July 2010
IMF Country Report No. 10/216

Togo: Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Waivers of Performance Criteria and Augmentation of Access—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Togo

In the context of the fourth review under the three-year arrangement under the extended credit facility and requests for waivers of performance criteria and augmentation of access, the following documents have been released and are included in this package:

- The staff report for the Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Waivers of Performance Criteria and Augmentation of Access, prepared by a staff team of the IMF, following discussions that ended on April 15, 2010, 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 June 10, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of June 25, 2010 updating information on recent developments.

- A Press Release summarizing the views of the Executive Board as expressed during its June 25, 2010 discussion of the staff report that completed the request and/or review.

- 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*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: http://www.imf.org

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

TOGO

Fourth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Requests for Waivers of Performance Criteria and Augmentation of Access

Prepared by the African Department
(In consultation with other departments)

Approved by Michael Atingi Ego and Thomas Dorsey

June 10, 2010

ECF arrangement:	Togo's three-year ECF arrangement was approved in April 2008, in an amount of special drawing rights (SDR) 66.06 million (90 percent of quota). An augmentation of access of SDR 18.35 million (25 percent of quota) was approved in September 2008. The HIPC decision point was reached in November 2008. Togo could qualify for the HIPC completion point as early as the end of 2010.
Mission team:	Mr. Mills (head), Ms. Ocampos, Mr. David (all AFR), Ms. Gicquel (SPR), and Mr. Sarr (resident representative).
Discussions:	Lomé, March 31–April 15, 2010. The mission met with President Gnassingbé; Prime Minister Houngbo; Minister of Economy and Finance Ayassor; Minister of Cooperation, Development and Regional Planning Bawara; and other senior officials. It also met with parliamentarians, as well as representatives of civil society, labor unions, donors, the private sector, and the media.
Program review:	Program implementation has generally remained on track, despite the impact of the global recession and program slippages. For the first time under the program, the authorities are requesting waivers for nonobservance of two fiscal performance criteria (PC) for end-December and a continuous performance criterion on nonconcessional external debt. They are also requesting an augmentation of access in an amount equivalent to SDR 11 million (15 percent of quota) to help close a residual financing gap for 2010. The authorities are taking substantial corrective actions. Progress on structural benchmarks was generally satisfactory. Staff supports waivers for the missed PCs, as well as the augmentation of access, and recommends completion of the review.

Table of Contents

ABBREVIATIONS

BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* (Central Bank of West African States)
BTCI	*Banque Togolaise Pour Le Commerce Et L'Industrie* (Togolese Trade and Industrial Bank)
BIA-Togo	*Banque Internationale Pour L'Afrique Au Togo* (International Bank for Africa-Togo)
CEB	*Communauté Electrique du Benin*
CEET	*Compagnie Energie Electrique du Togo* (Electric Energy Company of Togo)
CNADI	*Comité Nationale d'Apurement de la Dette Intérieure* (National Committee for the Settlement of the Domestic Debt)
CRT	*Caisse de retraite du Togo* (Pension Fund of Togo)
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
FDI	foreign direct investment
FEZ	Free Economic Zone (*Zone franche*)
GFS	Government Finance Statistics
HIPC	Heavily Indebted Poor Countries
LOI	Letter of Intent
MDRI	Multilateral Debt Relief Initiative
NPL	Nonperforming loan
OTP	*Office Togolais des Phosphates* (Togo's phosphate office)
PC	performance criterion
PIP	*Programme d'Investissement Publique* (Public Investment Program)
PRSP	Poverty Reduction Strategy Paper
SB	structural benchmark
SDR	Special Drawing Rights
SIGFIP	*Système Intégré de Gestion des Finances Publiques* (Integrated Budget Execution and Reporting System)
SNPT	*Société Nouvelle des Phosphates du Togo* (New Phosphate Company of Togo)
SOE	state-owned enterprises
SOTOCO	*Société Togolaise de Coton* (Cotton Company of Togo)
UTB	*Union Togolaise de Banques* (Banks' Union of Togo)
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

Togo's macroeconomic situation remains difficult, despite some modest improvements. Economic growth is expected to be around 3 percent for 2009 and 2010, somewhat higher than 2008. However, the persistent impact of the global recession has kept growth below its estimated potential of 4 percent and has delayed recovery following Togo's protracted domestic crisis. The global recession has also increased balance of payments pressures, with current account deficits of 7–7½ percent of GDP in 2009 and 2010. Inflation has fallen back to around 2 percent, where it is expected to stabilize.

Despite the impact of the global recession, program implementation has generally been satisfactory, although corrective actions are necessary for recent slippages. For the first time under the program, waivers are required—for the PCs for fiscal balance and domestic financing for end-December, as well as the continuous PC for nonconcessional external borrowing. Corrective actions justifying these waivers include an adjustment of the fiscal framework in 2010, cancellation of the external borrowing, tighter monitoring of budget execution and strengthened debt management. Structural reforms under the program are also advancing satisfactorily—bank restructuring is proceeding on schedule; domestic arrears clearance has progressed substantially; and a reform strategy was adopted for the phosphate sector, albeit with a delay.

Given the macroeconomic situation, the 2010 fiscal stance under the program remains countercyclical, giving rise to exceptional financing needs. Domestically financed investment will remain high, which also helps address the legacy of the long domestic crisis, and the overall deficit (excluding grants) will rise to 5.4 percent of GDP (from 4.4 percent in 2009 and 2.3 percent in 2008). Despite increased revenue targets and disciplined spending plans, the authorities face a residual financing gap of around 1 percent of GDP. In addition to obtaining exceptional financing from the World Bank, they have applied for additional exceptional assistance from the European Union and are seeking an augmentation of access under the ECF arrangement of SDR 11 million (15 percent of quota) to close the remainder of the gap.

Staff supports the authorities' requests for waivers, as well as the augmentation, and recommends completion of the fourth review, based on Togo's program performance since 2008 and its policy commitments.

I. Recent Economic Developments and Program Performance

A. Growth below Potential Following Global Recession

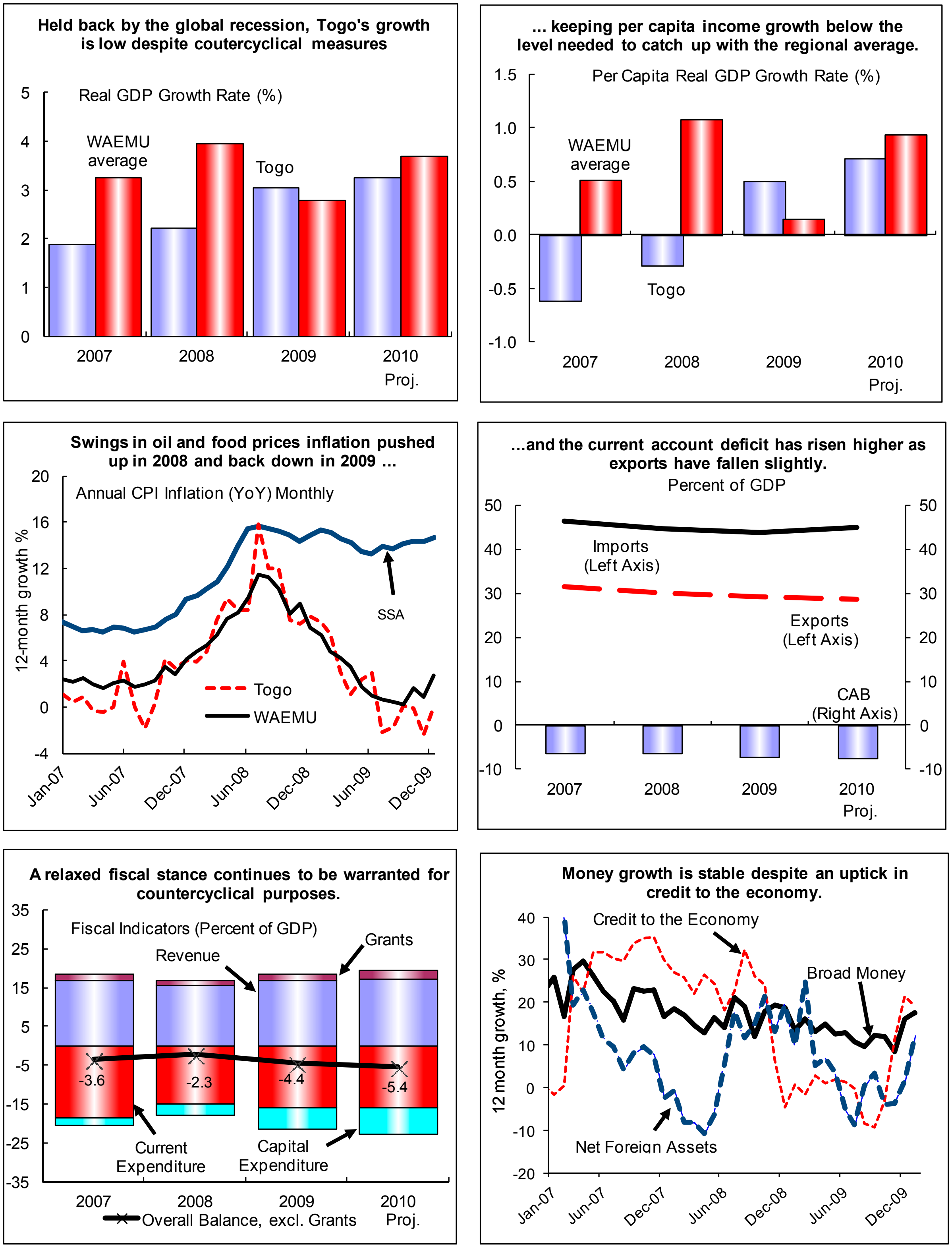
1. **Growth was low in 2009 at 3 percent, as countercyclical fiscal policies only partially offset the persistent effects of the global recession** (Figures 1 and 2). This growth performance fell short of the 4 percent initially envisioned in the program, and the fiscal stance was consequently loosened considerably. While growth rose somewhat in 2009 over 2008 (when flood damage and global price shocks depressed output), the rise was attributable in large part to an abundant food harvest, which resulted from both favorable weather and input subsidies. Togo also made progress in addressing a number of constraints to growth from the legacy of 15 years of domestic social and political crisis, also contributing to the growth in 2009. Public investment reached nearly 6 percent of GDP (Box 1), a 20-year high, and domestic arrears clearance was launched (Box 2). Reforms advanced in fiscal governance, bank restructuring and SOE reform (Text Table 1).

