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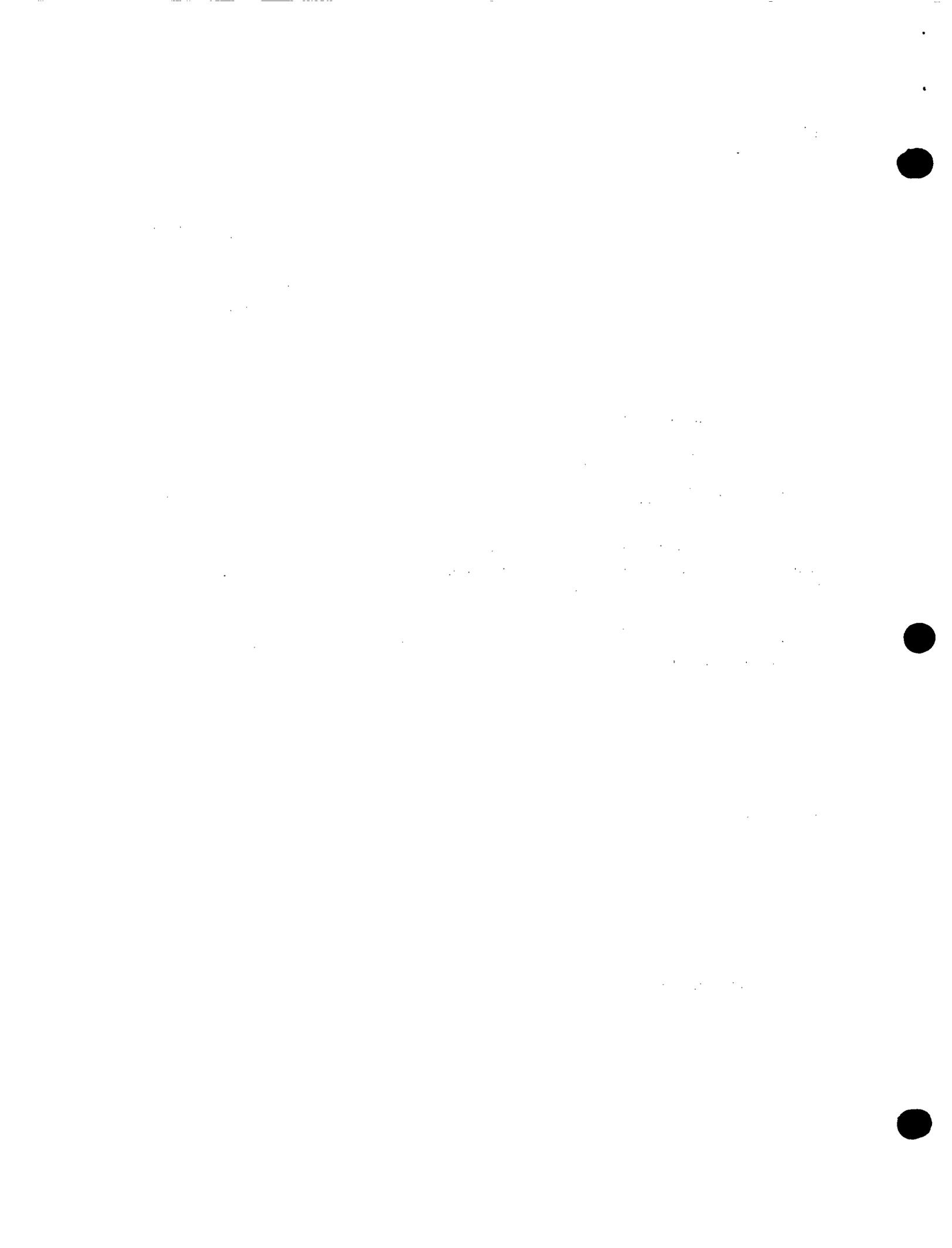
To: Members of the Executive Board
From: The Secretary
Subject: Burkina Faso - Staff Report for the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Burkina Faso, which will be brought to the agenda for discussion on a date to be announced.

Mr. Cronquist (ext. 6932) or Mr. Enders (ext. 6935) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

BURKINA FASO

Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the
1987 Article IV Consultation with Burkina Faso

Approved by A.D. Ouattara and S. Kanesa-Thanan

December 16, 1987

I. Introduction

The 1987 Article IV consultation discussions with Burkina Faso were initiated in Ouagadougou during the period September 2-16, 1987 and concluded at headquarters on October 2, 1987. The Burkina Faso authorities comprised Mr. Dondassé, then Minister of Financial Resources, Mrs. Ouédraogo, then Minister of the Budget, Mr. Koné, National Director of the Central Bank of West African States (BCEAO), and an interministerial committee of senior civil servants. Discussions were also held at the BCEAO headquarters in Dakar. Mr. Toé, Advisor to the Executive Director for Burkina Faso, joined the mission in Ouagadougou. The staff team consisted of Mr. Cronquist (head-AMR), Mr. Buu Hoan (AMR), Mr. Enders (AMR), Mr. Tas (AMR), Mr. Mansoor (FAD), and Ms. Bourassa (secretary-LEG).

On October 15, 1987, a coup d'état took place and a new government was appointed on October 31, 1987. In the absence of information on the new Government's economic and financial policies, the section "Report on the Discussions" reflects information received from the authorities at the time of the mission's stay in Ouagadougou and during the discussions at headquarters.

Burkina Faso continues to avail itself of the transitional arrangements of Article XIV. It has not used Fund resources, and Fund holdings of its currency, the CFA franc, are at present equivalent to 76.2 percent of quota. Burkina Faso is eligible for use of Fund resources under the structural adjustment facility. The 1985 Article IV consultation was completed on July 14, 1986 (EBM/86/114). Summaries of Burkina Faso's relations with the Fund and with the World Bank Group are provided in Appendices I and II, respectively. Statistical issues are discussed in Appendix III, and statistical tables are presented in Appendix IV.

II. Background and Recent Economic Developments

In concluding the 1985 Article IV consultation with Burkina Faso, Executive Directors noted with concern the difficult economic and financial situation in recent years, which had been characterized by a slow rate of economic growth and large financial imbalances. The economic and financial difficulties were due in part to exogenous factors, and in part to the Government's budgetary stance and its marketing and pricing policies. While noting that the authorities' main adjustment strategy for 1986 would center on the Government's budgetary position, Directors advised the authorities to pursue efforts in the areas of development planning, rehabilitation of public enterprises, and further liberalization of pricing and marketing policies, and urged them to elaborate a comprehensive adjustment program to eliminate external and internal imbalances. Directors also noted Burkina Faso's weak statistical data base, and encouraged the authorities to continue their efforts at improving the availability and timeliness of statistical information in order to enhance financial management.

