



TOGO

May 2017

2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASES; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR TOGO

In the context of the 2016 Article IV Consultation under the Extended Credit Facility Arrangement, the following documents have been released and are included in this package:

- **Press Releases** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its May 5, 2017 consideration of the staff report on issues related to the Article IV consultation and the request for an arrangement under the extended credit facility.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 5, 2017, following discussions that ended on November 2, 2016, with the officials of Togo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 27, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for Togo.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Togo*
Memorandum of Economic and Financial Policies by the authorities of Togo*
Technical Memorandum of Understanding*
Selected Issues Papers for the 2016 Article IV Consultation*

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 17/179
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May 17, 2017

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IMF Executive Board Concludes 2016 Article IV Consultation with Togo

On May 5, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Togo.¹ The Board also approved a new three-year Extended Credit Facility Arrangement for Togo; a press release on this was issued separately.

The economy has expanded at a healthy rate in recent years. Growth was 5.2 percent in 2014-16 buoyed by infrastructure investments and strong agricultural production. Inflation was well contained, explained by the lower food, energy, and transport prices. Togo's poverty rate declined from 61.7 percent in 2006 to 55.1 percent in 2015, though it remains geographically concentrated.

The fast pace of public investment has contributed to a pronounced increase in public debt and the current account deficit. Public debt, including prefinancing debt, domestic arrears, and public enterprise debt, increased from 48.6 percent of GDP in 2011 to 80.8 percent in 2016, reflecting public infrastructure investments financed by both domestic and external borrowing. The current account deficit remained high, reaching 9.8 percent of GDP in 2016, largely due to investment-related imports.

Economic growth is expected to increase gradually in the medium term as the fiscal stance is put on a sustainable path. Growth is expected to pick up from 5 percent in 2016 to 5.6 by 2021, with the economy reaping the benefits of an improved transportation network and productivity gains in the agricultural sector. The private sector is expected to play an increasing role as the engine of growth, as public investment returns to its long-term sustainable level. Downside risks to growth include capacity constraints in implementation of structural reforms, resistance to reforms from interest groups, and further slowdown in Togo's main regional trading partners. With the improvement in the fiscal stance, public debt is expected to be reduced from a projected peak of 81.3 percent of GDP in 2017 to 73 percent by 2019.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

(continued...)

Executive Board Assessment²

Following the Executive Board discussion on Togo, Deputy Managing Director Mr. Tao Zhang, and Acting Chair, said:

“Togo’s economy has shown solid performance in recent years, with sustained growth and low inflation. The country’s growth performance has been underpinned by high levels of public investment to address significant infrastructure gaps. However, this capital spending has also increased public debt and debt service pressures, crowding out needed social expenditures. At the same time, lingering deficiencies in the financial sector have remained unresolved.

“The new arrangement under the ECF will support the authorities’ efforts towards fiscal consolidation while maintaining space for pro-poor spending. Public financial and debt management will be strengthened and revenue administration bolstered. The two under-capitalized public banks will be consolidated into one healthy institution. Regulation and supervision standards in the microfinance sector will be strengthened.

“The medium-term economic outlook is favorable, with private sector activity benefiting from stronger infrastructure and an improved business climate. However, further progress will hinge on the authorities’ successful implementation of their ambitious macroeconomic program, as well as pursuing broader structural reforms to improve public financial management and address social needs.”

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Togo: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.				
	(Percentage change, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	6.1	5.4	5.3	5.0	5.0	5.3	5.4	5.6	5.6
Real GDP per capita	3.3	2.6	2.5	2.2	2.2	2.5	2.6	2.8	2.8
GDP deflator	0.6	1.2	2.7	1.7	1.9	2.0	2.0	2.0	2.0
Consumer price index (average)	1.8	0.2	1.8	0.9	1.5	1.9	2.0	2.0	2.0
GDP (CFAF billions)	2,135	2,277	2,462	2,628	2,812	3,020	3,247	3,497	3,767
Exchange rate CFAF/US\$ (annual average level)	493.9	493.6	591.2	592.7	...	...	...	...	...
Real effective exchange rate (appreciation = -)	-2.2	-1.2	7.1	...	...	...	...	...	...
Terms of trade (deterioration = -)	-7.9	10.6	-16.4	0.4	-0.3	0.4	0.5	0.6	0.2
	(Percentage change of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	4.6	-7.7	10.5	6.3	5.6	4.2	4.3	4.4	5.0
Credit to government	-4.1	3.1	-1.4	-5.8	-5.0	-0.3	-0.2	-0.2	-0.2
Credit to nongovernment sector	9.0	7.9	11.2	11.1	8.0	8.5	8.8	9.1	9.2
Broad money (M2)	10.3	9.8	20.2	12.9	13.4	13.5	13.6	13.7	13.7
Velocity (GDP/end-of-period M2)	2.1	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3
	(Percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	24.5	25.7	27.0	27.4	26.1	24.3	23.1	23.5	24.1
Government	9.3	11.3	13.0	14.0	11.7	9.5	8.0	8.1	8.1
Nongovernment	15.3	14.4	14.0	13.4	14.4	14.8	15.1	15.4	16.0
Gross national savings	11.4	15.7	15.9	17.6	17.1	16.0	15.8	17.3	18.9
Government	4.1	4.5	4.1	4.4	6.9	6.8	8.3	8.6	8.6
Nongovernment	7.3	11.3	11.8	13.3	10.2	9.2	7.6	8.6	10.3
Government budget									
Total revenue and grants	21.5	20.5	21.9	21.7	24.7	25.2	25.9	26.0	26.0
Revenue	18.1	18.2	19.6	18.9	20.2	21.0	21.8	21.8	21.9
Total expenditure and net lending	26.6	27.3	30.8	31.4	33.5	27.9	25.7	25.4	25.5
Domestic primary expenditure	20.8	21.3	22.8	23.4	23.7	17.8	16.7	16.8	16.9
Excluding bank recapitalization	20.8	21.3	22.8	23.4	19.7	17.8	16.7	16.8	16.9
Domestic primary balance ¹	-2.7	-3.1	-3.2	-4.5	-3.5	3.2	5.1	5.0	5.0
Excluding bank recapitalization	-2.7	-3.1	-3.2	-4.5	0.5	3.2	5.1	5.0	5.0
Overall primary balance (cash basis)	-4.7	-6.4	-5.4	-7.2	-6.7	-0.2	2.0	2.0	2.0
Excluding bank recapitalization	-4.7	-6.4	-5.4	-7.2	-2.7	-0.2	2.0	2.0	2.0
Overall balance (cash basis)	-5.8	-7.9	-7.8	-9.6	-9.7	-3.6	-0.7	-0.4	-0.5
Excluding bank recapitalization	-5.8	-7.9	-7.8	-9.6	-5.7	-3.6	-0.7	-0.4	-0.5
External sector									
Current account balance	-13.2	-9.9	-11.1	-9.8	-9.0	-8.3	-7.3	-6.2	-5.2
Exports (goods and services)	46.5	39.4	36.0	35.1	36.4	36.7	37.4	37.8	39.0
Imports (goods and services)	-66.3	-57.3	-58.0	-55.1	-55.2	-54.6	-54.4	-53.7	-53.8
External public debt ²	14.3	17.1	21.1	19.7	22.9	24.8	27.4	27.9	28.4
External public debt service (percent of exports) ²	2.4	2.9	3.1	4.1	4.0	3.4	3.6	4.2	4.3
Domestic Debt ³	42.1	48.1	54.5	61.0	58.4	53.3	45.6	40.0	34.3
Total public debt ⁴	56.4	65.2	75.6	80.8	81.3	78.1	73.0	67.8	62.7
Excluding bank recapitalization ⁴	56.4	65.2	75.6	80.8	77.3	74.1	69.0	63.8	58.7

Sources: Togolese authorities and IMF staff estimates and projections.

¹ Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

² Includes state-owned enterprise external debt.

³ Includes prefinancing debt, domestic arrears and state-owned enterprise domestic debt.

⁴ Includes prefinancing debt, domestic arrears and state-owned enterprise debt.



INTERNATIONAL MONETARY FUND



Press Release No. 17/151
FOR IMMEDIATE RELEASE
May 5, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Approves US\$241.5 Million under the ECF Arrangement for Togo

The Executive Board of the International Monetary Fund (IMF) today approved a new three-year arrangement for Togo under the Extended Credit Facility (ECF) for SDR176.16 million (120 percent of quota or about US\$241.5million) to support the country's economic and financial reforms.¹

The Executive Board's decision enables an immediate disbursement of SDR25.17 million (about US\$34.5 million). The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

The authorities' ECF-supported program aims to reinforce macroeconomic stability and to promote sustainable and inclusive growth. It aims to reduce the overall fiscal deficit substantially upfront to ensure long-term debt and external sustainability; refocus policies on sustainable and inclusive growth through targeted social spending and infrastructure spending that is financially sustainable; and resolve the existing financial sector weaknesses, especially in the two public banks.

During the same meeting, the Board also concluded the 2016 Article IV consultation. A separate press release will be issued shortly.

Following the Executive Board discussion on Togo, Deputy Managing Director Mr. Tao Zhang, and Acting Chair, said:

“Togo's economy has shown solid performance in recent years, with sustained growth and low inflation. The country's growth performance has been underpinned by high levels of public investment to address significant infrastructure gaps. However, this capital spending has also increased public debt and debt service pressures, crowding out needed social expenditures. At the same time, lingering deficiencies in the financial sector have remained unresolved.

¹ The ECF is a lending arrangement that provides sustained program engagement over the medium to long term in case of protracted balance of payments problems.

“The new arrangement under the ECF will support the authorities’ efforts towards fiscal consolidation while maintaining space for pro-poor spending. Public financial and debt management will be strengthened and revenue administration bolstered. The two under-capitalized public banks will be consolidated into one healthy institution. Regulation and supervision standards in the microfinance sector will be strengthened.

“The medium-term economic outlook is favorable, with private sector activity benefiting from stronger infrastructure and an improved business climate. However, further progress will hinge on the authorities’ successful implementation of their ambitious macroeconomic program, as well as pursuing broader structural reforms to improve public financial management and address social needs.”

Annex

Recent Economic Developments

The economy has expanded at a healthy rate in recent years. Growth was 5.2 percent in 2014-16 buoyed by infrastructure investments and strong agricultural production. Inflation was well contained, thanks to lower food, energy, and transport prices. Togo’s poverty rate declined to 55.1 percent in 2015 from 61.7 percent in 2006, though it remains geographically concentrated.

The fast pace of public investment has contributed to a pronounced increase in public debt and the current account deficit. Public debt, including prefinancing debt, domestic arrears, and public enterprise debt, increased from 48.6 percent of GDP in 2011 to 80.8 percent in 2016 (76.2 percent excluding public enterprise debt), reflecting public infrastructure investments financed by both domestic and external borrowing. The current account deficit remained high, reaching 9.8 percent of GDP in 2016, largely due to investment-related imports.

Economic growth is expected to increase gradually in the medium term as the fiscal stance is put on a sustainable path. Growth is expected to pick up from 5 percent in 2016 to 5.6 by 2021, with the economy reaping the benefits of an improved transportation network and productivity gains in the agricultural sector. The private sector is expected to play an increasing role as the engine of growth, as public investment returns to its long-term sustainable level. Downside risks to growth include capacity constraints in implementation of structural reforms, resistance to reforms from interest groups, and further slowdown in Togo’s main regional trading partners. With the improvement in the fiscal stance, public debt is expected to be reduced to 73 percent by 2019 from a projected peak of 81.3 percent of GDP in 2017.

Program Summary

The government has committed to strengthen the fiscal balance and improve public financial management and debt management, while addressing social needs. Fiscal policies will aim to

increase revenue, reduce domestically-financed capital spending, and redistribute recurrent spending allocations to target key social needs. The Ministry of Finance will be reorganized and public investments will follow established procurement and budgetary processes. Tax administration will be bolstered by the broadening of the tax base and better monitoring of exemptions. Customs practices will be further modernized and automated.

The Togolese authorities plan to address persistent problems facing two large public banks. The two under-capitalized banks are expected to be legally resolved by the end of the first year of the program, with a single well-capitalized public bank in its place.

Background

Togo, which became a member of the IMF on August 1, 1962, has an IMF quota of SDR 146.80 million.

For additional information on the IMF and Togo, see:

<http://www.imf.org/external/country/TGO/index.htm>

Table 1. Togo: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.				
(Percentage change, unless otherwise indicated)									
National income, prices, and exchange rates									
Real GDP	6.1	5.4	5.3	5.0	5.0	5.3	5.4	5.6	5.6
Real GDP per capita	3.3	2.6	2.5	2.2	2.2	2.5	2.6	2.8	2.8
GDP deflator	0.6	1.2	2.7	1.7	1.9	2.0	2.0	2.0	2.0
Consumer price index (average)	1.8	0.2	1.8	0.9	1.5	1.9	2.0	2.0	2.0
GDP (CFAF billions)	2,135	2,277	2,462	2,628	2,812	3,020	3,247	3,497	3,767
Exchange rate CFAF/US\$ (annual average level)	493.9	493.6	591.2	592.7	...	...	...	...	...
Real effective exchange rate (appreciation = -)	-2.2	-1.2	7.1	...	...	...	...	...	...
Terms of trade (deterioration = -)	-7.9	10.6	-16.4	0.4	-0.3	0.4	0.5	0.6	0.2
(Percentage change of beginning-of-period broad money)									
Monetary survey									
Net foreign assets	4.6	-7.7	10.5	6.3	5.6	4.2	4.3	4.4	5.0
Credit to government	-4.1	3.1	-1.4	-5.8	-5.0	-0.3	-0.2	-0.2	-0.2
Credit to nongovernment sector	9.0	7.9	11.2	11.1	8.0	8.5	8.8	9.1	9.2
Broad money (M2)	10.3	9.8	20.2	12.9	13.4	13.5	13.6	13.7	13.7
Velocity (GDP/end-of-period M2)	2.1	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3
(Percent of GDP, unless otherwise indicated)									
Investment and savings									
Gross domestic investment	24.5	25.7	27.0	27.4	26.1	24.3	23.1	23.5	24.1
Government	9.3	11.3	13.0	14.0	11.7	9.5	8.0	8.1	8.1
Nongovernment	15.3	14.4	14.0	13.4	14.4	14.8	15.1	15.4	16.0
Gross national savings	11.4	15.7	15.9	17.6	17.1	16.0	15.8	17.3	18.9
Government	4.1	4.5	4.1	4.4	6.9	6.8	8.3	8.6	8.6
Nongovernment	7.3	11.3	11.8	13.3	10.2	9.2	7.6	8.6	10.3
Government budget									
Total revenue and grants	21.5	20.5	21.9	21.7	24.7	25.2	25.9	26.0	26.0
Revenue	18.1	18.2	19.6	18.9	20.2	21.0	21.8	21.8	21.9
Total expenditure and net lending	26.6	27.3	30.8	31.4	33.5	27.9	25.7	25.4	25.5
Domestic primary expenditure	20.8	21.3	22.8	23.4	23.7	17.8	16.7	16.8	16.9
Excluding bank recapitalization	20.8	21.3	22.8	23.4	19.7	17.8	16.7	16.8	16.9
Domestic primary balance ¹	-2.7	-3.1	-3.2	-4.5	-3.5	3.2	5.1	5.0	5.0
Excluding bank recapitalization	-2.7	-3.1	-3.2	-4.5	0.5	3.2	5.1	5.0	5.0
Overall primary balance (cash basis)	-4.7	-6.4	-5.4	-7.2	-6.7	-0.2	2.0	2.0	2.0

Excluding bank recapitalization	-4.7	-6.4	-5.4	-7.2	-2.7	-0.2	2.0	2.0	2.0
Overall balance (cash basis)	-5.8	-7.9	-7.8	-9.6	-9.7	-3.6	-0.7	-0.4	-0.5
Excluding bank recapitalization	-5.8	-7.9	-7.8	-9.6	-5.7	-3.6	-0.7	-0.4	-0.5
External sector									
Current account balance	-13.2	-9.9	-11.1	-9.8	-9.0	-8.3	-7.3	-6.2	-5.2
Exports (goods and services)	46.5	39.4	36.0	35.1	36.4	36.7	37.4	37.8	39.0
Imports (goods and services)	-66.3	-57.3	-58.0	-55.1	-55.2	-54.6	-54.4	-53.7	-53.8
External public debt ²	14.3	17.1	21.1	19.7	22.9	24.8	27.4	27.9	28.4
External public debt service (percent of exports) ²	2.4	2.9	3.1	4.1	4.0	3.4	3.6	4.2	4.3
Domestic Debt ³	42.1	48.1	54.5	61.0	58.4	53.3	45.6	40.0	34.3
Total public debt ⁴	56.4	65.2	75.6	80.8	81.3	78.1	73.0	67.8	62.7
Excluding bank recapitalization ⁴	56.4	65.2	75.6	80.8	77.3	74.1	69.0	63.8	58.7

Sources: Togolese authorities and IMF staff estimates and projections.

¹ Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

² Includes state-owned enterprise external debt.

³ Includes prefinancing debt, domestic arrears and state-owned enterprise domestic debt.

⁴ Includes prefinancing debt, domestic arrears and state-owned enterprise debt.



TOGO

April 27, 2017

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

KEY ISSUES

Context. Togo has undertaken large public infrastructure projects in recent years. While these investments addressed the deficiencies in the transport infrastructure, the fast pace of investment has contributed to a pronounced increase in public debt and the current account deficit. The current government is committed to reducing the public debt and refocusing its policies on sustainable and inclusive growth.

Extended Credit Facility Arrangement (ECF). The authorities have requested a three-year arrangement under the ECF in the amount of SDR 176.16 million (120 percent of quota) in support of their medium-term economic reform program.

Program policies. The authorities' ECF-supported program aims to reinforce macroeconomic stability and to promote sustainable and inclusive growth. The key objectives of the program are to:

- Reduce the overall fiscal deficit substantially upfront to ensure long-term debt and external sustainability;
- Refocus policies on sustainable and inclusive growth through targeted social spending and sustainably-financed infrastructure spending; and
- Resolve the existing weaknesses in the financial sector, especially in the two public banks.

Outlook and risks. Economic growth is expected to increase gradually in the medium term, benefiting from an improved transportation network and productivity gains in the agricultural sector. Public debt is expected to be reduced to a prudent level by 2025. Risks to the program include capacity constraints in implementation of structural reforms and further slowdown in Togo's main regional trading partners. There may also be pressures from interest groups to slow down the pace of reforms.

Staff views. Staff supports the authorities' request for an ECF arrangement. The Memorandum of Economic and Financial Policies sets out appropriate policies to pursue program objectives.

Approved By
Dominique Desruelle
and Peter Allum

Article IV consultation discussions were held on October 20–November 2, 2016 and the discussions on an ECF-supported program on January 5–18, 2017, both in Lomé. The staff team comprised Ms. Sancak (head), Messrs. Erickson, Issoufou, Willems, and Ms. Nyankiye (all AFR), and Mr. Sowou (local economist). Mr. Regis N’Sonde (OED) participated in ECF discussions. Messrs. MacWilliam and Tange (World Bank) and Ms. Gosparini (EU Delegation) joined some technical meetings during the Article IV discussions. The two missions held discussions with President Faure Gnassingbe, Mr. Sani Yaya, Minister of Economy and Finance; Mr. Kossi Assimaidou, Minister of Development Planning; Mr. Kossi Tenou, BCEAO National Director, and other senior officials. The missions also met representatives of the private sector, civil society, and development partners and held press conferences.

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CONTEXT AND RECENT DEVELOPMENTS

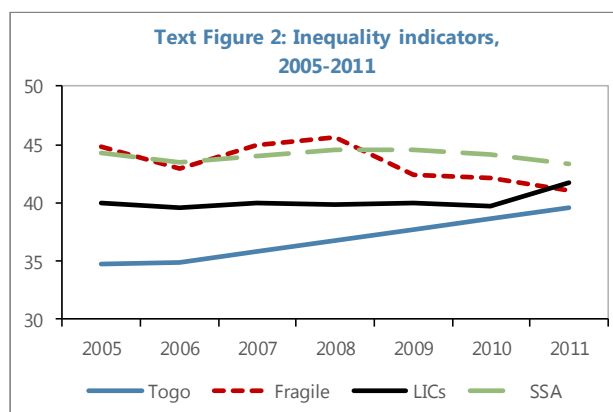
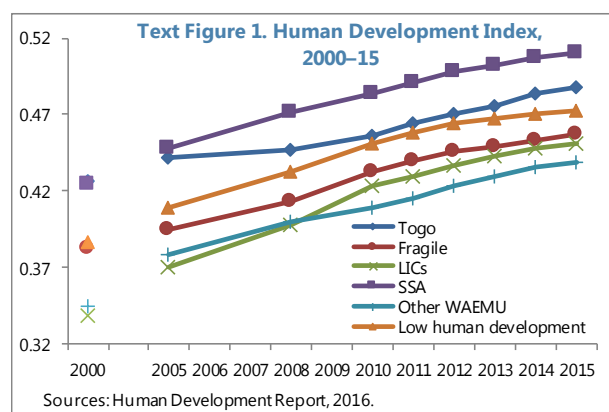
1. The economy has expanded at a healthy rate in recent years on the back of the construction of main road networks, the expansion of the port and the airport, and agricultural production. With the impact of lower commodity prices and tighter global financing conditions fairly muted, the economy expanded at 5.2 percent in 2014-16. Inflation was well contained, explained by the lower food, energy, and transport prices (Text Table 1).

Text Table 1. Togo: Selected Economic Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
					Proj.	Proj.	Proj.	Proj.	Proj.
	(Percentage growth, unless otherwise indicated)								
Real GDP	6.1	5.4	5.3	5.0	5.0	5.3	5.4	5.6	5.6
Consumer price index (average)	1.8	0.2	1.8	0.9	1.5	1.9	2.0	2.0	2.0
	(Percent of GDP, unless otherwise indicated)								
Budget overall fiscal balance (payment order basis)	-5.2	-6.8	-8.9	-9.6	-8.8	-2.7	0.2	0.5	0.5
Budget overall fiscal balance (cash basis)	-5.8	-7.9	-7.8	-9.6	-9.7	-3.6	-0.7	-0.4	-0.5
Current account balance	-13.2	-9.9	-11.1	-9.8	-9.0	-8.3	-7.3	-6.2	-5.2
Total public debt ¹	56.4	65.2	75.6	80.8	81.3	78.1	73.0	67.8	62.7

Sources: Togolese authorities and IMF staff estimates and projections.
¹ Includes arrears and state-owned enterprises external debt.

2. Togo's human development index compares well with other WAEMU countries as well as LICs and continues to improve (Text Figure 1). Togo's income distribution is also favorable relative to other LICs, as measured by the Gini coefficient (Text Figure 2). While poverty rates have declined in the last decade, they remain high and geographically concentrated in rural areas. Poverty rates declined from 61.7 percent in 2006 to 55.1 percent in 2015. The incidence of poverty was 68.7 percent in rural areas compared to Lomé (34.8 percent) and other urban areas (37.9 percent).



3. The fast pace of public investment has contributed to a pronounced increase in public debt and current account deficit. Public debt, including prefinancing debt, domestic arrears and public enterprise debt, increased from 48.6 percent of GDP in 2011 to 80.8 percent in 2016 (76.2 percent of GDP excluding public enterprise debt), reflecting public infrastructure investments

financed by both domestic and external borrowing. While these investments addressed significant deficiencies in the transport infrastructure, the large debt service payments, notably for prefinancing debt, increasingly put considerable pressures on the budget. As a result, domestic arrears, including to the utility companies, accumulated to 5.7 percent of GDP in 2016. The current account deficit remained high, reaching 9.8 percent of GDP in 2016, due to investment-related imports.

4. The second half of 2016 has witnessed a major shift in Togo’s fiscal policy, with the authorities ending the practice of prefinancing and expressing strong commitment to implement corrective measures to reduce public debt to a prudent level.¹ The authorities have made a commitment not to undertake any new prefinanced investments, to wind down all existing prefinanced investments, and to include prefinanced debt in published debt stocks. They have also resolved to follow regular budgeting and procurement procedures for all new public investments going forward. The authorities plan to refocus their policies on sustainable and inclusive growth through targeted social spending defined in community development programs and National Development Plan for 2018-2022.² They will also put in place an appropriate framework for public investment and partner with the private sector, as well as technical and financial partners, to continue to improve infrastructure.

5. The authorities have requested a three-year arrangement under the Extended Credit Facility (ECF). The arrangement would provide SDR 176.16 million (120 percent of quota) in support of their medium-term economic reform program.

MEDIUM-TERM OUTLOOK AND RISKS

6. Economic growth is expected to increase gradually from 5 percent in 2016 to 5.6 by 2021, with the economy reaping the benefits of an improved transportation network and productivity gains in the agricultural sector. Economic growth is estimated to have slowed down slightly to 5 percent in 2016, with a solid rise in agricultural production weighed down by a pullback in public infrastructure investments, currency devaluations and declines in growth in major trading partners such as Ghana and Nigeria, and the diversion of shipments to other ports in the region due to stricter tariff enforcement at the port of Lomé. Growth is expected to gradually increase to 5.6 percent (2.8 percent per capita) by 2021, with the economy benefiting from an improved transportation network and productivity gains in the agricultural sector. The resulting increase in total factor productivity, together with the increase in externally-financed investment, would more than compensate for the impact of the decline in domestically-financed infrastructure spending on

¹ In a typical prefinancing arrangement, a private company, which was granted a single-source public works contract by the government, obtained a loan from a domestic commercial bank or a group of commercial banks. The Finance Ministry guaranteed this loan and, at the same time, signed an unconditional and irrevocable substitution of debtor agreement to service all principle and interest, which have been paid automatically from the Treasury account at the BCEAO. As such, these payments have taken priority over all other budgetary expenditures.

² The National Development Plan is being formulated in coordination with developments partners, including the UNDP, the World Bank, and the European Union.

the economy. The private sector is expected to play an increasing role as the engine of growth, as public investment returns to its long-term sustainable level.

7. Reducing the public debt to a prudent level is an attainable objective in the medium term, provided the policies and reforms agreed under the program are implemented and growth does not decline further in the region. Downside risks to growth include capacity constraints in implementation of structural reforms, resistance to reform from interest groups, and further slowdown in Togo's main regional trading partners. Inflation remains well contained, forecasted to remain moderate in coming years. With the improvement in the fiscal stance, public debt is expected to be reduced from a projected peak of 81.3 percent of GDP (77 percent in net present value (NPV) terms) in 2017 to 73 percent (65 percent in NPV terms) by 2019. Togo will remain at a moderate risk of external debt distress during this period. The current account deficit is projected to improve from 9.8 percent in 2016 to 7.3 percent by 2019.