2. **Given the persistent effects of the global recession, Togo is experiencing heightened balance of payments pressures, worsening its protracted problems over the program period**. The global slowdown had a clear if moderate impact on exports and remittances, which fell in 2009 rather than recovering as projected, while FDI also dropped. With weak external conditions and import demand supported by fiscal policy, the current account deficit was high at around 7 percent of GDP in 2009 (Tables 1 & 2; Figures 1 & 2).

B. Economic Policy Broadly on Track despite Slippages

3. **Public finances continued to strengthen in 2009, despite a countercyclical stance and some modest slippages.** With an overall deficit of 4.4 percent of GDP (Table 3), the fiscal stance in 2009 provided some stimulus for social and countercyclical reasons, as well as to address post-crisis needs, particularly for public infrastructure. The slippages in budget execution led to missing the fiscal balance and domestic financing PCs for end-2009 by 0.2 percent and 0.7 percent of GDP, respectively. Overall revenues fell short by 0.2 percent of GDP, as exceptional nontax revenues did not materialize as expected (LOI ¶11). The authorities did not curtail expenditures, as previously planned if revenues fell short, since the shortfall came only in December and flexibility was limited

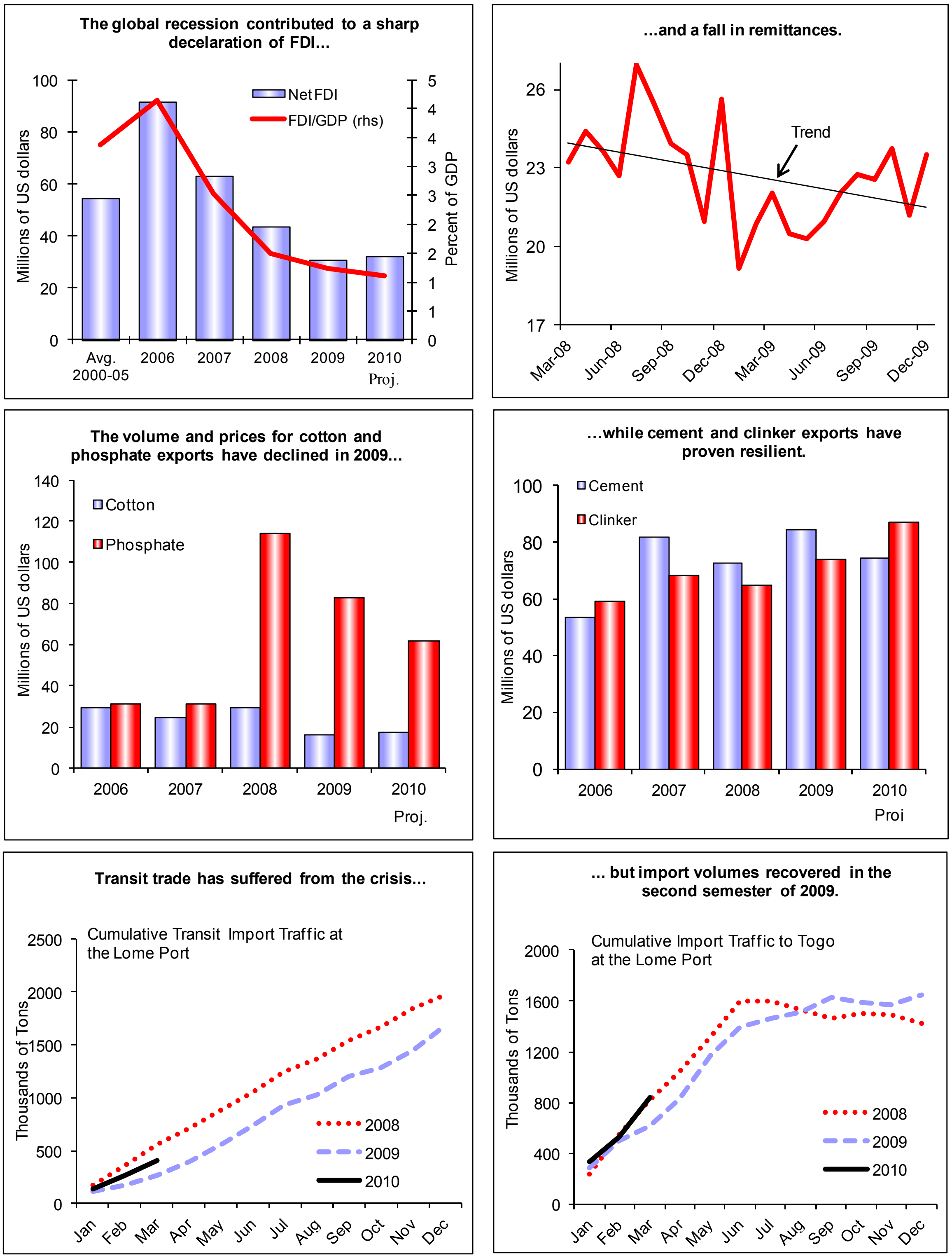
Figure 1. Togo: Recent Macroeconomic Developments [1]



Source: Togolese authorities and fund staff estimates and projections.

[1] Estimated data for 2009 and projected for 2010.

Figure 2. Togo: Moderate Negative Impact of Adverse External Environment



Source: Togolese authorities and IMF staff estimates and projections.

Box 1. Improving Togo's Level of Public Investment

During Togo's long domestic crisis, its level of public investment was very low (Figure 3). Following re-engagement with the donor community, limited administrative capacity has posed a constraint to ambitious investment plans, resulting in low execution rates. The Togolese authorities began to address this problem in 2008, improving project planning and execution, particularly through speeding up the steps in the expenditure chain.

As a result, total public investment increased considerably in 2009 over previous years. The level of both domestic and foreign-financed investment rose significantly, with a sharp improvement notably in the execution rate of the latter (Figure 4 below). Public investment is expected to increase to almost 7 percent of GDP in 2010.

Figure 3. WAEMU and Togo: Capital investment
(Percent of GDP)

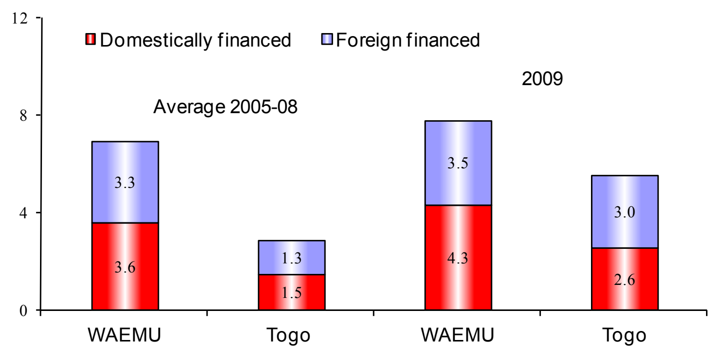
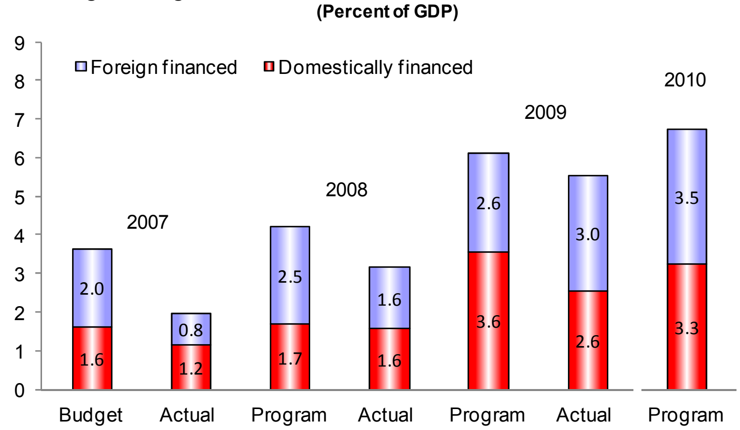


Figure 4.Togo: Public Investment–Planned and Executed, 2007-2010
(Percent of GDP)



Source: Togolese authorities and Fund staff estimates.

by unexpected personnel costs related to social sectors and security for the presidential elections (LOI ¶12). As a result, the fiscal balance exceeded its target, which, in combination with larger clearance of validated domestic arrears (Box 2) and domestic debt servicing,[1] also led to exceeding the domestic financing ceiling. Nevertheless, indicators of debt sustainability did not deteriorate despite the loosened fiscal stance (see DSA).

4. **Monetary developments were favorable, with better than expected growth in deposits and credit to the economy** (Table 4). This improvement was linked to the rehabilitation of the banking sector and the resulting increased confidence in the financial system. The SDR allocation contributed to an increase in gross foreign assets. Nevertheless, CPI inflation dropped sharply to 2 percent in 2009, largely owing to global price trends.

5. **In February 2010, the authorities contracted an external supplier's credit that led to nonobservance of the continuous performance criterion on nonconcessional external debt.** Without knowing the implications of the financing for the program, the authorities contracted \$32 million (1 percent of GDP) in financing over 3½ years to modernize Togo's TV broadcasting system, which they consider to be in urgent need of repair to avoid breaking down. The authorities subsequently recognized that its financing was not consistent with their debt strategy and that it could complicate relations with external creditors, particularly as Togo was seeking significant debt relief.

6. **The authorities have signed an agreement with the supplier to cancel the promissory notes that triggered nonobservance of the external debt PC.** The steps needed to implement this agreement, including the restitution of the promissory notes, will be implemented shortly. They have also begun further strengthening debt management and reporting systems (LOI ¶34). Staff is of the view that the cancellation of the financing (once all the conditions of the agreement are met) is sufficient corrective action to justify the waiver. Moreover, the authorities cancelled the project and will pursue rehabilitation and modernization of the TV broadcasting system in collaboration with development partners.

---

[1] The higher-than-programmed debt service largely reflects weaknesses in the debt tracking system, in particular for domestic debt.

C. Satisfactory Progress on Structural Reforms but Challenges Remain

7. **Structural reforms to strengthen fiscal governance and promote conditions for growth continued to advance satisfactorily.** Concerning the structural benchmarks through the end of March 2010, the authorities launched the preparations for bank privatization on time; kept to the revised timetable for establishing an NPL recovery mechanism; adopted a reform strategy for the phosphate sector, albeit with a delay; and cleared a majority of domestic arrears—a remarkable achievement despite a delay relative to the ambitious end-March SB. (Text Table 1; LOI ¶16-18 and Table 2).