Economic developments during 1986 continued to be influenced by the improved weather conditions, which were reflected in a 13 percent expansion of output in the agro-pastoral sector. ^{1/} However, as was the case in 1985, the recovery of the primary sector appears to have provided a relatively modest stimulus to the secondary sector, where output expanded by only 3 percent despite a substantial increase in cotton processing. Growth in the tertiary sector reached 8 percent, largely because of the increase in central government activities. Overall, real GDP grew by about 10 percent in 1986, compared with some 13 percent in 1985 (Table 1). The rate of inflation, as measured by the GDP deflator, which had been about 3 percent in 1985, became negative in 1986, owing to the rapid decline in food prices and the collapse of world market prices for cotton. Consumer prices, as measured by the Ouagadougou price index, which had risen by nearly 8 percent in 1985, declined by 3 percent in 1986, mainly on account of lower domestic food prices.

The Central Government's budgetary position improved in 1986 as revenues rose faster than expenditures. The Treasury's operations, ^{2/}

^{1/} Due to the weak data base, the quantification of economic variables is only indicative of underlying trends.

^{2/} The analysis of the budgetary operations is limited to the Treasury, owing to lack of data on foreign-financed investments, on those investments that are financed through a levy on public sector salaries outside the budget, on extrabudgetary current outlays, and on the operations of the price stabilization and social security funds. An effort was made in 1986 to prepare more comprehensive data on budgetary operations, but this effort was not sustained by the authorities. The analysis is also hampered by substantial delays in the classification of treasury receipts and expenditures, and the existence of a prolonged complementary period.

Table 1. Burkina Faso: Selected Economic and Financial Indicators, 1983-87

	1983	1984	<u>1985</u> Est.	<u>1986</u> Est.	<u>1987</u> Proj.
<u>(Annual percentage changes)</u>					
GDP and prices					
GDP at current prices	6.0	2.5	16.7	-0.1	8.1
GDP at constant prices	-1.2	1.6	13.0	10.0	2.1
GDP deflator	7.3	0.9	3.3	-9.2	5.8
Consumer prices	5.2	4.5	7.6	-3.0	-0.7
Treasury operations					
Revenue (excluding grants)	-2.7	12.5	14.7	24.2	0.1
Current expenditures	11.4	8.0	-21.0	12.3	18.4
Total outlays	11.5	9.3	-18.0	10.2	20.3
Monetary aggregates ^{1/}					
Total domestic credit	1.3	-3.8	12.0	2.2	13.6
Claims on Government, net	-9.3	-1.8	-6.9	-3.4	-2.3
Of which: central bank net claims on the Treasury	(-3.2)	(4.9)	(-2.6)	(3.0)	(3.7)
Credit to the economy	10.6	-2.0	18.9	5.7	15.9
Money and quasi-money	12.1	15.8	6.5	22.2	20.9
External sector (in terms of CFA franc values)					
Exports, f.o.b.	3.6	43.1	-9.2	10.7	20.2
Imports, f.o.b.	-0.5	0.3	13.6	-1.0	2.0
Terms of trade	-23.2	-3.0	8.8	-18.5	23.5
Nominal effective exchange rate	-4.6	-3.1	0.1	3.0	1.3
Real effective exchange rate	-3.4	-4.3	2.1	-1.8	-1.4
<u>(In percent of GDP)</u>					
Treasury surplus or deficit (-), commitment basis	-5.6	-5.8	--	1.7	-1.3
External current account deficit					
Excluding official grants	-20.3	-15.5	-17.9	-15.3	-13.7
Including official grants	-6.0	-0.4	-4.8	-3.4	-3.9
Overall balance of payments surplus or deficit (-)	4.1	2.3	-0.3	1.9	1.1
Gross official reserves (in months of imports, c.i.f.)	3.0	4.3	3.8	5.5	6.4
Outstanding external debt, disbursed	43.3	49.9	41.2	43.7	40.8
Debt service ratio (in percent of exports of goods and nonfactor services)	10.0	10.5	17.4	15.8	16.4
Government debt service in percent of budget revenue	9.0	10.9	15.7	11.1	13.6

Sources: Data provided by the Burkinabe authorities; and staff estimates and projections.

^{1/} In percent of initial stock of broad money.

on a commitment basis, resulted in a surplus equivalent to 1.7 percent of GDP, compared with virtual equilibrium in 1985 (Appendix IV, Table I). Nevertheless, external interest obligations were not paid in full, whereas an estimated CFAF 3 billion of domestic payments arrears were settled. The surplus on a cash basis was equivalent to 1.4 percent of GDP. Despite nearly CFAF 3 billion of central bank advances, domestic financial resources were insufficient to prevent a further increase in arrears on external debt amortization, particularly since some of the special funds that maintain accounts with the Treasury moved about CFAF 7 billion of their deposits to the banking system. At the end of 1986, the Treasury's payments arrears on account of external debt obligations are estimated to have reached nearly CFAF 12 billion (3 percent of GDP).

Budgetary revenues rose by 24 percent in 1986, owing mainly to the introduction of a tax on petroleum imports, improved customs administration, and better collection of income taxes. However, the collection of income taxes in 1986 also included taxes that were due for payment in 1985. If it is assumed that the large bulk of unclassified revenues consists of tax receipts, the tax effort rose from about 12 percent of GDP on average in 1983-85 to about 16 percent in 1986. Current expenditures rose by about 12 percent in 1986, primarily because of an 11 percent increase in the wage bill. This increase reflected, on the one hand, the lower base that resulted from a reduction in 1985 in the wage bill, when one month's salary was withheld to finance public investments. On the other hand, the 1986 wage bill, as recorded by the Treasury, was inflated to the extent that it included salaries withheld for the financing of extrabudgetary investments in that year. No information was available on amounts withheld or the extrabudgetary investment outlays.

In 1986, credit to the economy (state enterprises and the private sector) increased by about 6 percent in terms of beginning broad money stock, compared with nearly 19 percent in 1985 (Appendix IV, Table II). Most of the credit expansion in 1986 was due to a 55 percent increase in outstanding crop credit, mainly because of the inability of the principal cotton-exporting enterprise to repay these short-term credits owing to liquidity problems. The continued accumulation of payments arrears in 1986 also allowed the Government, including its special funds outside the Treasury, to increase its net creditor position with the banking system by more than CFAF 3 billion. As a result, total domestic credit in 1986 rose by only 2 percent in terms of beginning money stock, as against 12 percent in 1985. However, there was a substantial increase in net external assets, and broad money supply rose by 22 percent in 1986. In March and September 1986, the BCEAO lowered its rediscount rate by one percentage point and by 1.5 percentage points, respectively, and commercial banks' deposit and lending rates were adjusted correspondingly.