Authorities' Views

8. The authorities broadly shared staff's views on the medium-term outlook and risks, although they were more optimistic on prospects for growth. The authorities concurred with staff that a significant fiscal adjustment is needed to reduce debt and ensure continued macroeconomic stability and growth. They also agreed with the outlook for moderate inflation and that a strengthened fiscal stance would help to improve Togo's external position. The authorities coincided with staff that the private sector would play a greater role in driving the economy. However, they were more optimistic than staff on the scope of private sector expansion envisaging a growth rate on the order of 6 percent compared to 5½ percent in the medium term.

PROGRAM OBJECTIVES AND DESIGN

9. The key recommendations of the 2016 Article IV consultation are to (i) reduce the overall fiscal deficit substantially upfront to ensure long-term debt and external sustainability; (ii) refocus policies on sustainable and inclusive growth through targeted social spending and sustainably-financed infrastructure spending; and (iii) resolve the existing financial sector weaknesses, especially in the two public banks. These policies feature prominently in the authorities' program supported by an Extended Credit Facility Arrangement, as explained below. This program is consistent with fostering medium-term external stability in the WAEMU region.

A. Achieving Fiscal and Debt Sustainability

10. Togo's fiscal policy remained expansionary in recent years. A rapid increase in domestically-financed infrastructure spending through prefinancing led to widening primary deficits, and debt accumulation, including domestic arrears.³ At the same time, current spending was

³ Prefinanced loans were not included in public debt, even though the full liability of these loans rested with the government. The servicing of these debts appeared in the authorities' fiscal accounts, but both interest payment and
(continued)

reduced to the minimum, with social spending sharply lower than the targets defined in the authorities' development plan for 2013-17. Furthermore, prefinanced debt was not shown in national debt figures, making it difficult to plan for growing debt service pressures. As large debt service payments took priority over other expenditures and arrears from previous years being paid down with current-year revenues, domestic arrears, including to the utility companies, increased sharply to 5.7 percent of GDP in 2016.⁴

11. The 2017 budget features significant fiscal retrenchment and regularization of prefinancing debt. Starting in 2017, the authorities have committed to refrain from guaranteeing or assuming of domestic loans to suppliers or contractors (PC). Staff expects that domestically-financed capital expenditures will decline to 4.8 percent of GDP from 8.4 percent in 2016, and both investment and current spending will be reoriented towards supporting social needs. A markedly improved domestic primary balance of 0.5 percent of GDP, excluding bank recapitalization cost, from -4.5 percent in 2016 will allow for less domestic financing, while external financing will continue to be linked to infrastructure and social projects. The stock of prefinancing debt of CFAF 198 billion at end 2016 will be paid off in 2017 using a domestic loan with better financing conditions.

12. The government will strengthen the overall primary balance—the fiscal anchor—to progressively boost public debt sustainability (MEFP, ¶ 9). The program targets an overall primary surplus (cash basis, including grants) of 2 percent of GDP by 2019, an improvement of 9.2 percentage points from 2016. The program is expected to reduce Togo's overall fiscal deficit below the WAEMU convergence criterion of 3 percent of GDP by 2019. The envisaged overall primary surplus, combined with growth in the 5 percent range, would put the public debt-GDP ratio on a clear downward trajectory, reaching 73 percent of GDP in 2019, down from a peak of 81.3 percent in 2017—including public enterprise debt and public bank recapitalization. Assuming that the 2 percent of GDP primary surplus is sustained in the post-program period, the present value of public debt would be brought below the threshold for heightened risk of public sector debt by 2025 (DSA Figure 2). The Performance Criterion (PC) on the fiscal balance will be set on the *domestic* primary balance, that is, excluding foreign-financed capital spending, with overall primary balance included as a memorandum item, due to delays in tracking of the execution foreign-financed capital spending. Over the medium term, the authorities will implement PFM reforms to allow fiscal monitoring of the overall primary balance.⁵ Consistent with Fund policy on debt limits for programs in low-income countries with weak capacity and moderate or high risk of debt distress, the program sets a zero ceiling on the contracting or guaranteeing of new non-concessional external debt as well as a nominal target on contracting or guaranteeing of new concessional external debt by the public sector. These limits will ensure that the authorities' borrowing plans are fully consistent with

amortization were included in capital expenditures, which should have instead shown the execution of pre-financed capital expenditures. Fiscal data for 2013-16 have been revised to correct these misclassifications (Table 2).

⁴ There is an additional 7½ percent of GDP stock of audited outstanding arrears from before 2007, which is counted in the debt stock. These arrears are not expected to require significant financial resources from the government as most companies have reportedly not brought forward the required evidence to verify their claims.

⁵ The performance criterion could be applied to the overall primary balance rather than the domestic primary balance in the second or third year of the program.

maintaining external and overall public debt sustainability. In addition, the government will consult with IMF staff before contracting new concessional loans. Given tight constraints on spending already envisaged in the program, it will be particularly important to vigorously pursue efforts to meet revenue targets.

13. The fiscal adjustment will require reduced capital spending, tight limits on recurrent spending, avoidance of new arrears, and further improvements in revenue mobilization.

Contributions to the programmed improvement in the primary balance are summarized below:

	Change 2013-2016	Change 2016-2019
Overall primary balance (cash basis, incl. grants)	-2.5	9.2
Revenue mobilization increase	0.8	2.9
Grants increase	-0.5	1.2
Primary expenditure savings	-2.7	5.1
Primary current spending	1.3	0.1
Capital spending	-4.7	5.9
Arrears payment savings	0.7	-0.9

14. The program will feature the following elements in the fiscal area (MEFP, ¶ 10):

- **Revenues.** Review tax policy, including overhauling the exemption and tax expenditure system, which have increased substantially in recent years, and accelerate reforms in revenue administration.
- **Capital spending.** Reduce domestically-financed capital expenditure, recognizing that the large domestically-financed infrastructure projects are mostly complete and that the recent pace of investment cannot be maintained in the face of growing debt pressures.⁶ The elimination of prefinancing and the strengthening of public investment management (see ¶18) will help to both control capital expenditures and improve their quality. In this context, emphasis will be placed on making full use of grant and concessional financing for priority investment projects. Public private partnerships could also be an alternative as long as the risks are factored in appropriately.
- **Recurrent spending.** With recurrent spending already compressed, the focus will be on redistributing allocations toward social spending in line with the National Development Plan. On wages, the government will return to its earlier-stated policy to increase wages no more than with the inflation rate and wage drift, ensuring that the wage bill declines in percent of GDP. The

⁶ Debt service, excluding T-bills, reached 56 percent of total revenue in 2016, crowding out social spending.

government will exercise strict control on the number of employees. It will also aim to improve targeting to shift resources to higher priority areas. It will contain fuel price subsidies by consistently applying the existing price adjustment formula.⁷

- **Arrears.** It will be critical to strengthen public financial management to avoid the accumulation of new arrears, the clearance of which has added to spending needs in recent years. An independent audit will verify the stock of domestic arrears by end-September 2017 (SB). After the completion of the audit, the government plans full clearance of arrears by combining upfront cash payments in 2017 and the securitization of arrears with a phased payment over 2-5 years for the residual amount of arrears. This corresponds to an annual arrears clearance of 0.9 percent of GDP over 2017-2021, which is included in the overall primary balance (Table 2b).⁸

15. The authorities will refocus their policies on sustainable and inclusive growth through targeted social spending and sustainably-financed investment (MEFP, ¶ 10). Programs such as the Emergency Program for Community Development and Vulnerable Populations Support Program were established to address the immediate social needs. The government is in the process of identifying development priorities in its National Development Plan (NDP) for 2018-2022 and plans to fully integrate these priorities into the budget. The NDP is centered around five pillars:

- (i) **Reducing poverty and improving social well-being.** Assure access to clean water, health services, and nutrition. Enable all children to complete secondary school and reduce educational disparities. Promote gender equality and eliminate gender-based violence.
- (ii) **Promoting sustained and inclusive economic growth.** Strengthen agriculture through adopting better technologies and moving up the value-added chain in production. Promote industry and commerce through improved infrastructure and develop tourism based on cultural patrimony and local products.
- (iii) **Strengthening the potential of growth-supporting sectors.** Bolster entrepreneurship, widen access to energy and continue to develop transportation infrastructure. Fortify scientific research with an aim to stimulate technological innovation and transfer.
- (iv) **Sustainably managing the environment and reducing geographic inequalities.** Preserve ecosystems, limit pollution and fight encroaching desertification. Establish maritime conservation zones.
- (v) **Strengthening governance and peace.** Secure human rights in line with international norms. Ensure the effectiveness of government decentralization. Guarantee the availability of public

⁷ Full elimination of subsidies is advisable provided it does not lead to large increases in smuggling and loss in tax base. Vulnerable segments of the population should be compensated. The current policy to subsidize kerosene, largely used by the poor, should be continued.

⁸ The arrears payments approach will be updated based on the findings of the independent audit to be completed by end-September 2017.

information and deepen government transparency. Combat illicit financial transactions and the trade in illegal arms.

The authorities' program establishes a floor on domestically-financed social spending (IT), set in consultation with development partners, with particular emphasis on projects that have high impact on poverty reduction.

B. Strengthening Fiscal Management and Institutions

16. Institutional and capacity constraints have hampered Togo's ability to achieve spending efficiency. Poor public financial management (PFM) practices, most notably those related to prefinanced investments, have led to low levels of efficiency in capital expenditures.⁹ Spending quality has been further hindered by poor cash-management practices, which have caused liquidity-induced spending bottlenecks.

17. Following the establishment of the Revenue Authority (OTR), operational improvements resulted in good revenue performance in 2015, though 2016 outturns lagged. Togo now has the foundations of a semi-autonomous revenue authority, supported by technical assistance from the IMF and development partners. Among the key achievements of OTR have been (i) better traceability of tax payments through the banking system thanks to direct deposit of tax payments into designated bank accounts; (ii) streamlining of taxpayer segmentation; and (iii) operationalization of customs IT system including a "single window." Despite these gains, customs revenue performance was substantially weaker than expected in 2016 due to the drop in transshipments following currency devaluations and decline in growth in major trading partners such as Ghana and Nigeria, as well as the diversion of shipments to other ports in the region due both to stricter tariff enforcement at the port of Lomé and to tighter application of overland-shipping regulations affecting goods leaving the port.

18. As part of the program, the authorities plan to take the following key actions to improve PFM and debt management (MEFP, ¶ 13):

- Reorganize the Ministry of Finance. Essential elements of this reform would be (i) the creation of an effective debt management directorate; (ii) a strengthened budget department encompassing budget preparation, monitoring, and medium-term budget frameworks; and (iii) the establishment of a tax policy unit. The Ministry of Finance will define tax policy, rather than the OTR, which is tasked with revenue administration. To these

⁹ Public Investment Management Assessment (PIMA) found that the management of public investments in Togo lags that of both other SSA countries and other LICs and that the efficiency of public investment spending was 70 percent below potential. It recommended improving public investment management through: (i) better medium-term planning for projects and their associated financing; (ii) systematic ex-post assessments of large projects; (iii) strengthened prioritization of investment projects; (iv) stronger alignment between planned projects and the availability of fiscal funding; and (v) greater transparency in public investment spending.

ends, a decree reorganizing the Ministry of Finance will be signed by end-December 2017 (SB).

- The authorities have committed not to undertake any new prefinanced investments (PC). Furthermore, all new investment projects will follow the procurement process, be fully integrated in all phases of the budget process, and require payments to the private sector after verification of completed work. Public investment management will be improved and an appropriate framework will be put in place to partner with the private sector via PPPs. The government aims to improve public investment management through: (i) better medium-term planning for projects and their associated financing; (ii) systematic ex-post assessments of large projects; (iii) strengthened prioritization of investment projects; (iv) stronger alignment between planned projects and the availability of fiscal funding; and (v) greater transparency in public investment spending. More specifically, a budget for FY 2018 (consistent with the Fund-supported program) will be adopted and guidelines put in place by end-December 2017 to include only investment projects selected through cost-benefit analysis or cost effective analysis (SB).
- The Ministry of Finance will identify a methodology to track and verify the stock of domestic arrears to the private sector, public enterprises, and pension funds before paying them down. To this end, the Ministry will submit to the Fund a methodology to identify and verify domestic arrears by end-June 2017 (SB).
- With the aim of avoiding accumulation of new arrears, cash management practices will be improved. To achieve this goal, the authorities will improve treasury management and make progress towards establishing a treasury single account (TSA). They will submit to the Fund by end-December 2017 an annual cash plan for 2018 consistent with the 2018 procurement plan and the quarterly commitments for 2018 (SB).
- The OTR will pursue additional efforts to modernize revenue administration. For domestic taxation, this modernization should (i) broaden the taxpayer base by improving tax payments by small and medium-sized enterprises. In particular, the authorities will improve consolidation of the taxpayer file by way of a tax census and higher registration of economic operators, including by identifying current stop filers; and (ii) allow focusing on the fight against tax evasion—this will begin this year with the resolution of potential evasion cases already detected in specific economic sectors. The government will implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron (SB, end-December 2017).
- With regard to customs, the main objectives are to (i) simplify the customs clearance process and strengthen cargo inspections at the port; moving to complete automation, thereby removing manual procedures and facilitating better tracking of cargoes in transit, with import valuation and control of customs exemptions reinforced through improved risk analysis, coupled with effective and transparent inspection and auditing; and (ii) strengthen the assessment of imports and monitoring tax exemptions through improved risk analysis

and effective and transparent verification and inspection. Specifically, OTR will examine 30 percent of revenue that the government has waived under the 2016 exemptions through a post-clearance audit program (SB, end of June 2017), which should begin to bear fruit in the current year. Within the revenue agency, cooperation between the domestic tax and customs units will be strengthened. Finally, OTR will continue to develop and improve its communication strategy with the private sector.

ENHANCING FINANCIAL SECTOR DEVELOPMENT AND STABILITY

A. Background

19. There are vulnerabilities in the financial sector (Text Table 3). By end-September 2016, the aggregate solvency ratio stood at 3.6 percent, with 3 out of 13 banks being undercapitalized. Capitalization levels at other banks respected minimum requirements and were in line with the WAEMU average: Excluding the two undercapitalized public banks (accounting for 17 percent of total banking sector assets), pushes the aggregate solvency ratio up to 11.7 percent. Problems of low asset quality, however, are more widespread. The aggregate NPL-rate stood at 20 percent at end-September 2016, which is mostly due to loose lending standards applied in the past, when significant loans were often provided against insufficient collateral. Accumulation of domestic arrears may have also contributed to the increase in NPLs in recent years.

Text Table 3. Togo: Financial Soundness Indicators, 2011–16
(in percent, end of period)

	2011	2012	2013	2014	2015	2016 1/
Solvency Ratios						
Regulatory Capital / Risk-weighted Assets	11.7	11.4	11.4	8.5	6.8	3.6
<i>Excl. Two Public Banks</i>						11.7
Base Capital / Risk-weighted Assets	10.6	9.8	10.0	7.2	6.1	2.5
<i>Excl. Two Public Banks</i>						10.3
Asset Quality						
NPLs / Gross Loans	10.9	11.4	12.5	15.4	16.6	19.8
Profitability						
Return on Assets	2.0	1.6	1.6	0.9	0.7	0.3
Return on Equity	13.6	22.9	24.0	19.4	18.7	14.9
Liquidity						
Liquid Assets / Total Assets	33.4	44.6	43.8	43.5	44.3	47.8
Liquid Assets / Total Deposits	46.4	65.7	67.3	63.6	66.5	75.4
Source: BCEAO and Fund staff calculations.						
1/ Data for 2016 corresponds to end-September.						

20. The two public banks remain undercapitalized. One public bank has been under provisional administration for a number of years, while the situation at the other public bank has worsened more recently. The former bank, however, possesses latent capital in the form of its head office, which is fully amortized on its balance sheet, but carries positive value in practice. The other public bank's capital position deteriorated in 2016—a development that is mainly driven by the recommendation of the WAEMU Banking Commission to take provisions for loans that are deemed non-performing.

21. Togo's microfinance sector fulfills an important role in promoting financial inclusion, but many institutions do not respect prudential ratios. Out of the 190 microfinance institutions active in Togo, only 20 respect all prudential ratios, while out of the 16 institutions supervised by the Banking Commission, only four are fully compliant. The rate of non-performing loans stands at over 8 percent and continues to be higher than the 3 percent prudential standard. Finally, the sector is populated by about 140 institutions that operate without a license.

22. The 2013 Safeguards Assessment of the WAEMU regional central bank, the BCEAO, found a continuing strong control environment. All recommendations from the assessment have been implemented. These include strengthening the external audit arrangements by appointment of an international firm with ISA experience for the audits of FY 2015–17, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adopting IFRS starting with financial year 2015.

B. Program Measures

23. The government will strengthen its enforcement of the existing regulatory framework (MEFP, ¶ 17).

- Banks not properly capitalized will be called to increase their capital. Banks currently not respecting the regulatory minima will be asked to take immediate remediation action or implement resolution strategies.
- This issue is even more pertinent for the microfinance sector, where there is not only non-compliance with prudential standards, but also widespread unregulated, and even unlicensed, activity. Institutions operating without a license will either be incorporated in the regulatory system or closed.

24. As a prior action, the government will contract an independent audit of the two public banks (MEFP, ¶ 18). The findings of this audit, which will be made available to the Fund and the Banking Commission, will help to assess the costs and the appropriate manner of their resolution. To obtain an improved sense of the amount of latent capital that is currently present in one of the public banks, an appraiser will value its property portfolio, particularly its headquarters.

25. The government will start undertaking actions to restructure the two public banks (MEFP, ¶ 19). It intends to consider two options.

- If WAEMU rules allow for the creation of a new bank to function as an assuming bank, then authorities will consider establishing a new bank that takes over all liabilities and all ‘good’ assets of both public banks. This approach would enable a revaluation of all real estate owned by both banks—thereby bringing about a capital injection.
- The other option is for the stronger public bank to function as the assuming bank, which is feasible within the current legal framework of the WAEMU.

26. Staff estimates a recapitalization need of up to 4 percent of GDP, an amount included in the fiscal framework for 2017. When recapitalizing banks, authorities will also ensure a healthy liquidity situation. To minimize resolution costs, most of the non-performing loans will be recovered by the current creditor banks. In the latter case, the structure of remuneration for the liquidator will be such that it encourages the recovery of loans.

27. Under any approach, authorities are committed to improve governance in the banking sector to prevent similar problems from arising in the future. To formulate and implement the reorganization of the two banks, the authorities will create a Steering Committee. This Committee will seek legal advice to aid the restructuring process, particularly around a possible new bank.

28. By end-June 2017, the authorities will obtain Cabinet approval for a restructuring plan for the two public banks, as well as requesting any necessary regulatory approval (SB) (MEFP, ¶ 21). The comprehensive and time-bound restructuring plan will result in a single public bank. If required, they will also submit an application for the creation of a new bank to the WAEMU Banking Commission by that date. The support of the Commission will be critical for approving the restructuring. All legal transfers required in the restructuring plan will be completed by end-December 2017 (SB).

EXTERNAL SUSTAINABILITY

29. The external stability assessment suggests that Togo’s large current account (CA) deficits pose a risk to external sustainability (Text Table 4). The CA approach of the EBA-lite indicates an overvaluation of about 7 percent at end-2015, driven by the deterioration of the CA in 2015 from a still high level in 2014. This assessment is consistent with the 2015 Article IV consultation staff report, but differs from the 2016 WAEMU-level assessment. It reflects the relatively loose fiscal stance and high level of private and public investment of the past few years.¹⁰

¹⁰ This result should be interpreted with caution given the difficulties in assessing external sector competitiveness for small countries with limited data and undergoing structural transformations.

Text Table 4. Togo: Current-Account Norms and Implied REER Adjustment^{1/}

	Current Account/GDP		Real Exchange Rate Gap
	Norm	Underlying	
CA model	-6.8	-11.1	6.9
External Sustainability	-16.1	-6.1	-15.8
IREER	...	...	-14.0

Source: IMF staff estimates.

1/ The current account elasticity is based on the median trade elasticity for small countries reported in Tokarick (2010) (-0.63).

30. The current account is expected to improve over the medium term. The current account deficit is projected to narrow from 11 percent of GDP in 2015 to 5.2 percent of GDP by 2021. This improvement is predicated on increases in private sector-led investment which will boost Togo's exports. At the same time, imports would be contained following slowdown in public sector investment and improvements in agricultural production, although capital imports by the private sector will rise in line with its investments. The other components of the current account (i.e., services, primary and secondary income) are expected to remain around their 2015 levels.

DEBT MANAGEMENT POLICY: PUTTING DEBT ON A DOWNWARD PATH

31. Reducing public debt to a prudent level in the medium term is central to macroeconomic stability. Public debt has increased substantially in recent years, reflecting public infrastructure investments financed by both domestic and external borrowing. Public domestic debt, including state-owned enterprises, amounts to 61 percent of GDP in 2016, up from 32 percent of GDP in 2010. A key driver of the increase in domestic debt has been the rise in recourse to the regional financial market. The profile of domestic debt has been revised to reflect borrowing in the context of prefinanced investment spending, which was previously not classified as debt. This revision has added an average of 7 percentage points of GDP to domestic debt over 2013-16.

32. Togo remains at a moderate risk of external debt distress and a heightened risk of overall debt distress—unchanged from the 2015 Debt Sustainability Analysis.¹¹ This assessment is consistent with the improvement in the fiscal stance in the medium to long term. Public debt is expected to be reduced from 80.8 percent of GDP (76.1 in NPV terms) in 2016 to 73 percent (65.2 in NPV terms) by 2019. Assuming that the improved fiscal stance is sustained in the medium to long-

¹¹ Togo's policy performance is ranked "weak" by the CPIA with an average score of 2.98 over 2013-2015. The heightened overall risk of debt distress indicates total public debt above the benchmark of 38 percent of GDP (in net present value term).

term, the net present value of public debt would be brought below the threshold of 38 percent of GDP for elevated public sector debt risks by 2025.

33. The external debt limits under the program will ensure debt sustainability while improving financing sources. The program sets a zero ceiling on the contracting or guaranteeing of new non-concessional external debt, as well as a nominal target on contracting or guaranteeing of new concessional external debt by the public sector, as mentioned in ¶ 12.

34. The government is building up debt management capacities and diversifying its sources of deficit financing (MEFP, ¶ 28). It has suspended non-binding existing external non-concessional loan contracts and put in place borrowing plans to reduce the net present value of debt to GDP. This will reduce debt vulnerabilities and avoid an excessive buildup of short-term debt while taking into account potential rollover and foreign exchange risks. The authorities also aim to deepen and diversify the domestic and regional creditor base, including through working with the regional institutions to develop the secondary bond market. In the regional market, the government has extended the range of debt instruments by placing Sukuk bonds of FCFA 150 billion in August 2016 and is considering another tranche in 2017. Completing the reorganization of the government's debt management unit into front, middle, and back office will centralize public debt management operations. Coupled with training staff, the reorganization of debt management would improve the design and implementation of Medium Term Debt Strategy (MTDS), in line with good international practices.

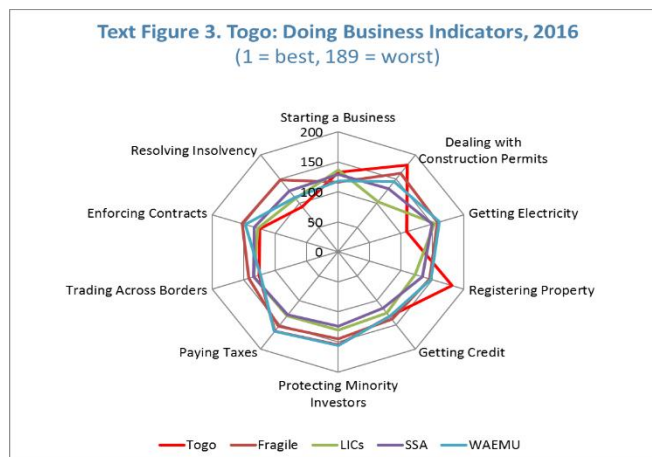
Authorities' Views

35. The authorities fully concurred with staff's recommendations on debt management policy, but preferred a more narrow coverage of public debt. The authorities' program aligns with the staff's recommendations on debt management. They intend to make full use of IMF technical assistance and training resources to strengthen their capacity in this area. The authorities, however, would have preferred to exclude public institutions of an industrial or commercial nature from public sector debt, if possible, as they think that this debt does not represent a fiscal risk to the central government. Following Fund policy, the coverage of public debt in the debt sustainability analysis includes all public enterprises that the government controls, such as by owning more than half of the voting shares.

STRUCTURAL REFORMS: SUPPORTING GROWTH WHILE REDUCING EXTERNAL VULNERABILITIES

36. A favorable business climate is essential to private sector-led growth.

Togo's business environment has been improving following recent government reforms. Togo's ranking improved by two positions to rank 150th out of 189 countries in the Bank's 2016 Doing Business Index—better than Sub-Saharan-Africa average but worse than the WAEMU average (Text Figure 3). Prior to that, Togo had been among the top 10 economies improving the most across three or more areas as measured by



the 2013-14 indices. The Doing Business Index survey, however, noted that efforts are still needed to improve access to electricity, enforce contracts, and resolve insolvent businesses. Moreover, Togo still faces challenges in governance. Togo ranked in the bottom third of countries for voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption in the World Bank's 2015 Worldwide Governance Indicators.

37. Togo's authorities aim to continue developing an inviting business climate to become a regional commercial and transportation hub (MEFP, ¶ 25).

They will increase dialogue with the private sector and civil society by communicating clearly the government's medium term strategy. The government is also committed to targeting the Doing Business Indicators on which Togo performs poorly (e.g., improving access to electricity, enforcing contracts, and resolving insolvent businesses) through a monitorable and highly publicized action plan. Moreover, the key sectors with highest government presence and intervention—mining, telecoms, energy—will be opened to more private sector competition. For example, opportunities to deliver social payments at low costs—as in East Africa—will be lost if mobile services are expensive and regulated. Togo's chronic lack of energy is stifling growth and the authorities concur that long-term solutions are needed to increase domestic generation and establish a regulatory framework conducive to increased access to energy in a cost-effective manner.

DATA ISSUES

38. National accounts are finalized with a very long lag. The latest finalized national account statistics are for 2013, prepared with support from AFRITAC. There have been large variations between GDP estimated by the GDP Committee and the finalized national accounts.

39. Data production is compartmentalized and not cross-checked for consistency across departments. The budget preparation process is weakened by limited information on execution during the year.

