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CONTAINS CONFIDENTIAL
INFORMATION

May 24, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Upper Volta - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Upper Volta. A draft decision appears on page 13. This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Collings (ext. 73712) or Mr. Briffaux (ext. 75154).

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Department Heads

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INTERNATIONAL MONETARY FUND

UPPER VOLTA

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the
1983 Consultation with Upper Volta

Approved by R.J. Bhatia and S. Kanasa-Thanan

May 23, 1983

The 1983 consultation discussions with Upper Volta were held in Ouagadougou during the period March 2-16, 1983. The representatives of Upper Volta included Mr. P. Sanon, Minister of Economic Affairs and Finances; Mr. E. Dondasse, Minister of Plan; Mr. J. Barro, Secretary of State in charge of the Budget; Mr. K. Congo, National Director of the BCEAO; and other officials concerned with economic and financial matters. The mission met with the President, Commandant-Médecin J.B. Ouedraogo, at the end of its visit. Discussions were also held at the BCEAO headquarters in Dakar. Mr. A. Alfidja, Executive Director for Upper Volta, and his Advisor, Mr. P.C. Maganga-Moussavou, were present for part of the discussions. The staff team consisted of Mr. F. d'A. Collings (head-AFR), Mr. J.P. Briffaux (AFR), Ms. C. Hoban (AFR), Mr. V.C. Thai (FAD), and Miss M. Paris (secretary-AFR).

Upper Volta continues to avail itself of the transitional provisions of Article XIV. The country has never used Fund resources in the credit tranches, and Fund holdings of its currency are presently at 76.5 per cent of its quota. There have been several inconclusive discussions during the last two years on possible use of Fund resources, and, at the request of the authorities, the current consultation discussions included preliminary consideration of a financial program which might serve as the basis for a later stand-by request. Summaries of Upper Volta's relations with the Fund and with the World Bank Group are provided in Appendices I and II, respectively. Basic statistical data are presented in Appendix III.

I. Background and Recent Economic Developments

Upper Volta is one of Africa's poorest countries, with GDP per capita estimated at about SDR 154 in 1982. It is on the United Nations list of least-developed countries. The economy is based mainly on agriculture, the bulk of it still subsistence-oriented. A variety of food and export crops is grown under arid sub-Saharan conditions, and extensive cattle-raising is an important activity. There is a small industrial sector

engaged in agriculture-related or light manufacturing activity. There are no significant mineral resources under exploitation.

For many years a large, mainly foreign-financed, development effort has been directed at improving rural productivity, promoting new cash crops such as cotton and sugar, and encouraging internal migration toward the relatively underpopulated and more fertile southern parts of the country where epidemic diseases have only recently been brought under control. The results of these efforts have been encouraging under the circumstances. IBRD estimates (which are higher than those of the national authorities) suggest that annual real growth has averaged 3.5 per cent (or 1.8 per cent per capita) over the last ten years. However, agricultural production remains very vulnerable to climatic variations. In 1980/81 there was an unusually poor crop, followed in 1981/82 by a normal year, and the 1982/83 crops (already mostly marketed) are above average. All crops except sheanuts registered production increases over this period. However, at the same time industrial production stagnated and new investment in this sector has been small, reflecting partly confidence factors (there were military coups in January 1981 and again in November 1982). Economic activity in the modern sector of the economy has also been depressed in this period by declines in remittances from emigrants and disbursements of foreign aid.

The Government's overall budgetary deficit, as estimated by the staff, declined slightly from its 1980 level to about 13-14 per cent of GDP (before grants) in 1981 and 1982. Total government investment expenditures --which can be estimated only approximately because of inadequacies in recording--appear to have declined even in nominal terms over the period, and as a proportion of GDP fell from 17.5 per cent in 1980 to 13 per cent in 1982. These expenditures, which are largely financed directly by foreign grants and loans, take place at a rhythm not entirely determined by the Upper Voltan authorities. An area of budgetary performance over which the authorities have more control is the outturn on the operations of the national budget, which covers government revenue, recurrent expenditures, and most locally financed central government investment expenditures (including the local contributions to foreign-aided programs). Until 1980 national budget operations usually remained more or less balanced, but in 1981 and 1982 deficits equivalent to about 2.5 per cent of GDP emerged. These deficits were the result of increased budgetary expenditures (including a 20 per cent general salary increase in 1982) at a time when, despite the introduction of a number of new discretionary tax measures, government revenues were rising relatively slowly. In the budget introduced at the beginning of 1983, the authorities abandoned past practice and for the first time showed an uncovered gap in the national budgetary projections for the year, which it was hoped would be financed with foreign borrowing.