The overall balance of payments position in 1986 reflected the substantial growth in agricultural output and the continued accumulation

of external payments arrears. Export earnings rose by nearly 11 percent, mainly due to higher agricultural exports, excluding cotton, and a near doubling of exports of gold, which accounted for about 16 percent of total export receipts in 1986, compared with 10 percent in 1985 (Appendix IV, Table III). Earnings from cotton, the single most important export commodity, fell by almost 4 percent, as a sharp increase in export volume was more than offset by the 45 percent decline in the export unit price. The good agricultural harvest and the estimated slowdown in investment activities contributed to a decline in the value of food and equipment imports that more than compensated for the increase in imports of petroleum products and other consumer goods; as a result, total imports declined by about 1 percent. Mainly as a result of the lower trade deficit, the external current account deficit, including official unrequited transfers, narrowed from the equivalent of 4.8 percent of GDP in 1985 to 3.4 percent. Excluding official unrequited transfers, the deficit was equivalent to 15.3 percent of GDP in 1986. As net inflows of capital increased, in part due to delayed disbursements of project loans for investments in 1985, the overall balance of payments recorded a surplus of CFAF 8.5 billion (1.9 percent of GDP), compared with a deficit of CFAF 1.2 billion (0.3 percent of GDP) in 1985. However, net official reserves increased by nearly CFAF 16 billion, as the increase in external payments arrears totaled more than CFAF 7 billion, and gross official reserves reached the equivalent of 5 1/2 months of imports. Burkina Faso continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions. The trade-weighted nominal effective exchange rate appreciated by 3.0 percent in 1986, following an appreciation of 0.1 percent in 1985. In real terms, there was a depreciation of 1.8 percent in 1986 compared with an appreciation of 2.1 percent in 1985 (Chart 1).

III. Report on the Discussions

A full analysis of the immediate prospects for the economy was hampered by the major weaknesses in the data base. Also, policy discussions were largely confined to the government budget. As the authorities continued to express interest in pursuing discussions on an adjustment program that could be supported by use of Fund resources, the staff team emphasized that considerable preparatory work would need to be undertaken to provide the basis for formulating such a program. At the authorities' request, the staff prepared, in collaboration with the World Bank staff, a preliminary timetable for the requisite preparatory work, particularly in the areas of public investment and state enterprises.

1. Economic development

Public investment in Burkina Faso did not take place within the context of a comprehensive investment program until 1984. In that year, a "popular development program" was adopted, covering the period October

1984-December 1985 and emphasizing small-scale rural projects and related infrastructure. In August 1986 the Government undertook a five-year development plan for 1986-90, which included as principal objectives the achievement of self-sufficiency in food, the protection of the environment, the improvement of social services, and a balance between economic and demographic growth. With regard to the agricultural sector, a policy of specialization according to agro-climatic areas was to be pursued, which would permit an exchange of regional surpluses based on a strengthening of the existing distribution infrastructure. However, real GDP is projected to grow by only 2 percent in 1987, owing to lower value added in agriculture, following less favorable weather conditions, and continued sluggishness in the rest of the economy.

Following discussions with the World Bank staff, the targeted public investment level for 1986-90 was reduced from CFAF 900 billion to CFAF 640 billion; in particular, it was decided to scale down the Tambao railway project. The targeted investment level for 1987 was lowered from CFAF 147 billion to CFAF 90 billion, but the composition of the revised investment program has not yet become available, and little is known on project implementation in 1987.

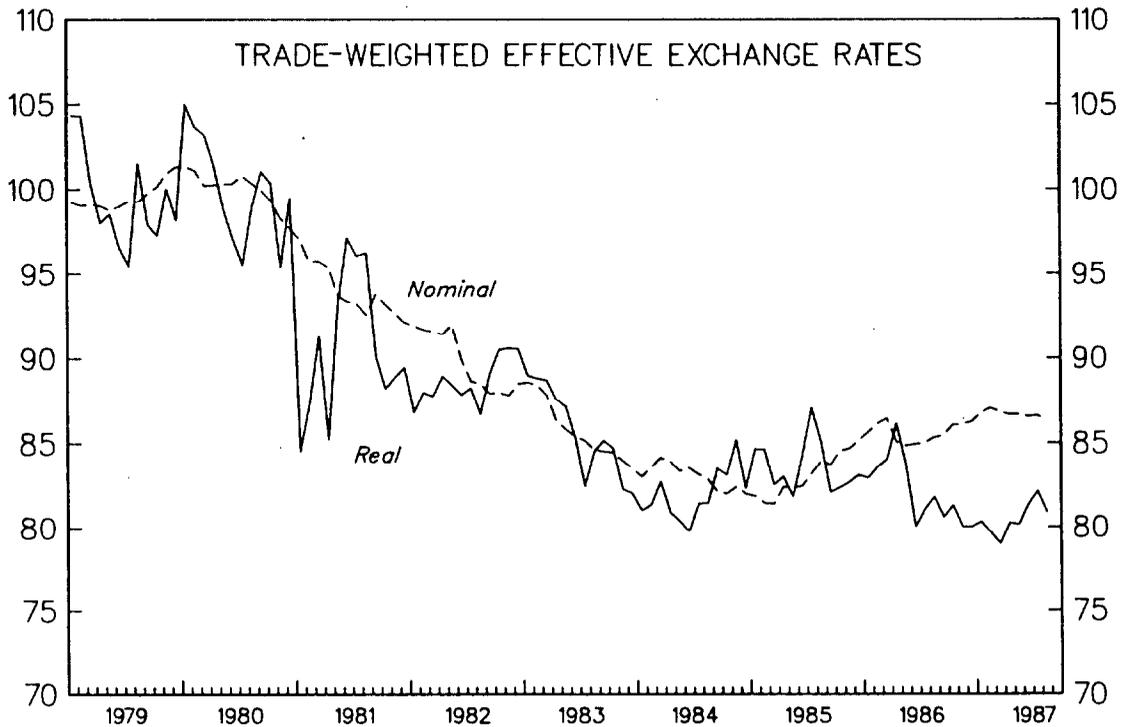
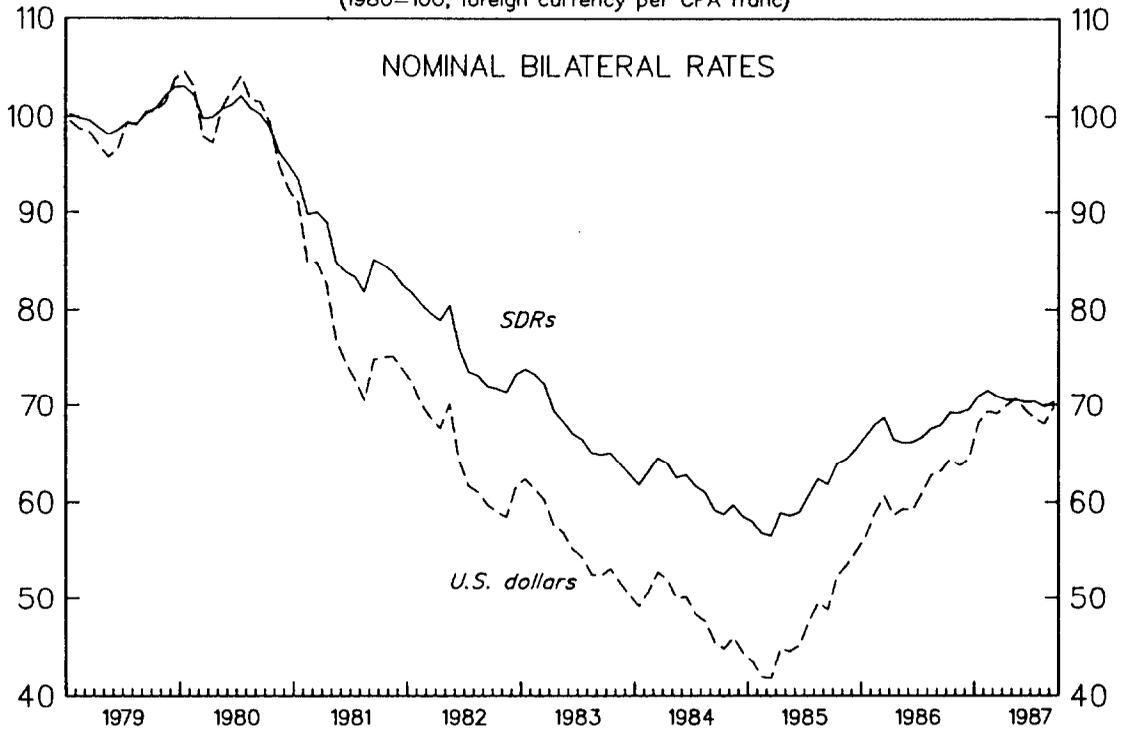
The authorities indicated that steps had been taken to improve the planning, monitoring, and execution of public investment projects, which continue to suffer from the lack of qualified staff, weak project identification and evaluation, and insufficient coordination between the concerned ministries and the donors. A number of investment projects, notably housing projects, are not included in the investment program as monitored by the Ministry of Plan. A unit at the Presidency is establishing a data bank in order to standardize project information, as well as centralize information regarding the implementation of projects. The authorities indicated an interest in pursuing the discussions with the World Bank on the preparation of an investment program for 1988 and of a three-year rolling investment plan for the period 1988-90.

