFAF 30,000 per quarter) and the provision of credits to 617 promoters consisting of microenterprises and professional associations. Future plans call for continued implementation of the PADEL in six additional regions (Est, Centre-Nord, Centre-Est, Boucle du Mouhoun, Centre-Sud, and Nord) and continued investments to support the PUS-BF. To ensure financing of both programs, the technical and financial partners promised to accelerate their support with additional financial commitments totaling CFAF 220 billion for both programs. With these new commitments, the total financing stands at CFAF 621 billion of the total cost of CFAF 851.46 billion.

Improvement of macroeconomic data

91. The government will continue work on updating the base year for the national accounts. Data from the national survey on employment and the informal sector, the national survey on the artisanal gold mining sector, and the results of specific studies were incorporated in the accounts for the new base year in accordance with SNA 2008. Analysis and synthesis are under way and the initial

results are expected at end-October 2018 in preparation for an international technical workshop in early November 2018 that will bring together specialists in national accounting systems from national and international institutions (IMF, World Bank, European Union, the East African Community, the Economic and Statistical Observatory for Sub-Saharan Africa (AFRISTAT), WAEMU, and the Economic Community of West African States). The aim of the workshop is to assess the results of the process and provide any recommendations for improvement. In parallel, work is under way to revise the 1999-2015 national accounts series in accordance with SNA 2008.

Anti-corruption efforts

92. To confirm its commitment to promote good governance and combat corruption, the government took action to implement the legal and institutional anti-corruption mechanism strengthened by the adoption of Law No. 004-2015-CNT of March 3, 2015. The implementing decrees and decisions have now been adopted. The following measures were also implemented:

- the institution of an annual audit of government management by the Government Oversight and Anti-Corruption Authority (ASCE-LC). The 2016 audit report is available, and the 2017 report is being finalized;
- the National Assembly's adoption of the law on specialized jurisdictions on January 19, 2017. The law provides for the creation of specialized judicial centers to handle cases brought by the government for economic and financial offenses. The implementation of the centers is ongoing.

93. To automate asset reporting by the individuals covered by Law No. 004-2015/CNT of March 3, 2015 and implement a searchable database (online reporting, online query for the officials designated by the law), the government submitted to the National Assembly the draft law amending the aforesaid law to include the automation of asset reporting by individuals; which the National Assembly approved. A series of measures were taken to automate the Declaration of Interest and Assets (DIP) by December 2018, including (i) the hiring of external experts to implement the DIP platform, (ii) the preparation of a procedures manual for the DIP, and (iii) the creation of the ASCE-LC website. In addition, the survey of persons subject to the DIP, the DIP platform, and the communication and outreach campaigns are now being implemented.

D. Quantitative Performance Criteria and Structural Benchmarks

94. Quantitative performance criteria have been set for end-December 2018 and end-June 2019 and indicative targets for end-March, end-September and end-December 2019 (Table 1 and Table 3). The structural benchmarks for 2019, as well as their macroeconomic justification, are described in Table 4. The second and third program reviews are expected to be completed on or after June 15, 2019 and December 15, 2019, respectively.

Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, 2018

(CFAF billions)

	2018					
	June				Sept. 1/	Dec.
	Prog.	Adj.	Outturn	Status	Prog.	Prog.
Quantitative Performance Criteria						
Ceiling on net domestic financing of the government 2/ 3/ 4/ 5/	200	231	104	Met	258	258
Ceiling on the amount of nonconcessional external debt contracted or guaranteed by the government 3/ 6/	200	200	8	Met	200	200
Ceiling on the accumulation of external payment arrears by the government 7/	0	0	0	Met	0	0
Ceiling on the guaranteeing of new domestic loans to suppliers and contractors by the government 7/	0	0	0	Met	0	0
Ceiling on government guarantees on new bank pre-financing for public investments 7/	0	0	181	Not met	0	0
Indicative Targets						
Ceiling on the accumulation of domestic arrears by the government 7/	0	0	0	Met	0	0
Ceiling on the overall fiscal deficit including grants 2/ 3/	97	121	81	Met	312	382
Floor on government revenue 3/	657	657	731	Met	1,011	1,444
Floor on poverty-reducing current social expenditures 3/	88	88	120	Met	132	176
Ceiling on the stock of certified and unpaid VAT refunds older than 30 days 3/	55	55	33	Met	55	55
Ceiling on the value of PPPs contracted 3/	200	200	0	Met	200	200
Memorandum Item						
Ceiling on the amount of concessional external debt contracted or guaranteed by the government 3/	550	550	n.a.	n.a.	550	574

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

1/ Indicative Target, except for continuous performance criteria.

2/ The net domestic financing ceiling is adjusted to reflect the shortfall in program grants and loans, while the overall deficit is adjusted to reflect the shortfall in program grants.

3/ Cumulative from January 1, 2018.

4/ The ceiling on net domestic financing will be lowered by the full proceeds of any private concessional budget support loan as specified in the TMU.

5/ The ceiling on net domestic financing will be adjusted upward by the amount of securitization of SONABHY losses owing to below cost-recovery sales of petroleum products in 2018 and capped to a maximum of CFAF 80 billion.

6/ The limit is not tied to specific projects.

7/ To be observed continuously.

Table 2. Burkina Faso: Structural Conditionality, 2018			
Benchmark	**Objective**	**Completion Date**	**Status**
Public Financial Management			
Approve a repayment plan for the reimbursement by SONAPOST of Treasury assets held in the postal accounts (MINEFID, SONAPOST).	Improve cash management	April 2018	Met
Create a database of all existing formal sovereign guarantees, which includes information on the beneficiary, underlying contract, date of signature, date of expiration and budget implications.	Improve budget transparency and mitigate fiscal risks	April 2018	Met
Create a database of all projects signed or planned as PPP, prefinancing or supplier credits agreements. The database will include information on the type of contract, total cost, payments made and due, as well as interest payments.	Improve budget transparency and mitigate fiscal risks	April 2018	Met
Establish a limit on the amount of PPPs that can be contracted by the Government.	Improve budget transparency and mitigate fiscal risks	April 2018	Not met. Guidelines were drafted and discussed in a technical workshop in February 2018. Approval of a final version is expected by end-November 2018 following harmonization with IMF technical advice.
Include as an Annex to the 2019 Budget law an analysis of the costs-benefits of the ten largest investment projects, including PPP projects.	Improve budget transparency and mitigate fiscal risks	December 2018	In progress
Develop and adopt a framework for transitioning to a single treasury account.	Improve treasury management	December, 2018	In progress
Complete a study on automatic fuel price mechanisms and the effectiveness of measures to mitigate the effects of flexible fuel prices on the poorest and most vulnerable.	Improve quality of public expenditures	September, 2018	Met
Expenditure Policy			
Appoint an independent external auditor to conduct an audit of SONABHY's operations, financial position, and accounting practices.	Reduce fiscal risks and eliminate fiscal costs associated with subsidies	April 2018	Not met. A call for bids was launched and the provisional results published in September 2018. The hiring process will be finalized by end-November 2018.
Improving Macroeconomic Statistics and Forecasting			
Complete the revision of national accounts statistics to the new base year, and disseminate the revised series.	Improve the accuracy of national statistics.	December, 2018	In progress
Integrate the results of the artisanal gold study into the system of national accounts and revise the base year.	Improve the accuracy of national statistics.	December, 2018	In progress
Improve Governance			
Proceed with the dematerialization of asset declarations of government officials and those covered by the law, by instituting online submisisons, and create a searchable database	Improve governance and improve the fight against corruption	December, 2018	In progress

Table 3. Burkina Faso: Quantitative Performance Criteria and Indicative Targets for ECF Arrangement, 2019
(CFAF billions)

	2019			
	Mar. 1/	June	Sept. 1/	Dec. 1/
Quantitative Performance Criteria				
Ceiling on net domestic financing of the government 2/ 3/	0	100	146	159
Ceiling on the amount of external debt contracted or guaranteed by the government (PV) 2/ 4/ 5/	370	370	370	370
Ceiling on the accumulation of external payment arrears by the government 6/	0	0	0	0
Ceiling on the guaranteeing of new domestic loans to suppliers and contractors by the government 6/	0	0	0	0
Ceiling on government guarantees of new bank pre-financing for public investments 6/	0	0	0	0
Indicative Targets				
Ceiling on the accumulation of domestic arrears by the government 6/	0	0	0	0
Ceiling on the overall fiscal deficit including grants 2/	0	130	196	259
Floor on government revenue 2/	376	798	1262	1697
Floor on poverty-reducing current social expenditures 2/	48	95	143	190
Ceiling on the stock of certified and unpaid VAT refunds older than 30 days 2/	45	40	40	40
Ceiling on the value of PPPs contracted 2/	200	200	200	200

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

1/ Indicative target, except for continuous performance criteria.

2/ Cumulative from January 1, 2019.

3/ The ceiling on net domestic financing will be lowered by the full proceeds of any private concessional budget support loan as specified in the TMU.

4/ The limit is not tied to specific projects.

5/ The ceiling on the amount of external debt will be increased up to an additional CFAF 400 billion to allow for any private concessional budget support loan as specified in the TMU.

6/ To be observed continuously.

Table 4. Burkina Faso: Structural Conditionality, 2019

Benchmark	Objective	Supporting documents	Completion Date
Prior Actions			
Submit a 2019 budget proposal to the National assembly that is fully aligned with the fiscal framework of the ECF-supported program (main revenue and spending aggregates and with an overall fiscal deficit (commitment basis) of no more than 3 percent of GDP) through the tabling of an amendment to the initial budget proposal	Maintain fiscal sustainability	Amendment Letter submitted to the National Assembly	November 11, 2018
Adjust the pricing structure for hydrocarbons to raise pump fuel prices by around 12.5 percent	Maintain fiscal sustainability	Order establishing the composition of the price structure and decree establishing the introduction of a price readjustment	November 7, 2018
Tax Policy and Revenue Administration			
Harmonize the taxation of tobacco in line with the new WAEMU directive by setting the rate at a minimum of 50 percent	Increase revenue	2020 draft initial budget law (LFI)	November 2019
Raise the rate of tax on non-alcoholic beverages from 10 percent to 15 percent	Increase revenue	DGI Communiqué	January 2019
Increase tax on airline tickets from CFAF 1000 to CFAF 20000 for economy class and from CFAF 7000 to CFAF 40000 for business class	Increase revenue	DGI Communiqué	January 2019
Eliminate the flat-rate tax system for beverage sector businesses and place them under the standard tax regime by introducing a 5 percent tax as an advance income tax payment	Increase revenue	DGI Communiqué	January 2019
Conduct a study on the taxation system of small- and medium-sized enterprises	Strengthen tax administration	Report on the Study	September 2019
Make the inspection certificate compulsory for checking transactions for customs clearance purposes and ensure documents are scanned in ASYCUDA World	Increase revenue and protect the revenue base	DGD Memorandum	April 2019
Establish a special account for VAT credit refunds that is funded with a portion of VAT revenues and produce quarterly reports on the operational management of this account	Strengthen the integrity of the VAT system	Opening of a special Treasury account for VAT credit refunds and produce a quarterly report of the flows in and out of the account and the stock of VAT credits	June 2019
Public Financial Management			
Publish the implicit subsidy of fuel pump prices on the website of the Ministry of Economy, Finance and Development on a monthly basis	Increase transparency on the fiscal cost of fuel subsidies	Publication of subsidies on the MINEFID website	January 2019
In the appropriate budget accounts, budget and account for revenue from/expenditure on Fonds communs in the 2020 budget law	Improve fiscal transparency	2020 Draft LFI	September 2019
PIMA			
Include PPPs in the public investment program	Mitigate fiscal risks	PIP 2020	December 2019
Wage Bill			
Approval by the Cabinet of Ministers of the 2020-2022 Multiannual Budget and Economic Programming Document with a continuous reduction in the ratio of the wage bill to tax revenue ratio from its peak of 55 percent in 2019.	Contain public-sector wage bill		Mid-June 2019
Publish the number of public servants on the government payroll according to grade, region and ministry	Contain public-sector wage bill		April 2019
Reduce the number of new civil service staff members in 2019 compared to the initial projection of 14700 hires	Tighten control of the wage bill	Report on the recruitment of staff in 2019	September 2019
Adopt salary and indemnity scales which are consistent with the medium term objective to contain the overall wage bill within the WAMEU convergence criterion of 35 percent of tax revenues	Contain public-sector wage bill		November 2019

Attachment II. Technical Memorandum of Understanding

1. 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). It also sets the framework and deadlines for the submission of data to IMF staff for assessment of program implementation.

CONDITIONALITY

2. The quantitative performance criteria and indicative targets for end-June 2018 and end-December 2018 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

3. **Government.** Unless otherwise indicated, the term "government" means the central government of Burkina Faso and does not include local governments, 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).

4. **Definition of debt.** The definition of debt is set out in IMF Executive Board Decision No. 15688-(14/107), Point 8, as published on the IMF website. The term "debt" will be understood to mean all current, i.e. not contingent, liabilities, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take various forms; the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of

the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

5. Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on a contractual obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

6. **Debt guarantees.** 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).

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

8. **External debt.** External debt is defined as debt contracted or serviced in a currency other than the CFA franc. 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

9. The quantitative performance criteria for 2018 are as follows:

(i) a ceiling on net domestic financing of the government;

(ii) a ceiling on the contracting or guaranteeing of non-concessional external debt by the government;

(iii) a ceiling on the non-accumulation of payment arrears on external debt service;

(iv) a ceiling on the guaranteeing of domestic loans to suppliers and contractors;

(v) a ceiling on the guaranteeing of bank pre-financing of public investments.