Text Table 1. Togo: Status of Structural Reforms through 2009

Measures	Type	Date	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone (FEZ).	Benchmark	June 2009	Done
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion	June 2009	Done
Financial sector			
Initiate restructuring of BTCI, including raising its capital through issuance of government securities.	Benchmark	March 2009	Done
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark	December 2009	Done
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark	September 2009	Done with a delay

II. Outlook and Policies for 2010

A. Growth Still Modest in spite of Fiscal Measures

8. **In 2010, the lingering effects of the global recession are expected to hold growth to 3.3 percent, even with countercyclical fiscal policies**. Continuing weakness in exports, remittances and FDI is expected to keep growth low and the current account deficit high at 7½ percent of GDP. Inflation will remain stable at around 2 percent.

B. Continued Countercyclical Fiscal Stance for 2010

9. **In this macroeconomic context, a relaxed fiscal stance continues to be warranted in 2010 for social and countercyclical purposes.** The budget includes increased levels of domestically financed public investment and domestic arrears clearance (Text Table 2). With the overall deficit (on a cash basis, i.e., including arrears clearance), excluding grants, rising to 9.1 percent of GDP in 2010 from 5.5 percent in 2009, fiscal policy is supporting economic activity and helping address post-crisis needs. The net impact of the fiscal stance on debt levels is mitigated, however, by the large amounts of external grants and arrears clearance (which substitutes one liability for another)—the overall fiscal deficit including grants (on a payment order basis) is 2.9 percent of GDP and the domestic primary balance near zero.

Text Table 2. Togo: Fiscal Stance
2008 - 2010
(In Percent of GDP)

	2008	2009 (Est.)	2010 (Proj.)
Total revenue	15.6	17.0	17.2
Total expenditure	17.9	21.4	22.6
of which: Domestically financed investment	1.6	2.6	3.3
Domestic primary balance	0.4	-0.4	-0.1
Overall balance, payment order basis (incl.grants)	-0.9	-2.8	-2.9
Overall balance, payment order basis (excl.grants)	-2.3	-4.4	-5.4
Change in arrears	0	-1.1	-3.7
Overall balance, cash basis (excl.grants, incl.change in arrears)	-2.3	-5.5	-9.1

Source: Staff estimates.

10. **With support from partners, the authorities have identified adequate and affordable financing for the rest of the year 2010**. They have reduced the financing gap from the third review by obtaining additional grants from the World Bank and the European Union. The authorities have also offset increased financing pressures from, increased domestic debt service, urgently needed arrears clearance to energy companies (LOI ¶27), and a higher-than-projected wage bill.[2] To do so, the authorities dedicated all of the resources from higher revenue targets (based on the 2009 outturn) to closing the

[2] The revised wage bill for 2010 is higher than projected in the third review, due to the 2009 outturn, but nevertheless reflects a reduction compared to 2009 both in absolute terms and as a percent of GDP.

financing gap,[3] identified savings in lower priority spending to offset fully the larger wage bill (LOI ¶24 and 25), and planned to raise financing in the regional market. To reflect these modifications, the fiscal deficit target for end-June 2010 has been reduced, while the domestic financing ceiling has been relaxed for end-June and end-December.

11. **To complement these efforts, the authorities have asked the IMF and key donors to work together to fill a residual financing gap of 1 percent of GDP**. The proposed augmentation of access under the ECF arrangement of SDR 11 million (15 percent of quota or ½ percent of GDP, Table 5)[4] has contributed to mobilizing exceptional financing. Togo's capacity to repay the Fund remains broadly unchanged, given the modest size of the augmentation and upward revisions to nominal GDP (Table 6). The World Bank has approved additional grants (0.1 percent of GDP) from its crisis facility and the European Union has determined on a preliminary basis that Togo is eligible for its Vulnerability FLEX facility and could provide assurances of additional grants (up to ½ percent of GDP) in the event EU members approve this assistance to Togo.

C. Pushing Structural Reforms to Fruition

12. **Measures to restore sound public finances and enhance fiscal governance are advancing satisfactorily (Text Table 3; Appendix 1, Table 3).** The domestic arrears clearance process needs to be completed for enterprises to benefit fully (Box 2). Following through on its action plan to improve public financial management, the government will reduce the number of its accounts by at least 30 percent (SB end-June 2010) and strengthen cash flow management and monitoring of budget execution, with technical support from staff (LOI ¶16 & 34). Furthermore, the authorities are enhancing the efficiency of budget execution, especially investment projects, by improving financial controls and eliminating redundant steps in the spending chain (SB June 2010) (LOI ¶16).

---

[3] Total revenue collection is improving gradually as a percent of GDP. Tax revenue targets for 2010 are slightly lower than 2009 outturns relative to GDP, since marginal tax rates are being reduced for the second year in a row as part of a medium-term plan to broaden the base. Non tax revenue collection is expected to improve in 2010 (LOI ¶25).

[4] This augmentation would bring total access under the arrangement to 130 percent of quota, slightly above the norm. It would be disbursed in two equal tranches following the fourth and fifth reviews.

Text Table 3. Togo: Structural Benchmarks for 2010

Measures	Type	Date	Status
Fiscal governance			
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers.	Benchmark	March 2010	Not met, but progress has been satisfactory [1]
Move towards a single treasury account by surveying treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	Benchmark	June 2010	Underway
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points.	Benchmark	June 2010	Underway
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark	September 2010	Underway
Set up the nonperforming loan management mechanism or structure and its operational support.	Benchmark	December 2010	Underway[2]
Complete a financial and organizational audit of the CRT and begin an actuarial study of the institution.	Benchmark	December 2010	Underway
Real Sector			
Recruit consultants to elaborate a report on the required steps to create a one-stop window at the Port Autonome de Lomé.	Benchmark	September 2010	Underway
Approve at the Council of Ministers a new adjustment mechanism for petroleum product prices.	Benchmark	November 2010	Underway

[1] The original strategy was revised, with an extended timetable, to incorporate the shift from clearance by securitization to payment in cash using the BCEAO credit line and the operation for cancelling cross debts involving unpaid taxes and NPLs assumed by the government as part of the bank restructuring (Box 2).

[2] The timetable for the set up of the structure/mechanism for managing NPLs was extended due to the complexity of the process and complications in the procurement process for technical advisors.

Box 2. Domestic Arrears Clearance Strategy Well Advanced

During its protracted domestic crisis (early 1990s to 2005), the government in Togo accumulated significant domestic payment arrears. Validated arrears to private suppliers amounted to US$127 million (4.6 percent of GDP) through December 2006, according to the accounting firm KPMG. Arrears to public sector suppliers were an additional 1.4 percent of GDP. This scale of arrears affected the intermediation capacity and liquidity conditions in the financial sector.

The process has advanced quickly since August 2009. With exceptional financing from the BCEAO, linked to the SDR allocation intended to counter the impact of the global recession, all claims by private suppliers can be paid in cash, which could boost private sector activity directly. At the end of December, the authorities were ahead of the program's schedule for clearance, since they had begun clearing some medium-size claims early (while welcome, this acceleration contributed to exceeding the program's domestic financing ceiling). At the end of March, about 1,600 creditors had been paid a total of $41 million (Text Table 4). Only a third of the potential small claimants have requested payment, perhaps in part because some claimants were not aware of the process, especially in rural areas. Of 470 medium and large creditors, almost half have been paid, including 21 of the largest 25 creditors. Completion has been delayed by negotiations with some firms regarding the cancelation of cross debts (unpaid taxes and NPLs now assumed by the government) and the discount applied to the value of arrears payment. Although the authorities did not meet their ambitious structural benchmark of completing the process by the end of March, they have achieved substantial progress in a complex process involving a large number of parties.

The clearance operation should be completed by June and will cost an estimated additional $43 million (LOI ¶16)**.** The exceptional financing from the BCEAO should be sufficient.

Text Table 4. Arrears Clearance to Private Suppliers: Paid and Pending Estimates as of March 2010
(In US$ million)

Type of Supplier	Total Estimated Cost		Paid as of March 2010		Pending	
	Number	Amount after discount	Number	Amount after discount	Number	Amount due after discount
Small (≤ $30.000)	4,342	12	1,342	6	3,000	6
Medium and large	468	72	248	35	220	37
Of which: 25 largest (≥ US$300,000)	*25*	*14*	*21*	*12*	*4*	*2*
Total	4,810	85	1,590	41	3,220	43

Source: Togolese authorities and Fund staff estimates.

13. **The authorities have strengthened their economic program through planning measures to alleviate fiscal risks and improve the efficiency of international trade.** After paying off some liabilities (0.8 percent of GDP) to oil distribution companies that stemmed from price controls in 2007–08, the government aims to adopt a new automatic price adjustment mechanism for petroleum products, with a formula for smoothing volatility (enhanced SB October 2010; LOI ¶33). This mechanism is intended to limit fiscal risks, facilitate adjustment to international prices, and maintain incentives for distributors. In addition, the authorities will establish a "one-stop window" for trade at the port of Lomé, starting with the design of a roadmap with help from consultants financed by the World Bank (SB September 2010; LOI ¶32). This measure promises to facilitate international trade procedures and improve revenue mobilization.

14. **The restructuring of the financial sector is advancing on schedule** (LOI ¶17). Preparations are on track for the final call for bids for privatization of four banks by September 2010 (SB). The authorities need to renew the legal framework for privatization, which should be accompanied by efforts to build broad political and public support. Regarding a mechanism for NPL recovery, a final feasibility study is expected in June, and a mechanism should be in place according to the revised schedule (SB December 2010; LOI ¶31). In May 2010, an MCM technical assistance mission also advised the authorities on the NPL recovery mechanism.

15. **Reforms of key SOEs are also moving forward, with the twin goals of reducing fiscal risks and promoting growth.** The strategy for the phosphate sector involves an ambitious investment plan; staff encouraged vigilance over any fiscal risks and consideration of a private sector role as early as reasonably possible. Reforms are also underway in the electricity, telecommunications and agricultural sectors (LOI ¶19, 20, 27 & 32). Given the growth potential of the telecommunications sector and its vital logistical role, staff stressed the importance of the strengthening the sectoral strategy.

D. Program Risks Merit Enhanced Monitoring

16. **To monitor implementation of the ECF-supported program through end-2010, the authorities have established revised quantitative and structural indicators** (Appendix I, Tables 1 and 3). Recent program slippages have highlighted the implementation risks, related in large part to capacity constraints. To help enhance monitoring, the authorities have fixed targets for the end of the third quarter. The peaceful presidential elections in March 2010 lessened political risks, and local elections are planned for late 2010/early 2011.