Certain other developments in public finance during the last two or three years also give cause for concern. First, the composition of public

investment expenditures, while still dominated by ongoing foreign-aided rural development projects, shifted toward less productive projects. These included the start of construction of the first section of a new railway line to the north eastern portion of the country (the Tambao project), which, when foreign financing proved unavailable, continues to be financed with funds borrowed from the local banking system. Other now completed projects in this category included the construction of a new hotel in Ouagadougou, the purchase of new aircraft and equipment for Air Volta, and purchases of military equipment. Second, foreign borrowing on nonconcessional terms increased sharply for these and other purposes (including borrowing by public and semi public enterprises not included in the budget). Total external public debt outstanding rose to the equivalent of about 27 per cent of GDP at the end of 1981 (lags in accounting do not permit a comparable estimate for the end of 1982). Reflecting this as well as the expiry of grace periods on earlier concessional borrowings, the debt service burden rose sharply in 1982 to the equivalent of 7.4 per cent of exports of goods and nonfactor services plus private transfers, and is projected to more than double in absolute terms by 1985. Third, overruns in expenditures and other extrabudgetary operations in 1982 caused the Treasury deficit to increase by 30 per cent. This was partially covered by drawing down the deposits of public and semipublic enterprises with the Treasury, but nevertheless the Treasury experienced a liquidity crisis during the second half of 1982. At that time, external as well as internal arrears in official payments accumulated. These were eventually settled after receipt of the proceeds of a US\$10 million loan obtained from an Islamic financial institution, and payments are now current. There was also at that time a slowdown in disbursements of local contributions to development projects, which caused some of them to be temporarily disrupted.

Domestic credit rose by about 15 per cent in both 1981 and 1982, compared with an inflation rate of 10-11 per cent. In 1981 the Government drew down its net credit position with the banking system to the extent of about CFAF 5 billion, while credit to enterprises increased only moderately. In 1982 the Government's net position with the banking system remained almost unchanged, due to the switch to use of public enterprise deposits to finance the Treasury deficit, and the bulk of the increase in credit went to enterprises, including for the Tambao railway project. In 1982 there was also a sharp rise in uncollectable debt to banks, due to increasingly severe financial difficulties in many borrowing enterprises. Reflecting also an increase in the net foreign assets position of the banking system, total broad money supply rose by 20 per cent in 1981, but in 1982, with net foreign assets declining, broad money rose by only 13 per cent. In concert with other member countries of the BCEAO, the structure of interest rates was raised by roughly two percentage points in April 1982, but in March 1983 this was reduced again by two percentage points, in response to declining world interest rates.

The overall balance of payments position has worsened steadily over the last few years. From a position of fairly substantial, although declining, surpluses in 1979 and 1980, the overall surplus dropped to a negligible level in 1981, and there was an overall deficit of SDR 9 million (about 1 per cent of GDP) in 1982. The gross official reserves position, while remaining reasonably comfortable (equivalent to nearly three months' imports, f.o.b., at the end of 1982), moved accordingly, rising through the end of 1981 but declining in 1982. The deficit on merchandise trade declined moderately over the period, with fluctuations in the value of exports being offset by a steady decline in the SDR value of imports since 1980 as investment and economic activity contracted. The deficit on services (net) also declined. But net receipts from transfers--a major item in Upper Volta's balance of payments--showed an important diminution over the period, dropping by SDR 37 million (about 17 per cent) between 1980 and 1982. This reflected a 14 per cent decline in public transfers (mostly grant aid receipts) and a nearly 20 per cent decline in private transfers (mostly emigrant remittances, which were affected by the drop in employment of Upper Volta citizens in Ivory Coast, and to a lesser extent in Nigeria, due to developments in those countries). On capital account there was a similar, but smaller, drop in net receipts in SDR terms in this same period.

Upper Volta's exchange rate is determined in the context of its membership in the West African Monetary Union (UMOA); the value of the CFA franc used by Upper Volta and other UMOA members has remained unchanged in terms of the French franc for many years. Reflecting largely the movements in the latter currency, Upper Volta's real effective exchange rate is estimated to have depreciated by 11.3 per cent during 1981 and 1982. As with other UMOA members, Upper Volta has a liberal exchange system. There have been no significant changes in the restrictive system since the last consultation (December 1981).

II. Report on the Discussions

These consultation discussions took place at a time when the new Government installed in November 1982 had not fully formulated a comprehensive set of policies to deal with the various economic and financial problems facing it. Consequently, the discussions of future policies were to a large extent exploratory in character, with emphasis on reviewing alternatives and establishing priorities for immediate and longer term policy actions. At the request of the Upper Volta representatives, attention was given to establishing the framework for a financial program for 1983 which might form the basis for a later request for use of Fund resources. Certain decisions communicated by the authorities to the staff subsequent to the discussions in Ouagadougou are included in the following account.