The quantitative performance criteria for 2019 are the same as for 2018 except that the ceiling on the contracting or guaranteeing of non-concessional external debt by the government is replaced

[1] This IMF webpage provides a tool to compute the grant element in a large range of financial arrangements: http://www.imf.org/external/np/pdr/conc/calculator

[2] The calculation of the concessionality takes into account all aspects of the debt contract, including the date of payment, the grace period, the schedule, the commissions and management fees.

by a ceiling on the contracting or guaranteeing of total (concessional or nonconcessional) external debt by the government in PV terms.

A. Net Domestic Financing of the Government

10. Net domestic financing is defined as the sum of (i) net bank credit to the government, including net bank credit to the government as defined below vis-à-vis the national banking institutions (claims associated with IMF disbursements are included); (ii) the stock of unredeemed government bills and bonds held outside national commercial banks; (iii) privatization receipts and other government claims and debts vis-à-vis national nonbank institutions. Net bank credit to the government is the balance of the government's claims and debts vis-à-vis national banking institutions. government claims include the cash holdings of the Burkinabè government, deposits with the central bank, deposits with commercial banks, and secured obligations, and government deposits in postal checking accounts (CCP). Government 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 government securities held by commercial banks). Net bank credit to the government is calculated based on information provided by the Central Bank of West African States (BCEAO), whose figures are deemed valid for program purposes. The foregoing items are calculated based on the government budget execution report presented each month in the government flow-of-funds table prepared by the Ministry of the Economy and Finance.

Adjustment

11. The cumulative ceiling on net domestic financing from the beginning of any calendar year will be adjusted upward in the amount by which external program support to central government falls short of the amount projected, in the event the external program assistance is lower than programmed, up to a maximum of CFAF 80 billion. The shortfall will be calculated in relation 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.

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

	End-December 2018	End-June 2019
Program grants and loans	183	17
(Of which program grants)	(147)	(17)

12. Moreover, the cumulative ceiling on net domestic financing will be adjusted downward by the full amount of any disbursement of concessional budget support loans from a private creditor before end-2018 and in the first half of 2019. Finally, the ceiling on net domestic financing will be

adjusted upward by the amount of securitization of accumulated SONABHY losses owing to below cost recovery sales of petroleum products in 2017 and 2018, up to a maximum of CFAF 80 billion.

13. 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. New Non-Concessional External Debt Contracted or Guaranteed by the Government and Present Value of External Debt Contracted or Guaranteed by the Government

14. For 2018, the government undertakes not to contract or guarantee any non-concessional external debt beyond the ceiling indicated in MEFP Table 1. This performance criterion applies to external debt as defined in paragraph 4 of this memorandum. It utilizes the concept of concessionality as defined in paragraph 7 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. For the purpose of this performance criterion, "government" shall include the central government of Burkina Faso, public enterprises that receive government transfers, local governments, and other public-sector entities (including public administrative, professional, scientific and technical agencies). However, this performance criterion will not apply to government bills and bonds issued in CFA francs on the WAEMU regional market, to suppliers' normal short-term credits, or to IMF loans. It is measured on a cumulative basis from the date of the IMF Executive Board's approval of the ECF arrangement, and no adjustment factor will apply.

15. For 2019, the government undertakes not to contract or guarantee external debt (concessional or non-concessional) with a total PV in excess of the ceiling indicated in MEFP table 3, measured on a cumulative basis from the start of the year (i.e. January 1, 2019). In case of a concessional budget support loan from a private creditor, the PV ceiling will be raised by the full amount of the loan up to CFAF 400 billion. All other provisions and definitions in paragraph 13 will continue to apply.

16. The proceeds of any private concessional budget support loan in 2018 and 2019 will be used only to contribute to the financing of the gross financing requirements of the government in 2018 and 2019, respectively, that are consistent with the overall fiscal deficit ceilings of 5 percent and 3 percent of GDP in 2018 and 2019, respectively. Any surplus of resources will be saved.

Reporting Deadlines

17. 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 by the Government

18. 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 external payment obligations being renegotiated with creditors, including bilateral non-Paris Club creditors. Non-accumulation of new external arrears by the government is a performance criterion to be observed continuously.

D. Guaranteeing of New Domestic Loans to Suppliers and Contractors by the Government

19. The government undertakes to not provide new financial guarantees for domestic loans to its suppliers or contractors. This performance criterion shall be observed continuously. For this performance criterion, "government" includes the central government, institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations, semi-public corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

E. Guaranteeing of New Bank Pre-Financing for Public Investments by the Government

20. The government undertakes not to guarantee new bank pre-financing for public investments. In a pre-financing arrangement, a private company granted a public works contract by the government obtains a loan from a domestic commercial bank or a group of commercial banks. The Ministry of Finance guarantees this loan and, at the same time, signs an unconditional and irrevocable substitution of debtor agreement to service all principle and interest. For this criterion, government includes the central government, institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations, semi-public corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies. This performance criterion shall be observed continuously.

QUANTITATIVE INDICATIVE TARGETS

21. The program also includes quantitative indicative targets for:

(i) the accumulation of domestic arrears;

(ii) the overall fiscal deficit (commitment basis, grants included);

(iii) total government revenue;

(iv) poverty-reducing current social expenditures;

(v) value added tax refunds; and

(vi) public-private partnerships.

A. Accumulation of Domestic Arrears by the Government

22. The government will not accumulate payment arrears on domestic obligations during the program period. For this indicative target, a "domestic obligation" is one serviced in CFA francs, but it excludes government liabilities to local governments 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), except the central bank. Except in cases where the terms and conditions of the transaction stipulate a longer period, payments are deemed to be in arrears in keeping with the following definition:

(i) Debt unpaid for more than 30 days after the due date stipulated in the agreement between the parties (creditor/debtor).

(ii) Wages or pensions unpaid 90 days after their due date.

(iii) Payments for goods and services rendered received more than 90 days after processing of the supporting documents submitted by suppliers.

B. Overall Fiscal Deficit Including Grants

Definition

23. 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 and 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 government deposits.

Adjustment

24. The ceiling on the overall fiscal deficit will be adjusted upward in the amount by which actual external program grants to central government falls short of the amount projected, up to a maximum of CFAF 80 billion. The shortfall will be calculated in relation to the projections in Table 1 above. The ceiling will not be adjusted downward should actual external program grant assistance be higher than projected. The ceiling on the overall fiscal deficit will be adjusted upward by the

amount of securitization of accumulated SONABHY losses owing to below cost recovery sales of petroleum products in 2017 and 2018, up to a maximum of CFAF 80 billion.

C. Government Revenue

Definition

25. Government revenue is valued on a cash basis. It includes all tax and non-tax revenue collected by the Directorate General of Taxation, the Directorate General of Customs, the Burkinabè Treasury, and other government revenue collection units. It also includes revenue from treasury checks.

D. Poverty-Reducing Current Social Expenditures

Definition

26. Social spending is the sum of current expenditure included in the social spending program as defined in the budget. This social spending program is defined as the sum of budget programs or parts of programs that target poor households and: (i) ensure access to basic social services; (ii) promote access to health services and nutrition programs; (iii) fight against HIV/AIDS; (iv) promote access to drinkable water; (v) improve living conditions, including environment and sanitation; or (vi) ensure social protection. Within these programs or parts of programs, only budget lines classified as social spending are retained.

E. Certified and Unpaid VAT Refunds Older than 30 Days

Definition

27. For the program, the stock of value added tax (VAT) refund claims that have been certified but remain unpaid for more than 30 days is comprised of signed tax refund amounts. The 30-day period starts from the date of signature of the tax refund certificate by the Director General of Taxes.

F. Public Private Partnerships

Definition

28. A public-private partnership is defined as a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance. It excludes pre-financing and supplier credit arrangements.

Additional Information for Program Monitoring

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

Table 2. Summary of Data Reporting Requirements

Information	Institution Responsible	Data Frequency	Reporting Frequency
Public Finance			
The government's fiscal reporting 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)	Ministry of Economy, Finance and Development (MINEFID)	Monthly	6 weeks
Domestic budgetary financing (net bank credit to the government and stock of unredeemed government bonds and bills)	MINEFID/ BCEAO	Monthly	6 weeks
A quarterly report on the consistency of the net position of the government in monetary statistics with the data from the TOFE on net domestic financing of the banking sector.	MINEFID/ BCEAO	Quarterly	8 weeks
Monthly data on the execution rates by the customs office relative to monthly forecasts.	MINEFID/ DGD	Monthly	6 weeks
A quarterly report on the outcomes and actions undertaken to put in place a better control and supervision of taxpayers using the single taxpayer identification number to cross-check information between DGI and DGD, starting with large taxpayers.	DGD/DGI	Quarterly	6 weeks
Data on implementation of the public investment program, including details on financing sources	DGB/DGTCP	Quarterly	6 weeks
The stock of external debt, external debt service, external debt contracted, and external debt repayment	DGTCP	Quarterly	6 weeks
Social poverty-reducing expenditures in table format	DGTCP	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 fob-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	SONABHY/ DGTCP	Monthly	4 weeks
A quarterly summary report of monthly data of SONABHY's accounts including gains and/or losses from the buying and selling of hydrocarbon products by type of product, cash flows position and income statement, taking into account all received	SONABHY/ MINEFID	Quarterly	6 weeks

Table 2. Summary of Data Reporting Requirements (continued)			
subsidies and government securities issued or sold in the banking system or else.			
A quarterly summary report of monthly data of SONABEL's accounts including its cash flows position and income statement and taking into account all received subsidies and project grants and loans from the technical and financial partners.	SONABEL/ MINEFID	Quarterly	6 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)	DGTCP	Monthly	6 weeks
A quarterly activity report from the Investigation and Intelligence Directorate including taxpayer controls across DGI and DGD using the unique taxpayer identification number, beginning with large taxpayers.	DGI/DGD	Quarterly	6 weeks
Provide monthly customs revenue projections (on an annualized basis) by customs post, and report on monthly outcomes compared to projections.	DGD	Monthly	6 weeks
Keep 'Champ 44' enabled for input of references from inspection notices for all customs declarations.	DGD		Continuous
Provide monthly DGI revenue projections (on an annualized basis) by type, and report on monthly outcomes compared to projections.	DGI	Monthly	6 months
Provide monthly DGTCP revenue projections (on an annualized basis) by type, and report on monthly outcomes compared to projections.	DGTCP	Monthly	6 months
A quarterly summary report of VAT refunds, including transfers received from the ACCT, cumulative amount paid since the beginning of the year, the stock of certified refund claims (Régisseur d'avance), and total VAT refund claims being processed (DGE, DLC)	DGI	Quarterly	3 months
A monthly update of the PPP and sovereign guarantee databases	DGCOOP/ MINEFID		4 weeks
Monthly estimate of the implicit pump fuel price subsidy	CIDPH		4 weeks
The consolidated balance sheet of monetary institutions			
The consolidated balance sheet of monetary institutions	NDs of the BCEAO	Monthly	6 weeks
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

Table 2. Summary of Data Reporting Requirements (concluded)			
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/ MINEFID	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	MINEFID	Annual	2 weeks
Disaggregated monthly consumer price indices	MINEFID	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.	MINEFID		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.	MINEFID		2 weeks

BURKINA FASO

December 12, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION—INFORMATIONAL ANNEX

Prepared By

African Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2018)

Membership Status: Joined: May 02, 1963; Article VIII

General Resources Account:

	SDR Million	%Quota
Quota	120.40	100.00
IMF's Holdings of Currency (Holdings Rate)	97.46	80.95
Reserve Tranche Position	22.98	19.09

SDR Department:

	SDR Million	%Allocation
Net cumulative allocation	57.58	100.00
Holdings	14.21	24.67

Outstanding Purchases and Loans:

	SDR Million	%Quota
ECF Arrangements	146.64	121.80

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	Mar 14, 2018	Mar 13, 2021	108.36	18.06
ECF	Dec 27, 2013	Jul 24, 2017	55.64	55.64
ECF	Jun 14, 2010	Dec 23, 2013	82.27	82.27

Overdue Obligations and Projected Payments to Fund 1/
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2018	2019	2020	2021	2022
Principal	10.85	23.63	19.03	21.16	18.28
Charges/Interests	0.11	0.45	0.45	0.45	0.45
Total	10.96	24.08	19.48	21.60	18.72

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

Implementation of HIPC Initiative:

	Original Framework	Enhanced Framework	Total
Commitment of HIPC assistance			
Decision point date	Sep 1997	Jul 2000	
Assistance committed by all creditors (US$ Million) 1/	229.00	324.15	
Of which: IMF assistance (US$ million)	21.70	35.88	
(SDR equivalent in millions)	16.30	27.67	
Completion point date	Jul 2000	Apr 2002	
Disbursement of IMF assistance (SDR Million)			
Assistance disbursed to the member	16.30	27.67	43.97
Interim assistance	--	4.15	4.15
Completion point balance	16.30	23.52	39.82
Additional disbursement of interest income 2/	--	2.01	2.01
Total disbursements	16.30	29.68	45.98

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added. Burkina Faso owes a small amount of pre-HIPC Initiative arrears to non-Paris Club creditors which continue to be deemed away under the revised arrears policy for official creditors, as the underlying Paris Club agreement was adequately representative, and the authorities make best efforts to resolve the arrears.
2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Implementation of Multilateral Debt Relief Initiative (MDRI):

MDRI-eligible debt (SDR Million)1/	62.12
Financed by: MDRI Trust	57.06
Remaining HIPC resources	5.06

Debt Relief by Facility (SDR Million)

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

1/ The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAMU). An update safeguards assessment of the BCEAO, completed in April 2018, found that the central bank has maintained a strong control environment since the last assessment in 2013 and its governance arrangements are broadly appropriate. In addition, audit arrangements have been strengthened, International Financial Reporting Standards (IFRS) were adopted as the accounting framework beginning with the 2015 financial statements, and a 2016 external quality review of the internal audit function found broad conformity with international standards. The BCEAO's risk management framework established in 2014 is also progressing well with implementation of its work across the bank.

