

Concerns about domestic stability and regional security



General Information

GDP	USD11.2bn (2015)
Population	18.1mn (2015)
Form of state	Parliamentary Republic
Head of state	President Roch Marc Christian Kaboré
Next elections	November 2020, presidential and legislative



Strengths

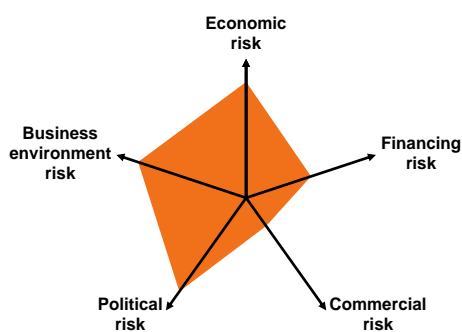
- International relations are good enough to allow inward financial aid flows.
- Low transfer and exchange rate risk because of membership of the CFA franc zone.
- External debt levels and servicing obligations are comfortable following debt write-downs and reschedulings.
- Resource base, including gold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



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Switzerland	29% 1	19% Côte d'Ivoire
China	11% 2	16% France
Singapore	9% 3	5% Ghana
Turkey	7% 4	5% Togo
South Africa	5% 5	4% Belgium

By product (% of total)

Exports	Rank	Imports
Gold, non-monetary (excluding gold ores and concentrates)	45% 1	18% Petroleum, petroleum products and related materials
Textiles fibres and their wastes	32% 2	6% Medicinal and pharmaceutical products
Oil seeds and oleaginous fruits	8% 3	5% Cereals and cereal preparations
Vegetables and fruits	4% 4	5% Road vehicles
Live animals other than animals of division 03	1% 5	4% Specialised machinery

Source: UNCTAD



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Economic Overview

Over-reliance on the primary sector causes exposure to exogenous factors

As a landlocked country, transport costs are a significant constraint on export growth and economic development. Although progress is evident and GDP growth is relatively high, the economic structure is weak and large deficits are recorded in the fiscal and the current accounts. Around 80% of the population is engaged in (mainly subsistence) agriculture, which is vulnerable to sharp variations in rainfall. The small industrial sector remains dominated by largely unprofitable government-controlled corporations. Moreover, the economy is over-dependent on the export of cotton and gold. As a result, the economy is highly exposed to exogenous factors, including weather, plant diseases and pests and global prices of agricultural products and precious metals.

GDP growth remains relatively strong, although currently below the long-term annual average

Real GDP growth in the ten-year period to end-2015 was an annual average +5.8%. EH forecasts growth will dip to +4% in 2016 (+4.5% in 2015) before recovering to +5.5% in 2017, reflecting the continuation of weak global commodity markets in the former and increased mining activity in the latter as new gold mines and development of existing mines boosts output and earnings. Oil prices are forecast to remain relatively weak and this will also encourage economic activity, given that 18% of import costs derive from that commodity. The growth outlook has considerable downside risks associated with uncertain domestic stability and also with adverse regional (Sahelian as well as West African) factors.

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 EUR at a rate of XOF655.96:EUR1 and, in effect, is backed by the French treasury. This arrangement has served to keep inflationary pressures relatively low. The rate of average inflation this year and in 2017 is forecast to remain below 2%; inflation is largely determined by import prices and domestic supply shocks. 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.

External account deficits suggest that international assistance will be required for the foreseeable future

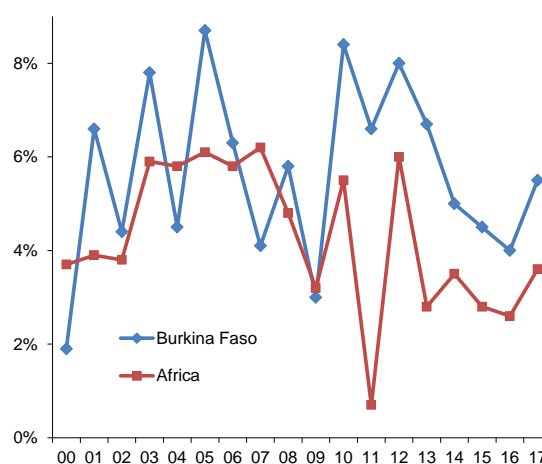
Current account deficits are likely to remain large at -8.5% of GDP in 2016 and -8% of GDP in 2017. Indeed, the current account registered an annual average deficit equivalent to -8.3% of GDP in the period 2000-2015. Shortfalls of such magnitude require careful management at a national level and are only possible over a protracted period by significant assistance from regional and multilateral agencies. 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).