40. The government will:

- Reduce lags in the production of national accounts, improve the production of preliminary GDP data, and strengthen staffing within the National Statistics and Accounting Institute (*Institut national de la Statistique et des Études économiques et démographiques – INSEED*);
- Guarantee the quality of the quarterly budget execution and TOFE reports as well as diligence in their preparation by ensuring consistency between the two. The budget projections for the following year will be based on projection for budget execution in the current year (MEFP, ¶ 31).

PROGRAM MODALITIES

41. Program monitoring. Proposed quantitative performance criteria (PC) and indicative targets (IT) are set out in MEFP Table 1. The prior action and structural benchmarks draw on Fund TA recommendations (MEFP Table 2). The program will be monitored every six months based on quantitative criteria for end-June and end-December, starting from June 2017.¹² The fiscal program is designed to deliver a primary surplus of 2 percent of GDP by 2019. Due to delays in tracking of the execution of foreign-financed capital spending, the PC on the fiscal balance will be set on the *domestic* primary balance, i.e., excluding foreign-financed capital spending. This, together with the absence of a quantitative performance criterion or indicative target on concessional borrowing—in line with the new debt limits policy for a weak capacity country like Togo—raises the risks for higher-than-programmed borrowing on concessional terms to finance new capital projects. Given Togo’s heightened risk for public debt level and the importance of tight controls on new borrowing, these risks will be mitigated in the short run by an agreement to consult with staff before contracting new concessional loans, and over the medium term, by PFM reforms designed to allow fiscal monitoring of the overall primary balance.

42. The program is fully financed. Financing needs are expected to be met by a combination of donor and Fund support. The projected financing gap over the program period (about 2 percent of GDP over 2017-19) will be covered by budget support from the World Bank (about CFAF 44 billion), by the EU (about CFAF 36 billion), by the African Development Bank (about CFAF 7 billion) and by the proposed disbursements from the Fund under the three-year ECF arrangement with access at SDR 176.16 million (120 percent of quota). The proposed access would help strengthen reserve cover in the WAEMU following a recent decline, and is commensurate with the program’s ambitious goals for fiscal adjustment. Phasing is proposed to be evenly spread with equal installments in each review.

¹² The final test date would be end-September 2019 to allow for sufficient time to complete the final review within the period of the arrangement.

43. Togo's capacity to repay the Fund is adequate (Table 5). The debt sustainability analysis (DSA) indicates that Togo remains at moderate risk of debt distress. Debt sustainability indicators are projected to improve over the program period and beyond as a result of the fiscal consolidation, which is expected to be sustained in the medium and long term on the back of improved revenue mobilization and contained public expenditure.

STAFF APPRAISAL

44. The fast pace of public investment has laid the basis for higher growth in recent years but has also contributed to pronounced increase in public debt and current account deficit.

While these investments addressed the critical deficiencies in infrastructure, the large debt service payments, notably for prefinancing debt, increasingly put considerable pressures on the budget, crowding out social spending. As a result, domestic arrears to the private sector accumulated while the current account deficit remained high.

45. The current government is committed to reducing the public debt and refocusing its policies on sustainable and inclusive growth.

The authorities' program, supported by an ECF arrangement, aims to (i) reduce the overall fiscal deficit substantially upfront to ensure long-term debt and external sustainability; (ii) refocus policies on sustainable and inclusive growth through targeted social spending and sustainably-financed infrastructure spending; and (iii) resolve the existing financial sector weaknesses, especially in the two public banks.

46. The government has committed to strengthen the fiscal balance and put public debt on track to a prudent level by 2025, while addressing social needs.

Fiscal policies will aim to (i) overhaul tax exemptions and accelerate revenue administration reforms; (ii) reduce domestically-financed capital spending, while making full use of grant and concessional financing for priority investment projects; and (iii) redistribute recurrent spending allocations to social spending in line with the National Development Plan.

47. The authorities plan to take the following key actions to improve public financial management and debt management.

The Ministry of Finance will be reorganized to (i) strengthen debt management; (ii) improve budget preparation, monitoring, and medium-term budget framework; and (iii) establish a tax policy unit. Public investments will follow established procurement and budgetary processes, while no new prefinancing arrangements will be undertaken. Tax administration will be bolstered by the broadening of the tax base and better monitoring of exemptions. Customs practices will be further modernized and automated.

48. The persistent problems facing the two large public banks will be addressed.

The two under-capitalized banks are expected to be legally resolved by the end of the first year of the program, with a single well-capitalized public bank in its place. The resolution will take place after a full audit and in accordance with WAEMU banking regulations. The authorities will also strengthen supervision in the microfinance sector.

49. The authorities will implement structural reforms to develop an inviting business climate to become a regional commercial and transportation hub. Togo's economy remains hampered by an inadequate electricity supply; long-term solutions are needed to increase domestic generation and establish a regulatory framework conducive to increased access to energy. It would help to open the key sectors, such as telecom, energy, and mining—to more private sector competition.

50. While data provision is currently adequate for program monitoring, the remaining gaps will be prioritized. Timely and internally-consistent compilation of monthly fiscal accounts will be key to tracking fiscal PCs, as well as improved treasury management practices. The long lag in reporting national accounts will be shortened and the coverage and timeliness of balance of payments statistics will be improved.

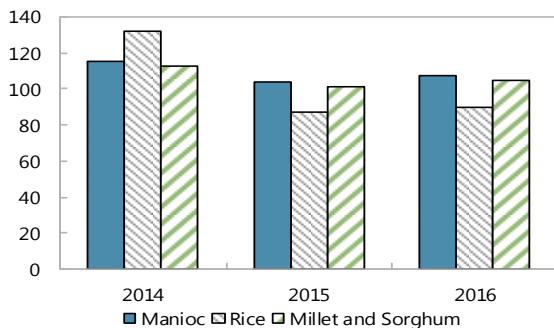
51. Staff supports the authorities' request for a program under the ECF arrangement with access equivalent to SDR 176.16 million (120 percent of quota), recognizing their commitment to ambitious adjustment goals. The Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to pursue the program's objectives. The capacity to repay the Fund is adequate and risks to the program are manageable.

52. Staff recommends that the next Article IV consultation for Togo be held on the 24-month cycle.

Figure 1. Togo: Indicators of Economic Activity, 2014–16

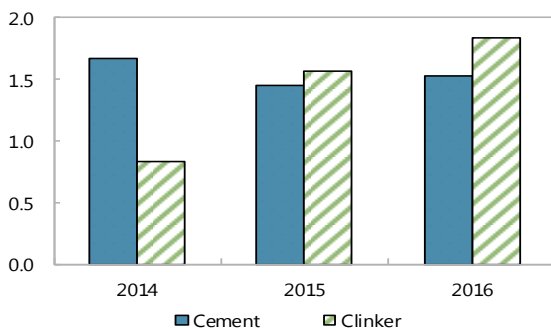
In 2016 economic activity was supported by another strong harvest, in particular foodstuffs ...

Foodstuff agricultural production¹
(Volumes, base=100 in 2012)



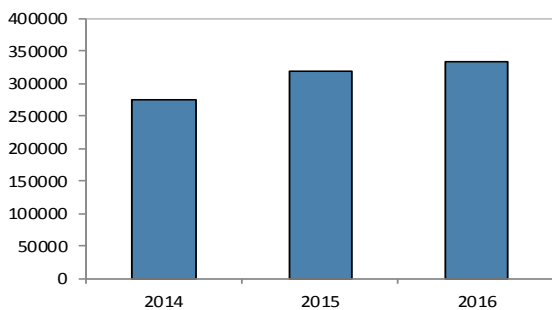
Extraction and industrial activities showed solid performance...

Main Extraction and Industrial Activities
(In millions of tonnes)



Airport arrival continued to increase as new capacity came online.

Airport Passenger Arrivals
(Number of individuals)

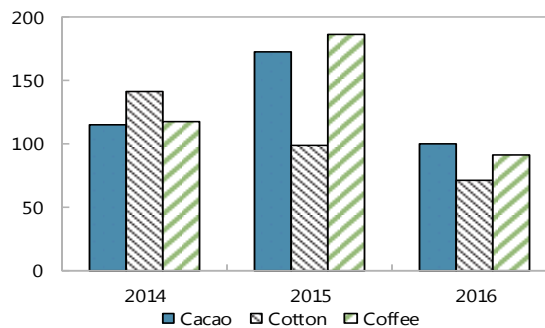


Sources: Togolese authorities; and IMF staff estimates.

¹Data for 2016 are staff estimates.

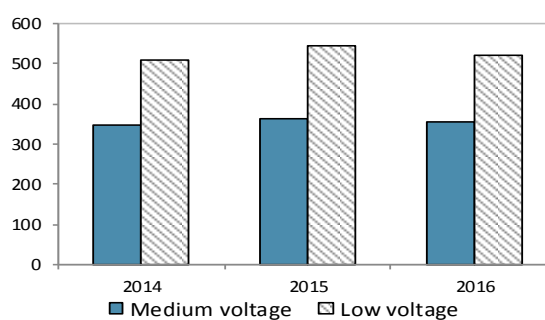
... which compensated for weak performance in export crops.

Agricultural Export Production
(Volumes, base=100 in 2012)



... while Togo's chronic shortage of electricity production showed no improvement.

Electricity production
(In millions of Kwh)



Inflation in food prices was negative and core inflation was subdued.

Food Inflation and Measures of Core Inflation
(Year-on-year change, in percent)

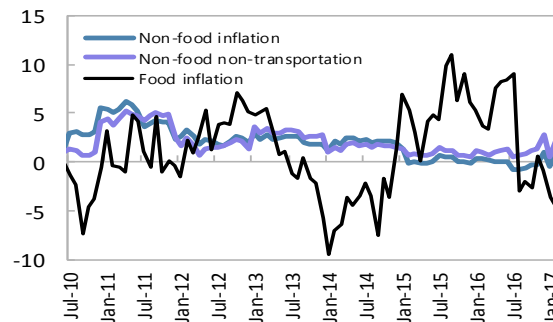
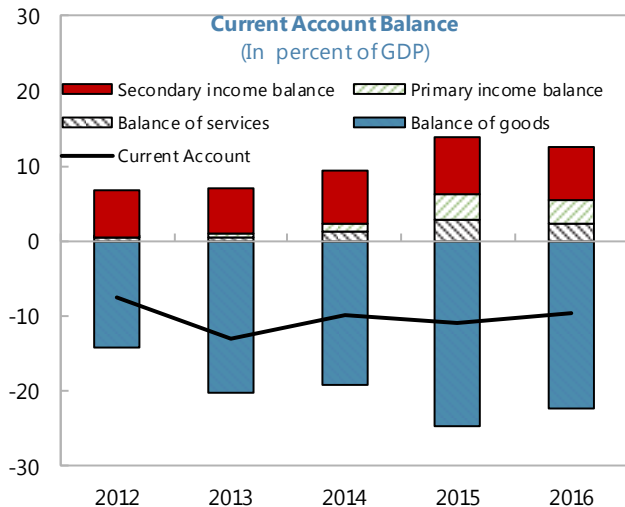
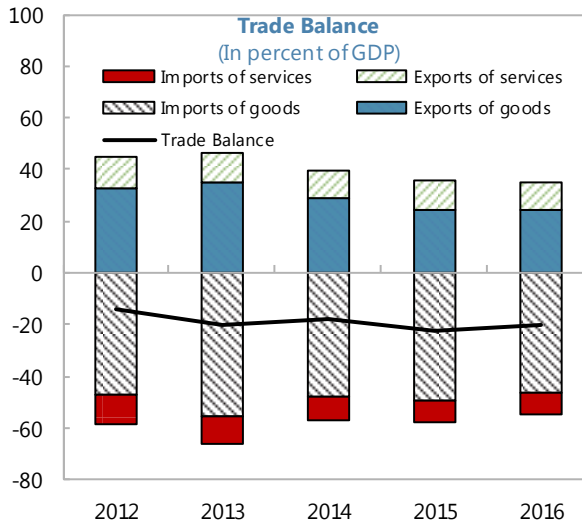


Figure 2. Togo: External Sector, 2012–16

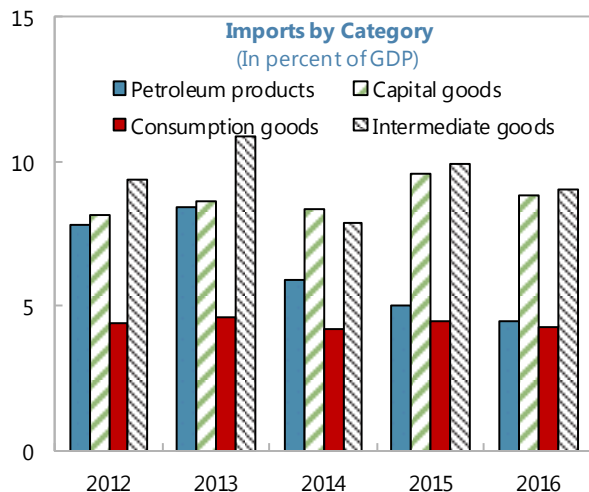
The current account deficit remained high and improved only modestly...



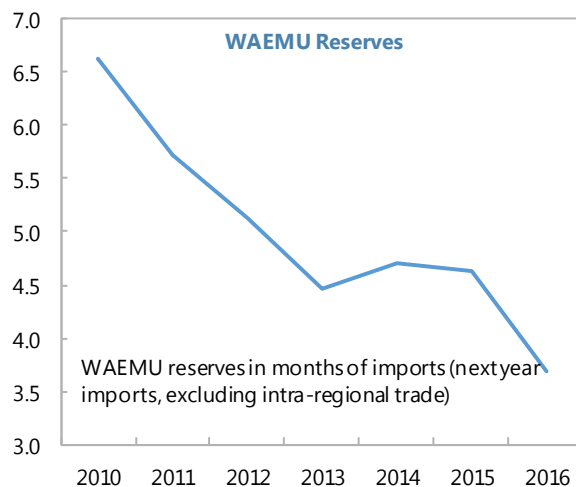
...on the back of a strengthening trade balance, driven by...



...lower costs of oil and reduction capital imports as public investment projects slowed.



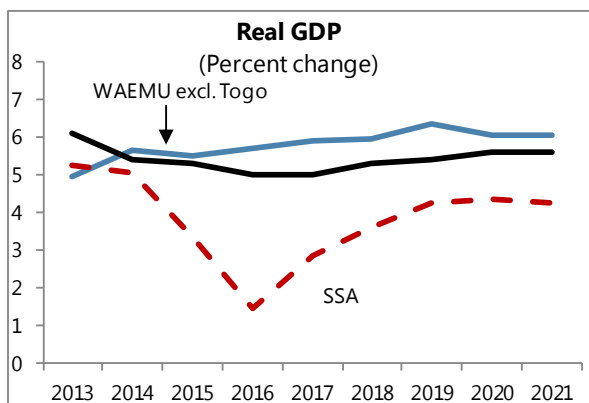
Togo's high current account deficit has contributed to pressures on regional reserves.



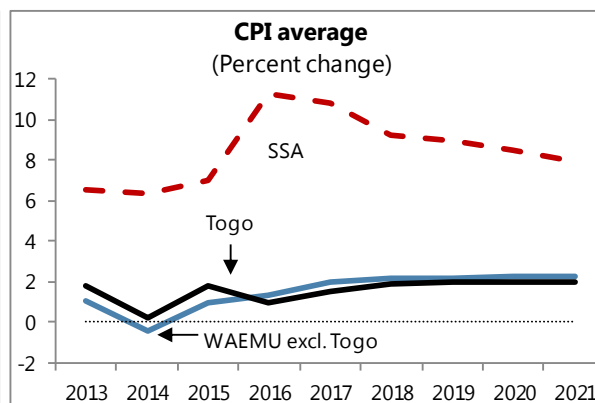
Sources: Togolese authorities; and IMF staff estimates.

Figure 3. Togo: Medium-Term Macroeconomic Prospects, 2013–21

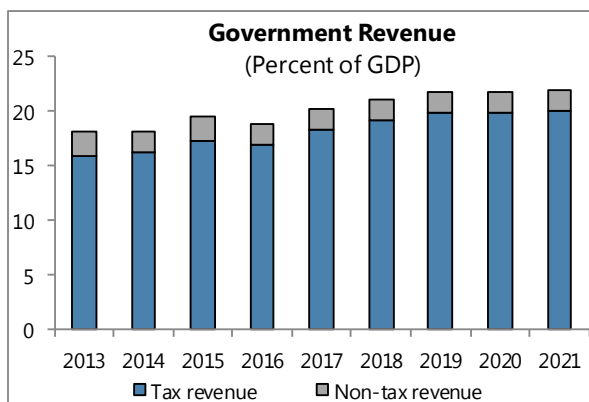
Growth momentum is expected to be maintained...



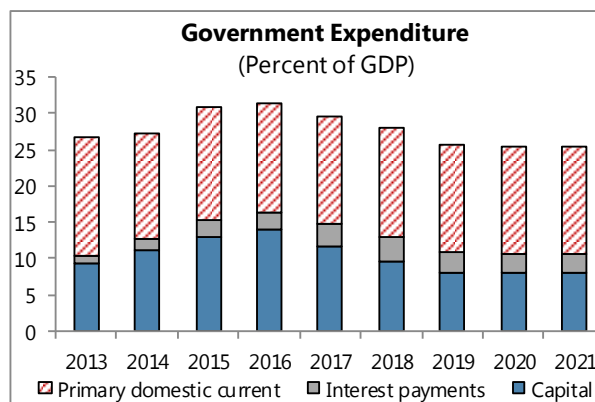
...and inflation to remain contained.



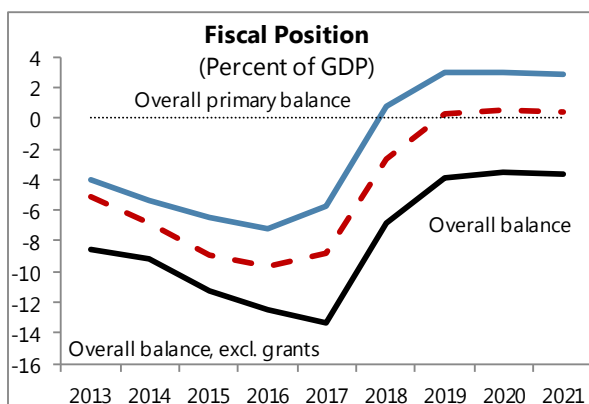
Total revenue would continue to rise gradually on the back of revenue administration reforms...



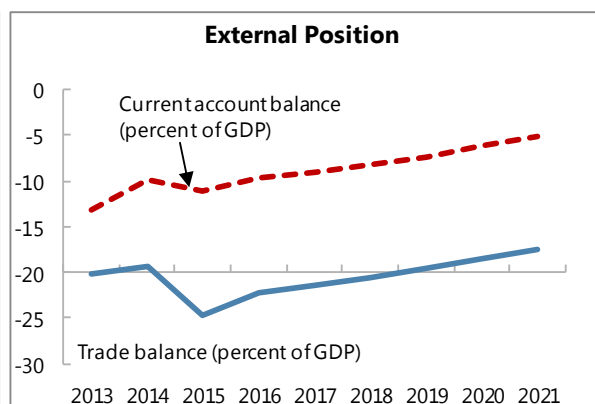
...while savings in capital expenditures will contribute to fiscal retrenchment...



The fiscal position would improve substantially under the program...



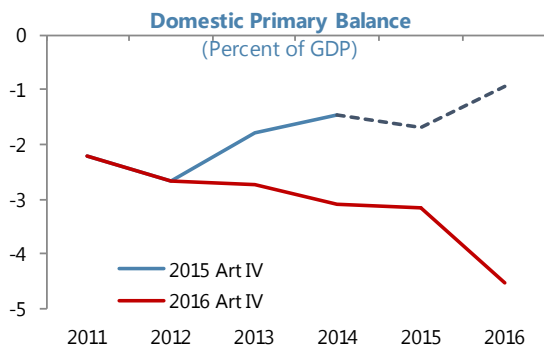
...helping to strengthen the external position.



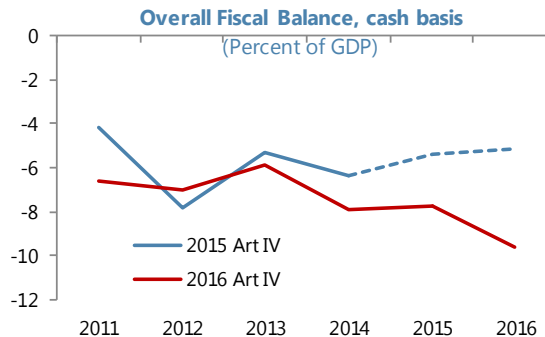
Sources: Togolese authorities; and IMF staff estimates.

Figure 4. Togo: Comparison of Article IV Projections, 2011–16¹

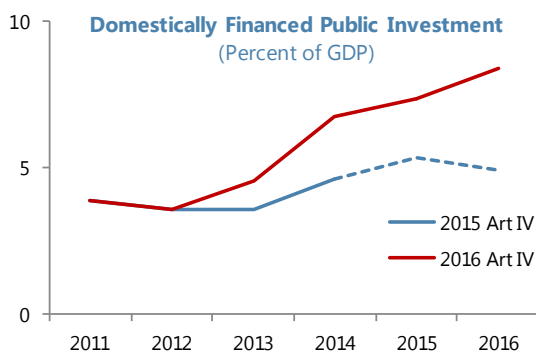
The 2016 domestic primary deficit is now larger than projected at the time of the 2015 Article IV...



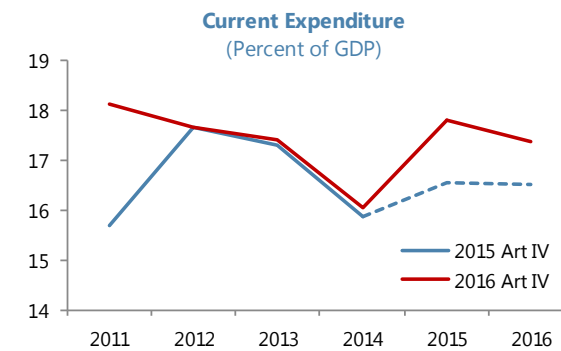
...as is the overall fiscal deficit...



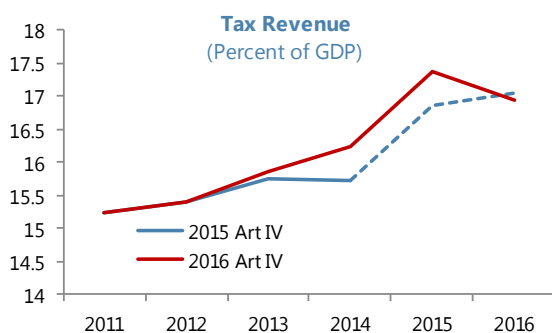
...mainly as a result of higher-than-projected domestically-financed investments



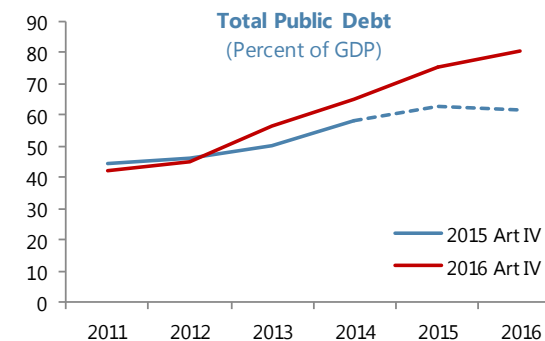
...as well as current expenditure.



Revenue performance was in line with the 2015



...but nonetheless debt accumulation is higher than in the last Article IV projections.



Sources: Togolese authorities; and IMF staff estimates.

¹ Fiscal outturns for 2013-2016 have been revised and have taken into account prefinancing investments.

Table 1. Togo: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.				
(Percentage change, unless otherwise indicated)									
National income, prices, and exchange rates									
Real GDP	6.1	5.4	5.3	5.0	5.0	5.3	5.4	5.6	5.6
Real GDP per capita	3.3	2.6	2.5	2.2	2.2	2.5	2.6	2.8	2.8
GDP deflator	0.6	1.2	2.7	1.7	1.9	2.0	2.0	2.0	2.0
Consumer price index (average)	1.8	0.2	1.8	0.9	1.5	1.9	2.0	2.0	2.0
GDP (CFAF billions)	2,135	2,277	2,462	2,628	2,812	3,020	3,247	3,497	3,767
Exchange rate CFAF/US\$ (annual average level)	493.9	493.6	591.2	592.7	...	...	...	...	...
Real effective exchange rate (appreciation = -)	-2.2	-1.2	7.1	...	...	...	...	...	...
Terms of trade (deterioration = -)	-7.9	10.6	-16.4	0.4	-0.3	0.4	0.5	0.6	0.2
(Percentage change of beginning-of-period broad money)									
Monetary survey									
Net foreign assets	4.6	-7.7	10.5	6.3	5.6	4.2	4.3	4.4	5.0
Credit to government	-4.1	3.1	-1.4	-5.8	-5.0	-0.3	-0.2	-0.2	-0.2
Credit to nongovernment sector	9.0	7.9	11.2	11.1	8.0	8.5	8.8	9.1	9.2
Broad money (M2)	10.3	9.8	20.2	12.9	13.4	13.5	13.6	13.7	13.7
Velocity (GDP/end-of-period M2)	2.1	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3
(Percent of GDP, unless otherwise indicated)									
Investment and savings									
Gross domestic investment	24.5	25.7	27.0	27.4	26.1	24.3	23.1	23.5	24.1
Government	9.3	11.3	13.0	14.0	11.7	9.5	8.0	8.1	8.1
Nongovernment	15.3	14.4	14.0	13.4	14.4	14.8	15.1	15.4	16.0
Gross national savings	11.4	15.7	15.9	17.6	17.1	16.0	15.8	17.3	18.9
Government	4.1	4.5	4.1	4.4	6.9	6.8	8.3	8.6	8.6
Nongovernment	7.3	11.3	11.8	13.3	10.2	9.2	7.6	8.6	10.3
Government budget									
Total revenue and grants	21.5	20.5	21.9	21.7	24.7	25.2	25.9	26.0	26.0
Revenue	18.1	18.2	19.6	18.9	20.2	21.0	21.8	21.8	21.9
Total expenditure and net lending	26.6	27.3	30.8	31.4	33.5	27.9	25.7	25.4	25.5
Domestic primary expenditure	20.8	21.3	22.8	23.4	23.7	17.8	16.7	16.8	16.9
Excluding bank recapitalization	20.8	21.3	22.8	23.4	19.7	17.8	16.7	16.8	16.9
Domestic primary balance ¹	-2.7	-3.1	-3.2	-4.5	-3.5	3.2	5.1	5.0	5.0
Excluding bank recapitalization	-2.7	-3.1	-3.2	-4.5	0.5	3.2	5.1	5.0	5.0
Overall primary balance (cash basis)	-4.7	-6.4	-5.4	-7.2	-6.7	-0.2	2.0	2.0	2.0
Excluding bank recapitalization	-4.7	-6.4	-5.4	-7.2	-2.7	-0.2	2.0	2.0	2.0
Overall balance (cash basis)	-5.8	-7.9	-7.8	-9.6	-9.7	-3.6	-0.7	-0.4	-0.5
Excluding bank recapitalization	-5.8	-7.9	-7.8	-9.6	-5.7	-3.6	-0.7	-0.4	-0.5
External sector									
Current account balance	-13.2	-9.9	-11.1	-9.8	-9.0	-8.3	-7.3	-6.2	-5.2
Exports (goods and services)	46.5	39.4	36.0	35.1	36.4	36.7	37.4	37.8	39.0
Imports (goods and services)	-66.3	-57.3	-58.0	-55.1	-55.2	-54.6	-54.4	-53.7	-53.8
External public debt ²	14.3	17.1	21.1	19.7	22.9	24.8	27.4	27.9	28.4
External public debt service (percent of exports) ²	2.4	2.9	3.1	4.1	4.0	3.4	3.6	4.2	4.3
Domestic Debt ³	42.1	48.1	54.5	61.0	58.4	53.3	45.6	40.0	34.3
Total public debt ⁴	56.4	65.2	75.6	80.8	81.3	78.1	73.0	67.8	62.7
Excluding bank recapitalization ⁴	56.4	65.2	75.6	80.8	77.3	74.1	69.0	63.8	58.7

Sources: Togolese authorities and IMF staff estimates and projections.