1. Development and investment

The Upper Voltan representatives reaffirmed that broad-based development of the agricultural sector remains their first development priority. The performance of the agricultural and livestock sectors was generally favorable during the last two years, but vulnerability to climatic factors remains disturbingly high. There are a large number of ongoing rural development projects financed by different foreign donors, loosely coordinated on a regional level through the Organismes régionaux de développement (ORDs), which cover most of the country. While the authorities acknowledged management problems at the level of the ORDs, they pointed out that the aggregate level at which rural development expenditures can continue depends largely on the amount of assistance provided by donors, which appears to be diminishing in real terms under present world conditions. However, it was also recognized that, because of the lack of a well-coordinated overview of the priorities in relation to subsectoral and regional needs, the effectiveness of whatever aid becomes available has not always been maximized in the past, and the recurrent cost implications of particular projects for the Government's budget have often been inadequately foreseen. To address these problems, the authorities are preparing a new Development Plan to cover the years 1983-86, with completion expected later this year, on the basis of which it is planned to hold a UNDP-sponsored aid donor's conference before the end of 1983. The authorities are also taking steps to better delineate responsibilities within the administration for the initiation, execution, and monitoring of new development projects, and a decision has been taken to centralize approval for all required public borrowing in the Ministry of Economic Affairs and Finances. The authorities intend to introduce a regular annual investment budget starting in 1984. Consideration was given to putting together such a budget on a crash basis for 1983, but the authorities have deemed this impracticable in view of the time already elapsed in that fiscal year.

With regard to infrastructural investments, the Upper Voltan representatives have recently (subsequently to the discussions in Ouagadougou) indicated their intention to continue construction on the first section of the controversial Tambao railway project, contingent upon obtaining appropriate financing. In this connection they are currently negotiating a foreign suppliers' credit for the rails. The total construction cost of this part of the project is estimated at about US\$33 million. Studies made by the traditional donors have indicated that the prospective rates of return and financial implications of the project do not justify continuing with it at the present time. The World Bank has further indicated to the Upper Voltan authorities that, if this project goes ahead, it will not be able to participate in the rehabilitation of the existing railway from Abidjan to Ouagadougou or the proposed road to be built parallel to the Tambao railway line, and it may also have to review its other lending programs in Upper Volta. This introduces some uncertainty also about the prospects for early commencement of the important Kompienga hydroelectric project, which is now in the final stages of preparation with World Bank assistance.

2. Pricing

The producer prices for the main crops and the corresponding domestic sales prices for those consumed locally have been raised regularly over recent years and are generally at or above the levels prevailing in neighboring countries. The Upper Voltan representatives felt that further adjustments in this area were not needed at present, but the situation would continue to be watched carefully.

In the area of other locally produced goods and services, however, recent increases in controlled selling prices have not generally kept pace with rising costs of production, causing increasing financial difficulties for many of the enterprises concerned. For example, a policy of subsidizing fertilizer prices has resulted in large financial losses and diversion of supplies into neighboring countries where prices are higher. The IBRD is assisting a fertilizer project under which Upper Volta has agreed to raise the selling price gradually to economic levels over a five-year period. Low domestic prices for locally produced sugar, meat products, textiles, and certain light manufactures have had similar effects. In some of the public service enterprises--for example, electricity and posts and telegraphs--there is urgent need for price rises so as to reduce operating losses, and the existing railway from Abidjan to Ouagadougou (which is jointly owned with Ivory Coast) is in deteriorating physical and financial condition, with Upper Volta overdue to the extent of about CFAF 6 billion in its contributions to cover operating losses. Under the prospective World Bank rehabilitation project for the railway, assistance to Upper Volta is meeting its overdue contributions and major tariff increases have been proposed. The Upper Volta representatives indicated that they were well aware of the need for remedial action in most of these areas, but decisions have been postponed until now for fear of the price-raising effects of the required actions and because of the need for further study in specific cases.

Upper Volta has in the past followed a policy of avoiding subsidies on petroleum products but keeping the prices to consumers as low as possible so as to reduce the cost of internal transportation and thus assist rural development. Taxation of such products (all imported in refined form) was raised in 1982 but is still low by international standards, and, despite a margin realized on petroleum distribution operations through the Caisse de Péréquation (which has allowed that organization a surplus which it has used, inter alia, to subsidize the prices of some other consumer products), the selling price for most petroleum products is below that in neighboring countries. The staff representatives questioned this policy, and suggested that, particularly in an environment of declining world oil prices, the moment might be opportune to raise taxation in this area. The authorities are considering this possibility. They also intend to seek the cheapest sources of supply so as to obtain full benefit from any reductions in world prices.

