INTERNATIONAL MONETARY FUND

BURKINA FASO

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

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

BACKGROUND AND UNDERLYING DSA ASSUMPTIONS

A. Burkina Faso's Public Debt Profile and Evolution

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

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

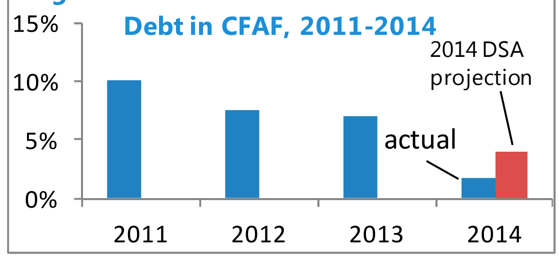


Table 1. Public Debt, 2007-2014

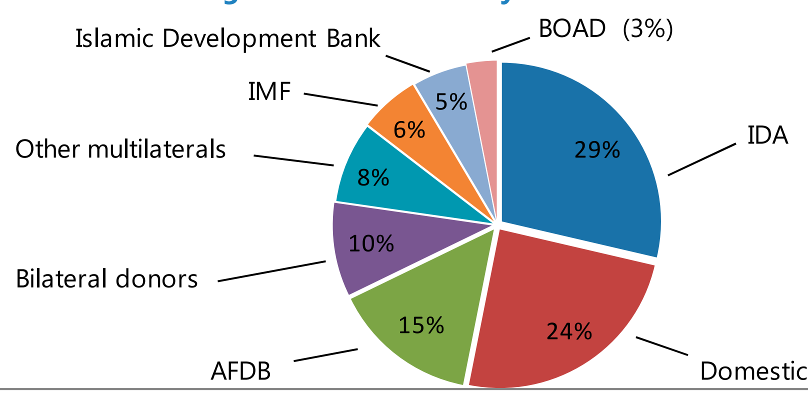
	2007	2011	2012	2013	**2014 Prel.**
		(US$ billions)			
Public debt	1.7	3.2	3.2	3.5	3.6
External	1.5	2.6	2.5	2.6	2.7
Domestic	0.3	0.6	0.6	0.9	0.8
		(CFAF billions)			
Public debt	832	1508	1616	1729	1760
External	710	1216	1290	1291	1341
Domestic	122	292	326	438	419
		(percent of GDP)			
Public debt	25.6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

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

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

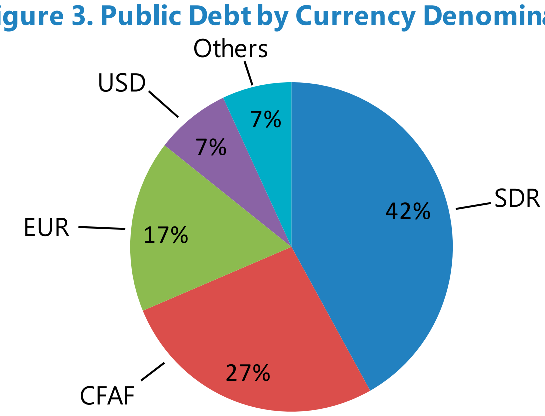
3. Most of this debt is concessional and is held by multilateral institutions, with IDA and AFDB accounting for the lion's share. The IDA and the AFDB account for the largest shares with 29 and 15 percent, respectively, while other multilaterals (excluding the IMF) and bilateral donors respectively combine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