Exchange System

Burkina Faso is a member of the West African Economic and Monetary Union (WAEMU); the exchange system, common to all members of the union, is free of restrictions on payments and transfers for current international transactions (as is the exchange system of Burkina Faso). The common currency, the CFA franc, is pegged to the euro at the rate of €1 = CFAF 655.957.

Last Article IV Consultation

Burkina Faso is on a 24-month consultation cycle. The latest Article IV consultation was completed by the Executive Board on December 22, 2016 (Country Report No.16/390).

Technical Assistance

Technical assistance on customs and tax revenue administration, tax policy, wage bill control, management of fiscal risks, public financial management, improvement of budget execution, management of fiscal expenditures, financial reporting, cash flow management, the investment expenditure budgeting and execution systems, government finance statistics, national account statistics, debt management, and macroeconomic programming framework has been provided mainly through AFRITAC West I, FAD, MCM, and STA.

Resident Representative

With the departure of Ms. Mame Astou Diouf in July 2018, there is no resident representative currently in the post.

RELATIONS WITH OTHER IFI'S

Relations with other IFIs

- World Bank Group

  http://projects.worldbank.org/search?lang=en&searchTerm=&countrycode_exact=BF

- African Development Bank

  https://www.afdb.org/en/countries/west-africa/burkina-faso/

- AFRITAC Ouest 1

  http://www.afritacouest.org/apex/home

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings but is broadly adequate for surveillance. The data categories most affected are the national accounts and price statistics. Burkina Faso is receiving technical assistance (TA) from the IMF on an ongoing basis.

National accounts: Annual GDP estimates are compiled by economic activity and by expenditure categories at current and constant prices (1999=100). Quarterly GDP is compiled by economic activity at constant and current prices. An update of the benchmark year for the national accounts is urgent. The authorities are working on updating the base year of the national accounts to 2015 and disseminate the results by the end of 2018. The updated national accounts series will incorporate new data sources, updated methodologies and will address most issues related to the informal sector, gold production, and household consumption. The national accounts estimates are also affected by the scarcity of suitable sources and deficiencies in statistical practices. The main issues include: coverage of the informal sector; private household consumption source data, and validation procedures. The updated household budget-consumption surveys estimates are needed. The quarterly estimates of GDP are being affected by the delays in the compilation of annual estimates.

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

Government finance statistics: The authorities report revenue, expenditure and financing data in the *GFSM 2001/2014* format to STA for the budgetary central government only. The absence of a committee monitoring and coordinating the implementation of the TOFE directive and a high mobility of staff hamper progress. The remaining areas for improvement include mainly the extension of the TOFE coverage to the general government and basing its compilation on the Treasury ledger.

Monetary and financial statistics: Monetary and financial statistics (MFS) are broadly adequate, and their institutional coverage is comprehensive. The dissemination of monthly monetary data from the Central Bank of West African States (BCEAO) takes four to six weeks after the end of the reference period and is consistent with e-GDDS recommendations. In August 2016, the BCEAO completed the migration of Burkina Faso's MFS to the standardized report forms (SRFs) for the central bank and other depository corporations.

Financial Sector Surveillance: The BCEAO recently finalized the development of FSIs for deposit takers for Burkina Faso. Regular reporting to the IMF's Statistics Department is expected to begin by December 2018.

Balance of Payments: The informal cross-border trade in goods is not estimated and could be large. Information on remittances should be improved. Consistency between balance of payments (BOP) and international investment position (IIP) should be checked. External debt statistics as reported to QEDS cover only public debt. Under the JSA-funded project, sustained TA on external sector statistics has been provided with a view to improving the quality, scope of data produced as well as the frequency.

B. Data Standards and Quality

Burkina Faso participates in the enhanced General Data Dissemination Standard since December 28, 2001. In September 2018, a data standards mission visited Burkina Faso to assist the authorities in fully implementing the e-GDDS by launching a National Summary Data Page (NSDP). The NSDP is expected to go live by December 5, 2018. The mission was financed by the United Kingdom Department for International Development (DFID). A data ROSC visited Burkina Faso during May 8-21, 2003.

C. Reporting to STA

Balance of payments (BOP): The BCEAO`s National Direction located in Ouagadougou is compiling annual BOP, IIP and CDIS data for Burkina and reporting them to STA. The reported BOP and IIP data are in line with the *BPM6* format. Burkina Faso participates in the Coordinated Direct Investment Survey (CDIS) and reports to STA annual direct investment data by partner country. The reported CDIS data are based on an annual survey of transactions, crosschecked with the annual Financial Reports of the companies, as available in BCEAO. The BCEAO does not provide any metadata (describing the methodology used for data collection) in relation to any of the datasets reported to STA.

Government Finances: Since October 2010, annual data and quarterly data covering the budget of the central government are reported to STA for publication in International Financial Statistics and the Government Finance Statistics Yearbook (GFSY). The latest data reported for GSFY 2018 cover 2017.

Burkina Faso: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[7]	Frequency of publication[7]
Exchange Rates	Current	Current	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/2018	10/2018	M	M	M
Reserve/Base Money	09/2018	10/2018	M	M	M
Broad Money	08/2018	10/2018	M	M	M
Central Bank Balance Sheet	09/2018	10/2018	M	M	M
Consolidated Balance Sheet of the Banking System	09/2018	10/2018	M	M	M
Interest Rates[2]	3/2016	4/2016	M	M	M
Consumer Price Index	08/2018	10/2018	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/2014	10/2015	I	I	I
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	06/2018	10/2018	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/2017	3/2018	A	A	A

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

External Current Account Balance	2016	1/2018	A	A	A
Exports and Imports of Goods and Services	2016	1/2018	A	A	A
GDP/GNP	2016	12/2017	A	A	A
International Investment Position[6]	2016	1/2018	A	A	A

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

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

3/ Foreign, domestic bank, and domestic nonbank financing.

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

5/ Including currency and maturity composition.

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

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

INTERNATIONAL MONETARY FUND

BURKINA FASO

December 12, 2018

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION, FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER FOR NONOBSERVANCE OF A PERFORMANCE CRITERION, AND MODIFICATION OF A PERFORMANCE CRITERION—DEBT SUSTAINABILITY ANALYSIS

Approved by
Dominique Desruelle (IMF) and Paloma Anos Casero (IDA)

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

Risk of external debt distress	Moderate
Overall risk of debt distress	Moderate
Granularity in the risk rating	Substantial space to absorb shocks on external debt
Application of judgement	Yes: Inclusion of customized scenario to take account of fiscal and external risks.

This joint World Bank/IMF Debt Sustainability Analysis (DSA) has been prepared in the context of the 2018 Article IV consultation and first review of the three-year program supported by the IMF's Extended Credit Facility (ECF). It is based on end-2017 debt data and the latest methodology underpinning the LIC DSF, which triggered an improvement in debt indicator thresholds.[1] External risk of debt distress in Burkina Faso remains moderate. All external debt indicators remain below the relevant indicative thresholds under the baseline scenario. In line with the Staff Report, the baseline scenario is anchored on an overall fiscal deficit of 3 percent of GDP from 2019. In a customized scenario meant to illustrate fiscal and external risks, two thresholds are breached. The overall public debt does not breach the relevant benchmark in the baseline and Burkina Faso is assessed as having a moderate risk of public debt distress, as the external debt risk rating is moderate. Burkina Faso would need to: (i) maintain a sound macro-fiscal framework; (ii) implement structural reforms to diversify its export base; and (iii) limit non-concessional borrowing to prevent a deterioration of its debt sustainability outlook.

[1] Burkina Faso's Composite Indicator (CI) index, calculated based on the April and October 2018 WEO and the World Bank's 2017 Country Policy and Institutional Assessment (CPIA) score, is 3.052. Countries with a CI larger than 3.05 are classified as having a "strong" debt carrying capacity. The 2017 CPIA was released in July 2018 and is the latest available.

BACKGROUND ON DEBT

1. **Burkina Faso's public and external debt levels have increased in the last few years following consecutive years of widening fiscal deficits** (Text Table 1). The nominal stock of public debt as of end-2017 stood at 38.4 percent of GDP. As in previous DSAs, the composition of debt has continued to shift towards domestic debt, as the regional market has traditionally been willing to finance the fiscal deficit at competitive rates. External debt comprised 71 percent of the total debt stock at end-2017, down from 77 percent at end-2014, unchanged from the previous DSA.

Text Table 1. Burkina Faso: Public Debt Stock, 2014-17
(percent of GDP)

	2014	2015	2016	2017	Share (2017)
Public Debt	29.9	35.6	39.2	38.4	100.0
External Debt	23.0	26.3	27.8	24.1	71.1
Domestic Debt	6.8	9.3	11.3	14.3	28.9
Memorandum items:					
Overall fiscal balance	-1.9	-2.2	-3.5	-7.8	
GDP growth (in percent)	4.3	3.9	5.9	6.3	

Sources: Burkinabe authorities; and IMF staff estimates.

2. **The country's coverage of public debt is currently limited to external and domestic obligations of the central government** (Text Table 2). According to information provided by the authorities, the two main state-owned enterprises that are majority owned by the public sector do not borrow externally.[2] The authorities have recently been pursuing public-private partnerships (PPPs), some of which may have components that would need to be classified as debt, depending on the financing package that is eventually agreed upon.[3] Domestic debt is defined as debt denominated in the regional currency, the CFAF. The choice of coverage based on currency, rather than residency is due to the difficulty of monitoring the residency of creditors for debt traded in the WAEMU regional market.

Text Table 2. Burkina Faso: Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

[2] The two public enterprises are SONABHY, the state-owned oil-importing company, and SONABEL, the electricity company. Under the new ECF-supported program, it is envisaged that a financial audit of SONABHY will be conducted in order to—among other things—corroborate this information.

[3] Staff is working closely with the authorities to assess the potential fiscal and debt effects of these projects, and to determine whether they need to be included in the debt stock.

BACKGROUND ON MACRO FORECASTS

3. Text Table 3 and Box 1 summarize the main differences in macroeconomic assumptions between the previous full DSA (February 2018) and the current DSA. Burkina Faso's future small deficits abide by the WAEMU convergence criterion, consistent also with the authorities' commitment in the new ECF-supported program. While gold price forecasts remain slightly below the estimates for the previous DSA, they maintain an upward path amid continued robust expansion in the domestic gold sector. Prospects for Burkina Faso's other main commodity export, cotton, benefit from a slight increase in future prices and solid prospects for improved production and quality; the latter should allow eventually for a higher international price per ton of cotton exports.

Text Table 3. Burkina Faso: Changes in Assumptions for Current DSA compared with February-2018 DSA

		2017 est.	2018	2019	2020	2025	2028
Gold (USD/ounce)	Current DSA (WEO)	1,257	1,261	1,218	1,255	1,382	1,382
	Feb-2018 DSA	1,257	1,344	1,378	1,418	1,513	1,513
Cotton Prices (cts/lb)	Current DSA (WEO)	84	93	91	87	83	83
	Feb-2018 DSA	84	92	85	83	83	83
Exports of goods (% of GDP)	Current DSA (WEO)	24.7	23.5	23.1	22.1	16.2	14.4
	Feb-2018 DSA	24.1	22.2	21.4	20.8	18.7	18.9
Real GDP Growth (y/y)	Current DSA (WEO)	6.3	6.0	6.0	6.0	6.0	6.0
	Feb-2018 DSA	6.4	6.0	6.0	6.0	5.4	5.3
Current Account (% of GDP)	Current DSA (WEO)	-9.7	-8.1	-8.3	-7.0	-9.5	-10.6
	Feb-2018 DSA	-8.4	-8.0	-7.0	-7.1	-7.7	-7.3
Overall Fiscal Balance (% of GDP)	Current DSA (WEO)	-7.8	-4.7	-3.0	-3.0	-3.0	-3.0
	Feb-2018 DSA	-8.2	-5.0	-3.0	-3.0	-3.0	-3.0

Sources: IMF staff estimates and World Economic Outlook projections.

4. The realism tools suggest that the baseline scenario is credible when compared to cross-country experiences and to Burkina Faso's own historical experience (Figure 3 and 4).

a. Figure 3 points toward small differences between past debt creating flows and projected ones. The contributions of past debt creating flows remain relatively the same for the projection period, and unexpected changes in public debt are near the median of the distribution across low-income countries. The larger increase in overall public debt is mainly the result of unusually large fiscal deficits in 2016 and 2017.

b. Figure 4 shows the country's planned fiscal adjustment for the next 3-years at around 5 percent of GDP. Again, this reflects the historically unusually high fiscal deficit of 7.7 percent of GDP in 2017. A narrowing of the deficit to 3 percent of GDP by 2019, as assumed under the ECF-supported program thus represents a return to historical norms.

c. Figure 4 also shows the potential impact of the projected fiscal adjustment on the possible growth path assuming a range of fiscal multipliers. While the fiscal deficit is expected to adjust to 3 percent of GDP by 2019, growth performance is expected to stabilize at 6 percent, slightly above its potential under a range of plausible fiscal multipliers, reflecting the considerable resilience of the Burkinabe economy observed recently, as well as the uncertainty about and lags in the impact of fiscal multipliers and the contribution of private investment.