3. Public finance

Financial planning in Upper Volta centers around the preparation of annual national budgets, which, however, cover only a part of the Central Government's transactions as they exclude receipts and expenditures under foreign aid programs (estimated to be as much as half of total expenditure) and a wide variety of transactions recorded in special extrabudgetary accounts in the Treasury. A Fund technical assistance mission in 1981 recommended a number of reforms in the system aimed at more comprehensive budgetary coverage, including most importantly the introduction of an annual investment budget, consolidation of certain separate funds into the regular budget, reduction in the number of special accounts, and adoption of a new and more detailed budget nomenclature. Since mid-1982 a FAD expert has been in Upper Volta to assist in the implementation of these recommendations. However, with the 1983 budget prepared in a hurry shortly after the recent change in government, it did not prove possible to implement these institutional reforms at that time. The Upper Voltan representatives said that they would now aim to accomplish this with the next (1984) budget.

Given the present state of the budgetary accounts, it is impossible to present more than rough estimates of the size of the overall deficit, and such estimates are critically affected by the assumptions made about the disbursement and financing of foreign aid projects. On the basis of the national budget provisions for 1983 together with likely actual government investment expenditures (which show only a small increase over the previous year's level), it was estimated that the overall deficit before grants would decline to about CFAF 47 billion in 1983, which as a proportion of GDP would represent about 11.5 per cent as compared with 13-14 per cent in the two preceding years. An overall deficit of this size would be prospectively financeable from foreseeable external grants and concessional loans and normal statutory advances from the BCEAO. However there were doubts about the national budget projections. In the 1983 budget a sharp curtailment in the rate of growth in expenditures was projected, and a number of specific economy measures were introduced in order to bring this about. Only minor new revenue measures were proposed, but improved administration and other factors were expected to bring about a relatively more rapid increase in government revenues. The projected deficit on operations of the national budget was CFAF 3.7 billion (equivalent to about 1 per cent of GDP, or less than half the level of the two preceding years). A re-estimation of the budgetary projections undertaken by the mission indicated that, with no further measures, revenues were likely to be less than estimated, while expenditure appropriations for the local contribution to anticipated development expenditures and other purposes were underestimated and would need to be raised. The re-estimation suggested that an additional national budget gap of about CFAF 3 billion might have to be financed. The mission urged that measures be taken immediately to close this gap, rather than relying, as the authorities had intended, on

additional budget support which might become available in 1983 under a recently negotiated bilateral loan from an OPEC country.

In discussing the alternative measures available, it was agreed that further compression of budgetary expenditures would be difficult and that the bulk of the budgetary adjustment at this time should therefore be sought on the revenue side. The increased level of the deficits on national budget operations during the last two years had been caused more by a lack of buoyancy in revenues than by manifestly excessive recurrent expenditure increases. The low elasticity of revenues over this period, which was evident despite rounds of discretionary tax increases in 1981 and again in August 1982, can be attributed to a variety of factors, including weaknesses in tax administration, a high level of tax exemptions under the investment code, and failure over time to raise valeurs mercuriales (i.e., the nominal import prices used as a basis for assessing import taxes) as import costs have increased (which has had the effect of converting ad valorem import taxes into specific ones). The tax effort in Upper Volta remains relatively low by comparison with other similar countries in the region. The authorities are considering a range of measures to rectify this situation which they estimate would raise additional annual revenues of nearly CFAF 4 billion, including increases in valeurs mercuriales, certain customs duties, and sales taxes on petroleum products, and rewriting the investment code with a view to limitation of fiscal exemptions. Exceptionally in 1983 they also plan an effort to recover CFAF 2 billion of arrears in tax payments which accumulated during 1982.

The parastatal sector presents special problems. The number of autonomous public and semipublic bodies and companies with government participation has risen over recent years to total about 120, accounting for virtually every sizable enterprise in the country. Most are inefficient, overstaffed, poorly managed, and, in one way or another, represent a net drain on the Central Government's finances. The Government has recently established a unit in the Office of the Prime Minister to supervise the parastatal sector, but this is not yet operative. It has also decreed that all borrowing by public enterprises requires prior approval of the Minister of Economic Affairs and Finance. Some of the pricing measures discussed earlier will help improve the profitability of the sector. The staff suggested further that, for the immediate future, there should be a halt in the creation of any new public or semipublic entities, that accountability should be rigorously enforced, and that the sector's over-all access to borrowing, both external and domestic, should be subjected to strict limits. For the longer run, there is need for a comprehensive review leading to a program of specific actions designed to improve the sector's efficiency.

4. Money and banking

Under the BCEAO system, overall credit guidelines are drawn up at the beginning of each year consistent with the projected balance of payments

outcome and other relevant parameters. Credit to Government is limited by statute to a proportion of the previous year's fiscal receipts. For 1983 the guidelines project an expansion of credit to Government of only CFAF 2.3 billion, reflecting the fact that most of the available leeway has been used up in previous years. The authorities intend to limit credit expansion to the enterprise sector (which in Upper Volta includes most public and semipublic institutions) to 10.7 per cent over 1982 levels, and to maintain a strict control over individual enterprises' borrowing based upon their financial condition and prospects. They feel that the mechanisms to exercise such control on a case-by-case basis are already available to the Central Bank, and they did not favor the idea of establishing separate subtargets for credit to the public and semipublic enterprises. However, they acknowledged concern about the substantial recent increase in nonrepayments of bank credits, which they said essentially reflected the difficult financial condition of many larger enterprises. Further credit to these enterprises is being strictly limited under present circumstances. The money that has been advanced by local banks to prefinance work on the Tambao railway construction (about CFAF 4 billion) will also likely prove irrecoverable if it cannot be replaced with external financing as originally envisaged.