Figure 2. Public Debt by Creditor



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

Figure 3. Public Debt by Currency Denomination



B. DSA Assumptions

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

Table 2. Changes in assumptions relative to the previous DSA

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

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

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

DSA RESULTS

A. External Debt

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

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

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

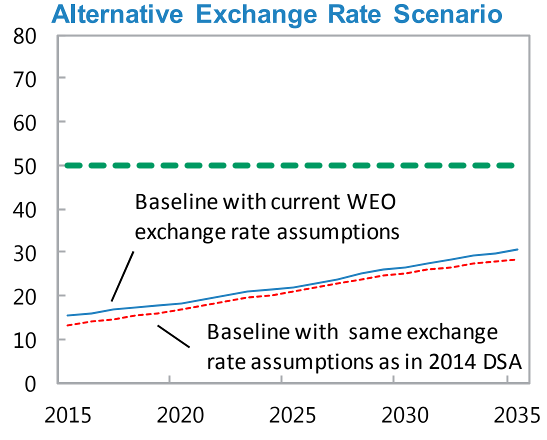
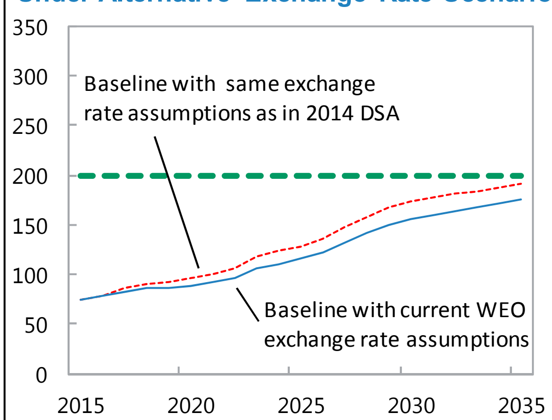


Figure 5. PV of Debt-to-Exports Ratio Under Alternative Exchange Rate Scenario



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

Figure 6. PV of Debt-to-GDP Ratio Under Alternative Borrowing Scenario

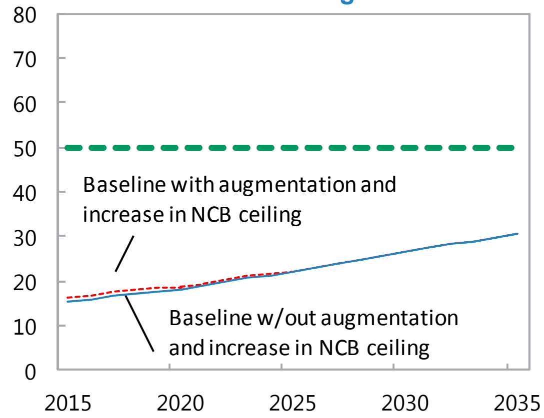
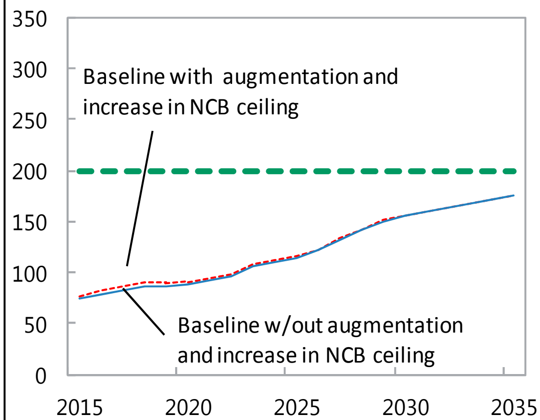