17. **Concerning the safeguards of the BCEAO, the latest assessment was completed on March 1, 2010 and found that the BCEAO continues to have controls**

in place at the operational level. The overall governance framework should nonetheless be strengthened by the addition of an audit committee to ensure that the Board of Directors exercises appropriate oversight over the control structure, including the audit mechanisms and financial statements. The upcoming implementation (2010) of the Institutional Reform of the WAMU and the BCEAO should help correct that situation.

E. Good Progress toward HIPC Completion Point

18. **Togo is still on track to qualify for the HIPC completion point as early as the end of 2010**. The low-income country debt sustainability analysis (LIC DSA, Appendix II) shows that Togo is currently in debt distress. However, the authorities are on track to complete the measures required to fulfill the conditions for the HIPC completion point triggers as early as late 2010 (Table 7, LOI ¶35). With HIPC/MDRI debt relief, indicators for external and public debt sustainability will improve significantly in the near-term and thereafter stabilize based on a policy mix of a medium-term fiscal anchor of a primary budget balance of at least zero; a high degree of concessionality of external financing (at least 35 percent); and sustained growth of about 4 percent annually, supported by ongoing structural reforms.

III. Staff Appraisal

19. **The program has generally continued to meet its goals, although there were deviations from program targets for the first time.** The corrective actions underway are sufficient to compensate for deviations. The relatively tighter fiscal balance in 2010, compared to the last review, offsets the financing impact of missing the fiscal targets in 2009; even though the domestic primary deficit is consequently reduced, the fiscal stance in 2010 continues to be countercyclical, with an increased overall deficit (excluding grants). Budget execution is also being monitored more closely. The impact of the nonconcessional external borrowing contracted in February 2010 is also being reversed by canceling the financing, while debt management and monitoring are also being strengthened. As a result, public finances and debt sustainability continue to strengthen, while reforms of fiscal governance, the banking sector and SOEs are progressing as envisioned under the program.

20. **In light of the difficult macroeconomic conditions, a countercyclical fiscal policy stance remains warranted in 2010.** Increased investment spending and domestic arrears clearance in cash will support economic activity pending a full recovery in the external environment, while also helping address the legacy of the long domestic crisis. The authorities have redoubled efforts to mobilize resources, including domestic revenue. For the residual financing gap, they have also appealed to key partners for additional exceptional financing, including from the European Union and the World Bank, in addition to the request for a modest ECF augmentation. To support the request, they have

strengthened fiscal and structural components of the program, notably for petroleum product pricing and the "one-stop window" for trade and customs procedures.

21. **Togo's main economic challenges are continuing to strengthen public finances and completing structural reforms to enhance growth potential.** A return to the disciplined implementation seen earlier in the program is important for 2010, especially given the difficult financing situation and exceptional support from partners. Strong program implementation is also key to reaching the HIPC completion point by the end of the year, as hoped. Moreover, structural reforms underway need to reach completion to realize the bulk of their benefits. Finally, sustainable fiscal policy will require a gradual consolidation starting in 2011, as global conditions improve further.

22. **In light of the authorities' track record over the program period and their policy commitments, staff supports their requests for waivers, as justified by corrective actions, as well as the modest augmentation, and recommends completion of the fourth review.**

Table 1. Togo: Selected Economic and Financial Indicators, 2008–11 [1]

	2008	2009		2010		2011
		3rd. Rev.	Est.	3rd. Rev.	Proj.	Proj.
	(Percentage growth, unless otherwise indicated)					
National income, prices, and exchange rates						
Real GDP	2.2	2.5	3.1	2.6	3.3	3.5
Real GDP per capita	-0.3	-0.1	0.5	0.0	0.7	1.0
GDP deflator [2]	14.8	1.3	1.7	2.6	1.8	2.0
Consumer price index (annual average)	8.7	3.1	2.0	2.0	2.1	2.1
GDP (CFAF billions) [2]	1,415	1,348	1,483	1,418	1,558	1,646
Exchange rate CFAF/US$ (annual average)	445.8	…	470.7	…	…	…
Real effective exchange rate (annual average)	7.3	…	1.2	…	…	…
Terms of trade (deterioration = –)	12.5	-7.9	1.0	-2.5	1.3	-3.6
Monetary survey						
Net foreign assets [3]	8.0	8.6	8.4	0.5	3.9	7.4
Credit to government [3]	15.5	-0.1	6.3	5.6	5.3	1.6
Credit to the nongovernment sector [3]	-2.5	0.5	9.6	3.2	3.3	4.7
Broad money (M2)	16.3	13.1	15.9	8.6	8.6	8.9
Velocity (GDP/ end-of-period M2)	2.6	2.2	2.4	2.1	2.3	2.2
	(Percent of GDP, unless otherwise indicated)					
Investment and savings						
Gross domestic investment	13.3	20.8	15.1	20.1	16.8	18.6
Government	3.2	6.8	5.6	7.1	6.8	7.6
Nongovernment	10.1	14.0	9.5	13.0	10.0	11.0
Gross national savings	6.9	13.8	8.0	12.9	9.2	11.9
Government	2.3	4.4	2.7	3.1	3.8	5.5
Nongovernment	4.6	9.4	5.3	9.7	5.3	6.4
Government budget						
Total revenue and grants	17.0	21.2	18.6	20.3	19.6	22.1
Revenue	15.6	19.0	17.0	17.6	17.2	17.8
Total expenditure and net lending	17.9	23.6	21.4	24.2	22.6	24.2
Domestic primary expenditure	15.2	19.3	17.5	18.9	17.3	17.5
Overall balance (payment order basis)	-0.9	-2.4	-2.8	-4.0	-2.9	-2.1
Primary balance [4]	0.4	-0.3	-0.4	-1.4	-0.1	0.3
Change in domestic arrears	0.0	-1.0	-1.1	-2.3	-3.7	-0.8
External sector						
Current account balance	-6.4	-7.0	-7.0	-7.2	-7.6	-6.7
Exports (goods and services)	30.2	27.5	29.1	27.0	28.7	29.5
Imports (goods and services)	44.6	45.2	43.7	45.4	45.0	46.6
External public debt [5]	61.0	60.8	52.1	7.8	14.3	15.7
External public debt service (percent of exports) [5]	4.8	3.8	3.5	3.6	3.6	1.4

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

[2] The GDP deflator for 2008 has been revised upward causing a significant increase in nominal GDP compared to 3rd review estimates. This revision has implications for the GDP ratios and should be taken into account when comparisons are made between 3rd review and current estimates.

[3] Change as a percentage of broad money at the beginning of the period. Impact of SDR allocation in 2009 is included.

[4] Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

[5] Includes state owned enterprises debt.

Note: "…" = not available

Table 2. Togo: Balance of Payments, 2008–11 [1]

	2008	2009	2010	2011
		Prel.	Proj.	Proj.
	(Billions of CFA francs)			
Current account balance	-90.3	-104.4	-118.1	-110.1
Trade balance	-165.9	-176.0	-215.4	-235.3
Exports	524.4	520.3	549.7	596.7
Of which: Cotton	13.3	7.9	8.4	8.8
Phosphates	51.0	40.3	29.4	35.7
Cement & clinker	61.6	83.8	84.7	89.5
Transit and Reexport	220.1	211.3	226.9	236.0
Imports, f.o.b.	-690.3	-696.3	-765.0	-832.0
Domestic imports	-470.2	-484.9	-538.2	-596.0
Of which: Petroleum products	92.4	77.6	95.6	105.2
Imports for transit and reexport	-220.1	-211.3	-226.9	-236.0
Services (net)	-38.1	-40.3	-38.6	-46.1
Income (net)	-22.0	-23.5	-14.9	-16.5
Current transfers (net)	135.7	135.4	150.8	187.8
Capital and financial account	55.2	51.3	63.1	73.9
Direct investment	17.8	14.8	15.6	16.5
Portfolio investment, incl. bond	-8.2	0.0	7.5	0.0
Other investment	45.6	36.5	40.0	57.4
Banks, net foreign assets [2]	-11.9	-28.8	-2.5	-2.6
Other capital	71.7	58.8	29.1	32.7
Errors and omissions	6.6	5.8	0.0	0.0
Overall balance	-28.5	-47.3	-55.0	-36.3
Financing	28.5	47.3	55.0	36.3
Central bank net foreign assets [2]	-25.4	-16.3	-21.6	-47.7
Of which: Past use of Fund resources	-0.8	0.0	0.0	0.0
Arrears, net change	-1.4	0.9	0.0	0.0
Flow rescheduling	22.9	21.6	23.4	44.3
Clearance of debt/arrears	420.5	4.7	346.4	0.0
Debt/arrears cancellation	-229.7	-4.7	-346.2	0.0
Debt and arrears rescheduling	-190.8	0.0	-0.2	0.0
Unidentified financing	0.0	0.0	14.8	33.0
Memorandum items:	(Percent of GDP, unless otherwise indicated)			
Current account balance	-6.4	-7.0	-7.6	-6.7
Trade balance	-11.7	-11.9	-13.8	-14.3
Exports of goods and services	30.2	29.1	28.7	29.5
Imports of goods and services	44.6	43.7	45.0	46.6
Gross International Reserves (imputed in billions of USD)	0.6	0.7	0.6	0.7
Gross International Reserves (as a percentage of M2)	51.4	51.1	44.1	46.9
Gross International Reserves of the WAEMU (in billions of USD)	10.7	13.6	…	…
Gross International Reserves of the WAEMU (as a percentage of M2)	55.0	58.7	…	…
Gross International Reserves of the WAEMU (months of imports)	6.1	6.9	…	…

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

[2] Negative sign indicates increase. Includes SDR allocation in 2009.