2. Pricing and marketing

An extensive system of price and marketing controls at the wholesale and retail levels is being maintained. The authorities were of the opinion that the system functioned quite efficiently and that it had contributed to the low inflation rate recorded in recent years. They also felt that the system was sufficiently flexible to permit timely price adjustments to changing cost conditions. Most nonluxury import goods remain subject to profit margins, while prices for locally produced goods are determined, with a maximum delay of about two months, by an interministerial committee on the basis of documented costs. The authorities recognized, however, that, in the case of cereals, an inflexible pricing policy had resulted in considerable financial difficulties for the public cereal marketing board (OFNACER) during 1985/86, when the official producer price substantially exceeded the price paid by private traders. During the 1986/87 crop season, the

CHART 1
BURKINA FASO
EXCHANGE RATE DEVELOPMENTS,
JANUARY 1979 TO AUGUST 1987

(1980=100; foreign currency per CFA franc)



Sources: IMF, Data Fund; and staff estimates.



official producer prices for cereals were reduced by 50 percent in order to avoid an aggravation of the situation. With respect to the 1987/88 crop season, OFNACER's role is to be confined to the management of a national security stock and of food aid.

Recent measures to reinforce the marketing controls include a requirement to use locally produced cereals in bread and beer production, and to increase the use of locally produced cotton textiles for clothing. A monopoly for imports of rice has been granted to an ailing trading company (FASO YAAR), and a ban on imports of fruits, except cola nuts, has been introduced in order to protect local production. The staff team noted that the system of rigid price and marketing controls may have contributed to the weak performance of the secondary sector of the economy in 1985-86, and that an increasing share of locally produced goods might have been channelled through the parallel market owing to the fixing of official retail prices at inappropriate levels.

With regard to petroleum marketing, the national distribution company (SONABHY), which had been established in late 1985, was granted a monopoly for imports of petroleum products in 1986. The authorities consider SONABHY a tool for the creation and maintenance of a security stock of petroleum products. In 1987 SONABHY succeeded in diversifying the country's sources of supply, and thus in importing an increasing share of petroleum at close to world market prices, which substantially reduced the import bill.

3. Public enterprises

The Ministry of Economic Promotion assumed responsibility for the public enterprises in 1984, and efforts were made to improve the financial performance of a few key enterprises in 1985-86. However, an overall picture of the sector's performance is not available, and many of the more than 100 enterprises in this sector lack proper accounting procedures and data reporting facilities. The authorities are establishing, in the context of a World Bank project, a management reporting system that would provide information on the economic and financial situation of most public enterprises on a timely basis, and would also permit an overview of existing cross-debts between the public enterprises and the Government. The authorities estimate that this reporting system would be in place by end-1988. While such a reporting system would constitute an important step, the staff team suggested that, in the meanwhile, a medium-term rehabilitation plan for the key enterprises could be prepared in collaboration with the World Bank and other interested international institutions. In that context, the existing rigid system of price controls could be reassessed, since it was likely to have contributed to the persistent operating deficits of these enterprises.

In 1987 the authorities took some additional measures to improve the financial situation of a few enterprises, and a new wage scale for

public enterprises was adopted in order to bring their salaries closer in line with the civil service salaries that had been reduced in 1985 and 1986. The fares for the bus transportation company were increased. Measures were also taken to redress the financial situation of the cotton ginning enterprise (SOFITEX), which recorded a total operating deficit of about CFAF 10 billion in the two crop seasons 1985/86-1986/87, largely owing to the collapse of world cotton market prices in late 1985. Discussions with the French CCCE are proceeding with a view to adopting a comprehensive rehabilitation program for SOFITEX that would permit a return to profitability over the next few years, assuming a continuation of the present recovery in world market prices for cotton.

A major pending issue in the transportation sector related to the railway linking Ouagadougou and Abidjan, which is jointly owned by Burkina Faso and Côte d'Ivoire and managed by the Régie Abidjan-Niger (RAN). The RAN has incurred large losses in recent years, mainly as a result of management problems. Bilateral talks between the two countries on the future of the company were being pursued, including the issue of rehabilitation or separation into two national companies. Concomitantly, an audit was being undertaken to determine the amount of arrears accumulated by Burkina Faso toward the RAN.

4. Fiscal policy

According to the Government's approved budget for 1987, there would be a turnaround from the surplus, on a commitment basis, of CFAF 7.9 billion (1.7 percent of GDP) in 1986 to a deficit of CFAF 2.5 billion (0.5 percent of GDP). A more than doubling of domestically financed investment outlays and an increase of the wage bill of over 20 percent would more than offset a nearly 10 percent anticipated increase in revenues. In the absence of budgetary grants or foreign borrowing, a financing gap of CFAF 8.5 billion was foreseen.