5. This DSA assumes continued modest use of non-concessional financing over the forecast horizon. Text Table 4 and Text Table 5 list the projects for which the authorities are seeking external loans in 2018 and 2019. The actual amount of new loans contracted, particularly non-concessional loans, will fall well short of the targeted amounts. Previous experience has shown that the borrowing plan has an aspirational element in it. The DSA includes both already-contracted and anticipated borrowing on a disbursement basis. The authorities debt strategy favors exhausting all options for concessional financing before exploring more expensive commercial options. Nevertheless, since financing needs exceed the amount of expected available concessional financing, this DSA assumes that non-concessional borrowing will continue at modest levels (on average around 20 percent of total external borrowing but a growing share over time) through the DSA horizon. Consistent with this and the assumption of a shrinking concessional financing to GDP ratio going forward, the grant element of new borrowing is assumed to decrease gradually over the forecast horizon from 40 percent on 2018 to 34 percent in 2028.

6. The authorities have been in discussions with a private international consortium about a budget support loan of €1.5 billion. This potential concessional loan—which is currently not reflected in the baseline scenario—assumes the proceeds would be used for debt management purposes and would replace other past and planned domestic borrowings. If this loan were to materialize, it would contribute to lower costs (through lower interest rates) and risks (lower rollover risk owing to a longer maturity) of the domestic debt that it will replace, but exchange rate risks would rise. This loan would not increase the authorities' spending capacity as that would still be constrained by the overall program deficit targets of 4.7 percent of GDP in 2018 and 3 percent of GDP in 2019 and beyond.

Box 1. Macroeconomic Assumptions Underlying the DSA

Gold and cotton prices have remained relatively stable at levels profitable for Burkinabé exporters. WEO gold price projections have been lowered slightly since the last DSA, but they remain well above their cyclical lows. WEO cotton price projections have improved since the previous DSA, and price prospects for cotton exports are tilted to the upside given the traditionally high-grade quality of the export.

Gold production is expected to rise steadily over the medium term, as new mines complete the development stage and begin to export, and demand for new prospecting licenses remains strong. The coming on stream of new gold mines and upward revisions in estimated gold reserves anchor the outlook for the sector.

GDP growth assumptions are somewhat higher than the baseline forecast of the last DSA, reflecting resilience in the face of external shocks. Yet, significant risks to the downside remain due to the intensification of security challenges and increased vulnerabilities to commodity price shocks.

The overall fiscal deficit (including grants) increased significantly in 2017 because of higher recurrent spending levels and a significant scaling up of domestically-financed public investment. In the context of the new 2018-2020 ECF program, the authorities have reiterated their commitment to the WAEMU convergence criteria and place importance on meeting the fiscal deficit and debt criteria. The authorities are also committed to improving domestic revenue mobilization —through new tax policy measures and steps to broaden the tax base—, containing current spending particularly related to fuel subsidies, and to moderating investment levels, including by improving investment selection and execution, to narrow the fiscal deficit to the 3 percent of GDP target by 2019. This DSA, like the previous one, assumes the authorities are successful in reaching the 3 percent fiscal deficit target by 2019 and maintaining it at that level thereafter.

Domestic debt is assumed to continue to increase consistently throughout the forecast horizon, reflecting the authorities' large financing needs over the medium-term, as well as efforts to deepen the domestic financial market, especially the regional debt market. In 2018, domestic debt is expected to be around 18.6 percent of GDP, reaching 22 percent in 2028. In the medium term, the composition of domestic debt is assumed to be 25 percent of 1-year maturity bills, and 75 percent of 1 to 3-year bonds. An average interest rate of 6.5 percent is assumed. The remainder of the deficit (about one-third) is assumed to be financed via external debt, but on gradually less generous terms to reflect additional non-concessional financing and conservative assumptions about the availability of concessional financing in future years.

The current account deficit is estimated to reach 8.1 percent of GDP in 2018 but is then projected to settle around 7 percent of GDP in 2020 as new gold mines begin to export and public investment is rationalized to a sustainable level. Upside and downside risks to the current account include: volatility in key exports (e.g. gold, cotton) and imports (e.g. oil, fuel, machinery); upward statistical revisions to the balance of payments data to increase the production (and export) of artisanal gold; and a deterioration in the security environment in the Sahel region.

Text Table 4. Burkina Faso: Planned Concessional and Non-Concessional Borrowing in 2018

N°	Name of project	Area	PTF	Financing Requested (CFAF billion)			Satus of the conventions
				Concessional	Non concessional	Total	
	Situation at 2018						
1	Project to strengthen community road Cu2a section Gounghin-Fada N Gourma	Road infrastucture	Japan	28.63		28.63	Signed on March 02 2018
2	Interconnexion project (North Backbone)	Electricity	BAD	27.74		27.74	Signed on March 14 2018
3	Contract farming and ecological transition (PATCE)	Agriculture	AFD	6.5		6.5	Signed on March 29 2018
4	Project to build and equip a student residence (Norbert Zongo de Koudougou University)	Higher education	OFID		8.4	14.65	Signed on April 2018
			BADEA	6.25			Signed on January 20 2018
5	Additional financing of Bagrépole	Agriculture	IDA	25		25	Signed on May 11 2018
6	Regional support project for the initiative for irrigation in the Sahel (PARIIS)	Agriculture	IDA	12.5		12.5	Signed on May 11 2018
7	Additional Financing for the West Africa Regional Communication Infrastructure Project (PRICAO-BF)	Telecommunications	IDA	10		10	Signed on May 11 2018
8	PADEL	Local development	WADB	PM		PM	Signed on May 31 2018 (30)
9	Bangr Wéogo	Sanitation	WADB	PM		PM	Signed on May 31 2018 (10)
10	CHU Bassinko	Health	Commerz Bank/Belgium	46.05		46.05	Signed on June 4 2018
11	Water and sanitation program	Water and sanitation	IDA	150		150	Signed on August 21 2018
12	Reproductive health	Health	IDA	55		55	Signed on August 21 2018
13	Higher education support project	Higher education	IDA	38.8		38.8	Signed on August 21 2018
14	Energy sector reform support project	Energy	BAD	7.67		7.67	Signed on August 28 2018
15	BackBone Project	NTIC	Bank Of China		43.32	43.32	Signed on September 2 2018
16	STFL	Commerce			4.7		Signed on October 19 2018
17	Support Project for Youth Employment & Skills Development Project in Rural Areas (PADEJ-MR)	Youth employment	ADB	PM		PM	October
18	Hydromet-Burkina	Change	IDA	4.25		4.25	Signed on October 26 2018
19	Community road cu2a,	Road infrastructure	BAD			PM	Signed on October 26 2018 (18,37)
17	Project on the construction and paving of national road n° 10 between Tougan and Ouahigouya (96 km)	Road infrastructure	FKDEA, OFID, BADEA,	10	17.75	27.75	Signature to be programmed
18	Credit line	Microfinance	BADEA		10	10	Signature to be programmed
19	Decentralized Rural Electrification Project in 42 localities	Energy	FADD	5		5	Signature to be programmed
20	Interconnection project (North Backbone)	Electricity	IDA	90		90	Signature to be programmed
21	Project on the creation of the Agricultural Bank	Finance	BAD	8.5		8.5	Negotiated on October 11 2018
22	Project on the sustainable intensification of agriculture for food and nutritional security +WATP	Food security	IDA	40		40	In the process of negotiatiation
23	Project to build 27 drinking water supply systems (AEP) in the Center East	Water and sanitation	Belgium	9.8		9.8	Discussion underway
24	Contribution to the ONEA 2018-2019 Investment Program	Water and sanitation	AFD	21		21	Discussion underway
25	Dangoumana Hydro-Agricultural Development Project	Agriculture	BID		16.5	16.5	Final assessment announced for October 2018
	Sub-total 2018			***602.69***	***100.67***	***698.66***	

Text Table 5. Burkina Faso: Planned Concessional and Non-Concessional Borrowing in 2019

N°	Name of project	Area	PTF	Financing Requested (CFAF billion)			Satus of the conventions
				Concessional	Non concessional	Total	
	Situation in 2019						
1	Construction and equipment of UFR and university residences for the Dori and Tenkodogo university centers	Higher education	BADEA		26.7	26.7	
2	Integrated Development Program for the Samendéni valley phase II (PDIS II): Development of irrigated perimeters component and recalibration of the Mouhoun	Agriculture and agricultural schemes	BID	12	28	40	
3	Program for agricutural development and competivity	Food security	IDA	100		100	
4	Support program for the promotion of growth poles	Economy	BAD		50	50	Call for studies
5	"YELEN" solar project	Energy	AFD	23		23	Evaluation conducted in September
			ADB	48.85		48.85	
6	Project for the extension of the Zagtouli solar power plant	Electricity	EIB	15.09		15.09	
7	Bobo abattoir construction project	Animal resources	Banque publique italienne		10	10	
8	Orodara-Banfora–Border with Cote d'Ivoire road construction project	Road infrastructure	Japan	71.13		71.13	
9	OUESSA hydro-electric and hydro-agricultural	Hydroelectric and irrigation	India	110		110	
10	Improvement of urbain mobility in Ouagadougou, combatting air pollution and poverty	Transport	Sweden/France		134	134	
11	Projet SMART City	Security	China	166		166	
12	Establishment of a cotton processing unit par ASTAR	Agroindustry	ADB		30	30	
13	Rainfed Rice Project Phase V (Projet de Développement de la Riziculture)	Agriculture and agricultural facilities	China	40		40	
14	Construction of 1000 school complexes with 3 classrooms to replace thatched roofs	Education	China	42.13		42.13	
15	Project to reinforce drinking water supply systems in the cities of Pouytenga, Koupéla, Bogandé, Boulsa, and Zorgho drawing on the Bilanga dam, and in the cities of Tenkodogo, Garango, Bittou and Bagré drawing on the Bagré dam+B21	Potable water	China	90		90	
16	General Budget Support from the World Bank	Public Finance	IDA	27.5		27.5	In the decision phase
	Subtotal 2019			***745.70***	***278.75***	***1024.45***	

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

A. Country Classification

7. **Burkina Faso's current debt-carrying capacity is consistent with a classification of 'strong'** (Text Table 6).[4] The country's Composite Indicator (CI) index, calculated based on the October 2018 WEO and the 2017 CPIA score, is 3.052, that is marginally above the "strong" threshold of 3.05. The relevant indicative thresholds for this category are: 55 percent for the PV of debt-to-GDP ratio, 240 percent for the PV of debt-to-exports ratio, 21 percent for the debt service-to-exports

[4] Based on the revised "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-income Countries" (http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf). Under the previous debt sustainability framework, Burkina Faso was classified as having a 'medium' debt-carrying capacity.

ratio, and 23 percent for the debt service-to-revenue ratio. These thresholds are applicable to public and publicly guaranteed external debt. The benchmark for the PV of total public debt for medium debt carrying capacity is 70 percent of GDP. Text Table 7 shows the change in thresholds under the new Debt Sustainability Framework.

Text Table 6. Burkina Faso: Debt Carrying Capacity and Relevant Indicative Thresholds

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on April WEO	Classification based on the two previous vintages
Strong	Strong 3.05	Strong 3.06	Medium 3.63

EXTERNAL debt burden thresholds	Weak	Medium	Strong
PV of debt in % of			
Exports	140	180	240
GDP	30	40	55
Debt service in % of			
Exports	10	15	21
Revenue	14	18	23

TOTAL public debt benchmark	Weak	Medium	Strong
PV of total public debt in percent of GDP	35	55	70

Text Table 7. Burkina Faso: Debt Thresholds for Countries with Strong Debt-Carrying Capacity

	Previous DSF	New DSF
External debt burden thresholds		
PV of debt in % of		
Exports	200	240
GDP	50	55
Debt service in % of		
Exports	25	21
Revenue	22	23
Total public debt benchmark		
PV of total public debt in percent of GDP	74	70

B. Determination of Scenario Stress Tests

8. **Given the limited coverage of the country's public debt, a stress test for a combined contingent liability shock of 9.7 percent of GDP was conducted** (Text Table 8). State-owned enterprise debt of 4.7 percent of GDP is included as additional public debt to reflect potential domestic liabilities of mainly the two main public companies (SONABHY and SONABEL). No shock is used for PPPs, as the stock is still less than 1 percent of GDP. The default value of 5 percent of GDP is retained, representing the average cost to the government of a financial crisis. The authorities have created a database of all existing formal sovereign guarantees, and of all projects signed or planned as PPPs. They are currently working on auditing SONABHY. This work will allow the coverage of the country's debt in the baseline scenario to expand in future DSAs.

Text Table 8. Burkina Faso: Combined Contingent Liability Shock

		Default		Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government			
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	4.7	SONABHY, SONABEL, and other SOEs
4	PPP	35	percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			9.7	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

9. **A tailored stress test for commodity price shocks was also conducted given that commodities constitute around 70 percent of total exports in Burkina Faso.** This shock is applied to all countries where commodities constitute more than 50 percent of total exports of goods and services over the previous three-year period. The scenario captures the impact of a sudden one standard deviation decline in the export prices of gold and wheat in 2019, corresponding to a decline in prices by 13 percent and 6 percent, respectively.

DEBT SUSTAINABILITY

A. External Debt Sustainability Analysis

10. **Under the baseline scenario, all external public and publicly-guaranteed (PPG) debt indicators remain well below the policy-relevant thresholds for the next ten years (Figure 1).** Having a 55 percent threshold, the PV of debt-to-GDP ratio is expected to remain below 18 percent over the projection horizon, decreasing from 16 percent in 2018 to 13 in 2028. The PV of debt-to-exports ratio is expected to grow gradually from 58 percent in 2018 to 71 percent in 2028 yet remain well below the 240 percent threshold. Neither of the debt service indicators causes any breach of their respective thresholds. The debt service-to-exports ratio remains at around 5 percent for most of the projection period, reaching 7 percent in 2028; while the debt service-to-revenue ratio declines from 6 percent in 2018 to 5 percent in 2028.