The seasonal expansion of credit for crop financing was, in their view, no problem for the banking system, since this type of credit, usually rediscounted with the Central Bank, was self-liquidating in nature and the repayment record was good. They pointed out, however, the extreme difficulty in accurately forecasting the needs for this type of credit, which they felt would make it very difficult to establish meaningful comprehensive quarterly ceilings on credit to the private sector.

5. External sector

The steadily deteriorating trend in the overall balance of payments during the last few years is a source of concern to the authorities. Assuming present policies remain unchanged, the current account deficit is expected to enlarge to nearly SDR 80 million (7.3 per cent of GDP) in 1983, from SDR 65 million (6.6 per cent of GDP) in 1982, reflecting a deterioration on the goods and services account due mainly to increasing imports offset to a small extent by a recovery in net inward transfers. The corresponding overall deficit is expected to rise to about SDR 14.3 million (1.3 per cent of GDP) in 1983. The staff and Upper Voltan representatives agreed that these current account and overall deficits projected for 1983 were too large to be sustainable over the medium term. While projecting the balance of payments outcome over the medium term is an unusually hazardous exercise in Upper Volta's case because of acute uncertainties surrounding the future magnitudes of important items such as agricultural exports, emigrant remittances and foreign aid flows, it is apparent that, without actions to rectify existing internal imbalances particularly in the area of public finances, the current account deficit is unlikely to improve significantly in the foreseeable future, and, given

the projected external debt service increases, the overall deficit can be expected to rise.

The main actions the authorities can take to influence the balance of payments outcome over the medium term are those bearing upon export production and import demand. In the absence of freedom to use the exchange rate instrument, fiscal and monetary measures as already discussed must be the main vehicles of adjustment. In addition, care needs to be taken to avoid further excessive build up of short- and medium-term external debt service obligations. Because of the composition of the existing external public debt, there would not seem to be the possibility of obtaining significant relief from rescheduling official debt service obligations through the Paris Club, although consideration might be given to bilaterally renegotiating or refinancing certain of the shorter-term credits obtained recently.

The Upper Voltan representatives said that, while decisions concerning the exchange rate and related matters were taken collectively by the members of UMOA, they felt that the depreciation of the effective exchange rate for the CFA franc that had taken place since 1980 was appropriate for Upper Volta's circumstances.

III. Staff Appraisal

Upper Volta is severely disadvantaged by its geography and limited natural resource endowments, but has nevertheless maintained a positive average rate of growth per capita over the last decade, due mainly to the pursuit of sensible rural development policies and the willingness of foreign donors to provide substantial support for them on concessional terms. The country's first objective should be to continue with a well-conceived and broad-based development effort which will continue to achieve such results. In this connection, some questionable public investment decisions have been taken during the last few years, and there is need to ensure that new projects are consistent with this objective. In particular, the authorities should be very cautious in proceeding further with the Tambao railway project, whose prospective financial implications are troubling. The authorities are now preparing a new development plan which they intend to present to a donor's conference later in the year. It will also be important to improve the procedures for initiating, executing, and monitoring development expenditures, and to this end the staff welcomes the authorities' intention that annual investment budgets should be introduced on a regular basis starting in 1984.

It is also critical that every effort be made to reduce the internal and external financial imbalances that have built up particularly during the last two years. It is this task which provided the principal focus of these consultation discussions. While the present magnitude of these imbalances may be financable in the short term, timely corrections are

nonetheless needed to reverse recent trends and return to a more sustainable medium-term path. In particular, the steady deterioration in the overall balance of payments position over recent years needs to be turned around promptly.

The central problem for the near future is how to return the overall deficit on the Central Government's financial operations to a level which can be readily financed by available concessional foreign assistance. For 1983, a reasonable aim would be to reduce the overall deficit before grants to about 11.5 per cent of GDP. To this end, investment expenditures should be limited to projects which can be financed with such assistance. Otherwise, the focus of action is mainly on those transactions covered by the national budget. The authorities have, with the 1983 budget, introduced new measures to limit further growth in national budgetary expenditures: these will need to be rigorously pursued and enforced, so as to avoid overruns of the kind that resulted in a temporary accumulation of internal and external payments arrears during the latter part of 1982. In particular, the budget cannot afford further generalized increases in the wages and salaries bill during 1983. There is significant scope for action on the revenue side, where tax effort and revenue elasticity remain relatively low. The staff has discussed with the authorities a number of possible discretionary tax measures designed to improve revenue performance and elasticity. These could have a significant impact in the present budgetary year and beyond, and it would be advisable to make the choice and implement the measures concerned with minimum delay. The staff also urges the authorities to implement as soon as possible the recommendations for improving budgetary procedures recommended by an earlier Fund technical assistance mission.