Based on performance during the first half of the year, and taking into account seasonality, staff estimates indicate that the authorities' revenue target is unlikely to be attained. Thus, even if it is assumed that the appropriations for wages and salaries and goods and services will not be exceeded, while the increase in investment outlays may be constrained to 36 percent, the overall treasury deficit, on a commitment basis, is projected to reach CFAF 6.5 billion (1.3 percent of GDP). Taking into account the scheduled amortization payments and the available advances under the central bank's statutory ceiling, a financing gap of about CFAF 13 billion (2.6 percent of GDP) is estimated to emerge in 1987.

With regard to revenues, the analysis is complicated by the fact that more than 20 percent of total treasury receipts during the first half of 1987 remain unclassified. On the basis of classified tax receipts, staff projections suggest that a substantial increase in turnover taxes, resulting in part from the application of this tax also

to imports, was more than offset by lower import duties and taxes, as the applicable tax rates were reduced while the volume of taxable imports is estimated to have declined. However, due to improvements in the collection of income and profit taxes, total tax receipts for the year as a whole are projected to remain at about the 1986 level.

On the expenditure side, the authorities have adopted a policy of encouraging early retirement so as to allow the recruitment of new civil servants without increases in the wage bill. Most civil servants were regraded in 1985-86 with the result that a majority of them will not effectively qualify for promotional pay increases during the next few years. Nevertheless, the 1987 wage bill was budgeted to increase by more than 20 percent due to the establishment of a pension fund for civil servants (CARFO) with a 12 percent contribution by the Government, and the permanent integration into the civil service of part of the National Popular Service (a para-military unit) and of certain temporary employees. At the same time, total outlays for goods and services and transfers and subsidies were budgeted to increase by about 13 percent, reflecting a start-up subsidy to CARFO, transfers to OFNACER and to the road and housing funds, and an increase in scholarships.

The financing gap for 1987 of about CFAF 13 billion projected by the staff assumes that there will be no accumulation of payments arrears. In this regard, the authorities recognized, however, that in the absence of appropriate adjustment measures, supported by debt rescheduling, payment arrears would continue to accumulate. They stated that their priority was to use available resources to ensure payments for salaries and transfers. For the immediate future, the wage bill would be contained at the present level, while efforts would be made to increase tax receipts further. For the latter purpose, the informal business sector was being organized into professional groups, which would facilitate an assessment of their tax liabilities. The staff team emphasized the need to address the projected financing gap through a combination of revenue-enhancing and expenditure-reducing measures, particularly in the areas of the wage bill and the transfers and subsidies, since the continued accumulation of arrears would have an increasingly damaging effect on economic activity and, eventually, on the flow of foreign financial assistance. The staff also urged the authorities to adopt a consolidated government budget, with a view to correcting the present situation whereby the deposits of the Government's special funds and the public agencies with the banking system are excluded from the budgetary control procedures and can be used for the financing of extrabudgetary outlays.

5. Monetary and credit policy

The monetary authorities indicated that, since outstanding crop credit, mainly to the cotton-exporting enterprise, had increased substantially during the first half of the year, the target for credit to the economy in 1987, which had been set at CFAF 110.6 billion, would be exceeded and the outstanding amount could reach CFAF 121 billion,

representing an increase of about 16 percent in terms of beginning broad money stock. The Treasury was expected to use the available margin under the statutory ceiling, and staff estimates suggest that the Government's special funds outside the Treasury would continue to increase their net creditor position with the banking system. As a result, domestic credit is projected to increase in 1987 by about 14 percent in terms of beginning broad money stock, compared with 2 percent in 1986. Since net foreign assets are estimated to rise, broad money supply is projected to expand by about 21 percent during the year, more than twice the projected growth in nominal GDP of about 8 percent.

In view of the strong growth in the banking system's liquidity in recent years, in part due to the accumulation of deposits of special government funds and public agencies, the monetary authorities stated that they tightened their credit policy in 1987 by establishing minimum credit ratios for selected priority sectors as well as maximum credit ratios for non-priority sectors. Thus, the banks are henceforth obliged to allocate a specified minimum share of their loan portfolio to those priority sectors that are specified by the Government in its development plan, i.e., agriculture, mining, industry and handicraft, and infrastructure.

6. The external sector

The external current account deficit in 1987, excluding official transfers, is projected to narrow to 13.7 percent of GDP due to a further reduction in the trade deficit. Exports are projected to increase by more than 20 percent in 1987, mainly due to the recovery in cotton exports and a continued increase in gold output. Imports, on the other hand, are projected to rise by only 2 percent as the estimated higher imports of consumer goods would be offset by a decline in the import bill for petroleum products. Including official transfers, however, the deficit is projected to widen to 3.9 percent of GDP, owing to a reduction in project-related grants, including technical assistance, and in food aid. As the net inflow of nonmonetary capital is also projected to slow down, the overall balance of payments surplus is expected to be reduced by about CFAF 2.8 billion to CFAF 5.6 billion (1.1 percent of GDP). If the foreseen treasury financing gap is eliminated through external budgetary support, the overall surplus would increase further; a continued accumulation of external payments arrears would boost gross official reserves beyond the projected level for 1987, equivalent to more than six months of imports.

Outstanding public and publicly guaranteed external debt amounted to CFAF 199 billion, equivalent to 44 percent of GDP, at the end of 1986. More than two thirds of this debt, incurred for infrastructure and rural development, was owed to multilateral institutions, of which IDA accounted for about 20 percent. Although most of the external debt has been contracted on highly concessional terms, the debt service burden has increased rapidly due to an annual disbursement rate

averaging 7 percent of GDP in recent years. The debt service ratio in 1987 is projected at 16 percent, and central government debt service in terms of budgetary revenue at 14 percent. More than half of the outstanding payments arrears on debt service (3 percent of GDP) consist of late payments to financial institutions and suppliers, and about one fourth to the multilateral institutions. The authorities have considered for some time the establishment of an autonomous sinking fund, which would be in charge of the public debt and its servicing, but no decision has yet been taken in this respect. Substantial technical work remains to be done to improve the statistical base for the external public debt, including the recording of debt service arrears.

7. Medium-term outlook

Balance of payments projections for the medium term could not be formulated with any degree of reliability, particularly since the composition of the revised public investment program and its financing have not yet become available. Nonetheless, based on the policies pursued by the authorities at the time of the mission's visit in Burkina Faso, the staff projects that the external current account deficit, including official transfers, could roughly double between 1987 and 1991, even if official grants were to recover from their low 1987 level. Most of this deterioration would stem from a worsening of the trade deficit, since export earnings are projected to increase at an annual rate of about 4.5 percent, while imports would rise by nearly 6 percent annually, based mainly on the indications of project-related imports for the investments in the five-year plan. The export volume of cotton has been assumed to increase by about 5 percent annually and the world market prices in CFA francs to rise in a range of between 2.5 percent and 3 percent annually, yet remaining substantially below the record price obtained by Burkina Faso in 1984. The volume of exports of livestock products is assumed to increase by some 3.5 percent annually, and prices to recover steadily from their depressed level in 1985-86. Gold exports are assumed to stabilize at the 1987 level of nearly 3 tons per annum.