¹ Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

² Includes state-owned enterprise external debt.

³ Includes prefinancing debt, domestic arrears and state-owned enterprise domestic debt.

⁴ Includes prefinancing debt, domestic arrears and state-owned enterprise debt.

Table 2a. Togo: Central Government Financial Operations, 2013–21

	2013	2014	2015	2016	2017		2018	2019	2020	2021
				Est.	Budg.	Proj.	Proj.			
	(In billions of CFA Francs)									
Revenue and grants	458.1	466.8	539.5	571.3	740.0	695.8	761.8	840.6	907.6	978.6
Total revenue	386.4	413.9	482.3	495.7	614.8	567.5	635.0	707.4	764.1	824.0
Tax revenue	338.4	369.6	427.6	444.7	550.2	514.0	577.7	645.7	697.7	752.5
Tax administration (CI)	154.6	175.0	213.6	238.0	279.4	272.7	301.2	339.1	366.2	395.4
Customs administration (CDII)	183.8	194.6	214.0	206.8	270.8	241.3	276.5	306.6	331.5	357.1
Nontax revenue	48.0	44.3	54.7	50.9	64.6	53.4	57.4	61.7	66.4	71.6
Grants	71.7	52.9	57.2	75.6	125.3	128.3	126.8	133.2	143.5	154.5
Expenditure and net lending	568.6	621.8	759.1	823.9	773.3	942.2	843.0	833.4	889.5	961.4
Of which: Dom. primary expenditures	444.5	484.7	561.5	614.5	498.2	666.5	538.9	542.3	587.7	636.1
Current expenditure	371.5	365.3	438.1	456.7	463.2	501.7	556.3	572.4	605.3	655.7
Primary current spending	348.1	331.4	379.0	393.8	406.9	417.7	453.1	484.2	521.7	563.5
Wages and salaries	130.6	143.4	171.7	182.7	191.6	191.6	202.1	214.1	230.8	250.3
Goods and services	78.0	63.4	89.4	100.3	102.2	102.2	106.9	114.9	123.8	133.3
Transfers and subsidies	139.5	124.6	115.9	110.8	113.0	123.9	144.1	155.2	167.1	179.9
Interest	23.5	33.9	59.1	62.9	56.4	84.0	103.2	88.1	83.6	92.1
Domestic debt	16.8	25.1	44.9	54.1	38.2	72.7	88.0	71.1	65.3	72.7
External debt	6.7	8.8	14.2	8.8	18.1	11.3	15.3	17.0	18.3	19.4
Public investment	197.5	256.2	319.6	367.3	310.1	328.0	286.7	261.0	284.2	305.8
Domestically financed	96.9	152.9	181.1	220.8	91.3	136.3	85.8	58.1	66.1	72.5
Foreign financed	100.6	103.2	138.5	146.5	218.8	191.7	200.9	202.9	218.1	233.2
Net Lending ¹	-0.4	0.4	1.4	-0.1	0.0	112.5	0.0	0.0	0.0	0.0
Domestic primary balance	-58.2	-70.8	-79.2	-118.8	116.6	-99.1	96.1	165.1	176.4	188.0
Excluding bank recapitalization	-58.2	-70.8	-79.2	-118.8	116.6	13.4	96.1	165.1	176.4	188.0
Change in arrears ²	-14.3	-26.0	28.3	0.0	0.0	-25.9	-27.8	-29.9	-32.2	-34.9
Overall primary balance, cash basis, including grants	-101.3	-146.1	-132.2	-189.7	23.1	-188.3	-5.8	65.5	69.6	74.4
Excluding bank recapitalization	-101.3	-146.1	-132.2	-189.7	23.1	-75.8	-5.8	65.5	69.6	74.4
Overall balance, cash basis, including grants	-124.8	-180.0	-191.3	-252.6	-33.3	-272.2	-109.0	-22.6	-14.1	-17.8
Excluding bank recapitalization	-124.8	-180.0	-191.3	-252.6	-33.3	-159.8	-109.0	-22.6	-14.1	-17.8
Overall balance, cash basis, excluding grants	-196.6	-233.9	-248.5	-328.2	-158.5	-400.6	-235.8	-155.8	-157.5	-172.3
Excluding bank recapitalization	-196.6	-233.9	-248.5	-328.2	-158.5	-288.1	-235.8	-155.8	-157.5	-172.3
Financing	232.2	313.0	369.8	322.6	158.5	323.3	166.7	67.8	157.5	172.3
Domestic financing (net)	140.0	217.8	235.7	184.4	-67.1	144.1	-18.5	-118.7	-70.2	-67.0
Banking system	23.8	163.5	150.3	-3.6	-18.6	-165.8	-17.8	-11.1	-4.4	-3.3
Nonbank financing ³	116.2	54.3	85.4	187.9	-48.5	309.9	-0.8	-107.7	-65.8	-63.7
o/w Domestic bonds for bank recapitalization	...	...	...	...	...	112.5	...	...	...	...
External financing (net)	92.2	95.2	134.2	138.3	225.6	179.2	185.2	186.5	227.8	239.3
Financing gap/unidentified financing	-35.7	-80.1	-121.3	5.6	0.0	77.3	69.1	88.1	0.0	0.0
Expected financing (excluding IMF)	...	...	...	...	...	37.5	29.3	28.4	...	...
Residual gap ⁴	...	...	...	...	...	39.7	39.8	59.7	...	...
IMF-ECF	...	...	...	...	...	...	...	...	...	...
<i>Memorandum Item:</i>										
Nominal GDP (CFA francs billions)	2,134.5	2,276.6	2,462.0	2,628.0	2,811.8	2,811.8	3,020.1	3,246.8	3,497.2	3,766.9

¹ For 2017, reflects recapitalization of two state-owned banks.

² Arrears accumulations were rolled over in 2016 using 2016 revenues. Total post-2006 arrears accumulation, including arrears to utility companies, stood at 5.7 percent of GDP at end-2016.

³ Includes treasury bills and bonds held by commercial banks.

⁴ The 2019 residual gap anticipates three disbursements from an ECF over the course of the year.

Table 2b. Togo: Central Government Financial Operations, 2013–21

	2013	2014	2015	2016	2017		2018	2019	2020	2021
				Est.	Budg.	Proj.	Proj.			
(Percent of GDP)										
Revenue and grants	21.5	20.5	21.9	21.7	26.3	24.7	25.2	25.9	26.0	26.0
Total revenue	18.1	18.2	19.6	18.9	21.9	20.2	21.0	21.8	21.8	21.9
Tax revenue	15.9	16.2	17.4	16.9	19.6	18.3	19.1	19.9	19.9	20.0
Tax administration (CI)	7.2	7.7	8.7	9.1	9.9	9.7	10.0	10.4	10.5	10.5
Customs administration (CDII)	8.6	8.5	8.7	7.9	9.6	8.6	9.2	9.4	9.5	9.5
Nontax revenue	2.2	1.9	2.2	1.9	2.3	1.9	1.9	1.9	1.9	1.9
Grants	3.4	2.3	2.3	2.9	4.5	4.6	4.2	4.1	4.1	4.1
Expenditures and net lending	26.6	27.3	30.8	31.4	27.5	33.5	27.9	25.7	25.4	25.5
Of which: Dom. primary expenditures	20.8	21.3	22.8	23.4	17.7	23.7	17.8	16.7	16.8	16.9
Current expenditures	17.4	16.0	17.8	17.4	16.5	17.8	18.4	17.6	17.3	17.4
Primary current spending	16.3	14.6	15.4	15.0	14.5	14.9	15.0	14.9	14.9	15.0
Wages and salaries	6.1	6.3	7.0	7.0	6.8	6.8	6.7	6.6	6.6	6.6
Goods and services	3.7	2.8	3.6	3.8	3.6	3.6	3.5	3.5	3.5	3.5
Transfers and subsidies	6.5	5.5	4.7	4.2	4.0	4.4	4.8	4.8	4.8	4.8
Interest	1.1	1.5	2.4	2.4	2.0	3.0	3.4	2.7	2.4	2.4
Public investment	9.3	11.3	13.0	14.0	11.0	11.7	9.5	8.0	8.1	8.1
Domestically financed	4.5	6.7	7.4	8.4	3.2	4.8	2.8	1.8	1.9	1.9
Foreign financed	4.7	4.5	5.6	5.6	7.8	6.8	6.7	6.3	6.2	6.2
Net Lending ¹	0.0	0.0	0.1	0.0	0.0	4.0	0.0	0.0	0.0	0.0
Domestic primary balance	-2.7	-3.1	-3.2	-4.5	4.1	-3.5	3.2	5.1	5.0	5.0
Excluding bank recapitalization	-2.7	-3.1	-3.2	-4.5	4.1	0.5	3.2	5.1	5.0	5.0
Change in arrears ²	-0.7	-1.1	1.1	0.0	0.0	-0.9	-0.9	-0.9	-0.9	-0.9
Overall primary balance, cash basis, including grants	-4.7	-6.4	-5.4	-7.2	0.8	-6.7	-0.2	2.0	2.0	2.0
Excluding bank recapitalization	-4.7	-6.4	-5.4	-7.2	0.8	-2.7	-0.2	2.0	2.0	2.0
Overall balance, cash basis, including grants	-5.8	-7.9	-7.8	-9.6	-1.2	-9.7	-3.6	-0.7	-0.4	-0.5
Excluding bank recapitalization	-5.8	-7.9	-7.8	-9.6	-1.2	-5.7	-3.6	-0.7	-0.4	-0.5
Overall balance, cash basis, excluding grants	-9.2	-10.3	-10.1	-12.5	-5.6	-14.2	-7.8	-4.8	-4.5	-4.6
Excluding bank recapitalization	-9.2	-10.3	-10.1	-12.5	-5.6	-10.2	-7.8	-4.8	-4.5	-4.6
Financing	10.9	13.7	15.0	12.3	5.6	11.5	5.5	2.1	4.5	4.6
Domestic financing (net)	6.6	9.6	9.6	7.0	-2.4	5.1	-0.6	-3.7	-2.0	-1.8
Banking system	1.1	7.2	6.1	-0.1	-0.7	-5.9	-0.6	-0.3	-0.1	-0.1
Nonbank financing ³	5.4	2.4	3.5	7.2	-1.7	11.0	0.0	-3.3	-1.9	-1.7
o/w Domestic bonds for bank recapitalization	...	...	...	...	0.0	4.0	...	...	...	...
External financing (net)	4.3	4.2	5.4	5.3	8.0	6.4	6.1	5.7	6.5	6.4
Financing gap/undefined financing	-1.7	-3.5	-4.9	0.2		2.7	2.3	2.7	0.0	0.0
Expected financing (excluding IMF)	...	...	...	...		1.3	1.0	0.9	...	...
Residual gap ⁴	...	...	...	...		1.4	1.3	1.8	...	...
IMF-ECF										
<i>Memorandum Item:</i>										
Nominal GDP (CFAF billions)	2,135	2,277	2,462	2,628	2,812	2,812	3,020	3,247	3,497	3,767

Sources: Togolese authorities and IMF staff estimates and projections.

¹ For 2017, reflects recapitalization of two state-owned banks.

² Arrears accumulations were rolled over in 2016 using 2016 revenues. Total post-2006 arrears accumulation, including arrears to utility companies, stood at 5.7 percent of GDP at end-2016.

³ Includes treasury bills and bonds held by commercial banks.

⁴ The 2019 residual gap anticipates three disbursements from an ECF over the course of the year.

Table 3. Togo: Balance of Payments, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.				
<i>(Billions of CFA Francs)</i>									
Current account balance	-280.7	-226.4	-272.6	-256.5	-253.1	-249.8	-237.5	-218.1	-196.5
Trade balance	-430.0	-438.4	-610.8	-586.6	-599.3	-618.9	-635.2	-648.1	-659.9
<i>Of which: petroleum products, net</i>	-121.4	-99.3	-101.8	-96.3	-127.4	-135.3	-139.6	-144.9	-155.0
Exports	751.9	655.5	597.7	633.0	706.4	765.9	844.0	920.5	1,028.1
Imports	1,182.0	1,093.9	1,208.5	1,219.6	1,305.7	1,384.8	1,479.2	1,568.6	1,688.1
Services, net	7.2	31.1	67.8	62.2	70.5	76.1	83.4	91.5	101.4
Primary income, net	12.5	22.8	83.1	83.8	87.8	91.1	97.4	104.9	113.3
Secondary income, net	129.6	158.2	187.3	184.2	187.9	201.8	216.9	233.6	248.7
Capital account balance	155.6	157.5	159.4	146.7	173.8	179.3	185.4	192.2	199.5
Current and capital account balance	-125.1	-68.8	-113.2	-109.7	-79.3	-70.6	-52.1	-25.9	3.1
Financial account	-127.5	-117.1	-284.8	-121.5	-212.6	-148.5	-99.5	-41.5	-50.4
Direct investment, net	-106.9	145.6	-41.3	-57.3	-68.0	-82.2	-100.3	-120.2	-141.9
Portfolio investment, net	38.2	95.3	-10.5	-11.2	-12.0	-12.9	-13.8	-14.9	-16.0
<i>Of which: general government, net</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-81.9	-347.9	-203.7	-73.5	-83.3	-25.7	42.6	121.7	145.9
<i>Of which: general government, net</i>	74.9	80.0	120.1	118.7	185.8	189.6	189.1	197.4	202.9
Errors and omissions	-2.4	-48.2	-171.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-2.4	-48.2	-171.6	-11.8	-133.3	-78.0	-47.4	-15.7	-53.5
Financing	2.4	48.2	171.6	11.8	133.3	78.0	47.4	15.7	53.5
Reserve assets	2.5	-3.2	-33.7	-11.3	-83.0	-71.2	-82.9	-96.7	-122.7
Operations account	3.4	2.8	-25.0	6.0	-114.3	-103.8	-147.5	-89.2	-121.0
IMF (net)	-0.9	-6.0	-8.7	-17.3	31.3	32.6	64.6	-7.5	-1.8
Disbursements	0.0	0.0	0.0	0.0	50.4	50.4	75.6	0.0	0.0
Repayments	0.9	6.0	8.7	17.3	19.1	17.8	11.0	7.5	1.8
Financing gap	...	...	...	...	77.3	69.1	88.1	0.0	0.0
Expected financing (excluding IMF)	...	...	...	...	37.5	29.3	28.4	...	...
Residual gap, of which	...	...	...	...	39.7	39.8	59.7	...	...
IMF ECF	...	...	...	...	...	...	...	...	...
<i>(In percent of GDP)</i>									
Current account balance	-13.2	-9.9	-11.1	-9.8	-9.0	-8.3	-7.3	-6.2	-5.2
Trade balance	-20.1	-19.3	-24.8	-22.3	-21.3	-20.5	-19.6	-18.5	-17.5
<i>Of which: petroleum products, net</i>	-5.7	-4.4	-4.1	-3.7	-4.5	-4.5	-4.3	-4.1	-4.1
Exports	35.2	28.8	24.3	24.1	25.1	25.4	26.0	26.3	27.3
Imports	55.4	48.0	49.1	46.4	46.4	45.9	45.6	44.9	44.8
Services, net	0.3	1.4	2.8	2.4	2.5	2.5	2.6	2.6	2.7
Primary income, net	0.6	1.0	3.4	3.2	3.1	3.0	3.0	3.0	3.0
Secondary income, net	6.1	6.9	7.6	7.0	6.7	6.7	6.7	6.7	6.6
Capital account balance	7.3	6.9	6.5	5.6	6.2	5.9	5.7	5.5	5.3
Current and capital account balance	-5.9	-3.0	-4.6	-4.2	-2.8	-2.3	-1.6	-0.7	0.1
Financial account	-6.0	-5.1	-11.6	-4.6	-7.6	-4.9	-3.1	-1.2	-1.3
Direct investment, net	-5.0	6.4	-1.7	-2.2	-2.4	-2.7	-3.1	-3.4	-3.8
Portfolio investment, net	1.8	4.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
<i>Of which: general government, net</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-3.8	-15.3	-8.3	-2.8	-3.0	-0.9	1.3	3.5	3.9
<i>Of which: general government, net</i>	3.5	3.5	4.9	4.5	6.6	6.3	5.8	5.6	5.4
Errors and omissions	-0.1	-2.1	-7.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-0.1	-2.1	-7.0	-0.4	-4.7	-2.6	-1.5	-0.4	-1.4
Financing	0.1	2.1	7.0	0.4	4.7	2.6	1.5	0.4	1.4
Change in reserve assets	0.1	-0.1	-1.4	-0.4	-3.0	-2.4	-2.6	-2.8	-3.3
Operations account	0.2	0.1	-1.0	0.2	-4.1	-3.4	-4.5	-2.6	-3.2
IMF (net)	0.0	-0.3	-0.4	-0.7	1.1	1.1	2.0	-0.2	0.0
Disbursements	0.0	0.0	0.0	0.0	1.8	1.7	2.3	0.0	0.0
Repayments	0.0	0.3	0.4	0.7	0.7	0.6	0.3	0.2	0.0
Financing gap	...	...	...	...	2.7	2.3	2.7	0.0	0.0
Expected financing (excluding IMF)	...	...	...	...	1.3	1.0	0.9	...	...
Residual gap, of which	...	...	...	...	1.4	1.3	1.8	...	...
IMF ECF	...	...	...	...	...	...	...	...	...
<i>Memorandum items:</i>									
BCEAO NFA (in months of next year's WAEMU imports)	4.5	4.7	4.6	3.7	3.5	3.9	4.0	4.0	4.0

Sources: Togolese authorities and IMF staff estimates and projections.

Table 4. Togo: Monetary Survey, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.				
	(Billions of CFA Francs)								
Net foreign assets	315.4	238.3	353.9	436.4	519.4	590.6	673.5	770.2	893.0
BCEAO	98.4	34.2	154.1	88.4	137.8	165.5	193.4	221.6	259.9
Assets	239.4	277.5	346.7	267.9	317.6	345.6	373.9	402.3	431.0
Liabilities	141.0	243.2	192.6	179.5	179.8	180.1	180.4	180.8	171.1
Commercial banks	217.0	204.1	199.8	348.0	381.6	425.1	480.1	548.7	633.1
Assets	402.6	422.2	517.6	683.8	749.8	835.2	943.3	1078.0	1243.8
Liabilities	185.6	218.1	317.9	335.8	368.2	410.1	463.2	529.4	610.8
Net domestic assets	683.7	858.6	965.2	1053.0	1169.3	1326.5	1504.3	1705.7	1923.2
Credit to government (net)	92.9	124.4	108.7	32.8	-42.3	-46.9	-51.5	-56.1	-61.2
BCEAO	34.6	35.8	51.9	-13.2	42.3	37.7	33.1	28.5	23.3
Commercial banks	58.3	88.6	56.8	46.0	-84.6	-84.6	-84.6	-84.6	-84.6
Credit to nongovernment sector	682.9	762.1	885.6	1033.0	1151.8	1295.7	1464.2	1661.9	1889.5
Other items (net)	-92.6	-28.3	-29.5	-12.8	59.8	77.6	91.6	100.0	94.9
Money supply (M2)	999.0	1096.9	1319.0	1489.4	1688.7	1917.1	2177.8	2476.0	2816.2
Currency in circulation	161.5	145.8	240.5	245.2	262.4	281.8	303.0	326.3	351.5
Bank deposits	837.5	951.1	1078.6	1244.1	1426.3	1635.3	1874.9	2149.6	2464.7
	(Annual change, as a percent of beginning-of-period broad money)								
Net foreign assets	4.6	-7.7	10.5	6.3	5.6	4.2	4.3	4.4	5.0
BCEAO	2.4	-6.4	10.9	-5.0	3.3	1.6	1.5	1.3	1.5
Commercial banks	2.2	-1.3	-0.4	11.2	2.3	2.6	2.9	3.1	3.4
Net domestic assets	5.7	17.5	9.7	6.7	7.8	9.3	9.3	9.2	8.8
Credit to government (net)	-4.1	3.1	-1.4	-5.8	-5.0	-0.3	-0.2	-0.2	-0.2
Credit to nongovernment sector	9.0	7.9	11.3	11.2	8.0	8.5	8.8	9.1	9.2
Other items (net)	0.8	6.4	-0.1	1.3	4.9	1.1	0.7	0.4	-0.2
Money supply (M2)	10.3	9.8	20.2	12.9	13.4	13.5	13.6	13.7	13.7
Currency in circulation	0.0	-1.6	8.6	0.4	1.2	1.2	1.1	1.1	1.0
Bank deposits	10.3	11.4	11.6	12.6	12.2	12.4	12.5	12.6	12.7
<i>Memorandum items:</i>									
Velocity (GDP/end-of-period M2)	2.1	2.1	1.9	1.8	1.7	1.6	1.5	1.4	1.3
	(In percent of GDP)								
Net foreign assets	14.8	10.5	14.4	16.6	18.5	19.6	20.7	22.0	23.7
BCEAO	4.6	1.5	6.3	3.4	4.9	5.5	6.0	6.3	6.9
Assets	11.2	12.2	14.1	10.2	11.3	11.4	11.5	11.5	11.4
Liabilities	6.6	10.7	7.8	6.8	6.4	6.0	5.6	5.2	4.5
Commercial banks	10.2	9.0	8.1	13.2	13.6	14.1	14.8	15.7	16.8
Assets	18.9	18.5	21.0	26.0	26.7	27.7	29.1	30.8	33.0
Liabilities	8.7	9.6	12.9	12.8	13.1	13.6	14.3	15.1	16.2
Net domestic assets	32.0	37.7	39.2	40.1	41.6	43.9	46.3	48.8	51.1
Credit to government (net)	4.4	5.5	4.4	1.2	-1.5	-1.6	-1.6	-1.6	-1.6
BCEAO	1.6	1.6	2.1	-0.5	1.5	1.2	1.0	0.8	0.6
Commercial banks	2.7	3.9	2.3	1.8	-3.0	-2.8	-2.6	-2.4	-2.2
Credit to nongovernment sector	32.0	33.5	36.0	39.3	41.0	42.9	45.1	47.5	50.2
Other items (net)	-4.3	-1.2	-1.2	-0.5	2.1	2.6	2.8	2.9	2.5
Money supply (M2)	46.8	48.2	53.6	56.7	60.1	63.5	67.1	70.8	74.8
Currency in circulation	7.6	6.4	9.8	9.3	9.3	9.3	9.3	9.3	9.3
Bank deposits	39.2	41.8	43.8	47.3	50.7	54.1	57.7	61.5	65.4

Sources: Central Bank of West African States and IMF staff estimates and projections.

Table 5. Togo: Indicators of Capacity to Repay the Fund, 2016–2028¹

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Est	Projections											
Fund obligations based on existing and prospective credit													
(in millions of SDRs)													
Principal	2.3	19.1	17.8	11.0	7.5	1.8	2.5	12.6	22.7	35.3	35.3	32.8	22.7
Charges and interest	0.0	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total obligations based on existing and prospective credit													
In millions of SDRs	2.3	19.3	18.0	11.3	7.7	2.0	2.8	12.9	22.9	35.5	35.5	33.0	22.9
In billions of CFAF	1.9	16.1	15.1	9.5	6.5	1.7	2.3	10.8	19.2	29.8	29.8	27.7	19.2
In percent of government revenue	0.4	2.8	2.4	1.3	0.8	0.2	0.3	1.1	1.9	2.7	2.5	2.2	1.4
In percent of exports of goods and services	0.2	1.6	1.4	0.8	0.5	0.1	0.1	0.6	1.1	1.5	1.4	1.2	0.8
In percent of debt service ²	3.1	25.9	29.5	17.7	10.9	3.0	4.0	18.7	33.6	54.8	55.6	52.2	37.9
In percent of GDP	0.1	0.6	0.5	0.3	0.2	0.0	0.1	0.2	0.4	0.6	0.6	0.5	0.3
In percent of quota	1.6	13.1	12.3	7.7	5.3	1.4	1.9	8.8	15.6	24.2	24.2	22.5	15.6
Outstanding IMF credit													
In millions of SDRs	57.1	88.4	121.1	185.6	178.2	176.4	173.9	161.3	138.6	103.3	68.0	35.3	12.6
In billions of CFAF	47.1	73.9	101.4	155.4	149.0	147.8	145.7	135.2	116.1	86.6	57.0	29.6	10.6
In percent of government revenue	9.5	13.0	16.0	22.0	19.5	17.9	16.4	14.2	11.3	7.9	4.8	2.3	0.8
In percent of exports of goods and services	5.1	7.2	9.2	12.8	11.3	10.1	9.3	8.0	6.4	4.4	2.7	1.3	0.4
In percent of debt service ²	76.2	119.0	198.5	291.1	250.5	261.8	253.2	234.8	202.9	159.4	106.4	55.8	20.8
In percent of GDP	1.8	2.6	3.4	4.8	4.3	3.9	3.6	3.1	2.5	1.7	1.1	0.5	0.2
In percent of quota	38.9	60.2	82.5	126.5	121.4	120.2	118.4	109.9	94.4	70.4	46.3	24.0	8.6
Net use of IMF credit (millions of SDRs)													
Disbursements	0.0	50.4	50.4	75.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	17.3	19.1	17.8	11.0	7.5	1.8	2.5	12.6	22.7	35.3	35.3	32.8	22.7
<i>Memorandum items:</i>													
Nominal GDP (in billions of CFAF)	2,628	2,812	3,020	3,247	3,497	3,767	4,057	4,364	4,687	5,027	5,384	5,767	6,176
Exports of goods and services (in billions of CFAF)	922	1,023	1,108	1,215	1,323	1,468	1,573	1,683	1,818	1,976	2,142	2,325	2,518
Government revenue (in billions of CFAF)	496	567	635	707	764	824	888	955	1,025	1,100	1,178	1,261	1,351
Debt service (in billions of CFAF) ^{2,3}	62	62	51	53	59	56	58	58	57	54	54	53	51
CFAF/SDR (period average)	824	835	837	837	836	838	838	838	838	838	838	838	838
Sources: IMF staff estimates and projections.													
¹ Includes proposed extension and augmentation of access.													
² Total debt service includes IMF repurchases and repayments.													
³ Includes state-owned enterprises debt.													