11. **The standardized stress tests show that an export shock has the largest negative impact on the debt trajectory, yet no threshold is breached (Figure 1).**[5] The PV of debt-to-exports ratio and the debt service-to-exports ratio are significantly increased by the export shock. The former reaches 182 percent in 2024, and it continues increasing for the remainder of the projection period. The latter reaches 17 percent in 2027 and 2028. The test highlights the need for a sustained effort to improve the economy's export potential. Other shocks, including to real GDP growth, the primary balance, and a one-time 30 percent depreciation, do not lead to any breach of the debt thresholds either (Table 3).

[5] Under the new Debt Sustainability Framework, the export shock is constructed by setting the nominal export growth (in USD) to its historical average minus one standard deviation, or to the baseline projection minus one standard deviation, whichever is lower in the second and third years of the projection period. The previous framework always set the export growth to its historical average minus one standard deviation. This change in methodology caused a larger export shock when compared to the previous DSA.

12. The tailored tests for contingent liabilities and commodity prices cause all debt trajectories to move upward in the aftermath of the shock, but without breaching any threshold.

13. If the potential private loan materializes, all external debt trajectories would also move upward. Under an export shock, the PV of debt-to-exports and the debt service-to-exports ratio would breach their respective thresholds earlier and with a higher value. However, the country's risk rating would remain moderate.

B. Public Sector Debt Sustainability Analysis

14. Under the baseline scenario, the PV of public debt-to-GDP ratio does not breach the 70 percent benchmark (Figure 2). The ratio remains around 35 percent over the projection horizon. The PV of debt-to-revenue ratio is expected to remain around 145 percent until 2028. Debt service-to-revenue ratio reaches nearly 50 percent by 2028, given the short maturity of domestic financing.

15. The standardized sensitivity analysis shows that the most extreme shock leading to the highest debt figures in 2028 is a shock to commodity prices, yet the public debt benchmark is not breached (Figure 2, Table 4). The PV of debt-to-GDP ratio would reach 49 percent of GDP in 2028 in this scenario. This test highlights Burkina Faso's susceptibility to terms of trade shocks given the price volatility of its major export commodities. A negative shock to gold prices also affects the fiscal position as lower gold revenues would put pressure on the deficit. The commodity price shock is closely followed by the export shock, which triggers a ratio of 46 percent in 2020. The most extreme shocks for the PV of debt-to-revenue ratio and the debt service-to-revenue ratio are to commodity prices as well.

16. The tailored test for the combined contingent liability shock also causes a deterioration in debt sustainability without breaching the benchmark. The trajectory of the PV of public debt-to-GDP ratio moves upwards by 1-10 percentage points from the baseline.

RISKS AND VULNERABILITIES

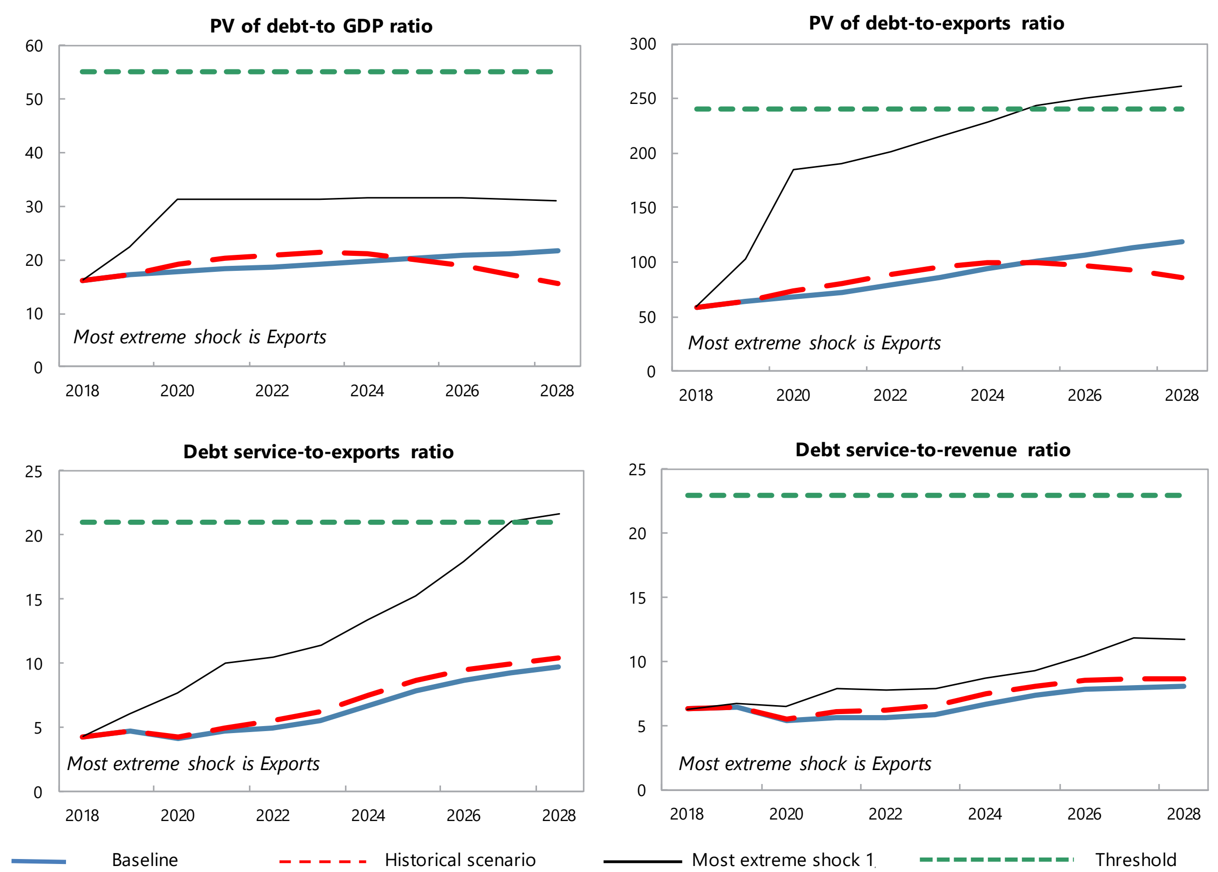
17. Fiscal risks are substantial. The baseline scenario assumes Burkina Faso achieves the planned fiscal consolidation to WAEMU fiscal deficit convergence criteria of 3 percent of GDP in 2019 and then maintains the deficit at this level over the medium-term (see Staff Report). Achieving this ambitious target will require substantial policy actions. The projected fiscal adjustment is large in historical comparison, notwithstanding the fact that it envisages a return of the fiscal deficit to levels observed in the more distant past, as flagged by the relevant realism tool. Also, exports and overall GDP may develop less favorably than projected under the baseline in view of the vulnerability of narrow exports (namely cotton and gold) to commodity price shocks, and a potential deterioration in the security conditions, as highlighted in Box 1 which could undermine growth. In a customized scenario, in which fiscal deficits stay similar to previous years (around 5 percent annually) and are

financed through additional external debt, external debt indicators would breach their respective thresholds under the standardized export shock (Text Figure 1).

18. Burkina Faso would benefit from a more diversified export base. Under all the external debt indicators, the most extreme shock was an export shock. This highlights the importance of diversifying exports, which currently consist mainly of gold and agricultural products.

19. Burkina Faso has an increased risk of a negative debt shock arising from (present and future) contingent liabilities associated with various off-budget activities, including debt of state-owned enterprises, fuel subsidies and potential PPPs. The materialization of these fiscal costs could lead to a deviation from the baseline path. The proposed benchmarks in the ECF program to audit SONABHY, adopt a fuel price adjustment mechanism and include any remaining fuel subsidies in the budget, and develop a database of sovereign guarantees and PPPs are important steps in building capacity to analyze and mitigate these risks.

Text Figure 1. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt under 5-percent Fiscal Deficit, 2018-2028



Sources: Country authorities; and IMF staff estimates.

20. A risk arises from uncertainties regarding the willingness of the regional market to absorb a higher amount of debt issued by Burkina Faso, since the liquidity conditions in the market are directly affected by the BCEAO's monetary policy decisions as well as the borrowing plans of other WAEMU members, particularly its larger members. Also, increasing regional market interest rates and potential direct borrowing of the government from domestic financial institutions could crowd out private sector credit growth, which is already comparatively sluggish. These conditions could lead to a heightening of rollover risks. However, if the private concessional loan materializes and is used to replace past and planned domestic borrowings, these risks would be mitigated given the longer maturity of the loan.

21. Other risks emanating from external factors need to be considered which could negatively affect the outlook. Burkina Faso is susceptible to terms of trade shocks given the price volatility of its major export commodities and large volume of fuel imports. A negative shock to gold and oil prices also affects the fiscal position as lower gold revenues. While Burkina Faso currently benefits from access to the regional debt market, a shock to investor confidence or a notable change in liquidity conditions and interest rates on the regional market could jeopardize the ability to issue debt in current volumes and prices. A deterioration in security conditions in the Sahel region could also weigh on Burkina Faso's external and fiscal positions and negatively impact economic growth. Insecurity discourages domestic and foreign investment, could hold back tourism, trade and government revenue, and increase government security-related spending.

CONCLUSION

22. According to staff's assessment, Burkina Faso's risk of external debt distress remains moderate. The baseline scenario shows no breach of debt distress thresholds for any of the debt and debt service indicators, which would imply a low risk rating. However, in a customized scenario aimed at illustrating the potential impact of fiscal and external risks, two thresholds are breached under the export shock. The granularity in the risk rating (Figure 5) suggests that there is substantial space to absorb shocks without risk of downgrading to a high risk of debt distress rating.

23. The DSA suggests that overall risk of public debt distress remains moderate. While there are no breaches for overall public debt, the risk of overall debt distress remains moderate because the risk of external distress is moderate. To avoid a deterioration of the risk of debt distress rating, several risks and vulnerabilities need to be addressed, particularly: (i) pressures to deviate from the agreed fiscal consolidation, (ii) a non-diversified export base, (iii), fiscal costs arising from contingent liabilities associated with various off-budget activities, including possible future PPP arrangements, (iv) rollover risk related to domestic financing, (iv) risks related to possible private sector external debt on which very little is known, and (v) constrain non-concessional borrowing to maintain debt vulnerabilities.

AUTHORITIES' VIEW

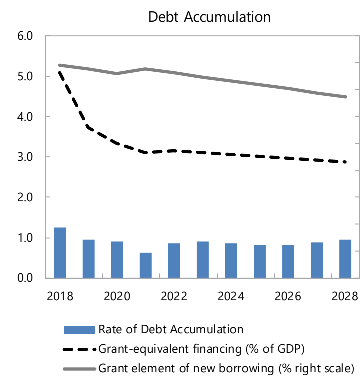
24. **The authorities concurred with the results of the updated DSA.** Given the elevated expectations from the population for swift reforms, the authorities saw the necessity to utilize some fiscal space to finance public investment and catalyze sustainable economic growth. At the same time, they reiterated their commitment to maintaining prudent debt levels and favoring concessional over non-concessional borrowing with a view to maintaining their assessed level of debt distress at a 'moderate' rating.

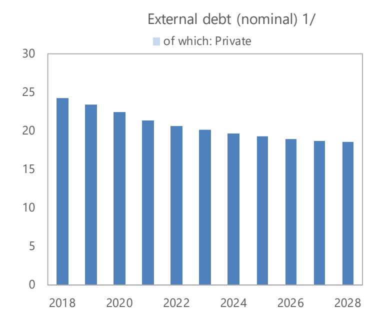
Table 1. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2015-2038

