Euler Hermes Economic Research

Country Report

Burkina Faso

Strong growth, troubled region

General Information

GDP	USD10.441bn (World ranking 128, World Bank 2012)
Population	16.46 million (World ranking 63, World Bank 2012)
Form of state	Parliamentary Republic
Head of government	Blaise COMPAORE
Next elections	2015, presidential

Strengths

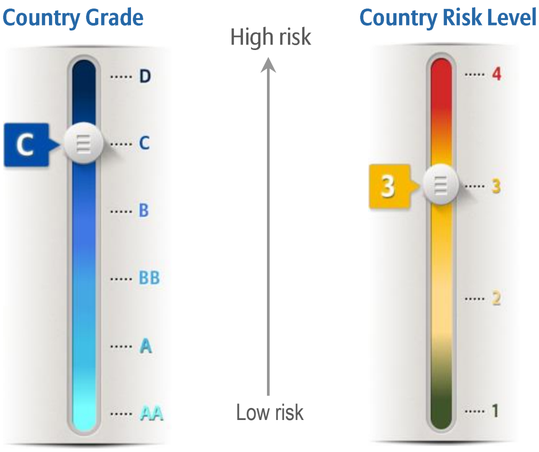
- International relations are good enough to allow inward financial aid flows.
- Low transfer and exchange rate risk because of membership of the CFA franc zone.
- External debt levels and servicing obligations are comfortable following debt write-downs and reschedulings.
- Resource base, including gold and cotton.

Weaknesses

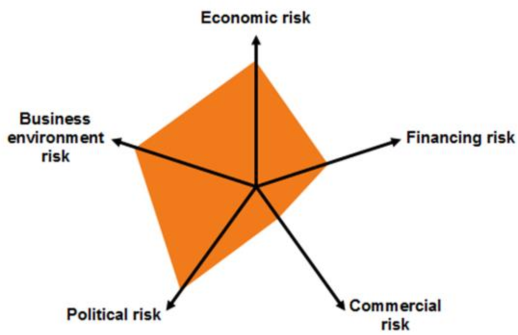
- Regional stability is uncertain, including in neighbouring Mali.
- Landlocked country, limited natural resources, low incomes and high poverty rates.
- Over-dependence on the primary sector, particularly cotton.
- Vulnerable to exogenous factors (including climate and global commodity prices).
- Large fiscal and current account deficits.
- Aid dependent.

Country Rating

C3

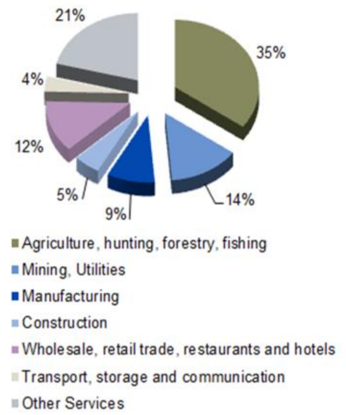


Risk Dimensions



Economic Structure

GDP breakdown (2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
Switzerland	24%	1	17%	Côte d'Ivoire
China	12%	2	15%	France
Singapore	10%	3	10%	Ghana
Belgium	8%	4	4%	Belgium
Thailand	4%	5	4%	Togo

By product

Exports		Rank		Imports
Textiles fibres and their wastes	45%	1	18%	Petroleum, petroleum products and related materials
Gold, non-monetary (excluding gold ores and	31%	2	7%	Medicinal and pharmaceutical products
Oil seeds and oleaginous fruits	9%	3	6%	Cereals and cereal preparations
Vegetables and fruits	2%	4	5%	Non metallic mineral manufactures, n.e.s.
Live animals other than animals of division 03	2%	5	4.8%	Road vehicles

Economic Forecast

	2010	2011	2012	2013	2014f	2015f
GDP growth (% change)	8.4	5.1	8.7	6.0	6.0	6.5
Inflation (%, end-year)	-0.3	5.1	1.6	2.3	2.2	2.0
Fiscal balance (% of GDP)	-4.6	-2.4	-3.2	-6.1	-6.2	-6.2
Public debt (% of GDP)	29.3	29.7	27.3	n.a.	n.a.	n.a.
Current account (% of GDP)	-7.8	-5.2	-4.2	-7.3	-8.1	-7.7
External debt (% of GDP)	23.9	21.8	22.8	23.1	22.8	21.8