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	5.0	4.5	4.0	5.5
Inflation (% ave-year)	-0.2	0.8	1.8	1.9
Fiscal balance (% of GDP)	-5.1	-4.7	-4.5	-4.0
Public debt (% of GDP)	27.9	29.0	30.5	31.0
Current account (% of GDP)	-7.4	-8.6	-8.5	-8.0
External debt (% of GDP)	19.9	25.6	28.8	28.0

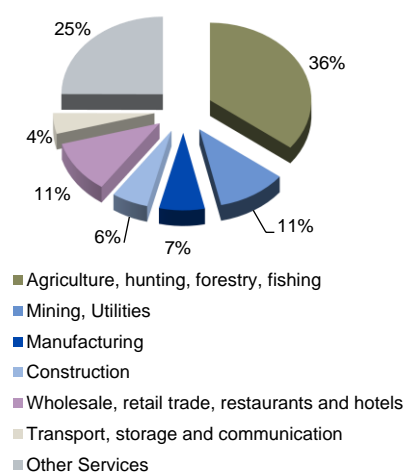
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

GDP Breakdown (2014)



Sources: UN, Euler Hermes

External debt is again increasing

External debt stock ratios and servicing obligations were markedly reduced through debt relief, with significant write-downs in 2002 (Highly Indebted Poor Country initiative) and in 2006 (Multilateral Debt Relief initiative). The external debt/GDP ratio declined to a more comfortable 19% in 2008, compared with over 54% in 2000. However, external debt is increasing again (28% of GDP and over 120% of export earnings in 2016) and servicing of such obligations will limit the accumulation of FX reserves. For now, FX reserves of around USD1.5bn provide import cover of over four months, compared with an international benchmark of three months.

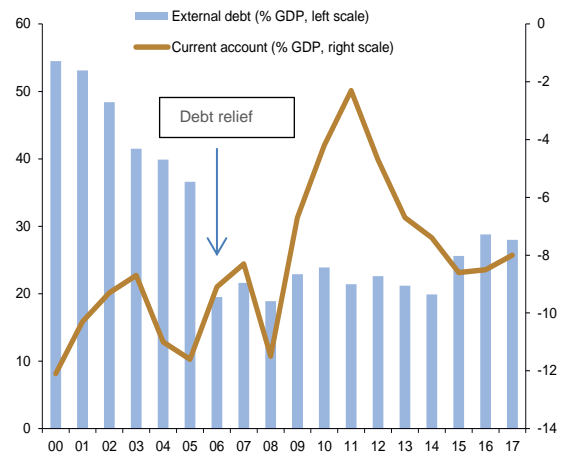
The business environment is challenging...

Burkina Faso ranks 143 out of 189 economies in the World Bank's Doing Business 2016 survey, below Tanzania, Malawi and Côte d'Ivoire but above Ethiopia, Sierra Leone and Togo. Infrastructure deficiencies (landlocked country), a weak legal system, perceptions of widespread corruption and low literacy rates are obstacles to private investment. The banking sector remains concentrated, with limited competition, and is over-exposed to a few large borrowers, including in the cotton industry.

...but much will depend on domestic political stability and regional security

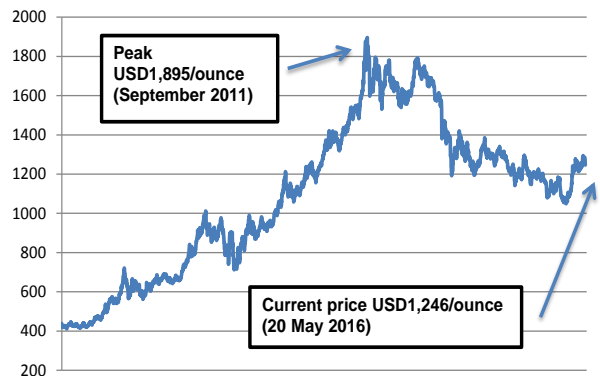
Roch Marc Christian Kaboré won presidential elections in December 2015. The polls were relatively fair and the transition provides scope to enhance stability after the forced resignation in October 2014 of former president Blaise Compaoré whose plan to change the two-term presidential constitutional limit caused a civil uprising, as well as a brief military coup in September 2015. Kaboré was elected partly on expectations that policies enacted by his regime will be more pro-business and that a new mining code will retain existing investments in that sector. However, border and internal security will remain the key challenges, given uncertain regional stability and a still fragile domestic political evolution.

Current account and external debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

Gold Prices (January 2005-March 2016, USD/ounce)



Sources: FT, Euler Hermes

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