There is also need to reduce other drains upon the resources of the Treasury arising from extrabudgetary expenditures. In this context, the need for price and tariff increases for fertilizers, electricity, post and telegraph services, and railway transportation has already been studied extensively, and appropriate measures are now urgently needed to reduce the operating deficits of the enterprises concerned. Such actions, as well as some of the tax increases now being considered, will inevitably raise the cost of living, particularly in urban areas, but this must be regarded as unavoidable under the circumstances. Extrabudgetary operations should be kept under close control, and the practice of drawing down funds deposited by public enterprises in the Treasury to finance ongoing government expenditures should to be avoided. The recent increase in official foreign borrowing on nonconcessional terms is worrying. In this connection, the staff welcomes the administrative steps taken recently to bring the borrowing activities of ministries and public and semipublic agencies under centralized control. More comprehensive recording of public debt service obligations is also urgently needed.

Overall credit expansion has not been excessive over the last two years, and the established credit limits for 1983 seem broadly appropriate.

However, the recent rise in nonrepayment of bank credits is a matter for concern. This must be reversed mainly through measures to improve the financial position of borrowing enterprises, most of which are in the semipublic sector. Further use of bank credit to finance development projects such as the Tambao railway, which do not promise to generate funds sufficient to assure repayment over the appropriate period, should be avoided.

The Upper Voltan authorities can do relatively little on a unilateral basis to influence interest and exchange rate policies affecting their economy; these are determined within the wider context of membership in the UMOA. Recent developments in these areas would, however, appear to be broadly appropriate for Upper Volta's circumstances and needs. The continued liberal nature of the restrictive system is welcomed.

The medium-term outlook for the balance of payments, while very uncertain, suggests that in the absence of appropriate adjustment measures there is likely to be a continued overall deficit which will involve steady deterioration of the present reasonably comfortable external reserves position. A program of actions such as discussed during this consultation should do much to strengthen the balance of payments and eliminate the prospect of continued slide into external financial difficulties.

It is recommended that the next Article IV consultation with Upper Volta be held on the standard 12-month cycle.

IV. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Upper Volta, in the light of the 1983 Article IV consultation with Upper Volta conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Upper Volta continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

UPPER VOLTA--Relations with the Fund
(As of April 30, 1983)

| | |
|---|---|
| Date of membership: | May 2, 1963 |
| Quota: | SDR 24 million (proposed maximum quota of SDR 31.6 million under the Eighth General Review of Quotas) |
| Fund holdings of local currency: | SDR 18.4 million, or 76.5 per cent of quota |
| Holdings of SDRs: | SDR 7.32 million, or 77.80 per cent of the net cumulative allocation of SDR 9.4 million |
| Trust Fund loan disbursements (first and second periods): | SDR 12.7 million |
| Direct distribution of profits from gold sales: | US\$2.09 million |
| Gold distribution: | 11,124.368 fine ounces (four distributions) |

Staff contacts

| | |
|---|---|
| Last Article IV consultation: | August 18-31, 1981; Executive Board discussion on December 16, 1981 |
| Discussion of possible use of Fund resources: | February 4-12, 1981 |
| Discussion of possible use of Fund resources: | May 4-7, 1981 |
| Technical assistance mission from Fiscal Affairs Department: | December 5-16, 1981 |
| Discussion of possible use of Fund resources: | February 9-19, 1982 |
| Discussion of possible use of Fund resources (in Washington): | June 16-23, 1982 |

Financial Relations of the World Bank Group with Upper Volta

Date of membership: May 2, 1963
 Capital subscription: SDR 10 million

| IDA lending operations <u>1/</u> | Committed | Disbursed |
|--------------------------------------|-----------|-----------|
| <u>(In millions of U.S. dollars)</u> | | |
| Ten credits fully disbursed | 50.7 | 50.7 |
| Agricultural and rural development | 98.3 | 20.0 |
| Education | 14.0 | 2.2 |
| Transportation | 58.7 | 10.0 |
| Of which: railway | (5.2) | (3.2) |
| Telecommunication | 17.0 | -- |
| Industry (small and medium scale) | 4.0 | 1.4 |
| Urban development | 8.2 | 2.5 |
| Total | 250.9 | 86.8 |
| Repayments | -0.2 | -0.2 |
| Debt outstanding | 250.7 | 86.6 |

Technical assistance: the World Bank has provided technical assistance to Upper Volta through its standard lending operations for projects. The Bank has a Resident Representative in Ouagadougou. In addition, the World Bank anticipates early implementation of a technical assistance project to help with the preparation of an investment budget and the setting up of an administration unit for the coordination and the monitoring of the investment budget operation.