Table 6. Togo: Schedule of Disbursements Under ECF Arrangement 2017–20

Amount	Availability date	Conditions for disbursement¹
SDR 25.17 million (17.1 percent of quota)	May 5, 2017	Following Executive Board Approval of an ECF arrangement
SDR 25.17 million (17.1 percent of quota)	September 15, 2017	Observance of continuous and end-June 2017 performance criteria and completion of the first review under the arrangement
SDR 25.17 million (17.1 percent of quota)	March 15, 2018	Observance of continuous and end-December 2017 performance criteria and completion of the second review under the arrangement
SDR 25.17 million (17.1 percent of quota)	September 15, 2018	Observance of continuous and end-June 2018 performance criteria and completion of the third review under the arrangement
SDR 25.17 million (17.1 percent of quota)	March 15, 2019	Observance of continuous and end-December 2018 performance criteria and completion of the fourth under the arrangement
SDR 25.17 million (17.1 percent of quota)	September 15, 2019	Observance of continuous and end-June 2019 performance criteria and completion of the fifth review under the arrangement
SDR 25.17 million (17.1 percent of quota)	December 15, 2019	Observance of continuous and end-September 2019 performance criteria and completion of the sixth review under the arrangement

Sources: Togolese authorities; and IMF staff estimates.

¹ In addition to the generally applicable conditions under the Extended Credit Facility

Annex I. Authorities' Response to Main Recommendations from the 2015 Article IV Consultations

Main Recommendations	Authorities Response
<p>Staff emphasized the following areas as key to maintain macroeconomic stability and promote inclusive growth:</p>	<p>The authorities noted that they took the following steps:</p>
<p>Place fiscal balances on a sustainable path, while generating fiscal space for social spending to make growth more inclusive.</p>	<p>New prefinancing arrangements have been halted, which will allow for fiscal space for greater social spending.</p>
<p>Complete the implementation of key reforms, including: (i) reorganizing the Ministry of Finance, in particular to improve debt management, strengthen budget preparation and monitoring, develop medium-term budget frameworks, and design tax policy; (ii) developing an effective Treasury cash management; (iii) establishing a Treasury Single Account (TSA); and (iv) fully modernizing revenue administration in the OTR.</p>	<p>The Ministry of Finance has prepared a reorganization plan, that aims to;</p> <ul style="list-style-type: none"> - Establish of a cash management team, guided by a cash management template; - Operationalize the TSA; - Close various non-TSA accounts; - Channel all revenues intended to meet the expenses of the government budget to the TSA; - All budgetary support will be channeled to the BCEAO account of the Central Government Treasury Account; - A draft service agreement has been prepared with one of the public banks and the postal service. <p>The OTR has also developed plan to improve revenue administration.</p>
<p>Enforce the regulatory framework in the financial sector, resolve problem banks, and strengthen supervision in the microfinance sector.</p>	<p>The regulatory framework for the financial sector is not set by the government, but rather by the WAEMU. One public bank is under provisional administration and a new CEO has been appointed for the other public bank.</p>
<p>Complement capital spending in transportation network by (i) improving public investment management, (ii) opening to private sector competition key economic sectors, such as mining, telecom, and energy, and (iii) further improving the business environment.</p>	<p>The emphasis on transportation infrastructure will be strengthened by better investment management, including through the elimination of prefinancing. Since independence, Togo's economy has been open both the sub-regional trading partners and the rest of the world. Ongoing efforts are being undertaken to improve the business climate.</p>

<p>Produce national accounts and fiscal data in a more timely and consistent manner.</p>	<p>The National Statistics Agency has received support from the EU and AFRITAC-West to speed up the production of national accounts. Fiscal data are now being compiled monthly and are in line with WAEMU directives.</p>
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Annex II. Risk Assessment Matrix

Source of Risk	Likelihood	Expected impact on the economy	Nature of Impact	Policy Response
Short Term				
Surge in the US dollar and/or higher rates	High	High	Surge in the U.S. dollar would increase external debt servicing costs and import prices of capital and intermediate goods, resulting in larger costs for public works and enterprises. The main impact would be on inflation.	Adjust fiscal balance and implement competitiveness-enhancing structural reforms to improve long-term external sustainability.
Significant slowdown in other large EM/frontier economies	Medium	Medium	The main channel of transmission would be through the impact on key trading partners, such as Ghana and Nigeria. The effect would be moderate given that Togo's exports are well diversified by product and destination.	Adjust fiscal balance and implement competitiveness-enhancing structural reforms to improve long-term external sustainability.
Delays in fiscal adjustment	Low/ Medium	High	Policy slippages may materialize to accommodate increases in infrastructure investment or public sector wages and employment, resulting in an increase in debt.	No adequate policy response exists to delays in fiscal consolidation. A second-best option is to reduce spending in other areas and accelerate revenue raising measures.
Risks to financial sector stability	High	High	Financial sector soundness indicators have deteriorated. Also, some microfinance institutions are in a weak financial position. Both factors pose fiscal risks.	Apply existing prudential rules and limit regulatory forbearance. Resolve the financial difficulties of the two public banks. Regulate microfinance institutions.
Medium Term				
Significant China slowdown in 2015-16	Low/ Medium	Low/ Medium	A significant growth slowdown and large fiscal and financial losses in China may translate into lower availability of non-	Prioritize investment projects.

			concessional external funding for future infrastructure projects.	
Structurally weak growth in key advanced and emerging economies	High/ Medium	Medium	The main channel of transmission would be through the impact on key trading partners such as Ghana and Nigeria. The effect would be moderate given that Togo's exports are well diversified by product and destination.	Adjust fiscal balance and implement competitiveness-enhancing structural reforms to improve long-term external sustainability.
Resistance to reforms from entrenched interests affecting mining, infrastructure investment and business environment reform	Medium	Medium	Reforms reducing the control of entrenched groups are likely to meet strong resistance. Reform delays would slow growth, increase inequality, and potentially lead to pressure for political change.	Accelerate reforms in all areas. Liberalize markets and continue to improve business environment.
Power supply shortfalls	High	High	Planning and regulatory inaction and poor management of utilities may lead to widespread power cuts. In the short term, this will result in budget costs. In the long-term, power shortages may constrain economic growth.	Invest in power generation capacity and reform pricing policies to promote private sector participation in the sector. Public sector entities should pay their bills to avoid accumulation of arrears.
Social unrest	Low	Low	Not reaching out to the opposition may lead to social unrest. However, despite some recent disruptive demonstrations, public order and security are well established.	Increase allocations for targeted social spending. Reach consensus with unions to achieve balanced solutions, both with private and public sectors.
Weather shock: drought or flooding	Medium	Medium	Flooding and drought are recurring events, but their impact is typically short-lived and/or localized.	Implement disaster mitigation programs, with financial and technical support from donors.

Appendix I. Letter of Intent

**MINISTRY OF ECONOMY
AND FINANCE**

OFFICE OF THE MINISTER

N°...../MEF/CAB

REPUBLIC OF TOGO
Travail-Liberté-Patri

Lomé, April 26, 2017

To

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The government is pleased with the good cooperation between Togo and the International Monetary Fund (IMF). It is committed to taking all necessary actions to ensure the success of its new three-year program for 2017-2019.
2. To achieve our economic and social development objectives, the three-year economic and financial program is based on the following pillars: (i) reduction of the overall fiscal deficit to ensure debt sustainability and external stability; (ii) the design of policies that foster sustainable and inclusive growth through targeted social spending and sustainably financed infrastructure spending; and (iii) remediation of weaknesses in the financial sector. The government is determined to make its vision a reality, in collaboration with, and with the support of, the IMF and other development partners.
3. The attached Memorandum of Economic and Financial Policies (MEFP) sets out the government's short- and medium-term objectives and policies. In support of its strategy, Togo is requesting an IMF arrangement to support the implementation of the government's economic and financial program for the period 2017-19 and the establishment of quantitative performance criteria and structural measures through to December 2017. For this new program, the government is requesting an IMF arrangement under the Extended Credit Facility (ECF) for a total amount equivalent to SDR 176.16 million.

4. One of the primary objectives of this program is to lower public debt to a sustainable level, to reduce the high risk of debt distress and create fiscal space. In that context, the government undertakes to reduce the overall fiscal deficit. It commits to no new contracting or guaranteeing of nominal nonconcessional external debt and to complying with the levels for new external borrowing on concessional term, as agreed with the IMF. The government also undertakes to strengthen debt management by restructuring public debt management departments, in keeping with international best practices.

5. The government will undertake vigorous action in sectors with growth potential. It will also pay particular attention to the social sectors. The private sector's contribution will be further stimulated through improvements to the business and investment environment and through increased competitiveness to enable it to become a genuine engine of economic growth.

6. To address certain weaknesses in the banking sector, the government undertakes to finalize the restructuring of the two public banks by end-December 2017. The restructuring plan will be approved by the government by end-June 2017. The government has already concluded a contract for an independent audit of the two public banks, which is a prior action to present the program request to the IMF's Executive Board.

7. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

8. The Togolese authorities agree to provide the IMF with information on the implementation of the measures agreed and program execution, as set out in the attached Technical Memorandum of Understanding, on the dates agreed between the two parties. Moreover, we authorize the IMF to publish and post this letter and its attachments on its website, along with the IMF staff report, after completion of the review of the program by the IMF Executive Board.

Very truly yours,

Minister of Economy and Finance

Sani Yaya

/s/

Attachment I. Memorandum of Economic and Financial Policies

1. The government is committed to strengthening its policy for reform of the Togolese economy. It will take all necessary actions to improve economic performance and consolidate public finances through strong, sustained reforms. It will pursue its efforts with an emphasis on sustainable and inclusive growth through targeted social and infrastructure spending defined in community development programs and in the National Development Plan (*Plan National de Développement* – PND) for 2018–2022.

CONTEXT AND RECENT DEVELOPMENTS

2. The economy has expanded at a healthy rate in recent years on the back of the construction of the main road networks, the expansion of the port and the airport, and good agricultural production. With the impact of lower commodity prices and tighter global financing conditions fairly muted, the economy expanded at 5.2 percent in 2014–2016. Inflation was well contained, explained by lower foodstuffs, energy, and transport prices. Togo’s human development index is higher than that of other countries in the West African Economic and Monetary Union (WAEMU) as well as that of low-income countries (LICs), and continues to improve. Togo’s income distribution is also favorable relative to other LICs, as measured by the Gini coefficient. Poverty remains high and geographically concentrated in rural areas.

3. The fast pace of public investment has contributed to a marked increase in public debt and the current account deficit. Public debt, including prefinancing debt domestic arrears and public enterprise debt, increased from 48.6 percent of GDP in 2011 to 80.8 percent in 2016 (76.2 percent excluding public enterprise debt), reflecting public infrastructure investments financed by both domestic and external borrowing. While these investments were needed to address deficiencies in transport infrastructure, large debt service payments, notably for prefinancing, have put increasing pressures on the budget. As a result, domestic arrears, including to the utility companies, accumulated to 5.7 percent of GDP in 2016. The current account deficit remained high, at 9.8 percent of GDP in 2016, owing to investment-related imports.

4. The second half of 2016 witnessed a major shift in the country’s fiscal policy, as the government ended the practice of prefinancing and is committed to implementing corrective measures to reduce public debt to a sustainable level. The government has made a commitment not to undertake any new prefinanced investments, to wind down all existing prefinanced investments, and to include prefinanced debt in published debt stocks. Going forward, the authorities have also resolved to comply with budget and procurement procedures for all new public investments.

PROGRAM OBJECTIVES AND DESIGN

5. Our program will help improve living conditions for the population, while maintaining a stable macroeconomic environment that is compatible with public debt sustainability. It would aim to:

- **Reduce the overall fiscal deficit to ensure long-term debt and external account sustainability.** Our priority is to reduce public debt to a sustainable level over the next decade primarily by controlling capital spending and improving revenue collection. Reducing public debt to a sustainable level is an attainable objective, as we are resolute in our commitment to public debt sustainability.
- **Refocus policies on sustainable and inclusive growth.** We plan to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed infrastructure spending.
- **Address financial sector weaknesses.** Accelerating the implementation of the financial sector development strategy will serve to increase the sector's stability, correct certain weaknesses in the financial system, improve the efficiency of financial intermediation, and enhance the business environment.

2017–2019 MACROECONOMIC PROGRAM

A. Medium-term Outlook

6. Under the program, economic growth is expected to increase gradually from 5 percent in 2016 to 5.6 by 2021, with the economy reaping the benefits of an improved transportation network and productivity gains in the agricultural sector. The resulting increase in potential growth is hence expected to more than compensate for the impact of the decline in domestically financed infrastructure spending on the economy. The private sector is expected to play an increasing role as the engine of growth. Downside risks to growth include capacity constraints in implementation of structural reforms and further economic slowdown among our main regional trading partners. Inflation remains well contained and is forecast to remain moderate in coming years. With the improvement in the fiscal stance, public debt, including public enterprise debt, is expected to be reduced from a high level of 81.3 percent of GDP in 2017 to 73 percent by 2019. The current account deficit is projected to improve from 11.1 percent in 2015 to 7.3 percent by 2019.

B. Achieving Fiscal and Debt Sustainability

7. Togo's fiscal policy has been expansionary in recent years. A rapid increase in domestically financed infrastructure spending through prefinancing led to widening primary deficits and public debt accumulation, including domestic arrears. At the same time, current spending was reduced to the minimum, with social spending sharply lower than the targets defined in the Strategy for Accelerated Growth and Promotion of Employment (*Stratégie de Croissance Accélérée et de Promotion de l'Emploi – SCAPE*), our national development plan for 2013–2017.

8. The 2017 budget features significant fiscal retrenchment and regularization of prefinancing debt. Starting in 2017, the government is committed to refraining from guaranteeing or assuming domestic loans to suppliers or contractors (performance criterion – PC). Domestically financed capital expenditure and current expenditure are expected to decline,

and the related margin will be redirected towards supporting social needs. A markedly improved domestic primary balance of -2.7 percent of GDP in 2017, excluding bank recapitalization cost, from -7.2 percent in 2016 will allow for less domestic financing, while most external financing will continue to be linked to infrastructure and social projects. The estimated stock of prefinancing debt of CFAF 198 billion at end-2016 will be substituted in 2017 by debt with more favorable conditions.

9. The government will strengthen the primary balance—the fiscal anchor—to progressively restore public debt sustainability. The program targets a primary surplus (cash basis, excluding grants) of 2 percent of GDP by 2019, an improvement of 9 percentage points from 2016. The envisaged primary surplus, combined with growth in the 5 percent range, would put the public debt, including public enterprise debt, on a clear downward trajectory, reaching 73 percent of GDP at end-2019, down from a high level of 81.3 percent in 2017. Assuming that the 2 percent of GDP primary surplus is sustained in the post-program period, the present value of public debt would be brought below the threshold of 38 percent of GDP for heightened risk of public sector debt by 2025. Because of weak monitoring of foreign-financed capital spending, the PC on the fiscal balance has been set on the domestic primary balance, that is, excluding foreign-financed capital spending. Given Togo's elevated debt level and the importance of tight controls on new borrowing, the government agrees to consult with IMF staff before contracting new concessional loans. Over the medium term, we will implement public financial management (PFM) reforms to allow fiscal monitoring of the overall primary balance.

10. Fiscal adjustment will require reduced domestically financed capital spending, tight limits on recurrent spending, avoidance of new arrears, and further improvements in revenue mobilization. The program will feature the following elements:

- **Revenue.** Review tax policy, including overhauling the exemption and tax expenditure system, which increased substantially in recent years, and accelerate reforms in revenue administration.
- **Capital spending.** Reduce domestically financed capital expenditure, recognizing that the recent pace of investment cannot be sustained in the face of growing debt pressures. In that context, emphasis will be placed on making full use of grant and concessional project financing. We will also consider public–private partnerships (PPP) as an alternative, factoring in the risks appropriately. The government will not enter into any PPP contracts until a legal framework governing such contracts has been adopted in consultation with Fund staff.
- **Recurrent spending.** With recurrent spending already compressed, the focus will be on redistributing allocations toward social spending in line with our national development plan. We will respect the indicative target on social spending, set in consultation with development partners, to identify effective and sound social spending. On wages, the government policy aims to increase wages, but no more than with the inflation rate and wage drift, ensuring that the wage bill is sustainable. The government will exercise strict control over the number of employees. It will also aim to improve targeting of

expenditures to shift resources to higher priority areas. It will contain fuel price subsidies by consistently applying the existing price adjustment formula.

- **Arrears.** It will be critical to strengthen public financial management to avoid the accumulation of new arrears, the clearance of which has added to spending needs in recent years. An independent audit will verify the stock of domestic arrears by end-September 2017 (SB). After the completion of the audit, the government plans full clearance of arrears by combining upfront cash payments in 2017 and the securitization of arrears with a phased payment over 2-5 years for the residual amount of arrears.
- **Poverty reducing measures.** We plan to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed investment under programs such as the Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* – PUDC) and Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables* – PAPV). We are in the process of identifying development priorities in the PND for 2018–2022 and plan to fully integrate these priorities into the budget. The PND is centered around five pillars: (i) combating poverty and improving social well-being; (ii) promoting sustained, inclusive economic growth; (iii) building the potential of growth sectors; (iv) sustainably managing the environment and reducing spatial inequality; and (v) strengthening governance and peace. We will establish a floor on domestically financed social spending, in particular for projects that have a high impact on poverty reduction.

C. Strengthening Fiscal Management and Institutions

11. Institutional constraints have hampered the government's ability to achieve spending efficiency. A Public Investment Management Assessment (PIMA) found that the management of public investments in Togo lags that of both other countries in sub-Saharan Africa (SSA) and other LICs, and that the efficiency of public investment spending was 70 percent below potential.

12. Following the creation of the Togolese Revenue Authority (*Office Togolais des Recettes* – OTR), the tax and customs authorities undertook a number of operational improvements that resulted in good revenue performance in 2015. Key OTR achievements include: (i) better tax payment tracking through the banking system; (ii) simplified taxpayer segmentation; and (iii) bringing the customs computer system on stream. However, customs revenue performance was substantially weaker than expected in 2016 owing to a lower growth in Togo's major trading partners, such as Ghana and Nigeria, as well as the diversion of shipments to other ports in the region owing to stricter enforcement by Togo of Community regulations regarding axle load and dimension control. Other additional costs (SEGUCE, ANTASER) also affected freight volume at the Lomé port.

13. We plan to take the following key actions:

- **Reorganize the Ministry of Finance.** Essential elements of this reform will be as follows: (i) creating a new effective debt management directorate; (ii) strengthening the budget

- directorates encompassing budget preparation and monitoring, and medium-term budget frameworks; and (iii) establishing of a tax policy unit in charge of defining tax policy. We will sign a decree reorganizing the Ministry of Finance by end-December 2017 (structural benchmark – SB).
- **Investments.** We are committed to refraining from undertaking any new prefinanced investments (PC). Furthermore, all our investment projects will follow the procurement process, will be fully integrated into all phases of the budget process, and will require payments to the private sector after verification of the completion of works. We will improve public investment management and, to that end, put in place a mechanism for monitoring contract execution in partnership with the private sector. The government aims to improve public investment management through: (i) better medium-term planning for projects and their associated financing; (ii) systematic *ex-ante* and *ex-post* assessments of large projects; (iii) strengthened prioritization of investment projects; (iv) stronger alignment between planned projects and the availability of fiscal funding; and (v) greater transparency in public investment spending. More specifically, we will adopt a budget for FY 2018 consistent with the Fund-supported program and put guidelines in place by end-December 2017 (SB) to include in the 2019 budget only investment projects selected through either cost-benefit or cost-effectiveness analysis.
 - **Domestic arrears.** Identify a methodology to track and verify the stock of domestic arrears to the private sector, public enterprises, and pension funds before paying them down. To this end, we will submit to the Fund a methodology to identify and verify domestic arrears (SB) by end-June 2017. The government will use this methodology to estimate the domestic arrears.
 - **Cash management.** We also aim to improve cash-management practices to avoid liquidity-induced spending bottlenecks. To achieve this goal, we will improve Treasury cash management and complete the establishment of the Treasury Single Account (TSA). We will submit to the Fund by end-December 2017 an annual cash plan for 2018 consistent with the 2018 public procurement plan and the quarterly commitments for 2018 (SB).
 - **Building on the OTR to modernize tax administration.** For domestic taxation, this modernization should: (i) broaden the taxpayer base by improving tax payments by small and medium-sized enterprises; in particular, we will improve consolidation of the taxpayer file by way of a tax census and higher registration of economic operators; and (ii) allow us to focus on the fight against tax evasion – this could begin with the resolution of potential evasion cases already detected in specific economic sectors. The government will implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron (SB, end-December 2017).
 - As for customs, the government should: (i) simplify the customs clearance process and strengthen port cargo control; continue and enhance automation by reducing manual

procedures; and better track cargo in transit; and (ii) enhance the assessment of imports and control tax exemptions, through improved risk analysis as well as effective and transparent audit and control. Specifically, we will audit 30 percent of revenues that the government has foregone from customs exemptions for 2016 through a post-customs clearance audit program (SB, end-June 2017). It would be worthwhile to take advantage of the organization of the semi-autonomous agency to boost tax and customs cooperation. Lastly, it is important for the OTR to continue to improve its private-sector communication strategy.

D. Enhancing Financial Sector Development and Stability

14. There are vulnerabilities in the financial sector. As of June 2016, 3 out of 13 banks, among which 2 public banks, were undercapitalized. Levels of capitalization at other banks were in line with minimum requirements and consistent with the WAEMU average.

15. One public bank has been under provisional administration for a number of years, while the situation at the other public bank has worsened recently. The former, however, possesses latent capital in the form of its head office, which is fully amortized on its balance sheet, but carries positive value in practice. The other public bank's capital position deteriorated further more recently—a development that is mainly driven by recent provisions established on the recommendation of the WAEMU Banking Commission for nonperforming loans.

16. Togo's microfinance sector fulfills an important role in promoting financial inclusion, but many institutions do not respect prudential ratios. Out of the 190 microfinance institutions active in Togo, only 20 respect all prudential ratios, while out of the 16 institutions supervised by the Banking Commission, only four are fully compliant. The rate of nonperforming loans stands at over eight percent and continues to be higher than the three percent prudential standard for 90-day risk portfolios. Finally, the sector is populated by about 140 institutions that operate without a license.

17. The government will strengthen its enforcement of the existing regulatory framework.

- Banks not properly capitalized will be called to increase their capital. Banks currently not respecting the regulatory minima will be asked to take immediate remediation action or implement resolution strategies.
- This issue is even more pertinent for the microfinance sector, where there is not only non-compliance with prudential standards, but also widespread unregulated, and even unlicensed, activity. Institutions operating without a license should be closed.

18. As a prior action, the government has concluded a contract for an independent audit involving the two public banks. Obtaining better insight into their financial situations will help in assessing the costs and the appropriate manner of their restructuring. The audit report will be transmitted to Fund staff by end-May 2017.

19. The government will start undertaking actions to restructure the two public banks.

It will consider two options. One option is to establish a new bank that takes over all liabilities and all “good” assets, if the WAEMU legal framework allows for the creation of a new bank to function as an assuming bank. This option would allow for a revaluation of all real estate owned by both banks, which would bring about an injection of Tier 1 capital. The other option is for the stronger public bank to function as the assuming bank, which is feasible within the current WAEMU legal framework. Under any approach, governance at the new bank will have to be improved to prevent similar problems in the future.

20. An injection by the government of new capital either into the “new bank” or into the stronger public bank will be needed.

We estimate a recapitalization need of up to four percent of GDP in 2017, an amount included in the macroeconomic framework of the program for 2017. To minimize the cost for the government of resolving the situation with the public banks, recovery prospects are optimized if these files are addressed, with increased vigilance, by the current parties responsible. The past performance of the Togo Debt Collection Agency (*Société de Recouvrement du Togo – SRT*) is not encouraging to entrust it with the nonperforming loans of the two public banks. The leaseback transaction executed at one of the public banks end-December 2016 was untimely and has been cancelled in light of the authorities’ decision to take one of the above options. To assess the value of one of the public bank’s latent capital, an evaluator will assess its asset portfolio, particularly its head office.

21. The government will form a Steering Committee (SC) to formulate and implement a restructuring plan.

The SC will seek legal advice to assist it in the restructuring process, in particular, the creation of a new bank. The government will approve a comprehensive, time-bound restructuring plan for the two public banks by end-June 2017. If required, we will submit an application for the creation of a new bank to the Banking Commission. Further, all legal transfers required in the restructuring plan will be completed by end-December 2017 (SB).

22. Role of the Banking Commission.

The support of the WAEMU Banking Commission will be critical for approving the restructuring plan.

E. Support for Growth Through Structural Reforms and Reduction of External Vulnerabilities

23. The current account is expected to improve over the medium term. The current account deficit is projected to narrow from about 11 percent of GDP in 2015 to 7.3 percent of GDP by 2019. At the same time, imports would be contained following slowdown in public sector investment.

24. Togo’s business environment has been improving following recent government reforms. Togo ranks 154th out of 189 countries in the World Bank’s 2017 Doing Business Index—better than sub-Saharan-Africa’s average, but worse than the WAEMU average. Togo is among those economies which are improving the ease of doing business the most. The Doing Business Index survey noted in particular improvements in obtaining credit, paying taxes, trading across borders (i.e. one-stop window), and resolving insolvency.