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
External debt (nominal) 1/	26.3	27.8	24.1	24.2	23.4	22.5	21.3	20.6	20.1	18.5	20.2	24.2	20.7
of which: public and publicly guaranteed (PPG)	26.3	27.8	24.1	24.2	23.4	22.5	21.3	20.6	20.1	18.5	20.2	24.2	20.7
Change in external debt	3.3	1.5	-3.7	0.1	-0.9	-0.9	-1.1	-0.7	-0.5	-0.1	0.2		
Identified net debt-creating flows	10.9	3.3	3.4	3.8	4.0	3.0	3.7	4.6	5.0	8.0	9.1	4.1	5.4
Non-interest current account deficit	8.4	7.3	9.5	7.7	8.1	6.8	7.0	7.3	7.4	10.3	11.3	7.2	8.3
Deficit in balance of goods and services	9.8	7.3	9.7	9.1	8.5	7.3	7.5	7.8	8.0	11.0	13.9	10.3	9.0
Exports	26.5	30.0	28.6	27.5	27.1	26.1	25.3	23.8	22.5	18.2	12.9		
Imports	36.3	37.3	38.3	36.7	35.6	33.5	32.7	31.5	30.5	29.2	26.9		
Net current transfers (negative = inflow)	-4.4	-3.3	-3.2	-3.9	-2.8	-2.8	-2.5	-2.4	-2.3	-2.0	-1.5	-4.4	-2.5
of which: official	-2.3	-1.5	-1.2	-2.2	-1.2	-1.1	-1.1	-1.0	-1.0	-1.0	-0.9		
Other current account flows (negative = net inflow)	3.0	3.4	3.0	2.5	2.4	2.2	2.0	1.9	1.7	1.2	-1.1	1.3	1.8
Net FDI (negative = inflow)	-2.1	-3.1	-3.0	-3.0	-2.9	-2.8	-2.4	-1.7	-1.6	-1.6	-1.6	-2.0	-2.0
Endogenous debt dynamics 2/	4.6	-0.9	-3.1	-0.8	-1.1	-1.0	-1.0	-0.9	-0.9	-0.7	-0.7		
Contribution from nominal interest rate	0.2	0.2	0.2	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.4		
Contribution from real GDP growth	-1.1	-1.5	-1.6	-1.3	-1.4	-1.3	-1.2	-1.2	-1.1	-1.0	-1.1		
Contribution from price and exchange rate changes	5.4	0.4	-1.7	...	...	...	...	...	...	...	...		
Residual 3/	-7.6	-1.8	-7.1	-3.7	-4.9	-3.9	-4.8	-5.3	-5.5	-8.1	-8.9	-3.8	-6.0
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		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	17.2	16.0	15.9	15.4	14.7	14.3	14.0	12.9	14.7		
PV of PPG external debt-to-exports ratio	...	...	60.3	58.2	58.8	58.8	58.2	60.1	62.3	71.0	113.6		
PPG debt service-to-exports ratio	3.9	3.6	3.9	4.3	4.8	4.0	4.2	4.2	4.4	6.5	11.5		
PPG debt service-to-revenue ratio	6.1	5.6	5.7	6.3	6.5	5.2	5.1	4.8	4.7	5.4	6.9		
Gross external financing need (Billion of U.S. dollars)	0.8	0.6	0.9	0.8	1.0	0.8	1.0	1.3	1.5	3.1	7.8		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.9	5.9	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.7	6.0
GDP deflator in US dollar terms (change in percent)	-19.1	-1.4	6.6	8.7	0.6	3.4	2.6	2.9	2.4	2.0	2.0	0.9	2.8
Effective interest rate (percent) 4/	0.8	0.9	0.9	2.1	1.0	1.2	1.2	1.3	1.4	1.7	2.4	1.0	1.5
Growth of exports of G&S (US dollar terms, in percent)	-13.9	18.3	7.9	11.0	4.9	5.7	5.3	2.6	2.6	4.8	-1.0	19.2	4.6
Growth of imports of G&S (US dollar terms, in percent)	-12.7	7.5	16.2	10.4	3.4	3.2	6.4	5.1	4.9	7.2	7.1	12.4	6.3
Grant element of new public sector borrowing (in percent)	...	...	...	39.5	38.9	38.1	38.8	38.1	37.4	33.7	26.4	...	37.0
Government revenues (excluding grants, in percent of GDP)	17.0	19.1	19.4	18.7	19.9	20.4	20.8	21.1	21.1	21.8	21.4	16.7	20.9
Aid flows (in Billion of US dollars) 5/	122.5	145.1	124.8	0.7	0.6	0.6	0.6	0.7	0.7	1.0	1.7		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	5.1	3.7	3.3	3.1	3.1	3.1	2.9	2.4	...	3.3
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	76.9	72.3	74.7	76.9	73.9	72.8	66.9	54.1	...	72.2
Nominal GDP (Billion of US dollars)	10	11	12	14	15	17	18	20	21	32	69		
Nominal dollar GDP growth	-15.9	4.5	13.4	15.3	6.7	9.6	8.8	9.1	8.6	8.1	8.1	6.7	9.0
Memorandum items:													
PV of external debt 7/	...	...	17.2	16.0	15.9	15.4	14.7	14.3	14.0	12.9	14.7		
In percent of exports	...	...	60.3	58.2	58.8	58.8	58.2	60.1	62.3	71.0	113.6		
Total external debt service-to-exports ratio	3.9	3.6	3.9	4.3	4.8	4.0	4.2	4.2	4.4	6.5	11.5		
PV of PPG external debt (in Billion of US dollars)			2.1	2.3	2.4	2.6	2.7	2.8	3.0	4.1	10.1		
(PVt-PVt-1)/GDPt-1 (in percent)				1.3	1.0	0.9	0.6	0.9	0.9	1.0	1.4		
Non-interest current account deficit that stabilizes debt ratio	5.1	5.8	13.2	7.6	8.9	7.7	8.2	8.0	8.0	10.4	11.1		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	Yes





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

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

6/ 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).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

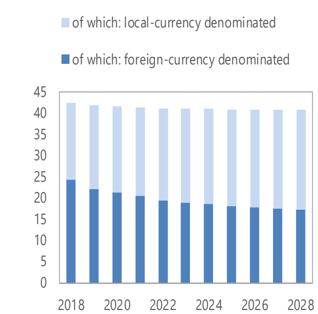
Table 2. Burkina Faso: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-2038

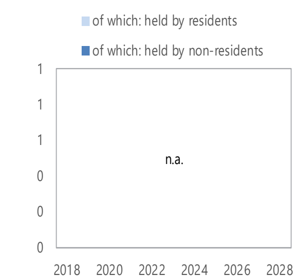
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	35.6	39.2	38.4	42.5	42.0	41.7	41.4	41.2	41.1	40.9	40.6	31.5	41.3
of which: external debt	26.3	27.8	24.1	24.2	23.4	22.5	21.3	20.6	20.1	18.5	20.2	24.2	20.7
Change in public sector debt	5.7	3.5	-0.7	4.0	-0.5	-0.3	-0.3	-0.2	-0.1	0.0	0.0		
Identified debt-creating flows	4.9	2.3	0.9	1.7	-0.5	-0.2	-0.2	-0.2	-0.1	0.0	0.1	1.8	0.1
Primary deficit	1.5	2.5	6.9	3.4	1.7	1.7	1.6	1.6	1.6	1.4	1.4	3.1	1.7
Revenue and grants	20.7	21.8	22.1	22.8	22.8	23.0	23.3	23.5	23.6	24.0	23.1	21.0	23.5
of which: grants	3.7	2.8	2.7	4.1	2.8	2.6	2.5	2.5	2.4	2.2	1.7		
Primary (noninterest) expenditure	22.2	24.3	29.0	26.2	24.5	24.7	24.9	25.1	25.1	25.4	24.4	24.1	25.2
Automatic debt dynamics	3.4	-0.2	-6.0	-1.7	-2.2	-1.9	-1.8	-1.8	-1.6	-1.4	-1.3		
Contribution from interest rate/growth differential	-0.6	-1.5	-2.6	-1.9	-2.0	-1.7	-1.7	-1.6	-1.5	-1.1	-1.0		
of which: contribution from average real interest rate	0.5	0.5	-0.3	0.3	0.4	0.6	0.7	0.8	0.8	1.3	1.3		
of which: contribution from real GDP growth	-1.1	-2.0	-2.3	-2.2	-2.4	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3		
Contribution from real exchange rate depreciation	4.0	1.4	-3.4	...	...	...	...	...	...	...	...		
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	-0.1	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (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		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.8	1.3	-1.6	2.5	-0.3	-0.3	-0.2	-0.2	-0.2	-0.4	-0.4	-0.4	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	30.7	34.6	34.4	34.6	34.8	34.9	34.9	35.3	35.1		
PV of public debt-to-revenue and grants ratio	...	...	139.1	151.8	151.3	150.3	149.3	148.1	148.4	147.1	151.9		
Debt service-to-revenue and grants ratio 3/	13.1	25.2	22.6	28.7	39.1	34.9	36.4	42.5	42.7	49.1	49.6		
Gross financing need 4/	4.2	8.0	11.9	10.0	10.6	9.7	10.1	11.6	11.6	13.2	12.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.9	5.9	6.3	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.7	6.0
Average nominal interest rate on external debt (in percent)	0.8	1.0	0.9	2.0	1.1	1.2	1.2	1.3	1.3	1.7	2.4	1.0	1.4
Average real interest rate on domestic debt (in percent)	8.9	5.5	-0.4	2.9	4.2	4.3	4.4	4.4	4.4	4.4	4.4	2.6	4.2
Real exchange rate depreciation (in percent, + indicates depreciation)	18.2	5.5	-13.1	...	...	...	...	...	...	...	...	0.2	...
Inflation rate (GDP deflator, in percent)	-3.1	-1.1	4.5	3.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.5	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	1.5	16.1	26.5	-3.9	-1.0	6.9	7.0	6.9	5.9	5.8	5.6	7.9	4.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-4.3	-1.1	7.6	-0.6	2.2	2.0	1.9	1.8	1.7	1.4	1.4	0.8	1.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**Yes**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

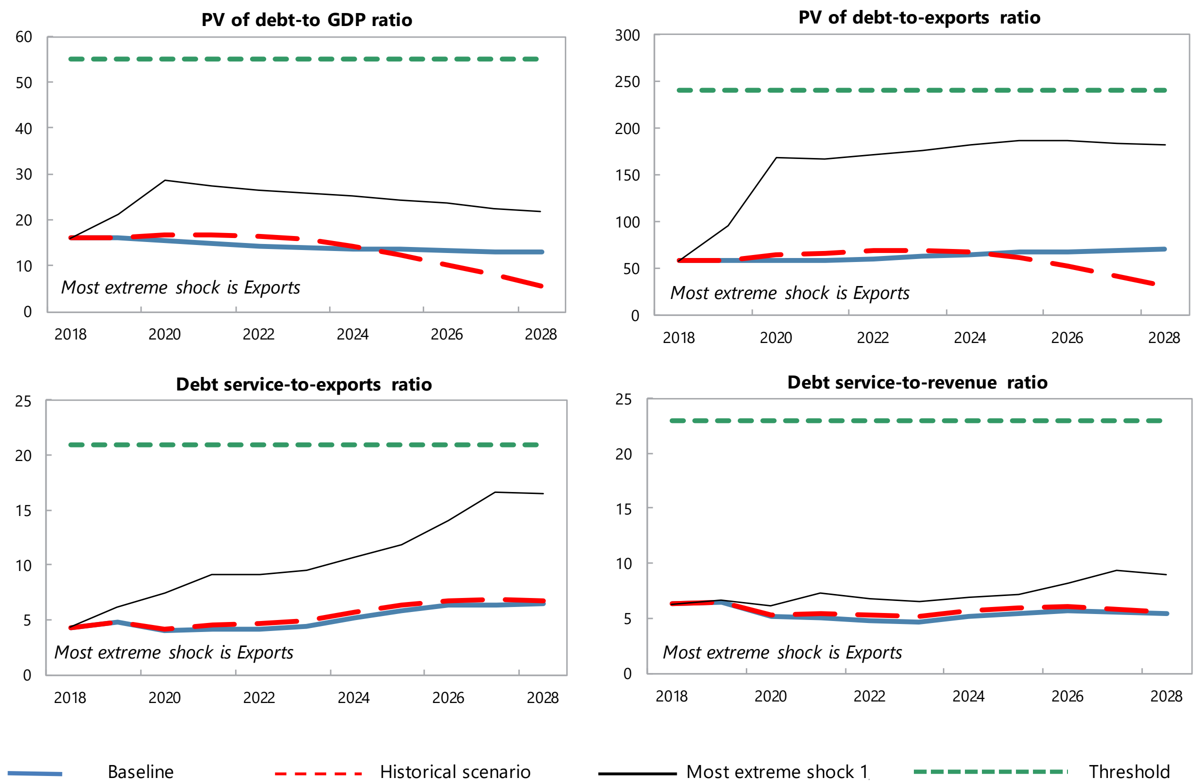
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2018-2028



Customization of Default Settings	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	6	6

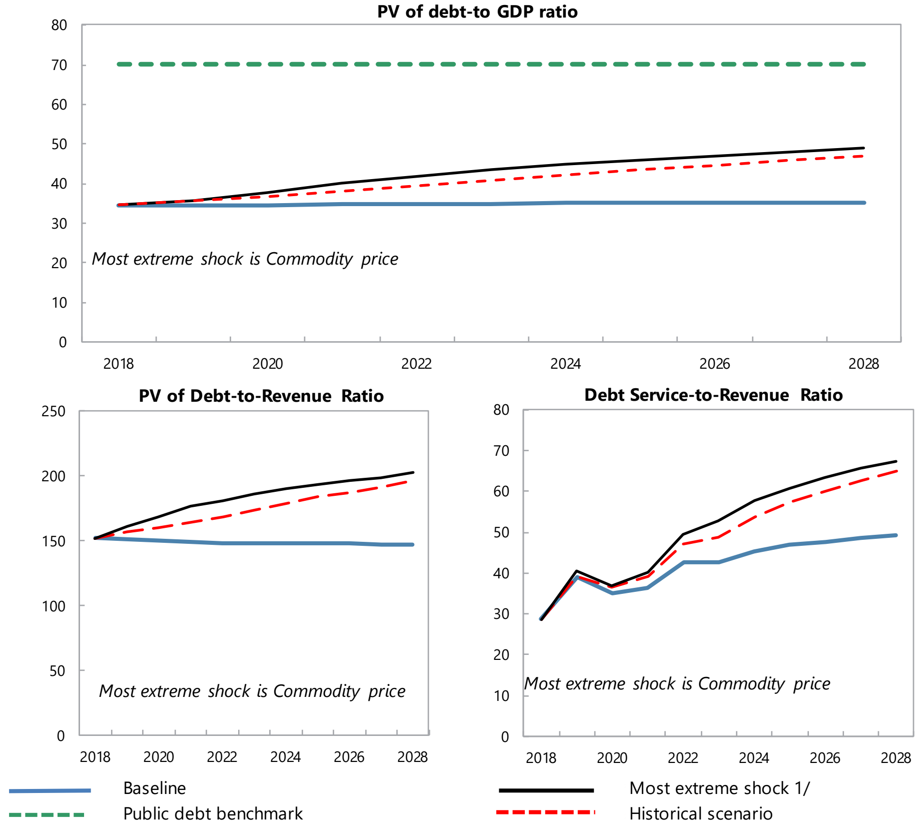
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Burkina Faso: Indicators of Public External Debt under Alternative Scenarios, 2018-2028



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	17%	17%
Domestic medium and long-term	58%	58%
Domestic short-term	24%	24%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.4%	2.4%
Avg. maturity (incl. grace period)	26	26
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.4%	4.4%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	1	1
Domestic short-term debt		
Avg. real interest rate	4%	4.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Burkina Faso: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2018-2028