8. Statistical issues

The authorities are fully aware of the limitations imposed by the weak statistical base on economic analysis. The national income accounts for 1985, which have just been completed, contain only partial data on the primary sectors. There is no comprehensive information on foreign-financed public investments, while no data are available on those investments that are financed through a levy on public sector salaries outside the budget. The available consumer price index relates only to the capital city. Information on budgetary operations is limited due to the absence of data on extrabudgetary current outlays and on the operations of the price stabilization and social security

funds. The latest official balance of payments statistics relate to 1984 and do not include external payments arrears, while the coverage of current account transactions is only partial. Appendix III provides details on the coverage, currentness, and reporting of data in IFS.

IV. Staff Appraisal

In recent years the consultation discussions with Burkina Faso have been supplemented by a number of staff visits and technical missions, as the authorities continued to express interest in formulating an adjustment program that could be supported by use of Fund resources. In the staff's view, considerable preparatory work remains to be undertaken by the authorities to provide the basis for formulating comprehensive adjustment policies. Also, substantial improvements in the statistical data base will be required, in particular in the areas of the budget and the external debt.

The projected deterioration in the external current account position in the medium term underscores the need for the authorities to adopt and implement a comprehensive adjustment program. Such a program would need to include strong measures to improve the fiscal position. A rehabilitation program for the public enterprise sector would also have to be put in place, and the pricing and marketing policies should be reassessed. At the same time, Burkina Faso will continue to require a substantial flow of external financial assistance on concessional terms.

In view of the importance of public investment in Burkina Faso, the staff urges the authorities to formulate, in collaboration with the World Bank, a rolling investment program within the framework of the medium-term development plan, and to carefully assess its impact on the budget, the balance of payments, and the debt burden. The latter assessment becomes particularly important since the increase in the debt service ratio is explained in part by the high disbursement rate of concessional external loans in recent years.

With respect to the public enterprises, the staff encourages the authorities to accelerate the establishment of a management reporting system and to initiate discussions with the World Bank on the terms of reference for a study of the entire public enterprise sector, which would also include recommendations concerning the timely elimination of the cross-debts. In this context, there should be a reconsideration of the existing price controls and marketing monopolies with a view to removing distortions and fostering growth in key sectors of the economy. In the staff's view, the authorities' legitimate concerns about inflation and an erosion of purchasing power should be addressed through appropriate financial policies rather than price controls.

The budgetary situation in 1987 has deteriorated, and, given the limited availability of domestic financing and external assistance,

payments arrears are likely to continue to accumulate. At the same time, there are substantial government operations outside the budget, including the special funds, which continue to increase their net creditor position with the banking system. The staff encourages the authorities to improve financial management by including the extra-budgetary operations and the receipts and expenditures of the special funds in the budgetary process. Comprehensive and clearly focused revenue-enhancing and expenditure-controlling policies should be formulated with a view to correcting the fiscal imbalances and to eliminating the outstanding payments arrears. With respect to monetary policy, the staff agrees with the authorities that credit policy should be consistent with promoting sound economic growth. However, the staff is of the view that a selective credit policy based on obligatory ratios might run counter to this objective as it could encourage banks to be less stringent in their assessment of project viability in order to avoid penalties for not having observed the prescribed ratios.

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

Burkina Faso - Relations with the Fund

(As of November 30, 1987; amounts in SDRs,
unless otherwise indicated)

I. Membership Status

- (a) Date of membership: May 2, 1963
- (b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: 31.6 million
- (b) Total Fund holdings of currency: 24.07 million
(76.16 percent of quota)
- (c) Fund credit: None
- (d) Reserve tranche position: 7.54 million (23.85 percent
of quota)
- (e) Current operational budget (maximum use of currency): None
- (f) Lending to the Fund: None

III. Stand-By Arrangements and Special Facilities

- (a) Current stand-by arrangement: None
- (b) No previous stand-by arrangements
- (c) No special facilities

IV. SDR Department

- (a) Net cumulative allocation: 9.41 million
- (b) Holdings: 5.65 million (60.0 percent of
net cumulative
allocation)
- (c) Current designation plan
(amount of maximum
designation): None

Burkina Faso - Relations with the Fund (continued)

V. Administered Accounts

(a) Trust Fund loan:

Disbursed:	12.70 million
Outstanding:	4.20 million

(b) SFF Subsidy Account: None

VI. Financial Obligations due to the Fund:

	Overdue financial obligations October 31, 1987	<u>Principal and interest due</u>			
		<u>1987</u> Nov.-Dec.	1988	1989	1990
<u>Principal</u>					
- Repurchases	--	--	--	--	--
- T.F. repayments	--	<u>0.4</u>	<u>2.3</u>	<u>1.5</u>	<u>0.4</u>
		<u>0.4</u>	<u>2.3</u>	<u>1.5</u>	<u>0.4</u>
<u>Charges and interest, including SDR and Trust Fund (provisional)</u>					
	--	<u>0.1</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
<u>Total</u>	--	<u>0.5</u>	<u>2.5</u>	<u>1.7</u>	<u>0.6</u>

Burkina Faso - Relations with the Fund (concluded)

B. Nonfinancial Relations

VII. Exchange System

Burkina Faso's currency, the CFA franc, is pegged to the French franc at the rate of F 1 = CFAF 50. The exchange rate at end-October 1987 was CFAF 389.72 = SDR 1.

VIII. Staff Contacts and Technical Assistance

A staff mission visited Ouagadougou during the period August 29-September 15, 1986 to continue preliminary discussions on use of Fund resources, and to collect the statistical information necessary for medium-term projections of macroeconomic aggregates.

IX. Last Article IV Consultation

Discussions were held during the period November 19-December 6, 1985 and the period March 7-17, 1986. The staff report (SM/86/141) was discussed by the Executive Board on July 14, 1986, and the following decision was taken (Decision No. 8331-(86/114)):

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Burkina Faso, in the light of the 1985 Article IV consultation with Burkina Faso conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

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

Burkina Faso - Financial Relations with the World Bank GroupStatement of IDA Credits
(as of October 31, 1987)

Credit Number	Fiscal Year	Sector	Amounts, less cancellations (In millions of US\$)	
			IDA	
			Disbursed	Undisbursed
Seventeen credits fully disbursed			106.2	--
1097-UV	1981	Second Bougouriba Agri. Dev.	16.0	6.8
1164-UV	1981	Fourth Highway	46.0	3.5
1218-UV	1982	Niena Dionkele Rice Development	16.0	6.9
1235-UV	1982	Third Telecommunications	17.0	4.0
1284-UV	1983	Volta Noire Agri. Dev.	6.8	5.1
1285-UV	1983	Hauts-Bassins Agri. Dev.	4.7	3.4
1293-UV	1983	Koudougou Agri. Dev.	7.0	5.1
1482-BUR	1984	Perkoa Mining Explor.	7.4	3.9
1550-BUR	1985	Fertilizer	9.2	7.4
1598-BUR	1985	Primary Education	21.6	19.9
1607-BUR	1985	Health Services	26.6	23.3
Total			284.5	89.3
Of which: repaid			(9.6)	
Total outstanding			274.9	