25. The government will:

- **Foster an attractive business climate.** Increase dialogue with the private sector and civil society, clearly communicating the government’s medium-term strategy. Improve the Doing Business Indicators on which Togo performs poorly, by developing a monitorable and highly publicized action plan. Improve property title registration and the judicial system so that property can be used as collateral in loans to small and medium-sized enterprises.
- **Open key sectors with high government presence and intervention—energy, telecommunications, and mining—to more private-sector competition.** For example, opportunities to deliver social payments at low costs—as in East Africa—are lost if mobile services are expensive and regulated. Togo’s chronic lack of energy is stifling growth, and long-term solutions are needed to increase domestic generation and establish a regulatory framework conducive to increased access to energy in a cost-effective manner.

F. Borrowing Policies and Debt Management

26. Togo remains at a moderate risk of external debt distress and a heightened risk of overall debt distress based on the Bank–Fund Debt Sustainability Analysis (DSA). Main sources of debt accumulation in recent years have been Treasury bills and bonds and Sukuk operations issued to finance the deficit, and external and domestic commercial loans of the central government and of public enterprises to finance public investments, including prefinancing.

27. The government will aim to lower public debt, including public enterprise debt, to 73 percent of GDP by 2019 from a high level of 81.3 percent in 2017 to reduce the risk of overall debt distress and adjust fiscal space. We will commit to no new contracting or guaranteeing of nominal external nonconcessional debt (PC) and a target on the contracting or guaranteeing of nominal concessional external debt. Our borrowing plans will seek to reduce debt vulnerabilities and avoid an excessive buildup of short-term debt, as well as take into account potential rollover and foreign exchange risks.

28. We will bolster debt management. The program includes steps to strengthen debt management. These include centralizing all debt management functions in one entity and organizing the debt department unit into front, middle, and back offices (SB), as well as building capacity and training staff. The reorganized public debt department will be operational in 2017. The budget will have to be in line with the medium-term debt strategy.

G. Addressing Data Weaknesses

29. National accounts are finalized with a very long lag. The latest finalized national account statistics are for 2013, prepared with support from AFRITAC West. There have been large variations between the GDP estimated by the GDP Committee and the finalized national accounts.

30. Data production is compartmentalized and not cross-checked for consistency across departments. The budget preparation process is weakened by limited information on budget execution during the year.

31. The government will:

- Reduce lags in the production of national accounts, improve the production of preliminary GDP data, and strengthen staffing within the National Statistics and Accounting Institute (*Institut national de la Statistique et des Études économiques et démographiques* – INSEED);
- Guarantee the quality of the quarterly budget execution and TOFE reports as well as diligence in their preparation by ensuring consistency between the two. The budget projections for the following year should be based on projection for budget execution in the current year.

PROGRAM FINANCING AND MONITORING

32. The government estimates that the financing needs for the 2017–2019 program will be covered. Additional financing will be mobilized on the regional market and with external partners. For 2017, budget financing needs will be covered by the government through recourse to regional money and financial markets, particularly through bond borrowing and Sukuk bonds, and to assistance from the World Bank, the International Monetary Fund, the African Development Bank, the French Development Agency, and the European Union.

33. The program will be monitored every six months based on quantitative criteria for end-June and end-December, starting from end-June 2017, with the final test date set for September 2019. For the first year of the program, quantitative performance criteria (PCs) for end-June 2017 and end-December 2017 and indicative targets (ITs) for end-September 2017 are proposed to facilitate monitoring by the IMF (Table 1). The prior action established for the approval of the arrangement and structural benchmarks is described in Table 2. The first and second program reviews will take place on or after September 15, 2017 and March 15, 2018, respectively. The data to be reported to Fund staff and the program performance criteria and structural benchmarks are defined in the Technical Memorandum of Understanding. The Permanent Secretariat for Reform Policies and Financial Programs (*Secrétariat permanent chargé des politiques de réformes et des programmes financiers* – SP-PRPF) will provide technical program monitoring, produce quarterly progress reports, and serve as liaison between national entities and technical and financial partners. It will also provide for the monitoring of technical assistance requirements.

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets
January 1, 2017 – December 31, 2017

	End-June 2017 Performance Criteria	End-September 2017 Indicative Target	End-December 2017 Performance Criteria
	<i>CFAF billion</i>		
Performance criteria			
Domestic primary fiscal balance (floor) ¹	-19.0	8.4	-99.1
Non-accumulation of arrears on external public debt ^{2,4}	0.0	0.0	0.0
Net domestic financing (ceiling) ¹	80.3	157.8	144.1
Net domestic financing (ceiling adjusted) ^{1,3}	80.3	157.8	144.1
Government contracting or guaranteeing of nominal nonconcessional external debt (ceiling) ^{2,4}	0.0	0.0	0.0
Government guaranteeing of domestic loans to suppliers and contractors (ceiling) ^{2,4}	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments (ceiling) ^{2,4}	0.0	0.0	0.0
Indicative targets			
Total fiscal revenue (floor)	246.3	398.5	567.5
Total domestically financed social spending (floor)	87.4	141.9	218.4
Memorandum Item			
Overall primary balance ¹	-70.2	-84.8	-188.3
Government contracting or guaranteeing of nominal concessional external debt	49.6	88.8	138.0

Sources: Togolese authorities; and IMF staff estimates.

¹ Performance criterion will be adjusted by the amount spent in banking capitalization.

² Continuous performance criterion.

³ According to the TMU, the ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion.

⁴ Cumulated from the approval of the arrangement on May 5, 2017.

Table 2. Togo: Structural Benchmarks and Prior Actions for First Year of the 2017–2020 ECF Arrangement

No.	Measures	Rationale	Timing
	Prior action		
1	Conclude a contract for an independent audit of the two public banks.	Address the situation of nonviable financial entities by implementing least-cost resolution options	Prior action
	Revenue administration		
2	Implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron.	Broaden the taxpayer base by improving tax compliance of small and medium-sized enterprises	End-December 2017
3	Verify 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program.	Strengthen import valuation and control of customs exemptions through improved risk analysis, and effective and transparent inspection and audit	End-June 2017
	Public financial management		
4	Sign a decree reorganizing the Ministry of Finance.	Improve fiscal policy and management	End-December 2017
5	Ministry of Finance to submit, in collaboration with the revenue authority (OTR), an annual cash plan for 2018 consistent with the 2018 procurement plan and quarterly commitments for 2018.	Improve cash management	End-December 2017
	Debt management		
6	Strengthen debt management by: (i) centralizing all debt management functions in one entity; and (ii) organizing the debt department unit into front, middle, and back offices.	Strengthen debt management	End-September 2017
7	Submit a methodology to identify and verify domestic arrears.	Strengthen debt management	End-June 2017
8	Conduct an independent audit of domestic arrears.	Determine the exact amount of arrears to prepare an arrears clearance plan	End-September 2017
	Public investment management		
9	Adopt a budget for FY 2018 (consistent with the Fund-supported program) and put guidelines in place, by end-December 2017 (SB), to include in the 2019 budget only investment projects selected through cost-benefit or cost-effective analyses.	Improve public investment management	End-December 2017
	Financial sector		

10	Based on the findings of the independent audit of the two public banks, approve a comprehensive, timebound restructuring plan for the two public banks. If required, submit an application for the creation of a new bank to the WAEMU Banking Commission.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-June 2017
11	Complete the legal transfers required in the restructuring plan at the least cost possible to the government.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-December 2017

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the structural and quantitative benchmarks and performance criteria to monitor the program supported by the Extended Credit Facility for the period January 1, 2017 through the end of the arrangement. It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes.
2. Unless otherwise specified, the government is defined in this TMU as the central administration of the Togolese Republic. It does not include any political subdivisions, the Central Bank of West African States (BCEAO), or any public entity with a separate legal personality.
3. Unless otherwise indicated, public entities are defined in this TMU as majority government-owned companies, and other public entities receiving earmarked tax and quasi-tax revenues.

A. Definition of Terms

4. For program purposes, the definition of **debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.¹³

(a) For the purpose of these guidelines, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
- (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use

¹³ <http://www.imf.org/external/pp/longres.aspx?id=4927>.

for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

5. **Public debt** includes obligations of the central government and public entities.

6. **Domestic debt** is defined as debt contracted or serviced in the franc of the Financial Community of Africa (CFAF), while external debt is defined as debt contracted or serviced in a currency other than the CFAF.

7. A debt is considered contracted for purposes of the program at the time of issuance of a “no objection” opinion by the Supreme Court, where such an opinion is required under domestic law. Otherwise, a debt will be considered contracted when it enters into effect.

B. Quantitative Performance Criteria and Indicative Targets

8. For program monitoring purposes, periodic quantitative performance criteria (PCs) and indicative targets (ITs) are set for end-June 2017 and end-December 2017, and the indicative targets for end-September 2017.

The PCs include:

- (a) a floor on domestic primary fiscal balance;
- (b) a zero ceiling on accumulation of arrears on external public debt;
- (c) a ceiling on net domestic financing;
- (d) a zero ceiling on government contracting or guaranteeing of nominal nonconcessional external debt;
- (e) a zero ceiling on government guaranteeing of domestic loans to suppliers and contractors;
- (f) a zero ceiling on government guarantees on bank prefinancing for public investments.

The ITs are:

- (a) a floor on total fiscal revenue;
- (b) a floor on total domestically financed social spending.

Domestic Primary Fiscal Balance

Definition

9. The **domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenses, net of interest and capital spending financed by donors and lenders. The balances for the periods from end-December 2016 to end-June 2017 and to end-December 2017 (performance criteria) and the periods from end-December 2016 to end-September 2017 (indicative targets) must be equal to or greater than the amounts indicated in Table 1 of the attachments to the MEFP. The data are sourced from the Government Financial Operations Table (*Tableau des opérations financières de l'État – TOFE*), prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance (statistical TOFE). The statistical TOFE will be prepared by the Directorate of Economy in close cooperation with revenue offices and the Treasury. The data provided by the Directorate of Economy will take precedence for program purposes.

Reporting deadlines

10. Detailed data concerning the domestic primary fiscal balance will be reported monthly within eight weeks of the end of the month.

Arrears on External Public Debt

Definition

11. The government will not accumulate payment arrears on external public debt (continuous performance criterion). This criterion excludes arrears on debts subject to dispute or renegotiation. The source of the data is the Public Debt Directorate.

Net Domestic Financing

Definition

12. **Government net domestic financing** is defined as the sum of (i) net credit from the banking sector to the government; (ii) net domestic nonbank financing of the government; and

(iii) unidentified financing. Net domestic financing for the periods from end-December 2016 to end-June 2017 and to end-December 2017 (performance criteria) and the periods from end-December 2016 to end-September 2017 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP. The ceiling on net domestic financing shall be adjusted to make up for gaps in projected external financing for the program, as indicated in the Table 1, subject to a cap of CFAF 10 billion.

13. Net credit from the banking sector to the government is equal to the balance of government claims and debts to national banking institutions in Togo. Government claims include balances in the Togolese Treasury, Treasury deposits in the central bank, Treasury deposits in commercial banks (excluding the deposits of other arms of government, such as deposits from projects financed with external resources and CNSS accounts), and blocked accounts. Government debts to the banking system include assistance from the central bank (excluding BCEAO credits to the government tied to IMF financing), assistance from commercial banks (including government securities denominated in CFA francs held by commercial banks), and deposits in postal checking accounts.

14. Net domestic nonbank financing of the government includes: (i) changes in the balance of government securities issued in CFA francs (including on the WAEMU regional financial market) not held by Togolese commercial banks, calculated on the basis of the initial amount underwritten; (ii) changes in the deposit accounts of Treasury correspondents; (iii) changes in various deposit accounts (including trustee accounts [*comptes de consignation*]) in the Treasury and accounts in which fines and sentences are deposited pending distribution; (iv) repayment of other domestic public debt (including bank loans to the economy assumed by the government and securitized arrears) to nonbank entities (including nonresidents); and income from privatization. The assumption or securitization of debts and arrears by the government is not included in the definition of net domestic financing, whereas the repayment of that debt by the government is included.

15. Unidentified financing is the difference between total financing (net domestic financing plus exceptional financing) and the overall balance on a cash basis (including grants and changes in arrears).

16. Net credit from the banking sector to the government is calculated by the BCEAO, whereas Treasury bill and bond amounts are determined by the Agence UMOA-Titres. Net domestic nonbank financing of the government is calculated by the Togolese Treasury. Their data will take precedence for program purposes. Data are reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance.

Reporting deadlines

17. Data concerning net domestic financing of the government will be reported monthly within eight weeks of the end of the month.

18. Details concerning any domestic borrowing by the government will be reported every month within six weeks of the end of the month. Data on domestic borrowing will be categorized as short term (less than one year) and long term (one year or more). This rule will also be applied to government-guaranteed domestic loans to government suppliers and contractors.

Government or Government-Guaranteed Nominal Nonconcessional External Debt**Definition**

19. The government undertakes not to contract or financially guarantee any new nonconcessional external debt at maturities of one year or more (continuous performance criterion). Nonconcessional external debt is defined as all external debt with a grant element of less than 35 percent (<http://www.imf.org/external/np/pdr/conc/calculator/default.aspx>). The level of concessionality of loans is calculated based on a discount rate of 5 percent. This performance criterion applies not only to the debt as defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014, but also to any commitment contracted or guaranteed for which no value has been received. However, this criterion does not apply to reschedulings that take the form of new debts, or to bond borrowing, Treasury bills, and Sukuk or other instruments issued in CFA francs on the WAEMU regional financial market. For the purposes of this performance criterion, “government” is understood to cover not only the definition given in paragraph 2 above, but also public institutions of an industrial or commercial nature (*établissements publics à caractère industriel et commercial* – EPIC), public administrative agencies (*établissements publics administratifs* – EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

Government-Guaranteed Domestic Loans to Suppliers and Contractors**Definition**

20. The government is committed to not providing new financial guarantees for domestic loans to its suppliers or contractors (continuous performance criterion). The concept of “government” used for this performance criterion includes the definition of government in paragraph 2, public

institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

Government Guarantees on Bank Prefinancing for Public Investments

21. The government undertakes not to guarantee new bank prefinancing for public investments (continuous performance criterion). In a typical prefinancing arrangement, a private company granted a public works contract by the government obtains a loan from a domestic commercial bank or a group of commercial banks. The Ministry of Finance guarantees this loan and, at the same time, signs an unconditional and irrevocable *substitution of debtor* agreement to service all principle and interest, which are paid automatically from the Treasury account at the BCEAO. The concept of “government” used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

Total Fiscal Revenue

Definition

22. Total fiscal revenue includes tax and nontax revenue, and excludes external grants, the revenue of autonomous agencies, and income from privatization. The data are calculated by revenue offices and reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance. The revenue is reflected on a cash basis.

23. Revenue collection for the periods from end-December 2016 to end-June 2017, end-September 2017, and end-December 2017 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The revenue floor is an indicative target for the entire duration of the program.

Reporting deadlines

24. This information will be reported monthly to the IMF within four weeks of the end of the month.

Domestically Financed Social Spending

Definition

25. Total (current and capital) domestically financed social spending is calculated for each category of current and capital accounts (wages, goods and services, transfers and subsidies, other) and capital accounts financed with domestic resources. In a national context, social spending is considered to be public expenditure targeting the following social sectors: (1) Ministry of Education: primary and secondary education, technical and vocational training, and higher education with respect to scholarships and relief allowances: (i) scholarships are awarded to students in need who are pursuing their undergraduate degree (article 21 of Decree No. 2011-173/PR of November 30, 2011, regarding the reform of the scholarship, internship, and relief allowance system, and article 1 of Decree No. 2011-174/PR of November 30, 2011, establishing the scholarship, internship, and relief allowance rates); (ii) relief allowances are granted to students recognized as belonging to a disadvantaged or vulnerable category (article 31 of Decree No. 2011-173/PR of November 30, 2011, regarding the reform of the scholarship, internship, and relief allowance system, and article 2 of Decree No. 2011-174/PR of November 30, 2011, establishing the scholarship, internship, and relief allowance rates); (2) Ministry of Health; (3) Ministry of Social Action, Advancement of Women, and Literacy; (4) Ministry of Grassroots Development, Crafts, Youth, and Youth Employment; (5) Ministry of Agriculture, Livestock, and Fisheries; (6) Ministry of Mines and Energy (rural electrification projects); (7) Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire – PUDC*); involved in financing basic socio-economic development actions through socio-economic projects and infrastructure in rural and semi-urban areas (schools, health centers, drinking water and basic sanitation points, rural roads, hydro-agricultural schemes, infrastructure for storing and processing agricultural products, rural electrification, and more generally access to all sources of energy); (8) Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables – PAPV*). Total current and capital social expenditure financed with own resources covers spending financed with domestic resources, including revenue, domestic financing, and general foreign budgetary support, and excludes all social spending financed with project-specific grants or loans. The source of the data is the SIGFiP (Budget Directorate of the Ministry of Economy and Finance) prepared at monthly intervals.

26. Social spending financed with domestic resources for the periods from end-December 2016 to end-June 2017, end-September 2017, and end-December 2017 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The data provided by the Budget Directorate and the Directorate of Economy will take precedence for program purposes. The floor on (current and capital) social expenditure financed with domestic resources is an indicative target for the entire

program period.

Reporting deadlines

27. The data on social expenditure financed with domestic resources will be reported every month within eight weeks of the end of the month.



TOGO

April 27, 2017

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

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RELATIONS WITH THE FUND

(as of March 31, 2017)

Membership Status: Joined August 1, 1962; Article VIII

General Resources Account:	SDR million	% of Quota
Quota	146.80	100.00
Fund holdings of currency	127.89	87.12
Reserve Position	18.93	12.90

SDR Department:	SDR million	% of Quota
Net cumulative allocation	70.33	100.00
Holdings	9.63	13.69

Outstanding Purchases and Loans:	SDR million	% of Quota
ECF Arrangements	54.81	37.33

Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ECF ¹	Apr 21, 2008	Jul 26, 2011	95.41	95.41
ECF ¹	Sep 16, 1994	Jun 29, 1998	65.16	54.30
ECF ¹	May 31, 1989	May 19, 1993	46.08	38.40

Projected Payments to the Fund²

(SDR million; based on existing use of resources and present holdings of SDRs)

	<u>Forthcoming</u>				
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Principal	16.77	17.76	11.04	7.48	1.76
Charges/Interest	0.18	0.25	0.25	0.25	0.25
Total	<u>16.95</u>	<u>18.01</u>	<u>11.29</u>	<u>7.73</u>	<u>2.01</u>

¹ Formerly PRGF.

² When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

	<u>Framework</u>
I. Commitment of HIPC assistance	Nov. 2008
Decision point data	
Assistance committed	
By all creditors (US\$ Million) ¹	282.00
Of which: IMF assistance (US\$ million)	0.32
(SDR equivalent in millions)	0.22
Completion point date	Dec. 2010
II. Disbursement of IMF assistance (SDR Million)	0.22
Assistance disbursed to the member	0.08
Interim assistance	0.14
Completion point balance	0.01
Additional disbursement of interest income ²	
Total disbursements	0.22

¹ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

² Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguards Assessments

The Central Bank of West African States (BCEAO) is a common central bank of the countries of the West African Economic and Monetary Union (WAEMU). The 2013 assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAEMU, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, and transparency has increased with more timely publication of the audited financial statements. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits. Safeguards Assessments—All recommendations from the assessment have been implemented.

Exchange Arrangement

Togo, a member of the WAEMU, accepted the obligations under Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement as of June 1, 1996, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The WAEMU's exchange regime is a conventional peg to the euro.

The union's common currency, the CFA franc, had been pegged to the French franc at the rate of CFAF 1 = F 0.02. Effective January 12, 1994, the CFA franc was devalued and the new parity set at CFAF 1 = F 0.01. Effective December 31, 1998, the parity was switched to the euro at a rate of CFAF 655.96 = €1.

Aspects of the exchange system were also discussed in the report "WAEMU: Common Policies for Member Countries" (Country Report No. 14/84).

JOINT WORLD BANK-IMF WORK PROGRAM, 2017–18

The IMF Togo team led by Ms. Sancak (mission chief) held a discussion with the World Bank Togo team led by Mr. Moeller (practice manager) on January 27, 2017, to identify macro-critical structural reforms and coordinate the two teams' work for the period January 2017-December 2019. Continuous collaboration is taking place, including coordination of timing of missions.

The teams agreed that Togo's work program should focus on policies and structural reforms to promote sustainable growth through structural transformation and to maintain macroeconomic and financial stability. In this regard, both institutions committed to support the authorities' fiscal adjustment program, which would improve fiscal and external sustainability, and to collaborate with the authorities to enhance public financial management. They also agreed on the need to strengthen Togo's financial sector stability and promote financial development. To increase potential growth, there is also a need to implement reforms in other key areas such as energy and telecommunications, and to continue improving the business climate and the efficiency of public investment projects. Areas of close collaboration between the Fund and the Bank include the financial sector, debt policy, and poverty analytics and policies. Details on division of labor in other areas are presented below.

Table 1. Togo: Bank and Fund Planned Activities, 2016–18

Title	Products	Provisional Timing of missions	Expected Delivery Date
A. Mutual information on relevant work programs			
World Bank work program in the next 12 months	Lending/ Grants:		
	Community Development Project and Social Safety Nets		Ongoing
	Education for All		Ongoing
	Agriculture Sector Project		Ongoing
	West Africa Productivity Program		Ongoing
	Integrated Disaster and Land Management		Ongoing
	Emergency Urban Rehabilitation Additional Financing		Ongoing
	Infrastructure Additional Financing		Ongoing
	WARCIP Broadband connectivity		Ongoing
	Maternal and Child Health operation		Ongoing
	Mining Governance and Development Project		Ongoing
	Employment Opportunities for Vulnerable Youth Project		March 2017

	Safety Nets and Social Services Project		March 2017
	Trade and Logistics Services Competitiveness Project		May 2017
	Energy Sector Support and Investment Project		July 2017
	Economic Governance and Technical Assistance		August 2017
	Urban Infrastructure Project		February 2018
	Economic and Sector Work:		
	Tax Policy Analysis		July 2017
	State-owned Enterprises Review		May 2018
	Public Expenditure Review		May 2018
	Technical assistance/other analytical:		
	Blue Economy Strategic Framework		June 2017
	Water Supply Support		June 2017
	Public-Private Partnership Support		April 2017
	Mineral Rights Cadastre Reform		May 2016
	Post-basic Education		June 2016
	Others: Country Partnership Strategy		March 2017
IMF work program in the next 12 months			
	Technical assistance:		
	Public Financial Management (FAD)	As of the Executive Board meeting, mission and delivery dates had not been finalized.	
	National Accounts (STA)		
	Debt Management (MCM)		
B. Requests for work program inputs			
Fund requests to Bank			
Bank requests to Fund	Technical support and collaboration in the areas of public financial management and the banking sector.		
C. Agreement on joint products and missions			
Joint Bank-Fund products in the next 12 months	Joint LIC Debt Sustainability Analysis		November, 2017

STATISTICAL ISSUES

1. Data provision is broadly adequate for surveillance, but weaknesses in the quality and timeliness of data hamper staff's analysis.

- **National accounts:** are compiled based on very limited information, with only few surveys and scarce data on primary agriculture and private sector services. National accounts are published with considerable delays and are only available on annual frequency. Base year for constant price GDP is 2007.
- **Price statistics:** Base year for CPI index is 2008.
- **Fiscal sector statistics:** Government finance statistics are derived from a weak accounting and reporting system. Timely and accurate tracking of government arrears has been inadequate. Also, there are significant delays in compilation and dissemination, and limited or no data on public entities outside of (budgetary) central government.
- **Balance of payments statistics:** Data are reported on an annual frequency with long lags. Data corresponding to 2012 were published in February 2015, and the balance of payments data for 2013 were published in June 2015. Coverage is incomplete and there are significant consistency issues between the IIP and other balance of payment data.
- **Monetary data:** are reported by the BCEAO and sent to AFR within 45 days.

2. The country has participated in the General Data Dissemination System (GDSD) since November 2001. Metadata on the national statistical system, including plans for improvement posted to the Fund's Dissemination Standard Bulletin Board, were last updated in December 2004.

National accounts and consumer price index (CPI)

3. Like other West African Economic and Monetary Union (WAEMU) member states, Togo embarked in late 2002 on implementing the System of National Accounts 1993 (1993 SNA), using the ERETES software. The national accounts for the new base year (2007) were completed in 2012. In 2013 the *Direction Générale de la Statistique et de la Comptabilité Nationale* (DGSCN) published the National Accounts GDP numbers covering the period 2000-2007. Respectively, in 2014 and 2015 the 2009 and 2010 National Accounts GDP numbers were finalized and published. The national statistics institute, INSEED (*Institut National de la Statistique et des Etudes Economiques et Démographiques*), established in February 2015, is currently executing a plan, with the support of AFRITAC West, to clear the delay in the elaboration of National Accounts corresponding to the period 2011-15 by 2017. Progress has been made on this front and national accounts through 2013 were published in early 2017. Given that limited resources are available plans to build quarterly NA have been cancelled to prioritize the work on closing the delays in the publication of National Accounts, and on the transition of National Accounts to SNA 2008.

4. The CPI basket was revised in 2010. The WAEMU commission, supported by AFRISTAT and the BCEAO, launched a revision of the harmonized CPI basket in the region in 2008. The reform included expanding CPI surveys, and updating the weights of various sub-components to reflect consumption habits. In line with WAEMU directives the INSEED is constructing a consumer price index with national coverage. The collection of the first observations started in January 2015, and the index was published beginning in January when the first 12-month variation became available.

External sector statistics

5. Balance of payments statistics and international investment position data are compiled based on bank reports, a survey of enterprises, and customs data. Statistics are compiled following the principles of the 6th balance of payment manual. The Central bank continues its efforts for a better coverage of informal trade notably with the sub-regional unit for the reconciliation of intra-WAMU trade.

Government accounts and public debt data

The Government finance statistics are compiled by the Ministry of State from customs, tax, and treasury departments and consolidated in the form of government financial operations tables (TOFE). The new WAEMU budget nomenclature now permits the economic and ministerial classification of expenditure, with functional classification under development. The monthly TOFE is based on a mixture of administrative and accounting data and is sent to AFR with a two-month lag. While the government has incorporated audited domestic arrears through end-2006 into the debt stock, the incorporation of more recent arrears has lagged. Only budgetary central government data are reported for publication in the Government Finances Statistics Yearbook (GFSY), government finance high frequency data are not reported for publication in the IFS. In the context of the 2013 Article IV consultation, with assistance from STA, the authorities established a bridge table allowing transposition of TOFE data, which is based on the 1986 Government Finance Statistics Manual (GFS86), to the 2001 Government Finance Statistics Manual (GFSM01).

Monetary statistics

6. Monthly data for Togo, along with data for other members of the West African Monetary Union are regularly disseminated by the Central Bank of the West African Monetary Union (BCEAO) with a lag of about two months. Data on lending and borrowing rates, charged by domestic banks, are compiled and available monthly.