Recent economic mission: A mission visited Ouagadougou in March 1983 to discuss the last Country Economic Memorandum (No. 4040-UV) issued (green cover) on November 30, 1982. A draft Country Program Paper was issued on August 31, 1981.

Source: World Bank.

1/ Through the end of September 1982.

UPPER VOLTA - Basic Data

Area, population, and GDP per capita

| | |
|------------------------------------|---------------------------|
| Area: | 274,000 square kilometers |
| Resident population: Total (1982): | 6.36 million |
| Growth rate: | 1.7 per cent |
| GDP per capita (1982): | SDR 154 |

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> |
|---|-----------------------------|-------------|-------------|-------------|-------------|
| | | Est. | Est. | Est. | Proj. |
| <u>Gross domestic product</u> <u>(at current prices)</u> | <u>(In per cent of GDP)</u> | | | | |
| Primary sector | 37.8 | 36.8 | 35.6 | 34.5 | ... |
| Secondary sector | 15.9 | 16.0 | 15.9 | 15.9 | ... |
| Tertiary sector | 37.4 | 37.9 | 38.7 | 40.7 | ... |
| Consumption | 108.5 | 107.5 | 108.1 | 108.7 | 108.1 |
| Investment | 18.2 | 18.3 | 17.1 | 14.7 | 14.1 |
| Resource gap | 26.7 | 25.8 | 25.2 | 23.3 | 22.2 |
| Gross national savings | -- | 0.8 | 0.5 | -2.1 | -2.5 |
| Total (in billions of CFA francs) | 252.8 | 281.6 | 316.6 | 354.6 | 405.2 |
| Annual growth rate (in per cent) | | | | | |
| Nominal | 18.6 | 11.4 | 12.4 | 12.0 | 14.3 |
| Real | 0.5 | 3.4 | 1.6 | 1.6 | 3.3 |

Prices

(Annual change in per cent)

| | | | | | |
|----------------------------------|-------|------|-------|------|------|
| Implicit GDP deflator | 17.9 | 7.7 | 10.7 | 10.2 | 10.6 |
| Low-income consumer price index | 15.0 | 12.2 | 7.6 | 10.0 | ... |
| High-income consumer price index | 9.1 | 11.5 | 9.8 | 17.3 | ... |
| Export prices (in CFA francs) | -23.9 | 8.4 | 3.0 | 15.4 | 6.9 |
| Import prices (in CFA francs) | 9.5 | 14.0 | 24.0 | 14.8 | 6.2 |
| Terms of trade | -30.5 | -4.4 | -16.9 | 0.5 | 0.5 |

Upper Volta--Basic Data (continued)

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> <u>1/</u> |
|--|-----------------------------|-------------|-------------|-------------|-----------------------|
| <u>Central government finance</u> | (In billions of CFA francs) | | | | |
| Revenue and grants | 63.1 | 65.8 | 74.0 | 79.7 | 85.1 |
| Revenue | (38.2) | (41.2) | (44.9) | (50.0) | (54.2) |
| Grants | (24.9) | (24.6) | (29.1) | (29.7) | (30.9) |
| Expenditure | -73.0 | -82.7 | -85.3 | -91.0 | -101.8 |
| Recurrent | (-31.3) | (-33.4) | (-36.7) | (-45.3) | (-49.3) |
| Investment | (-41.7) | (-49.3) | (-48.6) | (-45.7) | (-52.5) |
| Miscellaneous <u>2/</u> | 0.3 | -0.2 | -3.6 | -5.8 | 1.0 |
| Overall deficit | -9.6 | -17.1 | -14.9 | -17.1 | -15.7 |
| Overall deficit before grants | (-34.5) | (-41.7) | (-44.0) | (-46.8) | (-46.6) |
| External financing | 10.7 | 11.0 | 10.0 | 12.7 | 12.3 |
| Gross disbursement | (11.7) | (13.1) | (12.2) | (16.5) | (15.5) |
| Amortization | (-1.0) | (-2.1) | (-2.2) | (-3.8) | (-3.2) |
| Domestic bank financing (net) | -0.1 | -2.0 | 4.9 | -0.1 | 3.4 |
| Central government borrowing | (2.3) | (0.7) | (8.6) | (1.9) | (3.9) |
| Parastatals' deposits | (-2.4) | (-2.7) | (-3.7) | (-2.0) | (-0.5) |
| Unidentified financing (net) | -1.0 | 8.1 | -- | 4.5 | -- |
| | (In per cent of GDP) | | | | |
| Overall deficit | -3.8 | -6.1 | -4.7 | -4.8 | -3.9 |
| Overall deficit before grants | (-13.6) | (-14.8) | (-13.9) | (-13.2) | (-11.5) |
| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> <u>3/</u> |
| <u>Money and credit</u> (end of period) | (In billions of CFA francs) | | | | |
| Net foreign assets | 4.1 | 6.9 | 8.3 | 4.9 | -0.5 |
| Domestic credit | 51.9 | 53.0 | 61.1 | 70.6 | 81.8 |
| Net claims on | | | | | |
| Government | -4.9 | -6.9 | -1.9 | -2.1 | 1.3 |
| Credit to enterprises and individuals | 56.8 | 59.9 | 63.1 | 72.7 | 80.5 |
| Of which: financed by the Central Bank | (10.1) | (11.8) | (8.9) | (10.3) | (13.7) |
| Money and quasi-money | 46.2 | 53.2 | 63.7 | 72.2 | 80.7 |
| | (In per cent of GDP) | | | | |
| Money and quasi-money | 18.3 | 18.9 | 20.1 | 20.4 | 19.9 |