Note: "…" = not available

Table 3. Togo: Central Government Financial Operations, 2008–11 [1]

	2008	2009		2010		2011
	Actual	3rd Rev.	Est.	3rd. Rev.	Proj.	Proj.
	(In billions of CFA Francs)					
Revenue and grants	241.0	285.7	275.2	287.4	305.8	363.7
Total revenue	220.7	255.8	252.4	249.1	267.6	292.9
Tax revenue	211.2	220.4	229.0	224.5	234.8	257.1
Tax administration (DGI)	91.2	99.0	105.7	101.3	105.8	115.8
Customs administration (DGD)	120.0	121.4	123.3	123.1	129.0	141.3
Nontax revenue	9.4	35.3	23.4	24.6	32.8	35.9
Grants (projects)	20.3	29.9	22.8	38.3	38.3	70.8
Expenditures and net lending	253.3	317.5	317.3	343.4	351.4	398.8
Of which: Dom. primary expenditures	214.8	259.6	259.1	268.4	269.3	288.3
Current expenditures	208.2	226.4	235.0	242.8	246.1	273.7
Domestic primary current spending [2]	192.5	206.4	221.1	217.4	218.3	242.2
Wages and salaries	69.1	82.2	94.2	85.9	91.8	102.5
Goods and services	58.6	55.2	64.5	67.6	64.0	69.1
Transfers and subsidies	49.1	47.2	51.5	63.8	62.6	67.6
Other/unclassified	3.7	21.8	7.6	0.0	0.0	0.0
Foreign-financed current spending	4.8	7.5	0.0	11.1	11.1	16.5
Interest	10.9	12.5	13.9	14.2	16.7	15.1
Domestic debt	4.6	7.6	9.1	9.6	10.5	10.7
External debt	6.3	4.9	4.8	4.7	6.2	4.4
Public investment	44.9	91.1	82.3	100.6	105.2	125.1
Domestically financed	22.3	53.2	37.9	51.0	51.0	46.1
Foreign financed	22.6	37.9	44.4	49.6	54.2	79.0
Current balance	12.5	29.3	17.4	6.4	21.4	19.2
Domestic primary balance	5.8	-3.8	-6.7	-19.3	-1.8	4.7
Overall balance, payment order basis (incl. grants)	-12.3	-31.8	-42.1	-56.0	-45.6	-35.1
Excluding grants	-32.6	-61.8	-64.9	-94.2	-83.8	-105.9
Change in arrears [3]	0.3	-12.9	-16.8	-33.1	-58.1	-13.2
Change in unpaid treasury payments orders	0.0	0.0	0.0	-33.1	-29.4	-13.2
Other domestic arrears	0.0	0.0	0.0	0.0	-28.6	0.0
Overall balance, cash basis (incl.grants; incl.change in arrears)	-12.0	-44.7	-58.9	-89.0	-103.6	-48.3
Excluding Grants	-32.3	-74.7	-81.7	-127.3	-141.9	-119.0
Financing	-20.3	3.1	16.8	36.8	50.5	8.6
Domestic financing (net)	-12.6	3.8	14.0	31.4	40.8	-13.9
Banking system	45.8	11.1	14.7	26.6	35.4	10.5
Of which: central bank (excluding IMF)	-29.1	14.1	28.2	29.6	26.9	-2.5
Of which: commercial banks	75.8	-3.0	-13.6	-3.0	8.5	13.0
Nonbank financing	-58.3	-7.3	-0.7	4.8	5.3	-24.4
of which: Bond issuance [4]	-8.2	0.0	0.0	24.5	5.3	-24.4
Subscription	0.0	0.0	0.0	28.7	38.8	14.5
Amortization (incl. bank reestructuring)	-8.2	-8.3	-12.7	-23.9	-33.5	-38.8
External financing (net)	-7.8	-0.7	2.8	5.5	9.8	22.5
Drawings	7.1	15.5	21.6	22.5	27.1	24.7
Amortization	-24.7	-16.2	-18.1	-16.5	-16.9	-2.2
Exceptional financing	32.3	41.7	41.0	28.7	38.3	6.7
ECF credit	21.7	18.8	19.4	12.4	13.2	6.7
Other identified financing	10.5	22.8	21.6	16.3	25.1	0.0
Residual/unidentified financing (+ = financing needs)	0.0	0.0	0.0	23.5	14.8	33.0

(cont.)

Table 3. Togo: Central Government Financial Operations, 2008–11 (concluded)

	2008	2009		2010		2011
	Actual	3rd. Rev.	Est.	3rd. Rev.	Proj.	Proj.
	(Percent of GDP)					
Revenue and grants	17.0	21.2	18.6	20.3	19.6	22.1
Total revenue	15.6	19.0	17.0	17.6	17.2	17.8
Tax revenue	14.9	16.4	15.4	15.8	15.1	15.6
Nontax revenue	0.7	2.6	1.6	1.7	2.1	2.2
Grants	1.4	2.2	1.5	2.7	2.5	4.3
Expenditures and net lending	17.9	23.6	21.4	24.2	22.6	24.2
Of which: Dom. primary expenditures	15.2	19.3	17.5	18.9	17.3	17.5
Current expenditures	14.7	16.8	15.8	17.1	15.8	16.6
Domestic primary current spending [2]	13.6	15.3	14.9	15.3	14.0	14.7
Wages and salaries	4.9	6.1	6.4	6.1	5.9	6.2
Goods and services	4.1	4.1	4.3	4.8	4.1	4.2
Transfers and subsidies	3.5	3.5	3.5	4.5	4.0	4.1
Other/unclassified	0.3	1.6	0.5	0.0	0.0	0.0
Foreign-financed current spending	0.3	0.6	0.0	0.8	0.7	1.0
Interest	0.8	0.9	0.9	1.0	1.1	0.9
Public investment	3.2	6.8	5.6	7.1	6.8	7.6
Domestically financed	1.6	3.9	2.6	3.6	3.3	2.8
Foreign financed	1.6	2.8	3.0	3.5	3.5	4.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Current balance	0.9	2.2	1.2	0.4	1.4	1.2
Domestic primary balance	0.4	-0.3	-0.4	-1.4	-0.1	0.3
Overall balance, payment order basis (incl. grants)	-0.9	-2.4	-2.8	-3.9	-2.9	-2.1
Excluding grants	-2.3	-4.6	-4.4	-6.6	-5.4	-6.4
Change in arrears [3]	0.0	-1.0	-1.1	-2.3	-3.7	-0.8
Change in unpaid treasury payments orders	0.0	0.0	0.0	-2.3	-1.9	-0.8
Other domestic arrears	0.0	0.0	0.0	0.0	-1.8	0.0
Overall balance, cash basis (incl.grants; incl.change in arrears)	-0.8	-3.3	-4.0	-6.3	-6.7	-2.9
Excluding Grants	-2.3	-5.5	-5.5	-9.0	-9.1	-7.2
Financing	-1.4	0.2	1.1	2.6	3.2	0.5
Domestic financing (net)	-0.9	0.3	0.9	2.2	2.6	-0.8
Banking system	3.2	0.8	1.0	1.9	2.3	0.6
Of which: central bank	-2.1	1.0	1.9	2.1	1.7	-0.2
Of which: commercial banks	5.4	-0.2	-0.9	-0.2	0.5	0.8
Nonbank financing	-4.1	-0.5	0.0	0.3	0.3	-1.5
External financing (net)	-0.6	-0.1	0.2	0.4	0.6	1.4
of which: Drawings	0.5	1.1	1.5	1.6	1.7	1.5
Exceptional financing	2.3	3.1	2.8	2.0	2.5	0.4
Residual/unidentified financing (+ = financing needs)	0.0	0.0	0.0	1.7	1.0	2.0
Nominal GDP (CFAF billions)	1,415	1,348	1,483	1,418	1,558	1,646

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

[2] In 2009, expenditures include social and investment spending committed in January 2009 under the 2008 supplementary budget.

[3] Includes the BCEAO credit for domestic arrears clearance. In 2010 domestic arrears include arrears of non central government administration to electricity company; this operation could be registered as transfer.

[4] Bonds placed in domestic and regional markets.

Table 4. Togo: Monetary Survey, 2008–11

	2008	2009	2010	2011
	Actual	Prel.	Proj.	Proj.
	(Billions of CFA francs)			
Net foreign assets	249.5	294.6	318.7	369.0
BCEAO	195.6	211.9	233.5	281.2
Assets	276.3	318.2	298.1	345.8
Liabilities	80.7	106.3	64.6	64.6
Commercial banks	53.9	82.7	85.2	87.7
Assets	113.2	138.2	142.3	146.6
Liabilities	59.3	55.5	57.1	58.8
Net domestic assets	288.2	328.4	358.0	367.5
Credit to the government (net)	85.7	119.4	152.4	162.9
BCEAO	-15.5	32.2	45.8	43.3
Commercial banks	101.2	87.2	106.7	119.7
Credit to the rest of the economy	242.9	294.7	315.3	346.9
Other items (net)	-40.5	-85.7	-109.8	-142.3
Money supply (M2)	537.7	623.0	676.6	736.8
Currency in circulation	129.2	140.3	149.4	157.6
Bank deposits	408.5	482.8	527.3	578.8
	(Annual change, percent of beginning-of-period broad money)			
Net foreign assets	8.0	8.4	3.9	7.4
BCEAO	5.5	3.0	3.5	7.1
Commercial banks	2.5	5.4	0.4	0.4
Net domestic assets	8.2	7.5	4.8	1.4
Credit to the government (net)	15.5	6.3	5.3	1.6
Credit to the rest of the economy	-2.5	9.6	3.3	4.7
Other items (net)	-4.8	-8.4	-3.9	-4.8
Money supply (M2)	16.3	15.9	8.6	8.9
Currency in circulation	1.6	2.1	1.5	1.3
Bank deposits	14.7	13.8	7.1	7.6
Memorandum items				
Velocity (GDP/ end-of-period M2)	2.6	2.4	2.3	2.2

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

Table 5. Togo: Actual and Proposed Schedule of Disbursement Under ECF Arrangement, 2008–11 [1]

Amount				Date	Condition for Disbursement [2]
	Total	Original program	Augmentation		
SDR	13,260,000	13,260,000		April 30, 2008	Executive Board approval of the three-year arrangement under the ECF arrangement (April 23, 2008)
SDR	17,975,000	8,800,000	9,175,000	September 22, 2008	Observance of performance criteria for end-June 2008 and other relevant performance criteria, and completion of the first review under the ECF arrangement
SDR	17,975,000	8,800,000	9,175,000	April 30, 2009	Observance of performance criteria for end-December 2008 and other relevant performance criteria, and completion of the second review under the ECF arrangement
SDR	8,800,000	8,800,000		November 11, 2009	Observance of performance criteria for end-June 2009 and other relevant performance criteria, and completion of the third review under the ECF arrangement
SDR	14,300,000	8,800,000	5,500,000	June 30, 2010	Observance of performance criteria for end-December 2009 and other relevant performance criteria, and completion of the fourth review under the ECF arrangement
SDR	14,300,000	8,800,000	5,500,000	October 31, 2010	Observance of performance criteria for end-June 2010 and other relevant performance criteria, and completion of the fifth review under the ECF arrangement
SDR	8,800,000	8,800,000		April 30, 2011	Observance of performance criteria for end-December 2010 and other relevant performance criteria, and completion of the sixth review under the ECF arrangement

[1] Projected disbursements assume the proposed ECF augmentation of 15 percent of quota (SDR 11 million).

[2] Other than the generally applicable conditions for the Extended Credit Facility (ECF).