Figure 7. PV of Debt-to-Exports Ratio Under Alternative Borrowing Scenario



B. Total Public Debt

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

C. Debt Management

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

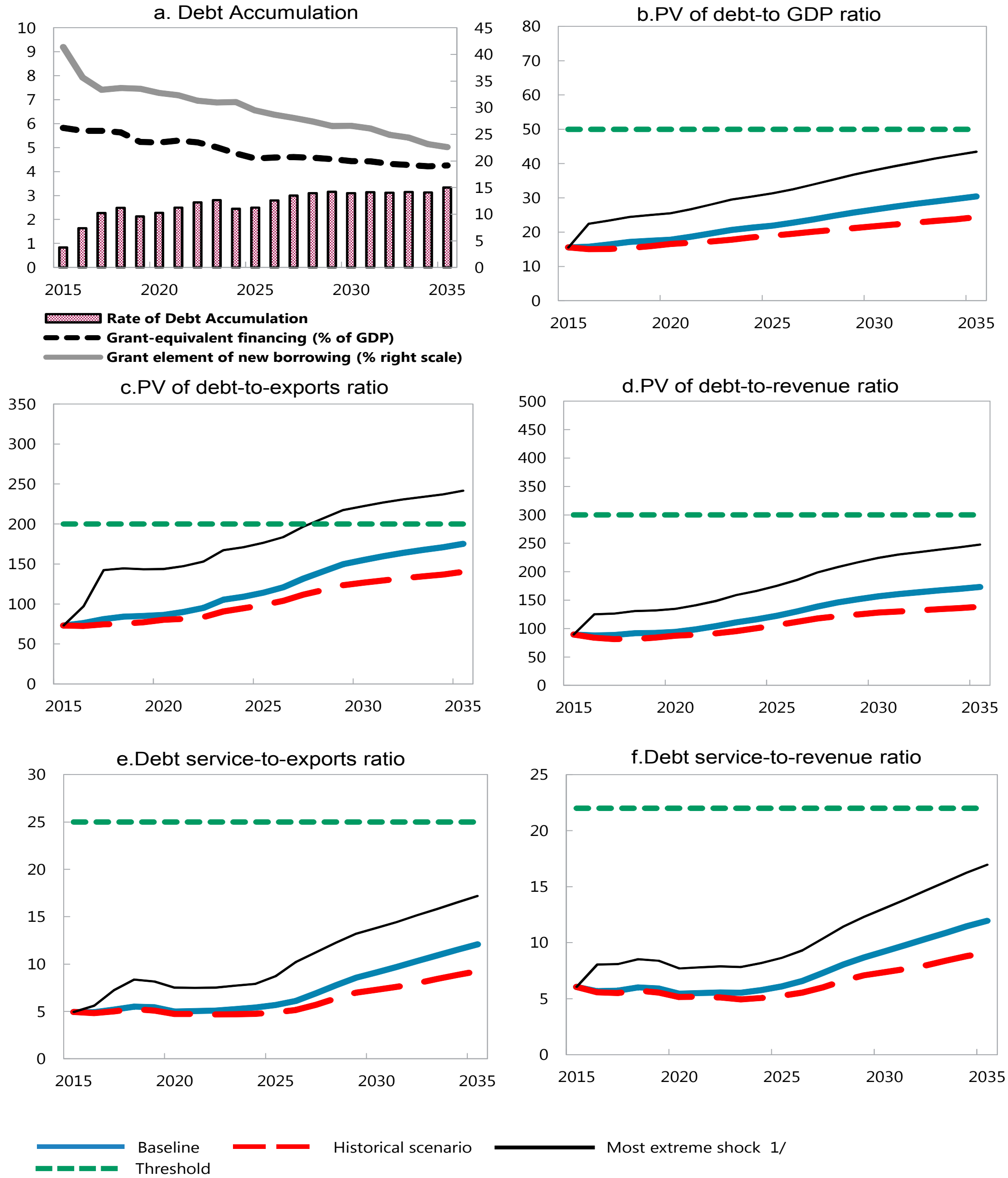
CONCLUSION

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

AUTHORITIES' VIEWS

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

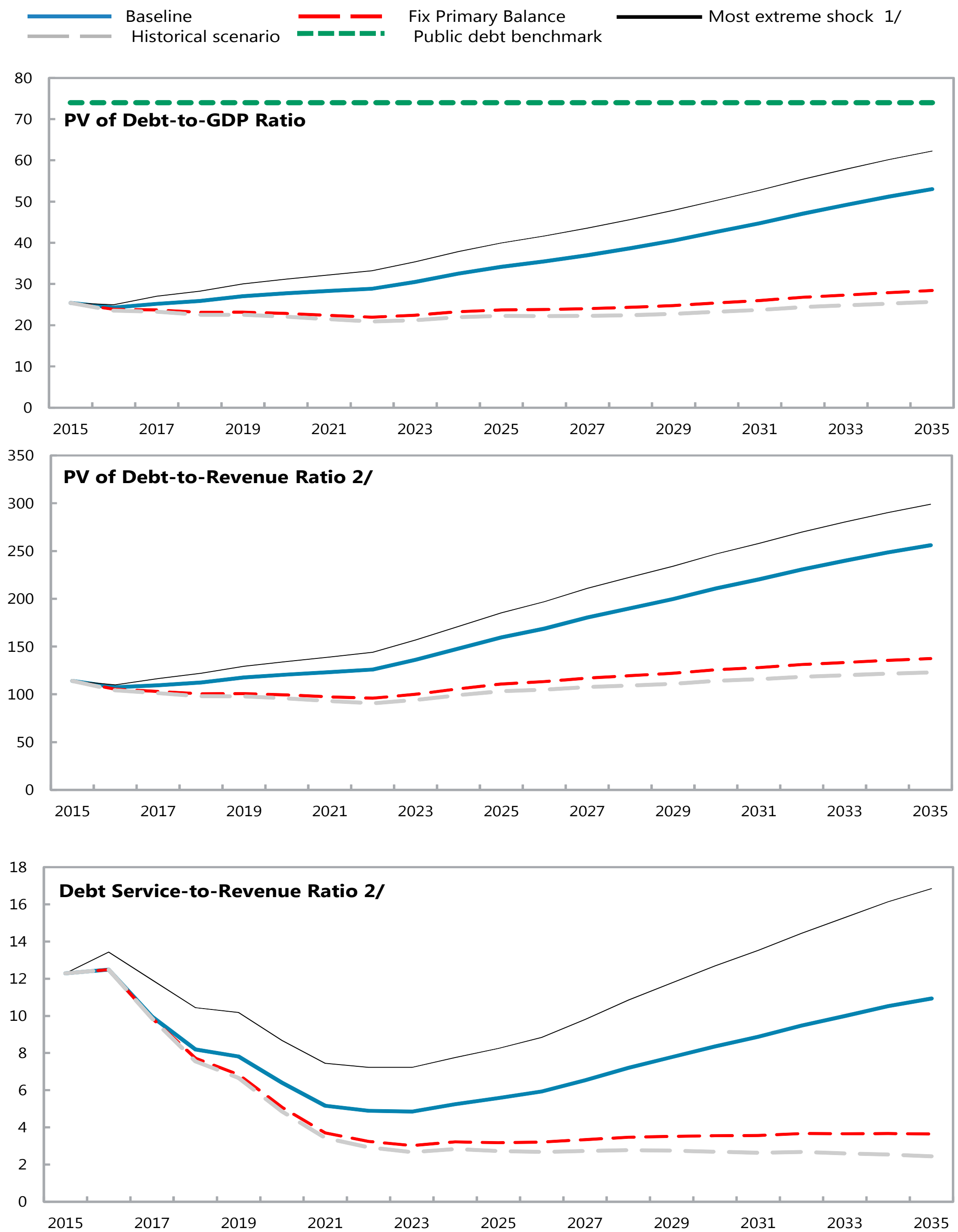
Figure 8. Burkina Faso: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015–2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 9. Burkina Faso: Indicators of Public Debt Under Alternative Scenarios, 2015–2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

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

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate chang
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 4. Burkina Faso: External Debt Sustainability Framework, Baseline Scenario, 2014–2035 1/

(In percent of GDP, unless otherwise indicated)

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

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

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

(In percent)

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

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

(In percent)

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

Sources: Country authorities; and staff estimates and projections.

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

Table 6. Burkina Faso: Sensitivity Analysis for Key Indicators of Public Debt, 2015–35

(In percent)

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

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

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

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

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

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

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

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

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

I. Recent Economic Developments

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

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

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

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

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

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

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

II. Policies for 2015 and Beyond

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

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

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

Fiscal Policy

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

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

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

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

Debt Policy

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

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

Structural Reforms

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

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

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

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

III. Conclusion

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

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