(In percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of debt-to GDP ratio											
Baseline	**16**	**16**	**15**	**15**	**14**	**14**	**14**	**13**	**13**	**13**	**13**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	16	16	17	17	16	16	14	12	10	8	6
B. Bound Tests											
B1. Real GDP growth	16	16	16	16	15	15	15	14	14	14	14
B2. Primary balance	16	16	16	16	16	16	15	15	15	15	15
B3. Exports	16	21	29	28	27	26	25	24	24	23	22
B4. Other flows 3/	16	18	20	19	18	18	17	17	16	16	16
B5.Depreciation	16	20	16	15	15	15	14	14	14	14	14
B6. Combination of B1-B5	16	21	20	20	19	19	18	18	17	17	16
C. Tailored Tests											
C1. Combined contingent liabilities	16	17	17	17	17	16	16	16	16	16	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	16	17	17	16	16	15	15	15	14	14	13
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**	**55**
PV of debt-to-exports ratio											
Baseline	58	59	59	58	60	62	65	67	68	69	71
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	58	59	64	66	68	70	68	62	53	42	30
B. Bound Tests											
B1. Real GDP growth	58	59	59	58	60	62	65	67	68	69	71
B2. Primary balance	58	60	62	62	66	69	73	76	78	80	82
B3. Exports	58	96	169	167	171	176	182	187	187	184	183
B4. Other flows 3/	58	67	75	74	76	78	81	84	84	85	85
B5.Depreciation	58	59	48	48	49	51	54	56	57	59	61
B6. Combination of B1-B5	58	82	73	91	93	96	100	103	103	104	105
C. Tailored Tests											
C1. Combined contingent liabilities	58	63	64	65	69	73	77	81	83	86	88
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	58	65	68	66	68	70	71	73	73	73	74
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	4	5	4	4	4	4	5	6	6	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	4	5	4	5	5	5	6	6	7	7	7
B. Bound Tests											
B1. Real GDP growth	4	5	4	4	4	4	5	6	6	6	7
B2. Primary balance	4	5	4	4	4	5	5	6	7	7	7
B3. Exports	4	6	7	9	9	9	11	12	14	17	17
B4. Other flows 3/	4	5	4	5	5	5	6	6	7	8	8
B5.Depreciation	4	5	4	4	4	4	5	5	6	6	6
B6. Combination of B1-B5	4	5	6	6	6	6	7	8	9	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	4	5	4	4	4	5	6	6	7	7	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	4	5	4	5	5	5	5	6	7	7	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	6	6	5	5	5	5	5	5	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	6	6	5	5	5	5	6	6	6	6	6
B. Bound Tests											
B1. Real GDP growth	6	7	5	5	5	5	5	6	6	6	6
B2. Primary balance	6	6	5	5	5	5	5	6	6	6	6
B3. Exports	6	7	6	7	7	7	7	7	8	9	9
B4. Other flows 3/	6	6	5	6	5	5	6	6	6	7	7
B5.Depreciation	6	8	7	6	6	5	6	7	7	6	6
B6. Combination of B1-B5	6	7	6	6	6	6	6	6	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	5	5	5	5	5	6	6	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	7	6	6	5	5	5	6	6	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	23	23	23	23	23	23	23	23	23	23	23

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt, 2018-2028

(In percent)

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	35	34	35	35	35	35	35	35	35	35	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	35	36	37	38	39	41	42	43	45	46	47
B. Bound Tests											
B1. Real GDP growth	35	36	38	40	41	42	43	44	45	46	47
B2. Primary balance	35	37	40	40	40	40	40	40	40	39	39
B3. Exports	35	39	46	46	45	45	45	44	44	43	43
B4. Other flows 3/	35	37	39	39	39	39	39	39	38	38	38
B5.Depreciation	35	37	35	34	32	31	30	28	27	26	25
B6. Combination of B1-B5	35	36	36	35	35	34	34	34	34	34	34
C. Tailored Tests											
C1. Combined contingent liabilities	35	44	43	43	43	43	42	42	42	42	41
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	35	36	38	40	42	43	45	46	47	48	49
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	152	151	150	149	148	148	149	149	148	147	147
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	152	157	160	164	168	173	179	184	188	191	196
B. Bound Tests											
B1. Real GDP growth	152	158	165	169	172	177	181	185	188	191	195
B2. Primary balance	152	164	176	173	171	170	169	168	166	164	164
B3. Exports	152	170	200	196	193	191	189	188	185	180	178
B4. Other flows 3/	152	161	168	166	164	164	163	163	161	159	158
B5.Depreciation	152	163	153	145	138	133	127	121	115	109	104
B6. Combination of B1-B5	152	157	157	152	148	146	144	143	142	142	141
C. Tailored Tests											
C1. Combined contingent liabilities	152	192	189	185	182	181	180	178	176	174	173
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	152	162	169	176	181	187	191	193	196	199	203
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	**29**	**39**	**35**	**36**	**43**	**43**	**45**	**47**	**48**	**49**	**49**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	29	39	36	39	47	49	54	57	60	63	65
B. Bound Tests											
B1. Real GDP growth	29	40	37	41	49	51	55	59	61	63	65
B2. Primary balance	29	39	39	45	53	52	53	55	55	55	55
B3. Exports	29	39	35	38	44	44	46	48	49	51	52
B4. Other flows 3/	29	39	35	37	43	43	46	47	48	50	50
B5.Depreciation	29	37	34	34	39	39	43	44	45	46	46
B6. Combination of B1-B5	29	38	34	38	45	45	45	46	48	49	49
C. Tailored Tests											
C1. Combined contingent liabilities	29	39	46	51	60	55	57	58	57	58	57
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	29	40	37	40	49	53	58	61	63	65	67
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

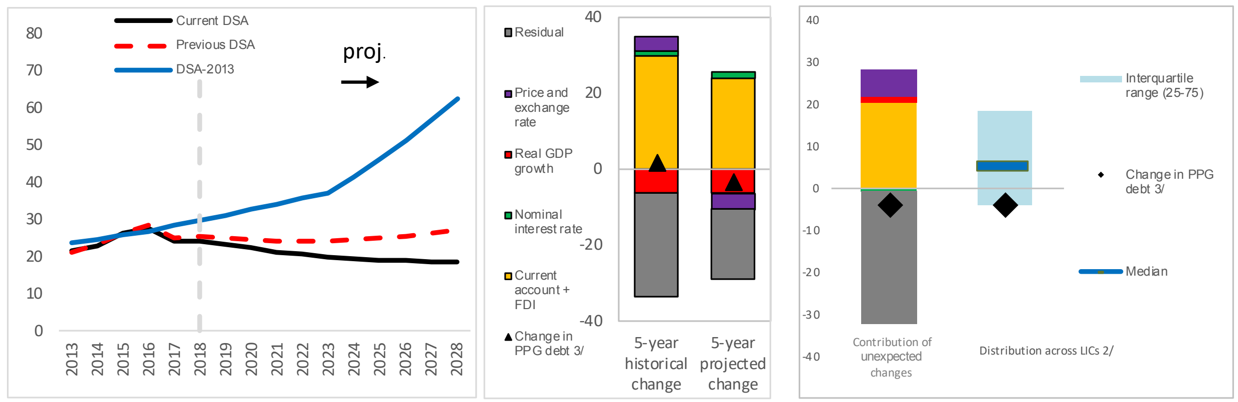
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Burkina Faso: Drivers of Debt Dynamics - Baseline Scenario

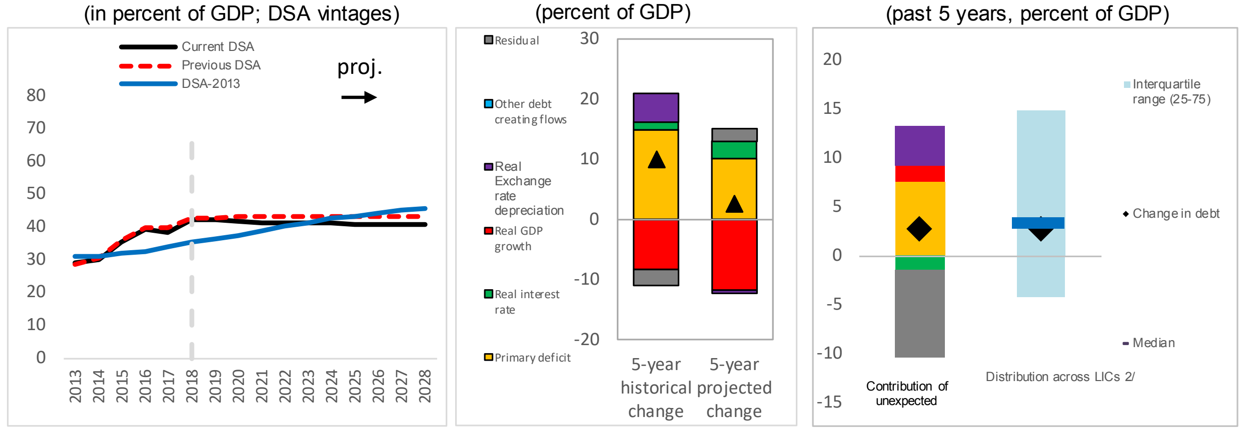
External debt

Gross Nominal PPG External Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



Public debt

Gross Nominal Public Debt (in percent of GDP; DSA vintages) | Debt-creating flows (percent of GDP) | Unexpected Changes in Debt 1/ (past 5 years, percent of GDP)



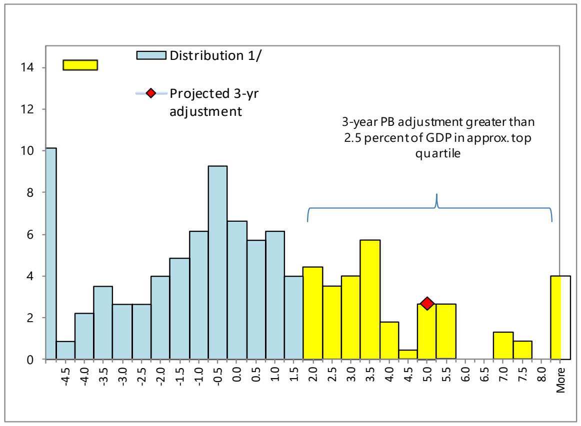
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

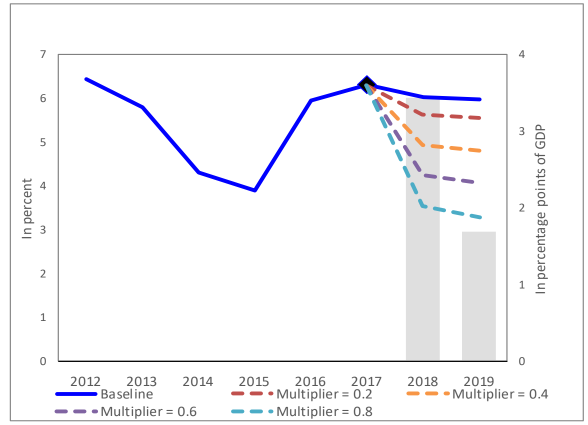
Figure 4. Burkina Faso: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



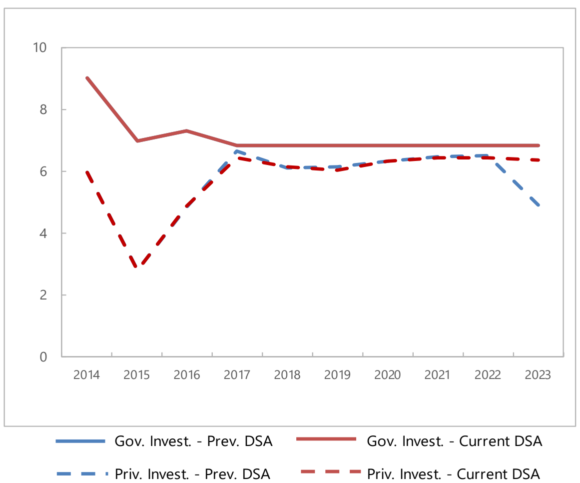
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