Sources: IHS Global Insight, national sources, IMF, Euler Hermes

Economic Overview

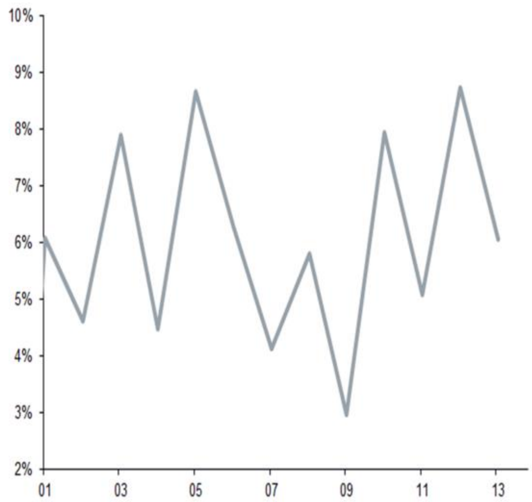
Volatile but generally high GDP growth

Volatility in GDP stems from dependence on rain-fed agricultural output and on the vagaries of internationally-determined commodity prices, particularly cotton and gold. Growth of GDP accelerated in 2012, to +8.7% (+5.1% in 2011). Gold mining was a key driver of economic growth (on average, international gold prices were up +6.2% in 2012, compared with 2011) but part of the positive boost in 2012 resulted from a rebound in agricultural output and, in turn, this reflected relatively good weather conditions (and an improved harvest) as well as government support for the sector. In 2013, gold prices were down -15% but GDP still recorded growth of +6.5%.

Although there is some uncertainty in relation to the course of gold prices (they have fallen further in H1 2014), the government has tentative plans to re-open the Poura gold mine, the country's oldest, and to further exploit new mines, including at Houndé. Some of these new developments may not come on-stream until 2015 but mining activity will continue to spur overall growth and EH forecasts GDP expansion of +6% and +6.5% in 2014 and 2015, respectively.

The IMF agreed an Extended Credit Facility (ECF) in December 2013 and such support continues through to the end of 2016.

GDP growth (%)



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Domestic support through regional collaboration...

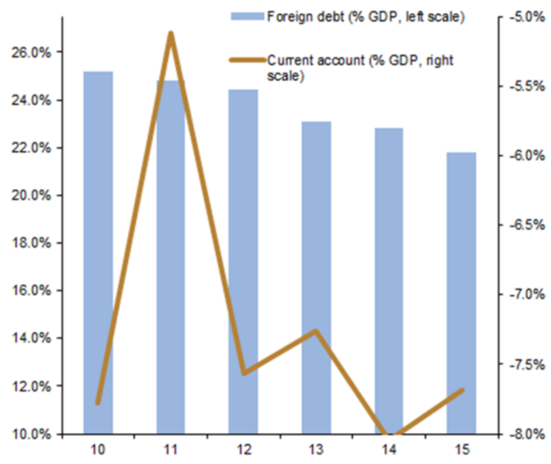
Membership of a regional economic bloc, UEMOA, with a common banking and financial structure, provides support and relative monetary stability. The CFA franc issued by the Central Bank of West African States (BCEAO) is pegged to the euro at a rate of 655.96 francs/euro and, in effect, is backed by the French treasury. This arrangement has served to help keep inflationary pressures relatively low. The rate of inflation this year and in 2015 is forecast to remain at around 2%, on average, compared with the regional agency's target of 3%. Transfer/inconvertibility risk remains mitigated by membership of the CFA franc zone and EH does not expect that there will be a significant change within the regional system within the forecast period.

...and this extends to the external sector

External liquidity also has a degree of support, although current account deficits are likely to remain large (-8.1% of GDP in 2014 and -7.7% of GDP in 2015, compared with an annual average -13.8% in 2000-08) and this will require action at a national level to manage. Current account deficits partly reflect high import costs because of the country's landlocked position and its dependence on inflows of energy (oil accounts for around 18% of the import bill). Even so, the external accounts have improved through foreign debt relief, with significant write-downs in 2002 (Highly Indebted Poor Country initiative) and in 2006 (Multilateral Debt Relief initiative), so that the external debt/GDP ratio is now a more comfortable 23% (forecast for 2014). FX reserves have increased in recent years and import cover of around four months (2014) compares relatively favourably with an international benchmark of three months.

The government acknowledges some of the problems that businesses have in trading with the country—these include transport and other infrastructure issues, partly relating to the landlocked nature of the country. Accordingly, the government is trying to ease the cost and difficulties of doing business with Burkina Faso. However, the country continues to rank lowly in international surveys of business conditions.

Current account and foreign debt as % GDP



Sources: IHS Global Insight, Euler Hermes

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