Table 6. Togo: Indicators of Capacity to Repay the Fund, 2009-20[1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Actual	Projections										
Fund obligations based on existing credit												
(in millions of SDRs)												
Principal	0.0	0.0	0.0	0.0	1.3	8.0	11.6	11.6	11.6	10.3	3.6	0.0
Charges and interest [2]	0.3	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Fund obligations based on existing and prospective credit												
(in millions of SDRs)												
Principal	0.0	0.0	0.0	0.0	1.3	8.0	13.0	18.2	19.1	17.8	11.0	6.1
Charges and interest [2]	0.3	0.0	0.0	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Total obligations based on existing and prospective credit												
In millions of SDRs	0.3	0.0	0.0	0.3	1.6	8.3	13.3	18.4	19.2	17.9	11.1	6.1
In billions of CFAF	0.2	0.0	0.0	0.2	1.3	6.6	10.6	13.9	14.5	13.4	8.4	4.6
In percent of government revenue	0.1	0.0	0.0	0.1	0.4	1.8	2.7	3.4	3.4	2.9	1.7	0.9
In percent of exports of goods and services	0.0	0.0	0.0	0.0	0.2	0.7	1.1	1.4	1.4	1.3	0.8	0.4
In percent of debt service [3]	0.9	0.1	0.3	1.4	6.4	34.2	43.5	57.0	63.8	64.0	42.2	26.5
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.6	0.6	0.5	0.3	0.2
In percent of quota	0.4	0.1	0.1	0.4	2.2	11.3	18.1	25.1	26.2	24.3	15.1	8.3
Outstanding Fund credit												
In millions of SDRs	58.0	86.6	95.4	95.4	94.1	86.0	73.0	54.8	35.7	18.0	6.9	0.9
In billions of CFAF	42.1	64.8	72.5	73.6	73.5	68.0	58.1	41.3	26.9	13.5	5.2	0.7
In percent of government revenue	16.7	24.2	24.8	22.8	21.5	18.7	15.0	10.0	6.2	3.0	1.1	0.1
In percent of exports of goods and services	6.6	9.6	10.1	9.5	8.8	7.6	6.2	4.3	2.7	1.3	0.5	0.1
In percent of debt service [3]	185.4	267.0	705.8	469.8	375.5	354.4	239.1	169.9	118.5	64.4	26.3	3.8
In percent of GDP	2.8	4.2	4.4	4.2	4.0	3.5	2.8	1.9	1.1	0.5	0.2	0.0
In percent of quota	79.0	118.0	130.0	130.0	128.2	117.2	99.5	74.7	48.7	24.5	9.4	1.2
Net use of Fund credit (millions of SDRs)	26.8	28.6	8.8	0.0	-1.3	-8.0	-13.0	-18.2	-19.1	-17.8	-11.0	-6.1
Disbursements	26.8	28.6	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	1.3	8.0	13.0	18.2	19.1	17.8	11.0	6.1
Memorandum items:												
Nominal GDP (in billions of CFAF)	1482.8	1558.2	1645.7	1743.6	1848.5	1969.2	2097.3	2227.5	2369.5	2517.1	2675.3	2845.0
Exports of goods and services (in billions of CFAF)	642.8	673.4	721.1	774.4	832.1	898.2	938.6	967.1	1008.4	1051.4	1096.6	1144.1
Government revenue (in billions of CFAF)	252.4	267.6	292.9	322.6	342.0	364.3	388.0	412.1	431.3	458.1	486.9	517.8
Debt service (in billions of CFAF) [3 4]	22.7	24.3	10.3	15.7	19.6	19.2	24.3	24.3	22.7	21.0	19.8	17.3

Sources: IMF staff estimates and projections.

[1] Including an ECF augmentation of 15 percent of quota (SDR 11 million), to be disbursed in two equal tranches following completion of the 4th and 5th reviews.

[2] Reflecting temporary interest relief on PRGT interest obligations through end-2011 in the context of the reform of LIC facilities.

[3] Total debt service includes IMF repurchases and repayments. Assumes the completion point at end 2010.

[4] Includes state owned enterprises debt.

Table 7. Togo: Triggers for the Floating HIPC Completion Point [1]

Measures	Status
PRSP	
Prepare a full PRSP through a participatory process and implement satisfactorily its recommended actions for at least one year, as shown by an Annual Progress Report submitted to the International Development Association (IDA) and the IMF.	Underway. The Full PRSP was approved by the Council of Ministers in July 2009. A workshop to determine the monitoring indicators for the APR was held in Lome on April 2010.
Macroeconomic stability	
Maintain macroeconomic stability as shown by satisfactory performance under a PRGF-supported program	Underway. The government is committed to maintaining good governance and fully implementing reforms.
Public financial management	
Adopt a mechanism to track public expenditures for poverty reduction on the basis of a functional expenditure classification and publish at least two quarterly reports on these expenditures covering a period of at least two consecutive quarters preceding the completion point.	Underway. Monthly *Tableau de Bord* has been regularly elaborated since January 2009. Credits for social expenditures for priority sectors in 2009 have been fully opened. Staffs of the budget office and sectoral ministries have been trained to track expenditures linked to poverty reduction based on functional classification. The *Tableau d'operations financieres de l'Etat* (TOFE) and budget execution reports are published on the Permanent Secretariat for Monitoring of Reforms (SP-PRPF) website.
Appoint the judges for the Cour des Comptes and give them work space, equipment, and materials; and submit the draft of the *Loi de Règlement* and draft General Treasury Balance (Balance Générale du Trésor) to the Cour des Comptes and Parliament for at least one fiscal year preceding the completion point.	Underway. Judges were nominated in June 2009 and took office on September 24th 2009. The president of the court was elected on October 27th 2009. Treasury Balances and Loi de Règlement for 2007 and 2008 have been prepared and transmitted. Treasury balances are elaborated regularly.
Adopt a decree creating the Procurement Regulatory Authority in conformity with the WAEMU[2] Procurement Directives; nominate its managerial staff, and give them an adequate budget and monthly publication in a public procurement gazette or on a government website of all of the signed contracts, including sole source contracts and public concessions, for at least six months immediately preceding the completion point.	Underway. The public procurement law was voted in the National Assembly in June 2009. The decree of application was adopted on November 11th 2009 and the decree on the public procurement authority was adopted in the Council of Ministers on December 30th 2009. The amounts of approved contracts are published on SP-PRPF website and in the *journal de la chambre de commerce*. The managerial staff still needs to be nominated.
Governance	
Implement regular public reporting of payments to, and revenues received by, the government for the phosphates sector in line with this aspect of the EITI[3] criteria, with a recent annual report during at least the year immediately preceding the year in which the completion point is reached.	Underway. An informational workshop on EITI was held in January 2010. The revenues from phosphate sales as well as taxes transferred to the treasury in 2009 will be published after the completion of the report by the auditors.
Debt Management	
Consolidate external and domestic debt data under a single unit charged with all public debt management tasks.	Done. The *Direction de la Dette Publique* is responsible for these tasks.
Publish an annual report on a government website giving accurate and complete data on external and domestic public debt, including information on debt stocks, actual debt service, and new loans within six months after the end of the year, for at least one year immediately preceding the completion point.	Underway. The report for 2008 has been published on a government website (www.togoreforme.tg). The report for 2009 will be published in the second quarter of 2010.
Social sectors	
Adopt the medium-term National Health Development Plan and the medium-term Health Sector Human Resources Development and Management Plan after costing of the plans has been completed.	Done. The National Heath Development Plan was adopted by the Council of Ministers on July 6th 2009. The health code was approved by the National Assembly on May 13th 2009.
Start implementation of the national education sector plan by training at least 500 new teachers and conducting remedial training of at least 4,000 existing teachers.	Underway. 512 new teachers were hired in July 2009. The training of school inspectors and directors has started with more than 2000 teachers. The training of 5215 assistant pre school and primary teachers will be completed by July 2010 at the latest.

[1] The first two triggers (PRSP implementation and satisfactory macroeconomic performance) are requirements for reaching the completion point under the IMF PRGF-HIPC Trust Instrument.

[2] West African Economic and Monetary Union.

[3] Extractive Industries Transparency Initiative.

APPENDIX I—LETTER OF INTENT

Lomé
June 10, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Sir:

1. Further to our letter of October 30, 2009, the fourth program review is an opportunity for us to report on the progress made in implementing the financial program supported by the Extended Credit Facility (ECF). We have pursued the economic reforms outlined in the program, to mitigate the effects of the global recession and accelerate our economic recovery. We have broadly met our objectives in the program, although there have been some deviations from its performance criteria. We are resolutely committed to redoubling our efforts to ensure rigorous implementation of the program.

2. At the same time as these economic reforms are advancing, an equally important process of political reform has progressed considerably. The organization of presidential elections in a peaceful setting marked an important milestone in this process. The next step concerns the legislative elections expected later this year.

Background

3. Our ECF-supported program aims to raise the living standards of the population, through recovery from the country's prolonged sociopolitical and economic crisis. The pursuit of our goals is guided by the implementation of our first full Poverty Reduction Strategy Paper (PRSP), adopted in June 2009. The ECF-supported program advances this strategy by promoting economic growth and stability, while increasing the resources devoted to priority sectors. Under this program, the Togolese government has also normalized relations with external creditors, re-engaged with development partners, and reached the decision point under the HIPC Initiative in November 2008. These accomplishments have enabled us to benefit from debt relief and considerable financial and technical support from our development partners.

4. On the economic front, our main objectives, embedded in our ECF-supported program, are strengthening public finances, consolidating macroeconomic stability, and boosting economic growth. Our economic recovery and program implementation have

encountered considerable obstacles, however, including the global price shocks in 2007–08, damage from severe flooding in late 2008, and most recently the persistent impact of the global recession. While these shocks have delayed the recovery in growth, we have nevertheless achieved considerable progress in strengthening public finances and maintaining macroeconomic stability.

5. Since the launch of its ECF-supported program, Togo has continuously strengthened the health of its public finances. The government has re-established budget discipline and progressively improved public financial management. In addition, since the last program review in November, we have made significant progress in the clearance of domestic payment arrears to private sector suppliers that had accumulated over many years. The government has also advanced in its growth-enhancing structural reforms, in particular in the banking sector.

6. Indeed, the framework defined by the ECF-supported program has enabled us to mitigate the impact of the economic shocks, notably through counter-cyclical fiscal measures. However, the slow recovery and stagnating income per capita levels—even as the program approaches its third year—have increasingly focused our attention on meeting our growth and poverty reduction objectives. Nevertheless, we remain vigilant on our goals of macroeconomic stability and strengthened public finances, which we stress are necessary for a sustained recovery.