Togo: Table of Common Indicators Required for Surveillance

(as of March 2017)

Economic Variable	Date of latest observation	Date received	Frequency of Data ²	Frequency of Reporting ²	Publication
Exchange Rates	February 2017	March 2017	M	M	Published
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	January 2017	March 2017	M	M	Published
Reserve/Base Money	January 2017	March 2017	M	M	Published
Broad Money	January 2017	March 2017	M	M	Published
Central Bank Balance Sheet	January 2017	March 2017	M	M	Published
Consolidated Balance Sheet of the Banking System	January 2017	March 2017	M	M	Published
Interest Rates	January 2017	February 2017	M	M	Published
Consumer Price Index	February 2017	March 2017	M	M	Published
Revenue, Expenditure, Balance and Composition of Financing – General Government ¹	n.a.	n.a.	n.a.	n.a.	Not published
Revenue, Expenditure, Balance and Composition of Financing– Central Government	December 2016	February 2017	M	M	Published
Stocks of Central Government and Central Government-Guaranteed Debt	December 2016	February 2017	M	M	Not published
External Current Account Balance	December 2014	July 2016	A	A	Published
Exports and Imports of Goods and Services	December 2014	July 2016	A	A	Published
GDP/GNP	December 2013	February 2017	A	A	Published
Gross External Debt	December 2014	July 2016	M	M	Published
International Investment Position ³	December 2014	July 2016	A	A	Published

¹ The general government consists of the central government (budgetary funds, extra-budgetary funds, semi-autonomous government agencies and institutions, and social security funds) and state and local governments.

² Monthly (M), Quarterly (Q), Semi Annually (SA), Annually (A), on mission (OM).

³ Includes external gross financial asset and liability positions vis-à-vis nonresidents.



TOGO

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

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Approved By
**Dominique Desruelle (IMF) and
Paloma Anos-Casero (IDA)**

Prepared by the International Monetary Fund and
the World Bank

Risk of external debt distress:	<i>Moderate</i> ¹
Augmented by significant risks stemming from domestic public debt?	Yes

Togo's risk of external debt distress continues to be moderate with heightened overall risk of debt distress—unchanged from the previous Debt Sustainability Analysis (DSA) published in October 2015. A return to historical levels of growth and fiscal deficits would lead to a rapid accumulation of debt. Though less extreme, a shock to growth combined with a reduction in FDI and capital transfers would push Togo above the external debt-distress threshold for the PV of debt-to-GDP. Togo's overall public debt dynamics also highlight heightened vulnerabilities, with the debt-to-GDP ratio remaining above the indicative benchmark for a significant part of the projection period. The analysis highlights the need for sustained fiscal consolidation, improved debt management, and macroeconomic policies to reduce the level of public debt to prudent levels over the medium term.

¹ Togo's Country Policy and Institutional Assessment (CPIA) rating averaged 2.98 over 2013-2015 and the country is classified as having weak policy performance.

INTRODUCTION

1. The debt sustainability analysis (DSA) for Togo's public debt is the result of collaborative efforts of the International Monetary Fund (IMF) and the World Bank.² It updates the 2015 DSA (IMF Country Report No. 15/309), based on the most recent external debt data from the authorities, and the macroeconomic framework derived from the 2017 discussions on a program supported by the IMF's Extended Credit Facility (ECF). It uses the latest template of the debt sustainability analysis for low-income countries. Debt data includes external and domestic debts of the central government, as well as external debt of public enterprises and government guaranteed debt. Domestic debt is defined as debt denominated in *franc de la Communauté financière d'Afrique* (FCFA).

2. The previous DSA assessed the level of Togo's risk of external debt distress to be moderate owing to the large increase in government debt to finance infrastructure projects following the HIPC completion point. (Text Table 1). Togo's public and publicly guaranteed (PPG) external debt dropped from 52.6 percent of GDP in 2009 to 18 percent in 2010 as the country reached the completion point of the enhanced HIPC Initiative in December 2010. Since then, the external debt stock has remained broadly the same, reaching 19.7 percent of GDP at end-2016. The composition of the central government external debt has, however, changed significantly between 2010 and 2016: the share of multilateral debt fell to 32 percent (from 65 percent) while the share of bilateral debt rose to 65 percent (from 34 percent). This reflects recent large borrowing from China and India Exim-Banks to finance development projects, including the extension of the Port and the Lomé airport.

Text Table 1. Togo: Composition of Public Debt, 2010-2016

	End-2010			End-2013			End-2016		
	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP	Billions of CFAF	Percent of public debt	Percent of GDP
Total Public Debt	767.3	100	48.8	1,193.3	100	56.4	2,122.8	100	80.8
External Debt	283.6	37	18.0	295.8	25	14.0	518.8	24	19.7
Central Government	237.7	31	15.1	294.8	25	13.9	518.8	24	19.7
Multilateral	154.4	20	9.8	146.5	12	6.9	168.2	8	6.4
Bilateral	81.3	11	5.2	124.8	10	5.9	336.6	16	12.8
Paris Club	16.3	2	1.0	6.6	1	0.3	5.8	0	0.2
Non-Paris Club	65.0	8	4.1	118.1	10	5.6	330.8	16	12.6
Commercial Banks	2.1	0	0.1	23.6	2	1.1	14.0	1	0.5
SOEs¹	45.9	6	2.9	1.0	0	0.0	0.0	0	0.0
Multilateral	...	...	...	...	...	...	...	...	...
Other	...	...	...	1.0	...	...	...	...	...
Domestic Debt	483.7	63	30.8	897.5	75	42.4	1,604.1	76	61.1
T-Bills + Bonds	151.9	20	9.7	324.2	27	15.3	764.7	36	29.1
Domestic Arrears	275.2	36	17.5	249.1	21	11.8	294.9	14	11.2
Liquidated SOEs	4.9	1	0.3	52.6	4	2.5	39.2	2	1.5
Banking System	48.2	6	3.1	164.0	14	7.8	424.0	20	16.1
SOEs	3.5	0	0.2	107.7	9	5.1	81.3	4	3.1

Sources: Togolese authorities and Staff calculations.
¹Details for SOEs' 2010 external debt have not been communicated by the authorities.

² The DSA follows the IMF and World Bank Staff Guidance Note on the Application of the Joint IMF-World Bank Debt Sustainability Framework for Low-Income Countries, dated November 7, 2013 (SM/13/292).

3. Public domestic debt has continuously increased, sustained by large issuance of securities (Text Table 1). Between 2010 and 2016, domestic debt nearly doubled reaching 61 percent of GDP, as its share in total public debt increased by 13 percentage points to 76 percent of public debt. A key driver of the increase in domestic debt has been the extended recourse to the regional financial market and direct borrowing from the banking system. The stock of government securities on the regional market has increased from 9.7 percent of GDP to 29.1 percent of GDP between 2010 and 2016, with an increasing use of both Treasury bills and bonds. Consequently, Togo had the highest levels of domestic debt-to-GDP and total debt-to-GDP ratios within the WAEMU at end-2016.³

4. The government's infrastructure financing tools had directly increased the stock of domestic debt by about 7½ percent of GDP by end-2016, further deteriorating the fiscal situation and weakening the stability of the financial sector. Beginning in 2013, the government of Togo initiated a new financing tool that consists of private sector contractors prefinancing public infrastructure development through domestic commercial bank loans to be repaid by the government. The capital spending reported in the budget and in the fiscal accounts consisted mostly of payment of debt service of prefinancing loans to banks rather than the execution of the investment involved. Furthermore, the debt obligations inherent in prefinancing arrangements were not included in public debt. The size and the scope of the pre-financing contracts, generally obtained through direct negotiations (not through competitive bids), averaged 7 percent of GDP annually over 2013-16, peaking at 10½ percent in 2015. This added pressure to the already weak fiscal prospects and banks' exposure to public borrowing. The government has now discontinued this problematic public financial management practice.

5. Togo is considered a weak policy performer for the purpose of determining the debt burden thresholds under the DSA framework. Togo's rating on the World Bank's Country Policy and Institutional Assessment (CPIA) averaged 2.98 from 2013 to 2015, classifying the country as a weak policy performer for purposes of this DSA analysis. The relevant external public debt burden thresholds are as shown in Text Table 2.

³ See the 2016 IMF Staff Report on WAEMU common policies: <http://www.imf.org/external/pubs/ft/scr/2016/cr1696.pdf>

Text Table 2. Togo: External Debt Burden Threshold¹

External Debt Burden Thresholds	Without Remittances
<i>PV of debt in % of</i>	
Exports	100
GDP	30
Revenue	200
<i>Debt service in % of</i>	
Exports	15
Revenue	18
Total Public Debt Benchmark	
<i>PV of total public debt in percent of GDP</i>	38

Source: DSA template.

¹ With remittances being low in Togo, the scenario with remittances will not be considered.

BASELINE ASSUMPTIONS

6. The baseline macroeconomic assumptions for the present DSA are as follows:

a. Real GDP growth is expected to increase from 5.2 percent in 2014-16 to 5.6 percent by 2021. In the long-run, real GDP growth is estimated to settle at 5 percent, slightly above the historical average of 4.5 percent, which was depressed by dislocations caused by protracted social, political, and economic crisis that the country experienced up to the mid-2000s. The main downside risks to growth include capacity constraints in implementation of structural reforms, resistance to reform from interest groups, and further slowdown in Togo's main regional trading partners. Additionally, severe weather conditions and failure to address the energy gap will add to the downside risks.

b. Public investment reached 13 percent of GDP in 2015 and is estimated to have reached 14 percent of GDP in 2016. It is expected to decline in 2017 and 2018 before stabilizing at around 8 percent by 2019-21. Public investment financing is expected to tilt toward external concessional sources, as external financing remains around current levels. Public investment projects are expected to be mostly directed to infrastructure, with increasing portions dedicated to social spending.

**Text Table 3. Togo: Key Macroeconomic Assumptions
(DSA 2017 vs DSA 2015)**

	2014-16	2014-20	2021-35
Real GDP Growth (percent)			
DSA 2017	5.2	5.3	5.2
DSA 2015	5.5	5.6	4.6
Total Revenue (percent of GDP) ¹			
DSA 2017	21.4	25.5	26.0
DSA 2015	20.7	21.7	21.9
Exports of goods and services (percent of GDP)			
DSA 2017	36.8	37.1	41.0
DSA 2015	40.6	43.6	43.5
Sources: Togo authorities; and IMF staff estimate.			
¹ Total revenue, including grants.			

- c. Key commodity price projections (i.e., for oil, phosphates, cotton, cocoa, and coffee) through 2021 are sourced from the WEO prepared in January 2017, and are assumed to remain constant in real terms for the remainder of the forecast period.
- d. Inflation declined to 0.9 percent in 2016 from 1.8 percent in 2015, owing to the fact that domestic oil prices partly followed international oil price movements. Inflation is projected to increase slightly to 1.5 percent in 2017 and remain stable afterwards at 2 percent, below the WAEMU convergence criteria.
- e. Total revenue reached 21.7 percent of GDP in 2016 and is projected to reach 26 percent by 2037, higher than assumed in the previous DSA due to the recent improvement in revenue collection, which is carried through the projection period as well as a higher level of grants.
- f. The domestic primary fiscal deficit is expected to improve to 3.5 percent of GDP in 2017 from 4.5 percent of GDP in 2016. The overall primary balance (cash basis, including grants) is expected to reach 2 percent of GDP by 2019, an improvement of 9.2 percentage points from 2016.
- g. The current account deficit is projected to narrow from 9.8 percent in 2016 to 7.3 percent by 2019, this predicated upon an increase in private sector-led growth which will boost Togo's exports. At the same time, imports would be contained following slowdown in public sector investment and improvements in

agricultural production. The other components of the current account (i.e., services, primary and secondary income) are expected to remain around their current levels.

h. Foreign direct investment (FDI) flows are very volatile in Togo with an alternation of net inflows and outflows. FDI is expected to stabilize around an inflow of about 4.7 percent of GDP per year in the long run. However, given Togo's weak track record in governance, these flows, as well as grants, are subject to significant risks, which may, as a result, alter the debt dynamics assumed in the baseline.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

Baseline

7. Under the baseline scenario, Togo's external debt indicators remain below their indicative policy-relevant thresholds (Table 1a, Figure 1). The present value (PV) of public and publicly guaranteed (PPG) debt is projected at 15.1 percent of GDP in 2016 and will increase to 21.9 by 2037 owing to higher external borrowing. However, aided by an absence of non-concessional financing through 2019, the ratio will remain below the 30 percent threshold under the baseline throughout the projection period, with a moderate increase in evidence over the forecast period. Both ratios of the PV of external debt relative to revenues and to exports remain relatively stable and below their respective indicative thresholds through the end of the projection period. Similarly, debt service measures remain well below thresholds and on a broadly downward trend. Improvements in debt-management practices envisaged in the authorities' ECF-supported program will give further resilience to shocks affected debt service needs (Figure 1).

Alternative Scenarios and Stress Tests

8. Alternative scenarios reveal multiple breaches of relevant thresholds (Figure 1). Under the most extreme shock scenario, the present value (PV) of debt-to-GDP ratio breaches the relevant thresholds, however other debt indicators remain under their relevant thresholds. Under the historical scenario, which sets key macroeconomic parameters to their historical values, the three PV debt ratios breach their relevant policy dependent thresholds while the debt service-to-exports and the debt-service-to-revenue ratios remain broadly below their relevant policy dependent thresholds. This highlights the importance for Togo to improve macroeconomic policies. On the stress tests, the results are the following:

- The most extreme shock that affects the PV of external debt-to-GDP ratio (Figure 1, Table 1b) is a combination shock of low growth and large reduction in non-debt creating flows (FDI and public transfers, both set at historical average minus one standard deviation for 2017 and 18). In this case the ratio will breach the threshold in 2019 and remain above for about a decade before declining below the threshold. This indicator is mostly vulnerable to non-debt creating flows, and highlights the importance of FDI and the need for stability in such flows to maintain a stable profile for Togo's debt;

- The most extreme shock that affects the PV of external debt-to-export ratio (Figure 1, Table 1b) is an export shock. This ratio is also vulnerable to a non-debt creating flow shock and to a combined growth and non-debt creating flow shock;
- Finally, under the most extreme shock, the debt service ratios remain under their policy relevant thresholds.

PUBLIC SECTOR DEBT SUSTAINABILITY

9. The inclusion of Togo's domestic public debt in the analysis emphasizes the vulnerability of the baseline scenario (Table 2a, Figure 2). Togo's domestic debt burden reflects persistently high deficits, recognition as debt of accumulated liabilities from liquidated loss-making SOEs, and weak public financial management, including very limited debt management capacity. Domestic debt is projected to decline to 58.4 percent of GDP in 2017 from a record high of 61 percent of GDP in 2016. By 2037, repayment of arrears coupled with significant fiscal consolidation is expected to significantly reduce domestic debt and total public and publicly guaranteed debt.

Baseline scenario

10. Under the baseline and alternative scenarios, indicators of overall public debt burden (external plus domestic) show significant vulnerabilities. The PV of public debt-to-GDP stands at fully twice the benchmark level of 38 percent in 2016. The authorities' ECF-supported program will lead to a substantial fiscal adjustment due to a combination of spending restraint and strengthened revenue. The overall primary balance will reach 2 percent of GDP by 2019 and, if maintained, will allow Togo's PV of public debt-to-GDP to reach the 38 percent benchmark by 2025, and to decline gradually below thereafter (Figure 2). However, under the historical scenario and the scenario that keeps the primary balance unchanged from 2017, the PV of public debt-to-GDP stays above the benchmark throughout the projection period as the country accumulates more debt to finance larger fiscal deficits.

AUTHORITIES' VIEWS

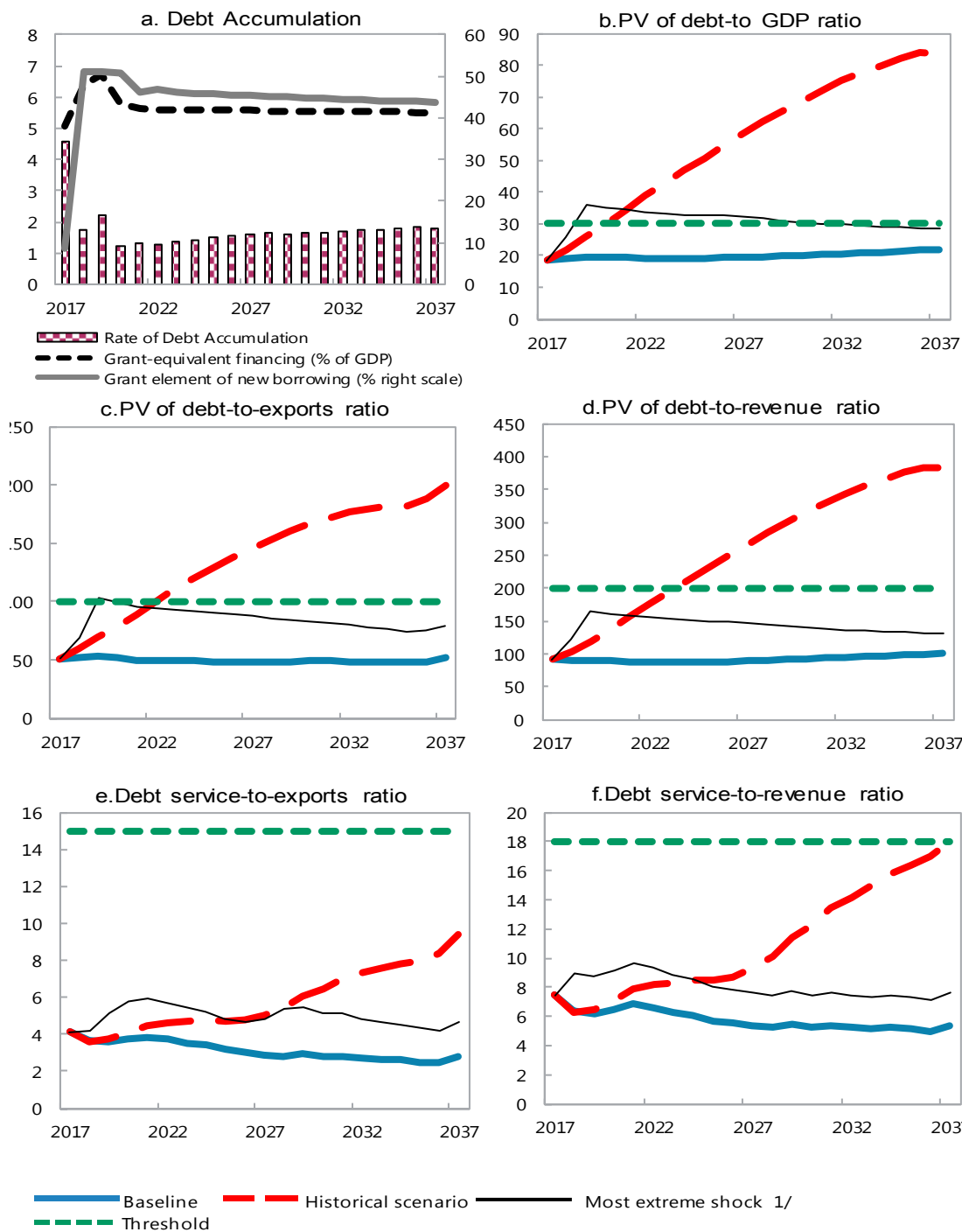
11. The authorities broadly agreed with staff's assessment of Togo's debt situation and recommendations on debt management policy, but preferred a more narrow coverage of public debt. They recognized that Togo's current level of debt poses risks to the country and that the recent pace of debt accumulation is not sustainable. Fiscal measures to place the country's debt on a downward path are a key element of the authorities' ECF-supported program. The authorities' program also aligns with the staff's recommendations on debt management. They intend to make full use of IMF technical assistance and training resources to strengthen their capacity in this area. The authorities, however, would have preferred to exclude public institutions of an industrial or commercial nature from public sector debt, if possible, as they think that this debt does not represent a fiscal risk to the central government. Following Fund policy, the coverage of public debt in the debt sustainability analysis includes all public enterprises that the government controls, such as by owning more than half of the voting shares.

CONCLUSION

12. Togo remains at a moderate risk of external public debt distress but has a heightened risk of overall public debt distress, reflecting vulnerabilities in domestic debt. Togo had the largest debt-to-GDP ratio in WAEMU in 2016, 80.8 percent of GDP (76.2 percent excluding public enterprise debt), composed largely of non-concessional loans. Under the baseline scenario, all external debt sustainability indicators are expected to remain below their indicative thresholds throughout the projection period (2017–37). However, under the historical scenario and several other shock scenarios, several debt indicators breach their respective thresholds. As shown by the deterioration of the debt indicators, Togo’s external debt remains vulnerable to adverse shocks: on exports stemming from low external demand or decline in commodity prices, and on non-debt creating flows. Also, Togo’s overall public debt dynamics present heightened vulnerabilities, with the debt-to-GDP ratio currently standing at twice prudential levels, and remaining above the indicative benchmark through 2024.

13. Togo’s debt burden calls for the authorities’ commitment to improve debt management significantly, supported by solid macroeconomic policies. Debt management should be strengthened through the creation of good information systems capable of feeding a comprehensive borrowing plan. The latter should include well-defined development objectives for investment projects and their financing options so that sound financing decisions can be undertaken. The zero ceiling on external nonconcessional borrowing should help improve the financing mix. Moreover, efforts should be made to strengthen revenue mobilization and to improve the efficiency of public spending, especially capital investment, to identify saving and foster growth.

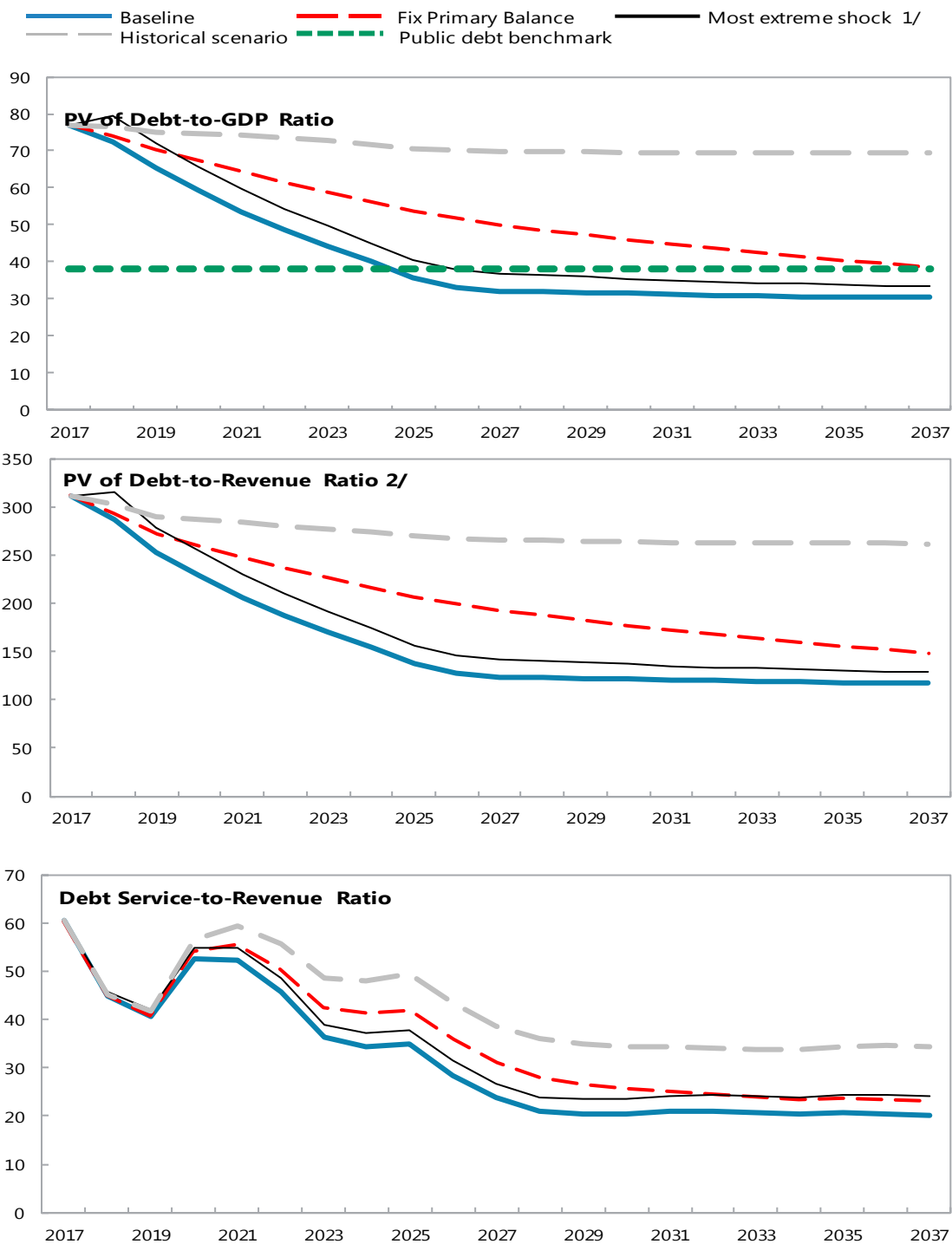
Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Combination shock; in c. to a Exports shock; in d. to a Combination shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Togo: Indicators of Public Debt Under Alternative Scenarios, 2017-2037 1/



Sources: Country authorities; and staff estimates and projections.
 1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
 2/ Revenues are defined inclusive of grants.