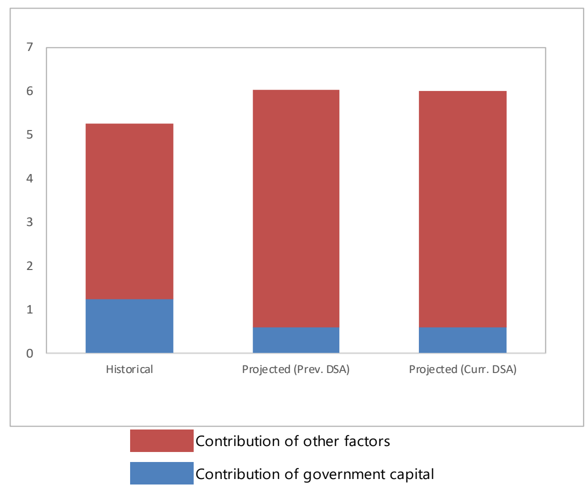
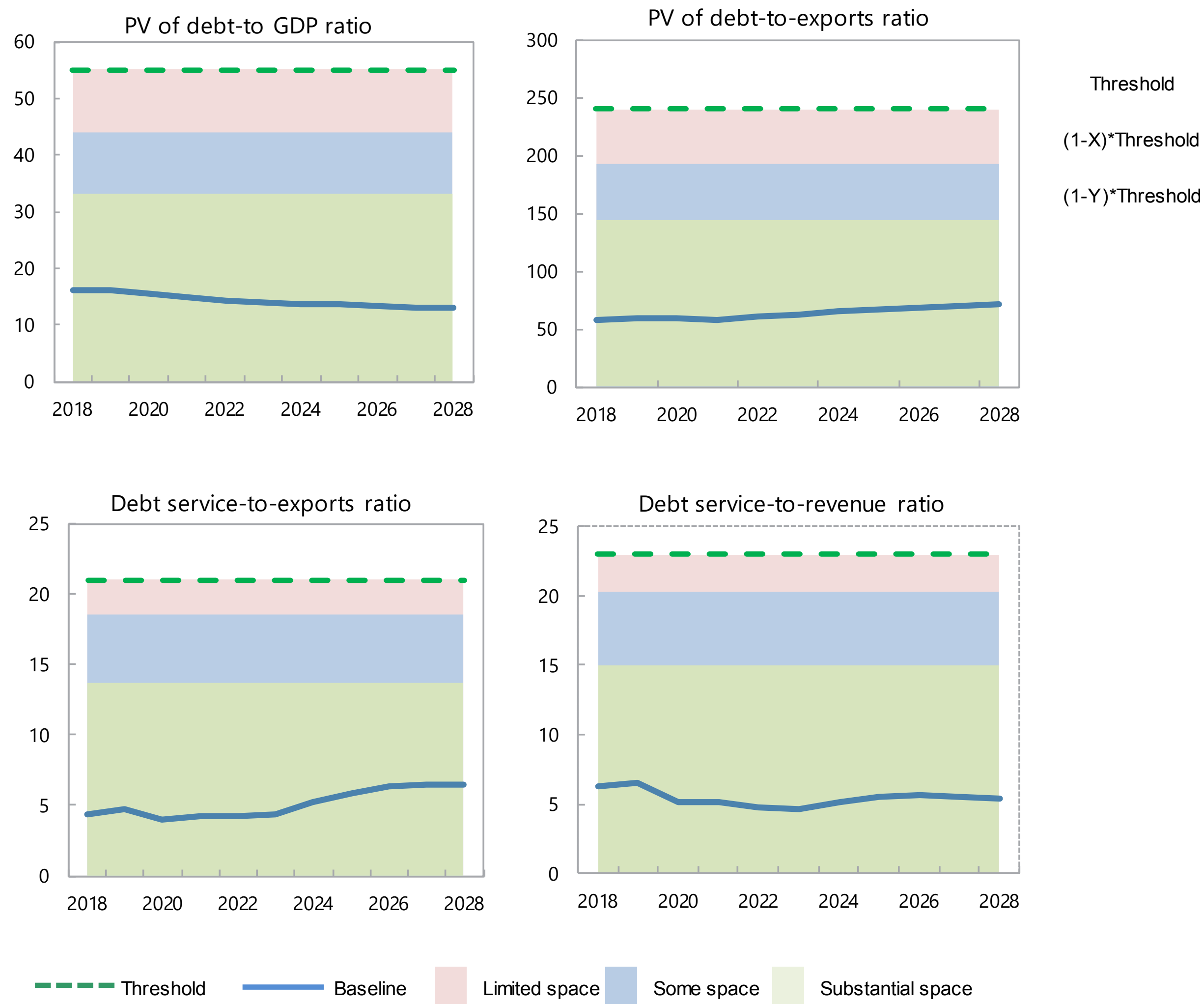


Figure 5. Burkina Faso: Qualification of the Moderate Category, 2018-2028 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by Mr. Raghani, Executive Director for Burkina Faso, and Mr. Nguema-Affane, Senior Advisor to the Executive Director December 21, 2018

1. On behalf of the Burkinabe authorities, we thank the Executive Board, Management and Staff for the Fund's continued support to Burkina Faso's National Economic and Social Development Strategy (PNDES) in the context of the Extended Credit Facility. The authorities welcome the discussions held with staff in Ouagadougou and the reports before us, including the *Selected Issues* paper, which give a good account of those discussions.

2. Repeated deadly terrorist attacks – the last one taking place in the eastern part of the country in early December 2018 – together with civil service labor strikes and a food security crisis complicated the implementation of the PNDES and the ECF-supported program. Nevertheless, progress has been made in all three main areas of the authorities' strategy – institutional reform and modernization of the administration; human capital development; and economic transformation – and performance under the ECF-supported program has been broadly satisfactory. Going forward, the Burkinabe authorities remain committed to the objectives of the program as reflected by the strong measures adopted recently, including the adoption of a new automatic mechanism for setting petroleum product prices, and the submission of a draft 2019 budget law, consistent with the program's objectives. In light of this performance, the authorities request the completion of the first review under the ECF arrangement.

I. Recent Economic Developments

3. Despite the challenging environment, real GDP growth is expected to remain strong at 6.0 percent in 2018 (against 6.3 percent in 2017) with balanced contributions across all sectors. Inflation at end-June 2018 increased to 2.5 percent and is expected to remain within the West African Economic and Monetary Union's (UEMOA) convergence criterion of 3 percent by the end of 2018. After deteriorating in 2017, the current account deficit is projected to narrow in 2018, thanks to higher exports, notably gold and cotton, and subdued import growth from the ongoing fiscal consolidation. With public debt around 40 percent of GDP, Burkina Faso remains at a moderate risk of debt distress according to the recent DSA.

4. Fiscal consolidation continued, as the fiscal deficit at end-June 2018 was better than projected. However, security issues and labor strikes in the administration, particularly in the Ministry of Finance, impacted budget execution. Those factors limited resource mobilization efforts and as a result revenue collection underperformed. At the same time expenditures increased owing mainly to high security spending and higher wage bill. This increase in security and wage bill was accommodated mainly through cuts in capital expenditures. In light of the unfavorable fiscal developments of the first half of 2018, the authorities adopted a revised 2018 budget law, which includes additional measures to achieve the fiscal deficit objective of 5 percent of GDP.

5. The authorities pressed ahead with measures to improve the mobilization of domestic resources and strengthen public financial management. They started to rationalize tax

exemptions, stepped up efforts to collect tax arrears and accelerated the modernization of the tax and customs administrations. More recently, in order to reduce the increasing cost of energy subsidies, the authorities adjusted petroleum product prices by 13 percent and established an automatic petroleum price-setting mechanism in November 2018. Guidelines for project selection and appraisal have been elaborated to improve public investment efficiency. In addition, a cost-benefit analysis guide is being developed with technical assistance from AFRITAC West. A cost-benefit analysis of the major investment projects included in the 2019 budget was annexed to the draft 2019 budget law that was submitted to the National Assembly.

6. In addition, the authorities took steps to achieve long-term sustainability of the public sector's wage bill. Measures to contain the wage bill growth include slowing the pace of civil service hiring and limiting new hiring to priority sectors. This approach will reduce hiring by roughly 40 percent in 2018. However, they recognize that more needs to be done to put the wage bill on a sustainable path over the long term and participation of all stakeholders will be essential to achieve this objective. To this end, they have launched the process to review the entire public sector' compensation system with the organization in June 2018 of a national conference to discuss reform options. Consistent with the recommendations of that conference, the authorities are currently preparing an organic law to, among others, specify the basic principles governing the functioning of the public service, and revise salary and indemnity scale with the aim of ensuring compliance with the regional convergence criterion on the wage bill by 2021.

7. The banking system remains well-supervised and profitable and has expanded with two new banks including an agricultural bank. As stated in the staff report, systemic risks are contained but security risks have increased and the deterioration of the security situation at some borders has led some banks to reduce their operations in those areas.

8. Progress has been made in the implementation of policies to reduce poverty and combat the threat of terrorism, notably in the context of the Program to Support the Development of Local Economies (PADEL) and the Emergency Program for the Sahel (PUS-BF). The population's access to energy and health is improving as investment in the needed infrastructure continues to grow. Similarly, progress has been made through various programs to improve the employability of young graduates, and to promote the socioeconomic empowerment of women.

9. Consistent with the PNDES, the authorities took several steps to ensure the development and increase the attractiveness of the agriculture sector, with a view to diversifying the economy. They adopted in May 2018 an investment code to improve the business environment in that sector which occupies a large share of the population. They have also stepped up their support to farmers notably through agricultural advisory services, provision of mechanical equipment and construction of facilities.

II. Program implementation

10. The implementation of the program during the period under review is broadly satisfactory. All quantitative performance criteria (PC) at end-June 2018, except the continuous criterion for pre-financing, and quantitative indicative targets at end-September 2018 were observed. The implementation of structural measures monitored under the program is also progressing well. Four out of six structural benchmarks were observed, the two others are well advanced and should be completed before end-2018.

11. The authorities note staff assessment that the performance criterion relating to the zero ceiling for new pre-financing of public investments was missed following the signature in September 2018 of a pre-financing agreement for a high-priority road project to improve transportation network around Ouagadougou. They stress that this outcome arose from a misunderstanding about the scope of their commitment under that PC during program negotiations. They were of the view that the PC covers only new projects and not that road project, which was significantly advanced well before the approval of the ECF arrangement in March 2018 – all the assessment of tenders, partner selection, and negotiation phases had been completed in November 2017 – and staff was informed accordingly. To demonstrate their strong resolve to adhere to the commitments made under the PC, the authorities adopted and published a ministerial order in November 2018 which formally prohibits the negotiation and signing of contracts including provisions for pre-financing. In light of this, the authorities are requesting a waiver for the nonobservance of the PC.

III. Policies for 2019

12. Burkina Faso's medium-term economic outlook is positive, supported by continued implementation of critical PNDES investments, de-escalation of labor conflicts, and improvement in the security situation. In the short-term, growth should remain robust at 6.0 percent in 2019 driven primarily by the mining, services, and agricultural activities. Inflation is expected to remain within the WAEMU's limit of 3 percent in 2019, reflecting good prospects for the 2018/2019 crop year. The current account deficit is expected to widen slightly to 8.0 percent of GDP.

13. The authorities remain determined to continue implementing sound economic and financial policies, and the necessary accompanying structural reforms, to achieve their development objectives, while fulfilling commitments made at the regional level. They recognize that an intensification of terrorist attacks remains a significant risk to the implementation of their program and therefore will devote all the resources needed to limit that risk. In particular, they will pursue the implementation of the PADEL and PUS-BF programs and strengthen their security operations as needed to help improve the social conditions and business climate in the regions affected by terrorist attacks. They are grateful to their development partners for the financial and material assistance they have received in their efforts to maintain security and look forward to receiving additional assistance in this area.

14. Fiscal consolidation will remain the cornerstone of the program, with a special emphasis

on domestic revenue mobilization and wage bill sustainability. The authorities recognize the importance of pursing fiscal consolidation to strengthen fiscal sustainability while creating the fiscal space for priority social, infrastructure and security spending. They submitted a draft budget law for 2019 which targets an overall fiscal deficit of 3 percent of GDP, consistent with the Fund-supported program' objectives. In this regard, the draft budget law includes measures to expand the tax base, levy new taxes, and raise the rates of a number of existing taxes. The tax legislation will also be aligned with regional directives on taxation. The authorities stress the importance of an adequate sequencing of tax reforms to mitigate their impact on economic activity. On the expenditure side, the authorities remain committed to continue streamlining non-essential expenditure and reduce the wage bill within the WAEMU's limit of 35 percent of tax revenue by 2021. To this end, they will notably pursue the implementation of the conclusions of the national conference on the civil service compensation system and continue their efforts to reduce new civil service hiring. The wage bill is expected to peak in 2019 and should start to decline in 2020 as all these measures become fully effective.

15. Measures to improve public financial management, fiscal transparency and governance will continue. The modernization of management procedures and tools, which began in 2017 will be completed in 2019. The approval, implementation and monitoring of Public-Private Partnerships (PPPs) will be strengthened in line with recommendations of various technical assistance missions, with a view to limit potential for contingent liabilities. Publication of in-year budget documents will continue to improve transparency in budget execution. Likewise, efforts to streamline and increase transparency in public procurement procedures will be sustained. The authorities are pursuing their efforts to promote good governance and combat corruption initiated in 2015 with the publication of reports on the management of the government and the ongoing automation of asset declaration by the anti-corruption authority.

16. The authorities will pursue a prudent debt policy to maintain the country's moderate risk of external debt distress. Their medium-term debt strategy aims to reduce the reliance on national and regional borrowing in favor of external sources offering more favorable terms. In the context of increased scarcity of concessional resources, the use of non-concessional financing will be limited to critical projects offering substantial guaranteed economic returns. They will pursue the strengthening of debt management capacities, drawing on the recommendations of technical assistance missions from specialized institutions.

17. The authorities will press ahead with the implementation of structural reforms to foster economic diversification and increase financial inclusion, which are top priorities in the PNDES. They agree with staff that the actual business models in the banking system is not supportive of economic diversification and that enhancing access to financial services will be essential to support private sector development and structural transformation. The newcreated agriculture bank is expected to help in this regard, by offering credit access, in line with best practices, to an agriculture sector currently underserved by the banking sector. The creation of this bank contributes to the ongoing efforts to promote financial inclusion which will be sustained over the medium term to increase the bank penetration rate to 35 percent by 2020, consistent with the PNDES. In this regard, a draft action plan for the implementation of the National Strategy for Inclusive Finance (SNFI) adopted in 2017 is

being prepared and should be finalized by end-2018. The strategy will promote microfinance and capitalize on the expansion of the mobile technology to make further strides in this area. They authorities will sustain their efforts to further improve business environment by notably removing excessive red tape and pursuing the implementation of judicial centers specializing in economic and financial crimes and terrorist acts.

IV. Conclusion

Despite a difficult domestic environment marked by terrorist attacks and severe weather conditions, Burkina Faso's performance under the ECF-supported program has been broadly satisfactory. They authorities remain committed to pursue policies and structural reforms to strengthen macroeconomic stability, consistent with their regional commitment, while creating the fiscal space needed to meet the developmental needs of the country, and they have taken strong measures recently in that regard. In light of this, we would appreciate Directors' favorable consideration of the authorities' request for the completion of the first review under the ECF.