Recent economic developments

7. The recovery of the Togolese economy from the domestic socio-political crisis has continued to be slow, owing to the persistent impact of the global recession, yet macroeconomic stability continues to be preserved. Real GDP growth reached an estimated 3.1 percent in 2009, slightly exceeding the rate of population growth. This modest recovery relative to 2008 can be attributed to several factors, notably: an increase in food production owing in part to government support provided to the sector, such as the provision to farmers of supplies of fertilizers at subsidized prices; an increase in clinker production; an improvement in electric power supplies; and accelerated public investment in infrastructure. However, commercial activity, as well as the production and export of cotton and phosphate, have declined significantly. Furthermore, re-export and transit activities have declined following the impact of the global recession on the subregion. Inflation continued to fall in 2009 as a result of the combined effect of falling oil prices and lower domestic food prices after an abundant harvest. Inflation dropped to an average of 1.9 percent, which is in line with the WAEMU convergence criterion of 3 percent or less.

8. In 2009, the external current account deficit is estimated to have remained high, at 7.0 percent of GDP, compared to 6.4 percent of GDP in 2008. Imports have increased, largely as a result of public infrastructure projects, even if the oil import bill was contracting under the impact of falling prices and volumes. A slight increase in direct exports was

observed. This was largely accounted for by the rise in clinker exports, but was offset by the world recession which served to lower cotton and phosphate export prices and volumes, while worker remittances declined by 2.5 percent.

9. The monetary situation is characterized mainly by an increase in gross foreign assets, associated with the SDR allocation of September 2009. In fact, credit to the economy recorded an increase of 21.3 percent in 2009 in contrast to a 4.6 percent decline in 2008. The money supply has grown by 16.1 percent, notably due to an increase in deposits, which reflects increased confidence in the banking sector fostered by the state exchanging securities for the banks' nonperforming loans in 2008 and ongoing restructuring efforts.

Implementation of the economic program

10. Despite the difficulties linked to the global recession and slow growth, the ECF-supported financial program has been implemented broadly in line with its objectives. Despite some modest deviations from program targets and timetables, the government has continued to further improve public finances and to advance on structural measures that will lay the foundations for strong and lasting growth. As explained below, the execution of the 2009 fiscal framework led to a primary domestic fiscal balance that was lower than the projected floor and resulted in an overshooting of the ceiling on net domestic financing, two important performance criteria for end-December 2009 (Table 1). Moreover, in February 2010, the government contracted some financing from a supplier that was not consistent with the continuous performance criterion (PC) on the minimum concessionality of external borrowing (see paragraph 14). The PC on the non-accumulation of external arrears was observed, as were indicative targets on domestic arrears clearance and domestically financed social and investment spending. The implementation of the four structural benchmarks for the second half of 2009 was broadly satisfactory even if delays were observed for certain benchmarks. We are determined to address these deviations from the ECF-supported program, as explained below.

11. Despite a good performance of tax revenue collection, total revenue did not achieve the objectives set in the program. Tax revenue collection did meet the ambitious targets in the program, reaching CFAF 229 billion at end-December (15.4 percent of GDP), instead of the CFAF 220 billion initially forecast. Customs collections benefitted from an improved system of verifying imports, computerization of the customs clearance procedure, and efforts to combat smuggling of oil products, which helped offset the impact of weak import growth. Tax revenue benefitted from enhanced collection efforts combined with a reduction in tax rates, which helped broaden the tax base and expand the formal sector. However, non-tax revenue collection did not meet the government's ambitious targets. In particular, fees for licenses in the telecommunications sector and dividends from state-owned enterprises did not materialize as expected.

12. Concerning fiscal policy, expenditures stayed within the overall program envelope. At end-December 2009, current primary expenditure exceeded the budgeted level by CFAF 15.4 billion, i.e., 1.1 percent of GDP. The higher level of these current expenditures is largely attributable to the higher-than-expected increase in the wage bill. In fact, a substantial recruitment drive was implemented in 2009, in particular for the security forces in connection with the presidential election and for the social sectors—specifically, education and health. Furthermore, regarding education, the revision of the status of auxiliary teachers that were integrated into the civil service had a significant impact. Domestically financed investment spending fell short of the ambitious program targets, because of administrative capacity constraints. Moreover, government measures to speed up this investment spending were partly successful in the second half of the year. These efforts also yielded an improvement in the execution of foreign-financed investment spending, which virtually doubled compared to 2008 to reach 3.0 percent of GDP. The under-execution of domestically financed investment spending entirely offset the overshooting observed in the execution of current expenditure.

13. The domestic primary fiscal balance exceeded the PC in the program by CFAF 3 billion (equivalent to 0.2 percent of GDP) as a result of nontax receipts that were lower than anticipated. Moreover, financing needed for domestic arrears clearance and debt service exceeded projections in the program. Combined with the higher fiscal deficit, these factors led to net domestic financing exceeding the PC by CFAF 10 billion (equivalent to 0.7 percent of GDP). We note that the higher-than-expected settlement of arrears to the private sector, which is to be welcomed, means that the process is gathering speed and that it will help to reduce necessary payments in 2010, which will also have a neutralizing effect.

14. Concerning the nonobservance of the criterion regarding nonconcessional external debt, the Togolese government is committed to corrective action concerning the supplier's credit, in the form of promissory notes, which did not respect the requirements of minimal concessionality under the program. Contracted in February 2010, the credit was intended to help finance a project for rehabilitating the infrastructure of the television network and extending television coverage to encompass the entire national territory, which we consider pressing due to government commitments to the public and the risks of the network breaking down. To remedy this situation, we have cancelled the promissory notes and the project by mutual agreement with the supplier. We now have a better understanding of the requirements of our commitments with our development partners. The rehabilitation and extension of the TV network will be undertaken in the future in cooperation with these partners.

Implementation of structural reforms in 2009 and 2010

15. Under our PRGF-supported program, we have continued to make considerable progress overall in implementing essential reforms to achieve program objectives. The progress achieved since the last program review in November is significant, even though observance of the timetables for structural benchmarks was mixed (Table 2).

16. Progress in the area of clearing domestic arrears and public financial management has been substantial:

- The process of clearing domestic payment arrears, accumulated over several years, as we noted previously, has advanced significantly (structural benchmark for end-March 2010). At end-February 2010, more than 1,600 creditors (all categories taken together) had been paid for the sum of CFAF 18.7 billion. At this time, there are only 246 medium and large-scale unpaid creditors. Of the 25 largest creditors, 21 have been paid, the amount for which is estimated at CFAF 8.1 billion after discount. Discussions are in progress with the four others. With respect to small holders, 1,342 have been paid and approximately 4,000 creditors remain unpaid. For this group of creditors, the government intends to resume signing agreements—a process that had ended in December 2009—with the aim of settling the accounts on a permanent basis. With financing of CFAF 29 billion, the government expects to settle in full the commercial debt owed to the private sector in 2010 slightly behind the initial timetable envisaged for the structural benchmark, which is due to the slow pace at which claimants have come forward to participate in the process. This wide-ranging program has been partly financed by the credit granted by the BCEAO in the context of the additional SDR allocation by the IMF; the BCEAO's lending terms are significantly more favorable than those prevailing on the regional financial market. The arrears clearance process has improved liquidity conditions for enterprises and thereby supported a recovery in production.

- To improve treasury cash management, the government is also undertaking the measures necessary to move toward a single treasury account and reduce the number of accounts by 30 percent. When a survey of treasury accounts was completed in 2008, we identified around 801 accounts; of which 606 have already been closed. A new survey of treasury accounts was completed at the end of April 2010. We are currently closing at least 30 percent of the surveyed accounts, and this process will be completed by end-June 2010. We will thus achieve the structural benchmark.

- We have strengthened our public spending capacity and its quality. We have also taken measures to enhance investment project execution by simplifying and reducing lag time in the public sector expenditure chain. Controls have been strengthened and the implementation of the SIGFIP software will help to reduce control periods from 7 weeks to a maximum of 5 weeks. Redundant control points, which result in an abnormally long public expenditure chain (as found by the July 2009 IMF TA report on government expenditure management), will be eliminated by end-June, thereby enabling us to meet the structural benchmark. All the priority ministries (health, education, infrastructure, finance and agriculture) prepared public procurement plans and commitment plans by end-January.

- The newly established Audit Court (*Cour des Comptes*) has now become operational, with staff, resources, and materials. With the support of our development partners, we intend to support training activities to enhance the court's effectiveness. The treasury accounts (*comptes de gestion de la trésorerie*) and budget review law (*loi de règlement)* for 2007 were forwarded to the court on January 5, 2010.The draft budget-review law for 2008 was transmitted on April 23, 2010.

- In November 2008, Togo reached the decision point under the HIPC Initiative, which seeks to reduce the stock of external debt. As part of that process, we contacted the majority of our creditors and are committed to contacting those that have not yet been reached, in order to obtain debt reduction agreements. During the negotiations, we will seek to obtain debt relief in line with the level calculated in the report for the HIPC Initiative decision point.

17. The restructuring of the banking sector is advancing and should enable it to play its role in financial intermediation and contribute to sustainable growth. This process is benefitting from intensive technical assistance from the World Bank and IMF.

- In accordance with the reports of the privatization advisors, hired with the assistance of the World Bank, we launched the privatization process by publishing a public information notice in December 2009. We are completing prior actions, which should lead to publication of a call for expressions of interest as we had envisaged earlier in the process. Furthermore, we are working toward resolving the remaining legal issues regarding the completion of privatization process.

- The advisers for recovery of nonperforming loans, also hired with assistance from the World Bank, are going to finish a feasibility study by mid-June. The study will provide recommendations on the most appropriate alternatives regarding the form of the structure/mechanism for collecting nonperforming loans.

18. As far as the phosphate sector is concerned, a strategic audit, conducted with support from the World Bank, was completed in September 2009, and its findings were validated in a workshop gathering the various stakeholders (the Togolese authorities, SNPT-*Société Nouvelle des Phosphates du Togo* staff, and World Bank experts, among others) in December 2009. Based on this report, the government has laid out a strategy for the long-term development of the sector, which will include the participation of a strategic partner in the years ahead. The Council of Ministers approved the strategy on March 30, 2010. Accordingly, the policy action under the structural benchmark was completed with a delay. However, the volume of production declined 13.9 percent in 2009. In light of the investments executed in the second half of last year, we expect a recovery in production volumes in 2010.