Burkina Faso - Statistical Issues

1. Outstanding Statistical Issues

a. General economic data

Current data cover only the consumer price index for Ouagadougou and the minimum wage rate, which has remained unchanged during the last several years. Production and employment data are incomplete. Trade data, including trade by partner countries, may also be incomplete and are uncurrent, as are data on national accounts.

b. Government finance

The 1987 Yearbook will publish data for revenue and grants and expenditure through 1985 and preliminary data for 1986. No data are published for financing, debt, and local government operations.

c. Monetary accounts

A technical assistance mission to BCEAO headquarters in May 1985 recommended some improvements in the compilation of money and banking statistics in Burkina Faso; these included the determination of currency outside banks, the sectorization of the banking system's claims on the economy, the revaluation procedures used by banks, and the revision of banks' reporting procedures in order to maintain more reliable data on the banking sector. Some of the mission's recommendations have already been implemented. However, implementation of several of the remaining recommendations would be needed to bring the monetary statistics of Burkina Faso into accord with the standard IFS presentation.

d. Balance of payments

The latest period for which comprehensive balance of payments data are available is the year 1983. Balance of payments statistics for 1984 are being prepared on a cash basis. There is a need to improve the coverage and timeliness of these statistics, and, in particular, to include data on payments arrears.

Burkina Faso - Statistical Issues (concluded)

2. Coverage, Currentness, and Reporting of Data in IFS

		<u>Latest data in December 1987 IFS</u>	<u>New official data obtained by the Article IV consul- tion mission</u>
Real sector	- National accounts	1984 <u>1/</u>	1985
	- Consumer prices	July 1987	June 1987
	- Production	n.a.	n.a.
	- Employment	n.a.	n.a.
	- Earnings	n.a.	n.a.
Government finance	- Deficit/surplus	1984	1985-86
	- Financing	1984	1985-86
	- Debt	n.a.	n.a.
Monetary accounts	- Central bank	June 1987	June 1987
	- Deposit money banks	June 1987	June 1987
	- Other financial institutions	--	--
External sector	- Merchandise trade:		
	value	Q3 1985	--
	price	1984	--
	- Balance of payments	1983	1984
	- International reserves	Aug. 1987	--
- Exchange rates	Oct. 1987	--	

During the past year, the reporting of data for inclusion in IFS has been fairly regular. Data on reserves have been reported regularly, but with a two-month lag.

1/ Total GDP only for 1985.

Table I. Burkina Faso: Treasury Operations, 1983-87

	1983	1984	1985	1986	1987	
			Est.	Est.	Budget	Proj.
(In billions of CFA francs)						
Revenue and grants	49.9	55.1	63.7	78.3	86.1	78.3
Budgetary revenue	48.8	54.9	63.0	78.2	86.1	78.3
Tax receipts	(43.7)	(46.9)	(51.7)	(57.1)	(76.3)	(57.8)
Nontax receipts	(5.4)	(3.7)	(12.9)	(3.8)	(9.8)	(2.7)
Unclassified	(-0.3)	(4.3)	(-1.6)	(17.3)	(--)	(17.8)
Grants	1.0	0.2	0.7	0.1	--	--
Expenditure and net lending	71.2	77.9	63.9	70.4	88.6	84.8
Current	65.3	70.5	55.7	62.6	76.2	74.2
Wages and salaries	(32.2)	(33.4)	(33.8)	(37.7)	(45.4)	(45.4)
Goods and services	(6.6)	(5.9)	(6.0)	(7.3)	(8.1)	(8.1)
Scheduled interest	(2.5)	(2.6)	(4.5)	(4.1)	(8.5)	(5.3)
Transfers and miscellaneous	(23.9)	(28.6)	(11.5)	(13.4)	(14.2)	(15.4)
Capital	4.4	5.5	5.5	5.3	12.4	7.2
Net lending	1.6	1.9	2.7	2.5	--	3.4
Surplus or deficit (-) (commitment basis)	-21.4	-22.7	-0.2	7.9	-2.5	-6.5
Arrears	11.8	5.6	0.1	-1.7
Domestic	9.0	3.9	1.3	-3.2
External	0.2	1.7	-1.2	1.5
Surplus or deficit (-) (cash basis)	-9.6	-17.1	-0.1	6.2	-2.5	-6.5
Financing	9.6	17.1	0.1	-6.2	2.5	6.5
Foreign	2.3	1.9	-5.5	-2.0	-8.7	-9.2
Loan disbursements	(4.4)	(5.5)	(--)	(--)	(--)	(--)
Scheduled amortization	(-2.1)	(-5.1)	(-7.6)	(-7.8)	(-8.7)	(-9.2)
Arrears on amortization	(-0.3)	(1.5)	(2.1)	(5.8)	(--)	(...)
Domestic	7.3	15.2	5.6	-4.2	2.7	3.1
Central bank	(-2.3)	(3.9)	(-2.4)	(2.9)	(4.0)	(4.4)
Other	(9.6)	(11.3)	(8.0)	(-7.1)	(-1.3)	(-1.3)
Financing gap	--	--	--	--	8.5	12.6
(In percent of GDP)						
Budgetary revenue	12.8	14.0	14.0	17.2	17.5	15.9
Of which: tax receipts (including unclassified)	(11.5)	(12.0)	(11.3)	(12.6)	(15.5)	(11.7)
Expenditure and net lending	18.7	19.9	14.0	15.5	18.0	17.2
Of which: current expenditure	(17.1)	(18.0)	(12.2)	(13.8)	(15.5)	(15.1)
wages and salaries	(8.5)	(8.6)	(7.4)	(8.3)	(9.2)	(9.2)
Surplus or deficit (commitment basis)	-5.6	-5.8	--	1.7	-0.5	-1.3
Surplus or deficit (cash basis)	-2.5	-4.4	--	1.4	-0.5	-1.3

Sources: Data provided by the Burkinabe authorities; and staff estimates and projections. The data on external debt service cannot always be reconciled with the information in Table IV.