Upper Volta--Basic Data (continued)

| | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> |
|---|--------------------------------------|--------------|--------------|--------------|--------------|
| <u>Public external debt</u> | <u>(In millions of U.S. dollars)</u> | | | | |
| Disbursed and outstanding (end of period) | 271.1 | 323.0 | 296.2 | ... | ... |
| In per cent of GDP | 21.6 | 25.9 | 26.9 | ... | ... |
| Amortization | 4.5 | 10.1 | 8.2 | 11.7 | 9.6 |
| Interest payments | 4.3 | 7.1 | 6.7 | 6.3 | 11.3 |
| Debt service ratio in per cent <u>4/</u> | 3.1 | 5.4 | 5.4 | 7.4 | 8.0 |
| <u>Balance of payments</u> | <u>(In millions of SDRs)</u> | | | | |
| Merchandise trade | -138.9 | -159.9 | -152.3 | -140.6 | -158.8 |
| Exports, f.o.b. | (102.7) | (116.4) | (103.6) | (108.6) | (113.5) |
| Imports, f.o.b. | (241.6) | (267.3) | (255.9) | (249.2) | (272.3) |
| Services (net) | -113.4 | -120.4 | -109.5 | -103.4 | -107.0 |
| Of which: interest payments on public debt | (3.3) | (5.4) | (5.7) | (5.7) | (10.2) |
| Transfers (net) | 208.2 | 216.4 | 207.9 | 179.2 | 186.0 |
| <u>Current account balance</u> | <u>-44.1</u> | <u>-54.9</u> | <u>-54.0</u> | <u>-64.8</u> | <u>-79.8</u> |
| Nonmonetary capital | 47.5 | 60.7 | 53.1 | 55.7 | 65.5 |
| Private (net) | 8.6 | 20.7 | 21.8 | 20.7 | 21.6 |
| Public (net) | 38.9 | 40.0 | 31.2 | 35.0 | 43.9 |
| Of which: amortiza- tion of public debt | (3.5) | (7.7) | (6.9) | (10.6) | (8.7) |
| SDR allocations and errors and omissions | 7.6 | 1.4 | 2.5 | -- | -- |
| <u>Overall balance (deficit -)</u> | <u>11.0</u> | <u>7.3</u> | <u>1.6</u> | <u>-9.1</u> | <u>-14.3</u> |
| | <u>(In per cent of GDP)</u> | | | | |
| Merchandise trade | -15.1 | -14.7 | -15.4 | -14.4 | -14.5 |
| Exports, f.o.b. | (11.2) | (11.4) | (10.5) | (11.1) | (10.4) |
| Imports, f.o.b. | (26.3) | (26.1) | (25.9) | (25.5) | (24.9) |
| Current account balance | -4.8 | -5.4 | -5.5 | -6.6 | -7.3 |
| Overall balance | 1.2 | 0.7 | 0.2 | -0.9 | -1.3 |
| | <u>(In millions of SDRs)</u> | | | | |
| <u>Gross official reserves</u> (end of period) | 46.8 | 53.5 | 60.9 | 55.0 | 47.2 |

Upper Volta--Basic Data (concluded)

| | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> |
|-----------------------|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>(CFA francs per SDR)</u> | | | | | |
| <u>Exchange rates</u> | | | | | | |
| End of period | 272.3 | 264.8 | 288.0 | 334.5 | 370.9 | ... |
| Period average | 282.5 | 274.8 | 275.0 | 320.4 | 362.8 | 370.9 |

1/ Based on national budget estimates.

2/ Includes net lending, check float, deferred payments, and unidentified expenditure.

3/ BCEAO projections and targets.

4/ In per cent of exports of goods, nonfactor services, and private transfers.

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