Table 1a. Togo: External Debt Sustainability Framework, Baseline Scenario, 2014-2037 1/
(In Percent of GDP, unless otherwise indicated)

	Actual			Historical ^{6/} Standard ^{6/}		Projections						2017-2022		2023-2037	
	2014	2015	2016	Average	Deviation	2017	2018	2019	2020	2021	2022	Average	2027	2037	Average
External debt (nominal) 1/	18.4	23.0	21.5			25.5	27.7	30.4	31.0	31.6	32.0		34.2	37.2	
<i>of which: public and publicly guaranteed (PPG)</i>	17.1	21.1	19.7			22.9	24.8	27.4	27.9	28.4	28.6		30.8	34.4	
Change in external debt	3.2	4.6	-1.5			4.0	2.2	2.8	0.6	0.6	0.3		0.5	0.2	
Identified net debt-creating flows	15.4	11.4	6.2			5.6	4.3	2.8	1.2	-0.2	0.0		-0.2	3.0	
Non-interest current account deficit	9.7	10.8	9.4	8.5	2.3	8.6	7.8	6.8	5.7	4.7	4.9		5.9	9.3	6.0
Deficit in balance of goods and services	17.9	22.1	20.0			18.8	18.0	17.0	15.9	14.8	15.0		16.1	19.2	
Exports	39.4	36.0	35.1			36.4	36.7	37.4	37.8	39.0	38.8		40.3	42.0	
Imports	57.3	58.0	55.1			55.2	54.6	54.4	53.7	53.8	53.8		56.4	61.2	
Net current transfers (negative = inflow)	-6.9	-7.6	-7.0	-8.4	2.1	-6.7	-6.7	-6.7	-6.7	-6.6	-6.6		-6.6	-6.7	-6.6
<i>of which: official</i>	-1.8	-1.8	-1.7			-1.7	-1.7	-1.7	-1.7	-1.7	-1.7		-1.7	-1.7	
Other current account flows (negative = net inflow)	-1.2	-3.7	-3.5			-3.5	-3.5	-3.5	-3.5	-3.5	-3.5		-3.5	-3.3	
Net FDI (negative = inflow)	6.4	-1.7	-2.2	1.4	6.0	-2.4	-2.7	-3.1	-3.4	-3.8	-3.8		-5.0	-5.0	-4.7
Endogenous debt dynamics 2/	-0.7	2.3	-1.1			-0.6	-0.8	-0.9	-1.1	-1.1	-1.1		-1.1	-1.3	
Contribution from nominal interest rate	0.2	0.3	0.3			0.4	0.5	0.5	0.5	0.5	0.5		0.4	0.5	
Contribution from real GDP growth	-0.8	-1.1	-1.1			-1.0	-1.3	-1.4	-1.6	-1.6	-1.6		-1.6	-1.7	
Contribution from price and exchange rate changes	-0.2	3.1	-0.3			...	...	...	...	...	...		...	...
Residual (3-4) 3/	-12.2	-6.8	-7.6			-1.6	-2.1	-0.1	-0.6	0.8	0.4		0.6	-2.9	
<i>of which: exceptional financing</i>	-0.3	-0.4	-1.2			-0.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	16.9			21.1	21.8	22.7	22.5	22.6	22.4		22.9	24.7	
In percent of exports	...	...	48.2			58.1	59.4	60.6	59.6	57.9	57.8		56.8	58.8	
PV of PPG external debt	...	...	15.1			18.5	18.9	19.6	19.4	19.3	19.1		19.5	21.9	
In percent of exports	...	...	43.1			50.9	51.5	52.4	51.2	49.4	49.1		48.3	52.1	
In percent of government revenues	...	...	80.1			91.7	89.9	90.1	88.6	88.1	87.1		89.0	100.0	
Debt service-to-exports ratio (in percent)	2.9	3.1	4.0			4.1	3.6	3.6	3.7	3.8	3.7		2.9	2.8	
PPG debt service-to-exports ratio (in percent)	2.9	3.1	4.0			4.1	3.6	3.6	3.7	3.8	3.7		2.9	2.8	
PPG debt service-to-revenue ratio (in percent)	6.4	5.7	7.4			7.5	6.3	6.2	6.4	6.8	6.6		5.3	5.3	
Total gross financing need (Billions of U.S. dollars)	0.8	0.5	0.4			0.4	0.4	0.3	0.3	0.2	0.3		0.3	1.3	
Non-interest current account deficit that stabilizes debt ratio	6.5	6.2	10.9			4.6	5.6	4.0	5.1	4.1	4.6		5.5	9.1	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.4	5.3	5.0	4.5	1.4	5.0	5.3	5.4	5.6	5.6	5.6	5.4	5.0	5.0	5.1
GDP deflator in US dollar terms (change in percent)	1.2	-14.2	1.4	3.1	10.4	-2.2	1.7	2.0	2.1	1.7	2.0	1.2	2.0	2.0	2.0
Effective interest rate (percent) 5/	1.6	1.6	1.5	1.1	0.7	2.0	2.1	2.0	1.9	1.8	1.7	1.9	1.4	1.3	1.4
Growth of exports of G&S (US dollar terms, in percent)	-9.5	-17.5	3.8	7.3	14.2	6.5	7.9	9.7	8.9	10.7	7.1	8.5	8.6	0.6	7.8
Growth of imports of G&S (US dollar terms, in percent)	-7.8	-8.5	1.0	8.2	15.5	3.0	6.0	7.1	6.4	7.6	7.7	6.3	8.6	7.2	8.1
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	8.7	51.0	51.0	50.9	46.2	46.7	42.4	45.4	43.7	44.9
Government revenues (excluding grants, in percent of GDP)	18.2	19.6	18.9			20.2	21.0	21.8	21.8	21.9	21.9		21.9	21.9	21.9
Aid flows (in Billions of US dollars) 7/	0.4	0.3	0.4			0.3	0.4	0.5	0.4	0.4	0.4		0.6	1.2	
<i>of which: Grants</i>	0.1	0.1	0.1			0.2	0.2	0.2	0.2	0.2	0.3		0.4	0.8	
<i>of which: Concessional loans</i>	0.3	0.2	0.2			0.1	0.2	0.3	0.2	0.2	0.2		0.2	0.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.1	6.4	6.7	5.8	5.6	5.6		5.6	5.5	5.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			49.6	75.2	72.7	78.2	75.8	76.6		76.0	75.2	75.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	4.6	4.2	4.4			4.6	4.9	5.2	5.7	6.1	6.5		9.3	18.4	
Nominal dollar GDP growth	6.7	-9.7	6.5			2.7	7.1	7.5	7.8	7.4	7.7	6.7	7.1	7.1	7.2
PV of PPG external debt (in Billions of US dollars)	...	...	0.6			0.8	0.9	1.0	1.1	1.2	1.2		1.8	4.0	
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			4.6	1.8	2.2	1.2	1.3	1.3	2.1	1.6	1.8	1.6
Gross workers' remittances (Billions of US dollars)	0.2	0.2	0.2			0.2	0.3	0.2	0.3	0.3	0.3		0.4	0.9	
PV of PPG external debt (in percent of GDP + remittances)	...	...	14.3			17.7	18.0	18.7	18.4	18.4	18.1		18.6	20.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	37.2			45.0	45.1	46.5	45.0	44.1	43.4		43.3	46.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	3.4			3.7	3.2	3.2	3.3	3.4	3.3		2.6	2.5	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)] / (1+g+p+gp)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

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

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1a. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037 (continued)
(In Percent)

	Projections							2037	2037
	2017	2018	2019	2020	2021	2022	2027		
PV of debt-to GDP ratio									
Baseline	19	19	20	19	19	19	19	22	
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	19	22	26	30	34	39	59	84	
A2. New public sector loans on less favorable terms in 2017-2037 2	19	20	22	23	23	24	28	36	
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	19	19	21	20	20	20	20	23	
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	19	22	28	28	27	27	26	24	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	19	21	24	23	23	23	23	26	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	19	25	32	31	31	30	29	25	
B5. Combination of B1-B4 using one-half standard deviation shocks	19	26	36	35	34	34	32	29	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	19	27	28	27	27	27	28	31	
PV of debt-to-exports ratio									
Baseline	51	52	52	51	49	49	48	52	
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	51	59	69	79	88	100	145	199	
A2. New public sector loans on less favorable terms in 2017-2037 2	51	55	59	60	60	62	69	85	
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	51	52	52	51	49	49	48	52	
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	51	69	103	100	95	94	88	79	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	51	52	52	51	49	49	48	52	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	51	68	85	82	78	77	71	61	
B5. Combination of B1-B4 using one-half standard deviation shocks	51	71	101	98	93	92	84	72	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	51	52	52	51	49	49	48	52	
PV of debt-to-revenue ratio									
Baseline	92	90	90	89	88	87	89	100	
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	92	103	118	136	157	177	267	382	
A2. New public sector loans on less favorable terms in 2017-2037 2	92	95	102	104	107	110	127	162	
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	92	92	94	93	92	91	93	104	
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	92	104	129	126	124	122	119	111	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	92	99	109	107	106	105	107	120	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	92	119	146	142	140	137	131	116	
B5. Combination of B1-B4 using one-half standard deviation shocks	92	121	165	161	158	155	147	130	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	92	128	128	126	125	123	126	142	

Table 1a. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037 (concluded)
(In Percent)

Debt service-to-exports ratio								
Baseline	4	4	4	4	4	4	3	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	4	4	4	4	4	5	5	9
A2. New public sector loans on less favorable terms in 2017-2037 2/	4	4	3	4	3	3	3	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	4	4	4	4	4	4	3	3
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	4	4	5	6	6	6	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	4	4	4	4	4	4	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	4	4	4	4	5	4	4	4
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	5	5	5	5	4
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	4	4	4	4	4	4	3	3
Debt service-to-revenue ratio								
Baseline	7	6	6	6	7	7	5	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	7	6	6	7	8	8	9	18
A2. New public sector loans on less favorable terms in 2017-2037 2/	7	6	5	6	6	6	6	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	7	6	6	7	7	7	6	6
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	7	6	6	7	8	7	6	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	7	7	7	8	8	8	6	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	7	6	7	8	8	8	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	9	9	9	8	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	7	9	9	9	10	9	8	8
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	42	42	42	42	42	42	42	42

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014 – 2037
(In Percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate												Projections		
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-22 Average	2027	2037	2023-37 Average	
Public sector debt 1/	65.2	75.6	80.8			81.3	78.1	73.0	67.8	62.7	58.3	54.3	50.4	46.5	44.2		43.4	42.9		
<i>of which: foreign-currency denominated</i>	17.1	21.1	19.7			22.9	24.8	27.4	27.9	28.4	28.6	28.9	29.3	29.8	30.3		30.8	34.4		
Change in public sector debt	8.9	10.3	5.2			0.5	-3.2	-5.1	-5.2	-5.2	-4.4	-4.0	-3.9	-3.9	-2.2		-0.8	-0.1		
Identified debt-creating flows	4.8	6.1	5.5			-0.6	-2.9	-5.7	-5.7	-5.2	-4.5	-4.2	-4.3	-4.2	-2.6		-1.1	-0.1		
Primary deficit	5.3	6.5	6.8	4.1	2.2	1.4	-1.0	-3.2	-3.2	-3.1	-2.3	-2.1	-2.1	-2.1	-0.6	-1.9	1.0	2.0	0.9	
Revenue and grants	20.5	21.9	21.7			24.7	25.2	25.9	26.0	26.0	26.0	26.0	26.0	26.0	26.0		26.0	26.0		
<i>of which: grants</i>	2.3	2.3	2.9			4.6	4.2	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1		4.1	4.1		
Primary (noninterest) expenditure	25.8	28.4	28.5			26.1	24.2	22.7	22.8	22.9	23.7	23.9	23.9	23.9	25.4		26.9	28.0		
Automatic debt dynamics	-0.5	-0.4	-1.3			-2.0	-1.8	-2.5	-2.6	-2.1	-2.2	-2.1	-2.2	-2.2	-2.1		-2.1	-2.1		
Contribution from interest rate/growth differential	-2.0	-2.5	-1.9			-1.9	-1.9	-2.5	-2.6	-2.2	-2.2	-2.1	-2.2	-2.2	-2.1		-2.1	-2.1		
<i>of which: contribution from average real interest rate</i>	0.9	0.8	1.6			1.9	2.2	1.5	1.3	1.4	1.1	0.9	0.5	0.3	0.1		0.0	-0.1		
<i>of which: contribution from real GDP growth</i>	-2.9	-3.3	-3.6			-3.8	-4.1	-4.0	-3.9	-3.6	-3.3	-3.0	-2.7	-2.5	-2.2		-2.1	-2.0		
Contribution from real exchange rate depreciation	1.5	2.2	0.6			-0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0		...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0		
Residual, including asset changes	4.1	4.2	-0.3			1.2	-0.3	0.6	0.5	0.0	0.1	0.3	0.4	0.3	0.4		0.3	0.0		
Other Sustainability Indicators																				
PV of public sector debt	...	...	76.1			77.0	72.2	65.2	59.3	53.6	48.7	44.3	40.0	35.7	33.2		32.1	30.4
<i>of which: foreign-currency denominated</i>	...	...	15.1			18.5	18.9	19.6	19.4	19.3	19.1	19.0	19.0	19.1	19.3		19.5	21.9
<i>of which: external</i>	...	...	15.1			18.5	18.9	19.6	19.4	19.3	19.1	19.0	19.0	19.1	19.3		19.5	21.9
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	...		...	...
Gross financing need 2/	20.5	27.5	23.0			16.3	10.3	7.3	10.5	10.5	9.6	7.3	6.8	7.0	6.8		7.1	7.2		
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	350.3			311.0	286.4	252.0	228.6	206.3	187.5	170.6	154.0	137.6	127.8		123.6	117.0
PV of public sector debt-to-revenue ratio (in percent)	...	...	403.7			381.3	343.5	299.5	271.6	245.0	222.7	202.6	182.9	163.4	151.7		146.8	139.0
<i>of which: external 3/</i>	...	...	80.1			91.7	89.9	90.1	88.6	88.1	87.1	86.8	86.8	87.3	88.0		89.0	100.0
Debt service-to-revenue and grants ratio (in percent) 4/	74.2	96.0	74.5			60.3	44.9	40.6	52.5	52.3	45.8	36.2	34.4	34.9	28.5		23.7	20.2		
Debt service-to-revenue ratio (in percent) 4/	83.7	107.4	85.9			74.0	53.8	48.2	62.4	62.1	54.4	43.0	40.9	41.4	33.8		28.1	24.0		
Primary deficit that stabilizes the debt-to-GDP ratio	-3.6	-3.9	1.6			0.9	2.1	1.9	2.0	2.0	2.1	1.9	1.8	1.8	1.7		1.8	2.1		
Key macroeconomic and fiscal assumptions																				
Real GDP growth (in percent)	5.4	5.3	5.0	4.5	1.4	5.0	5.3	5.4	5.6	5.6	5.6	5.5	5.3	5.2	5.0	5.4	5.0	5.0	5.1	
Average nominal interest rate on forex debt (in percent)	1.7	1.7	1.6	1.1	0.7	2.2	2.4	2.3	2.1	2.0	1.9	1.8	1.7	1.7	1.6	2.1	1.6	1.4	1.5	
Average real interest rate on domestic debt (in percent)	2.1	2.0	3.2	-1.0	4.4	3.2	3.8	2.9	2.9	3.7	3.5	3.3	2.6	1.9	1.6	3.4	1.2	1.5	1.9	
Real exchange rate depreciation (in percent, + indicates depreciation)	11.1	13.4	3.2	2.6	7.9	-0.6	...	...	...	...	...	...	...	...	...		...	...
Inflation rate (GDP deflator, in percent)	1.2	2.7	1.7	4.0	4.3	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.3	16.0	5.6	2.8	5.2	-3.8	-2.6	-1.2	6.1	6.0	9.3	6.2	5.4	5.3	11.6	2.3	11.3	5.0	6.3	
Grant element of new external borrowing (in percent)	8.7	51.0	51.0	50.9	46.2	46.7	46.1	45.9	45.7	45.6	42.4	45.4	43.7	...	

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 2b. Togo: Sensitivity Analysis for Key Indicators of Public Debt 2017-2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	77	72	65	59	54	49	32	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	77	76	75	75	74	73	70	70
A2. Primary balance is unchanged from 2017	77	74	70	67	64	62	50	39
A3. Permanently lower GDP growth 1/	77	72	66	60	55	50	35	40
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	77	74	69	64	58	54	39	41
B2. Primary balance is at historical average minus one standard deviations in 2018-201	77	77	77	71	64	59	40	35
B3. Combination of B1-B2 using one half standard deviation shocks	77	78	78	72	66	60	43	42
B4. One-time 30 percent real depreciation in 2018	77	79	71	64	57	52	33	29
B5. 10 percent of GDP increase in other debt-creating flows in 2018	77	79	72	66	60	54	37	33
PV of Debt-to-Revenue Ratio 2/								
Baseline	311	286	252	229	206	187	124	117
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	311	303	290	287	283	280	265	262
A2. Primary balance is unchanged from 2017	311	293	271	259	248	237	193	148
A3. Permanently lower GDP growth 1/	311	287	254	231	210	192	135	152
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	311	293	265	244	223	206	149	157
B2. Primary balance is at historical average minus one standard deviations in 2018-201	311	307	298	272	247	226	154	137
B3. Combination of B1-B2 using one half standard deviation shocks	311	308	299	274	251	231	166	160
B4. One-time 30 percent real depreciation in 2018	311	314	273	246	221	200	126	111
B5. 10 percent of GDP increase in other debt-creating flows in 2018	311	315	278	253	230	209	141	128
Debt Service-to-Revenue Ratio 2/								
Baseline	60	45	41	53	52	46	24	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	60	45	42	57	59	56	39	34
A2. Primary balance is unchanged from 2017	60	45	41	54	55	50	31	23
A3. Permanently lower GDP growth 1/	60	45	41	53	53	47	25	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	60	46	42	55	55	48	27	24
B2. Primary balance is at historical average minus one standard deviations in 2018-201	60	45	41	56	58	52	26	22
B3. Combination of B1-B2 using one half standard deviation shocks	60	45	42	57	59	52	27	24
B4. One-time 30 percent real depreciation in 2018	60	46	43	55	55	49	27	24
B5. 10 percent of GDP increase in other debt-creating flows in 2018	60	45	42	56	56	49	25	21

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

**Statement by Mr. Sembene, Executive Director for
Togo and Mr. N'Sonde, Senior Advisor to the
Executive Director
May 5, 2017**

1. The Togolese authorities appreciate the constructive and candid policy dialogue they held with Fund staff during the 2016 Article IV consultations and negotiations for the three-year arrangement under the Extended Credit Facility (ECF).
2. Following a period of economic expansion driven by strong agricultural production and public investments to reduce significant infrastructure gaps in road networks, port and airport, the economy of Togo has recently been faced with a challenging external environment and rising fiscal imbalances. To address these challenges, the authorities are determined to pursue their efforts aimed at preserving macroeconomic stability and fiscal sustainability, while achieving sustainable and inclusive growth in line with their National Development Plan for 2018-2022. In this connection, they agreed with staff on a strong package of macroeconomic policies and structural reforms, as laid out in their Memorandum of Economic and Financial Policies (MEFP). This policy package embodies the authorities' determination to take necessary steps to bring debt to a more sustainable path, boost the country's growth potential, protect priority spending in social sectors, and tackle vulnerabilities in the financial sector.
3. The authorities stand ready to take additional measures as needed, in consultation with Fund staff, to attain the program objectives. They request Fund support under the Extended Credit facility (ECF) to support their adjustment and reform efforts, and catalyze much needed assistance from identified partners (World Bank, European Union, and African Development Bank).

RECENT ECONOMIC DEVELOPMENTS AND 2016 ARTICLE IV CONSULTATIONS

4. Following years of solid expansion, Togo, like many low-income countries, faces an environment of lower commodity prices and tightening global financing conditions. Inflation remains well contained owing to higher agricultural production, and lower energy and transportation costs. On the fiscal front, while the large public investment projects helped tackle transport infrastructure deficiencies, their financing scheme mostly

based on pre-financing debt contributed to raising public debt significantly over the past years. Current account deficit remained elevated owing to large investment-related imports.

5. Cognizant of the rising vulnerabilities, the Togolese authorities have put a halt to the practice of prefinancing, committed to wind down existing prefinanced investments, and increased transparency in the compilation of public debt statistics. Going forward, they will comply with budget and procurement procedures for all new public investments and establish an adequate framework for public investment, while partnering with the private sector and technical and financial partners in their efforts to enhance infrastructure.
6. Regarding structural reforms, recent government reforms helped improve Togo's ranking in the World Bank's Doing Business Index in recent years, notably in obtaining credit, paying taxes, trading cross borders, and resolving insolvency, even though much more remains to be done in many areas to ensure a favorable business climate. Progress has also been made in improving the timeliness and quality of fiscal data, notably with technical support received from the EU and AFRITAC.
7. The medium-term outlook is predicated on the expected positive impact of recent road infrastructure investments, increased agricultural productivity and pick up in private sector's contribution to the economy, which would gradually fuel economic activity going forward. While the authorities share staff's views on the risks to growth—notably implementation capacity constraints and further slowdown in Togo's regional trading partners—they remain cautiously more optimistic on growth prospects over the medium term on grounds of greater private sector expansion.
8. Against this backdrop, discussions under the 2016 Article IV consultations were centered around ensuring long-term debt and external sustainability; refocusing policies on sustainable and inclusive growth; and resolving the financial sector weaknesses. The authorities' actions will build on the progress achieved in implementing the recommendations under the 2015 consultations and put emphasis on overall fiscal deficit reduction, targeted social spending, and capital spending financed in a more sustainable manner.
9. Looking ahead, the Togolese are committed to: (i) pursuing strong adjustment policies to preserve debt and external sustainability by substantially reducing the overall fiscal deficit through frontloaded effort; (ii) reorienting their strategy for sustainable and inclusive growth through measures that are attentive to sustainable financing while protecting social spending; and (iii) ensuring financial sector stability. These pillars are embodied in the authorities' medium-term strategy which is consistent with their longer-term National Development Plan for 2018-2022.

POLICIES ENVISAGED UNDER ECF-SUPPORTED PROGRAM

10. The ECF-supported program aims to secure long-term fiscal and debt sustainability, foster sustainable and inclusive growth, and improve the health of the financial system.

Ensuring Fiscal and Debt Sustainability

11. Going forward, the authorities will lean on the primary fiscal balance as the main anchor to restore debt sustainability. While implementing fiscal consolidation, they will ensure that social spending is protected. The government is committed to refraining from guaranteeing domestic loans to suppliers or contractors, lowering domestically-financed capital expenditures, streamlining current spending, and creating space to meet social needs. As noted above, existing prefinancing debt will be unwound and substituted by debt with more favorable conditions. The bulk of external financing will be allocated to infrastructure and social projects. Fiscal adjustment will be monitored through appropriate performance criteria and indicative targets agreed with staff in the program context.
12. On the revenue front, the authorities will overhaul the exemption and tax expenditure system with the view to rationalizing it and broadening the tax base. At the same time, they will speed up reforms to enhance revenue administration by implementing the modernization plan prepared by the revenue agency (OTR). On the expenditure side, domestically-financed capital spending will be further reduced. Infrastructure building will also reap the benefits of public-private partnerships (PPPs) after adoption of a legal framework governing such partnerships to contain associated risks. The objectives defined in the National Development Plan for 2018-2022 will help anchor social spending through an indicative target (floor). Social spending and sustainably-financed investment will also be targeted through programs such as the Emergency Program for Community Development and the Support Program for Vulnerable Populations. In addition to strict determination of wage increases, the wage bill will be contained through control of the number of civil servants and special public employees. The authorities will also endeavor to consistently apply the existing fuel price adjustment formula with the aim to streamline subsidies, while preserving subsidies on kerosene which is mostly used by vulnerable groups.
13. It is the authorities' intention to commission an independent audit to verify the stock of domestic arrears, with a view to preparing an arrears clearance plan. Arrears clearance is expected to be conducted through cash payments in 2017 and securitization of residual arrears owed with phased payments afterwards.
14. Ensuring debt sustainability also requires commitment to no new contracting or guaranteeing of nominal external non-concessional debt and to a target on the contracting or guaranteeing of nominal concessional external debt. The authorities will also strive to establish borrowing plans that reduce debt vulnerabilities, prevent excessive buildup of

short-term debt and limit rollover and foreign exchange risks. On the structural front, a single entity will be tasked of all debt management functions, with enhanced capacity and well-trained staff. Annual budgets will be in line with the medium-term debt strategy.

15. Going forward, the authorities stand ready to closely monitor debt dynamics and continue their efforts to improve the quality of debt statistics. They are fully aware of the importance of keeping public debt in check and addressing debt vulnerabilities exposed by the DSA for Togo. However, they question staff's approach to including in the DSA all public enterprises' debts regardless of the degree of central government's exposure to these entities.
16. In order to strengthen fiscal management and institutions, the authorities plan to undertake the following actions: (i) reorganizing the Ministry of Finance by end-December 2017 to establish a new effective debt management entity; strengthen the budget department's capacity in budget preparation, monitoring and medium-term budget frameworks; and create a tax policy unit in charge of defining tax policy; (ii) improving public investment management, including through a mechanism for monitoring contract execution, better medium-term planning and prioritization of projects, alignment with fiscal funding, and increased transparency in public investment spending; (iii) enhance cash management to prevent spending bottlenecks caused by liquidity shortages; (iv) modernize OTR's revenue administration as noted earlier; and (v) simplify the clearance process and strengthen tracking and controls at customs. The Ministry of Finance also plans to improve cash management and establish a Treasury Single Account (TSA). In this regard, it is their intention to close multiple treasury accounts outside the TSA, channel all revenues towards the TSA for budgeted government expenses, and direct all budgetary support to the central bank (BCEAO) account of the central government treasury account.

Strengthening Financial Sector Stability and Development

17. The authorities continue to put a high value on a stable and well-functioning financial sector, including the microfinance sector, which is key to promoting financial inclusion. To this end, they plan to strengthen the enforcement of the regulatory framework, notably by requiring undercapitalized banks to increase their capital, resolving non-compliant banks, and closing microfinance institutions operating without a license.
18. The authorities took necessary steps to launch an independent audit of the two undercapitalized public banks, with the aim of ensuring their effective restructuring. The audit report will be transmitted to the Fund as soon as it becomes available. In parallel, the process of restructuring these banks will be conducted, taking into account Fund staff's recommendations and WAEMU regulations. It is expected that all legal transfers required in the restructuring plan will be completed by end-December 2017.

Promoting Growth-Enhancing Structural Reforms

19. The Togolese authorities will build on recent encouraging progress to promote an attractive business climate. They will develop and publicize a monitorable action plan to improve Doing Business Indicators, increase dialogue with the private sector and civil society, and improve property title registration and the judicial system to use property as collateral in loans to SMEs. They will also seek to promote more private sector competition in the energy, telecommunications and mining sectors.
20. To help enhance well-informed policy decisions, the authorities will continue to improve the timeliness, quality and consistency of national accounts, the quarterly budget execution report and the Central Government Financial Operations report. Strengthening capacity and staffing with the national statistics agency is critical. They continue to count on technical support from the Fund and other partners.

CONCLUSION

21. The Togolese authorities continue to value their policy dialogue with the Fund. In consultation with Fund staff, they have elaborated strong adjustment and reform measures, to which they are strongly committed. To facilitate their implementation, they will count on continued Fund technical assistance to strengthen their implementation capacities. The ECF arrangement is also expected to play a critical role in supporting their reform agenda, while catalyzing other partners' assistance. We would welcome Directors' support for the Togolese authorities' request for a three-year ECF arrangement.