Table II. Burkina Faso: Monetary Survey, 1983-87

(In billions of CFA francs; end of period)

	1983	1984	1985	1986				1987		
				March	June	Sept.	Dec.	March	June	Dec. Proj.
Net foreign assets	16.78	36.04	34.38	39.23	44.68	44.68	54.36	59.77	64.52	65.0
Domestic credit	74.35	71.29	82.41	85.34	87.09	86.28	84.61	92.73	90.90	101.0
Claims on Government (net)	-5.98	-7.41	-13.80	-16.94	-17.89	-16.75	-17.20	-14.49	-19.83	-20.0
Of which:										
Central bank claims on the Treasury (net)	(5.15)	(9.08)	(6.67)	(8.69)	(9.00)	(9.74)	(9.59)	(12.22)	(10.42)	(14.0)
Credit to the economy	80.33	78.70	96.21	102.28	104.98	103.03	101.81	107.22	110.73	121.0
Of which: crop credit	(4.11)	(1.87)	(7.20)	(...)	(10.44)	(...)	(11.17)	(...)	(18.56)	(...)
Money and quasi-money	80.07	92.76	98.80	105.20	110.44	112.30	120.78	132.83	135.44	146.0
Long-term foreign liabilities <u>1/</u>	7.87	5.91	5.20	5.19	4.94	5.11	6.29	6.03	5.86	6.0
Other items (net)	3.19	8.66	12.79	14.18	16.39	13.55	11.90	13.64	14.12	14.0

Sources: Data provided by the BCEAO; and staff estimates and projections.

1/ Including Trust Fund.

Table III. Burkina Faso: Balance of Payments, 1983-87

(In billions of CFA francs)

	1983	1984	<u>1985</u> Est.	<u>1986</u> Est.	<u>1987</u> Proj.
Exports, f.o.b.	43.0	61.6	55.9	61.9	74.4
Of which: cotton	(15.8)	(19.7)	(13.3)	(12.8)	(21.5)
gold	(--)	(0.2)	(5.6)	(9.8)	(12.5)
Imports, f.o.b.	117.6	118.0	134.0	132.7	135.4
Trade balance	-74.6	-56.4	-78.1	-70.8	-61.0
Services	-45.4	-45.7	-50.9	-50.7	-51.2
Of which:					
Scheduled interest	(-2.9)	(-2.6)	(-4.5)	(-4.1)	(-5.3)
Transfers	97.3	100.7	107.3	106.0	93.0
Private	42.6	41.7	47.3	52.0	45.0
Of which:					
workers' remittances	(28.3)	(24.8)	(25.0)	(26.0)	(25.0)
Official	54.7	59.0	60.0	54.0	48.0
Development projects	(32.2)	(31.4)	(25.0)	(28.0)	(26.0)
Technical assistance	(11.8)	(10.6)	(12.0)	(12.0)	(10.0)
Food aid	(8.5)	(12.0)	(18.0)	(9.0)	(7.0)
Other	(2.2)	(5.0)	(5.0)	(5.0)	(5.0)
Current account balance	-22.7	-1.4	-21.7	-15.5	-19.2
Excluding public transfers	(-77.4)	(-60.4)	(-81.7)	(-69.5)	(-67.2)
Nonmonetary capital	39.9	25.3	22.5	30.6	27.8
Of which:					
Official capital	31.2	18.8	17.5	24.6	22.8
Disbursements	(34.1)	(23.9)	(25.0)	(32.4)	(32.0)
Scheduled amortization <u>1/</u>	(-2.9)	(-5.1)	(-7.5)	(-7.8)	(-9.2)
Monetary capital <u>2/</u>	3.5	-8.9	1.3	-3.3	-3.0
Net errors and omissions, including short-term capital	-5.0	-6.2	-3.3	-3.3	--
Overall balance	15.7	8.8	-1.2	8.5	5.6
Financing	-15.7	-8.8	1.2	-8.5	-5.6
Net official reserves	-15.0	-12.0	0.3	-15.8	...
Payments arrears	-0.7	3.2	0.9	7.3	...
<u>Memorandum item:</u>					
Exchange rate: CFAF per SDR (period average)	407.35	447.89	456.15	406.26	392.14

Sources: Data provided by the BCEAO; and staff estimates and projections.

1/ Data provided by the World Bank, based on commitments up to 1986.2/ Including the post office.

Table IV. Burkina Faso: Medium- and Long-Term External Public Debt, 1983-87

(In billions of CFA francs)

	1983	1984	1985	1986	<u>1987</u> Proj.
Outstanding disbursed, end of period	164.81	195.19	187.96	198.73	200.68
Of which:					
Central Government	(146.58)	(174.68)	(167.60)	(177.62)	(182.78)
Multilateral loans	101.79	122.09	116.62	127.43	134.66
Bilateral loans	44.33	53.66	57.10	59.92	62.60
Other	18.69	19.44	14.24	11.38	3.42
Disbursements	34.06	23.88	25.05	32.40	31.99
Of which:					
Central Government	(27.67)	(20.80)	(23.58)	(29.30)	(29.67)
Multilateral loans	12.61	11.76	16.95	25.96	21.20
Bilateral loans	14.09	9.84	7.38	6.27	10.79
Other	7.37	2.27	0.72	0.17	--
Scheduled interest	2.93	2.64	4.46	4.09	5.32
Of which:					
Central Government	(2.27)	(1.80)	(3.54)	(2.87)	(3.73)
Multilateral loans	0.91	1.13	1.42	1.65	2.40
Bilateral loans	1.31	0.42	2.13	1.99	2.30
Other	0.71	1.09	0.91	0.45	0.62
Scheduled amortization	2.88	5.07	7.55	7.81	9.19
Of which:					
Central Government	(2.10)	(4.18)	(6.33)	(5.81)	(6.94)
Multilateral loans	0.59	2.60	2.15	3.45	4.61
Bilateral loans	0.43	0.30	0.49	1.53	2.58
Other	1.86	2.17	4.91	2.83	2.00
Arrears outstanding	<u>0.33</u>	<u>3.53</u>	<u>4.39</u>	<u>11.69</u>	<u>...</u>
Principal	0.08	1.56	3.65	9.41	...
Interest	0.25	1.97	0.74	2.28	...

Source: Data provided by the World Bank; these data cannot always be reconciled with external debt information in the treasury accounts.

Table V. Burkina-Faso: Social and Demographic Indicators

<u>Area</u>	<u>Population</u>	<u>Density (1985)</u>
274,000 sq. km	8.7 million (1985) Rate of growth: 2.1 percent (1982)	31.8 per sq. km 68.9 per sq. km of arable land
<u>Population characteristics (1982)</u>		<u>Health (1979)</u>
Life expectancy at birth:	44	Population per physician: 48,510
Infant mortality (per thousand):	157	Population per hospital bed: 1,600
Child death rate (age 1-4, percent):	36	
<u>Access to safe water (1975)</u>		<u>Access to electricity: n.a.</u>
Percent of population, urban:	50.0	
rural:	23.0	
<u>Nutrition (1982)</u>		<u>Education (1982)</u>
Calorie intake as percent of requirements:	95.0	Adult literacy rate (percent): 88.0
Per capita protein intake (grams per day):	72.0	Primary school enrollment (percent): 27.0

Sources: Data provided by the Burkinabe authorities; and the World Bank.