19. Efforts intended to promote food production have yielded good results with a plentiful harvest and a considerable surplus. Togo has pursued an incremental increase in

food exports. However, recovery in the cotton sector continues to be hampered by world market conditions and structural problems, despite our efforts in terms of institutional reforms. We are considering different policy alternatives to restore adequate financing to small producers and to establish trust once again between producers and the NSCT (*Nouvelle Société Cotonnière du Togo*). We are currently reorganizing the sector with assistance from our development partners, in particular the World Bank, should help to improve the performance of the cotton sector.

20. The electricity sector has experienced a significant increase in production in 2009 and early 2010 compared to previous years. Electricity production at the independent power producer plant of Contour Global is expected to begin by end-June 2010, thereby alleviating supply constraints of the region.

Macroeconomic Outlook

A. Macroeconomic Framework

21. For the rest of 2010 and for 2011, government policy aims to mitigate the lingering effects of the global crisis on the Togolese economy and put the economy on the path to strong and sustained growth. To that end, the government intends to give priority to macroeconomic stability, to strengthen economic and social infrastructure by increasing investment spending, and to accelerate the implementation of structural reforms, with the aim, inter alia, of meeting the requirements for reaching the completion point under the HIPC initiative in 2010. Under these circumstances, short-run prospects for the Togolese economy continue to be of concern, with a projected real GDP growth rate of only 3.3 percent in 2010 and 3.5 percent for 2011. This level remains below potential and barely exceeds the population growth rate. However, the inflation rate should remain within the limits of WAEMU convergence criteria (3 percent).

22. The already sizeable current account deficit in 2009 should increase slightly in 2010, reaching 7.6 percent of GDP, as growth in exports and remittances remains subdued owing to global economic conditions and countercyclical fiscal measures support import demand. The current account deficit is expected to fall back somewhat to 6.7 percent of GDP by 2011. This improvement would reflect a partial recovery in the growth of exports and migrant workers' remittances, as well as the effect of a modest tightening of the fiscal stance to ensure fiscal sustainability in the medium term.

23. The government is preoccupied by the risks facing the economy in 2010. In the short run, the weakness of the global economy will continue to have an impact on transit services, remittances, and on prices and demand for cotton and phosphate.

B. Fiscal Policy

24. In this difficult economic context, we are convinced that our spending plans for 2010 remain warranted, provided we can mobilize the necessary financial resources, both domestic and external, with the exceptional support of Togo's development partners. The government is also taking steps that will enable it to increase both tax and non-tax revenues beyond original projections, helping to offset the slight underperformance in 2009 that limited the scope for using treasury deposits in 2010. Owing to strengthened spending controls, expenditures will be maintained within the budgetary envelope, particularly current primary spending. Given our efforts to mitigate the impact of the global recession and to mobilize domestic resources, we hope to benefit from additional exceptional financial assistance from our partners.

25. With the combination of improved tax collection already observed in 2009 and more effective mobilization of non-tax revenue, we now project that revenue collection will reach CFAF 267.7 billion (17.2 percent GDP), compared to CFAF 249 billion originally targeted. Projected tax revenue will increase to CFAF 234.8 billion (15.1 percent GDP), compared to CFAF 224.5 billion originally targeted. Collection of non-tax revenue has already reached 85 percent of the annual target, allowing us to raise the target—which was already ambitious by historical standards—to CFAF 32.8 billion (2.1 percent GDP).

26. Our spending plans in 2010 give priority to maintaining the increase in expenditures oriented toward growth and poverty reduction, consistent with the priorities defined in the Poverty Reduction Strategy Paper. Thus, the composition of spending is well adapted to offsetting the macroeconomic and social impacts of the global recession. In light of the overspending in some areas in 2009, we will heighten our vigilance in controlling spending levels, relying on the new measures outlined below; and if necessary, we will make expenditure savings in order to offset any overruns.

27. The revised plans for execution of the 2010 budget will yield a reduction in the domestic primary budget deficit to CFAF 1.8 billion (0.1 percent GDP), compared to CFAF 19.3 billion originally projected. This improvement will enable us to mitigate financing requirements. The overall budget deficit (on a commitments basis excluding grants) will also improve to 5.4 percent of GDP. Nonetheless, the policy of reducing arrears to the private sector (already included in the budget), to oil companies, and more recently in order to improve the financial situation of CEET, will raise the costs of arrears clearance to 3.7 percent GDP (compared to 2.3 percent initially targeted); these operations have required an increase in the net level of government securities issued of 1.1 percent GDP between January and April 2010. Arrears to the energy sector were handled by two issuances of government securities: (i) one involving the arrears of CEET and the former OTP vis-à-vis CEB in the amount of CFAF 17.1 billion; and (ii) the other operation focusing on the arrears of the central government, local governments and government agencies vis-à-vis CEET in the amount of CFAF 16.5 billion. Following an agreement between the government and

CEET, the securities issued in the second operation were returned to the government as compensation for having taken over CEET's debt in the first operation. This approach is dictated by the urgent need to improve the financial situation of CEET. This new revised fiscal framework has led us to propose revising the performance criteria previously established for end-June 2010, as well as the new performance criteria established for end-December 2010 (see Table 1). In order to strengthen the monitoring of the budget program, we have also decided on indicative targets for the third quarter of the year.

28. Our need for exceptional external financing remains unchanged from the original fiscal framework. The residual unidentified financing amounts to CFAF 15 billion (equivalent to 1 percent of GDP). In this context, the government appeals to the IMF and its other partners for additional exceptional assistance. On the understanding that the European Union, above and beyond the disbursement of the general budgetary assistance tranche of up to CFAF 5 billion, is also providing an additional CFAF 8 billion via the V-Flex instrument and CFAF 5 billion through the Food Facility instrument, we request an augmentation of the financing under the ECF by SDR 11 million, equivalent to CFAF 7 billion. This augmentation could be disbursed in two equal portions at the completion of the fourth and fifth reviews. If these resources were not to become available, we would be forced to cut lower-priority current spending and/or postpone some investment financed by domestic resources, to ensure financing for the government budget and to maintain the fiscal objectives of our program.

29. The government remains committed to strengthening debt dynamics. Achieving debt reduction under the HIPC and MDRI initiatives would lead to a major improvement in the situation, and constitutes one of the highest priorities of economic policy. In addition to this debt reduction, the government is determined to maintain the ongoing improvement in debt dynamics through higher growth, relying on concessional external financing, and strengthening public finances. With respect to domestic debt, the government's securities and bonds issue program is continuing in the context of the debt management process discussed with development partners. On the subject of arrears reduction, we intend to continue settling the outstanding arrears balance in a strategy planned and negotiated with our partners with due regard for our budgetary objectives and public debt sustainability criteria. Over the medium term, the government's fiscal stance will be guided by a target of a domestic primary fiscal balance in equilibrium or better, yielding improved debt sustainability indicators. This fiscal stance will involve a gradual tightening of the fiscal balance starting in 2011 and continuing for the following three years.

Structural reforms for the rest of 2010

30. The government intends to pursue this ambitious structural reform program in order to support growth. Our updated and strengthened commitments are laid out below and in Table 3.

31. Recognizing the role that the financial sector needs to play in promoting growth, the government is committed to restoring confidence and dynamism in this sector by privatizing the state-owned banks. The government plans to clarify the legal framework for privatization in a transparent and expeditious manner and maintain the plans to publish a final call for bids by September 2010 (structural benchmark). Privatization revenue will be used to repay the debts incurred during the bank restructuring process, thereby yielding a potentially significant improvement in debt dynamics. In collaboration with the supervisory authorities, the government is also determined to maintain rigorous control of the management of these banks until the privatization process is completed. The government also remains committed to setting up the mechanism or structure and its operational support for managing and collecting the nonperforming loans of state-owned banks by end-December 2010 (structural benchmark). The mechanism or structure will enable the government to recoup some of the cost of restructuring the state-owned banks and resolve nonperforming loans, making way for a stronger revival in the flow of credit.

32. The government also intends to accelerate structural reforms in other sectors to enhance growth potential.

- The strategy for the phosphates sector will be implemented in accordance with the strategic audit.

- As far as the electricity sector is concerned, the government has decided to undertake a financial rehabilitation of CEET and to increase the supply of energy at an affordable cost. The government is mindful of the importance of ensuring the financial viability of CEET. Accordingly, the government is following the general principle whereby the pricing system should allow for full recovery of the costs of energy production and distribution. With these objectives, we have decided to adjust prices by 13 percent on average in July 2010, while minimizing the impact of this adjustment on the poorest households. Discussions are continuing among stakeholders (CEET, CEB, and the government of the Beninese Republic) on the study on the implementation of an automatic and periodic price adjustment mechanism. In addition, the government intends to mitigate any additional costs potentially incurred as a result of the launching of the new private producer (Contour Global), for example, by selling any production surpluses exceeding domestic demand to other countries in the subregion and to the CEB.

- For the telecommunications sector, with the help of technical and financial partners, the government intends to strengthen the regulatory framework, following ECOWAS directives, to guarantee competition and economic efficiency. The third mobile telephony license will be awarded to a private operator with BOAD (West African Development Bank) support. With the help of technical and financial partners, including the World Bank, the government also aims to develop a medium-term strategy to maximize the sector's contribution to growth. We also intend to enhance transparency in financial relations between the government and Togo Télécom, for example, by exploring the possibility for a study of relationships of transfers, debts, and advances on dividends between the two parties.

- In order to promote Togo's competitiveness as a trade hub, we intend to initiate the process of creating a one-stop window for foreign trade at the Autonomous Port of Lomé with assistance from the World Bank. In order to achieve this objective, the government intends to approve at the Council of Ministers before the end of the year a detailed roadmap based on a technical report that will indicate the roles of each government agency and the required measures. Consultants financed by the World Bank to draft the report will be recruited before the end of September 2010 (new structural benchmark). The one-stop window will facilitate all administrative procedures for exports and imports, including customs procedures, at one location.

33. The government also is working to resolve issues in the petroleum product sector, which accounts for 7 percent of GDP. Negotiations on the amount of the settlement of quasi-fiscal liabilities to petroleum product importers and distributors have advanced. The government has launched a review of the domestic petroleum product pricing mechanism that will benefit from FAD technical assistance. The review aims to establish a mechanism that minimizes fiscal risks of pricing policies by implementing automatic adjustment of retail prices, through the application of a pricing formula that fully passes through fluctuations in international prices over time while smoothing out the pass-through of volatility in the short term. This new mechanism will be approved by the Council of Ministers by end-November 2010 (revised structural benchmark).

34. Efforts to strengthen the public financial management reforms underway are intensifying in 2010:

- Strengthen the implementation of the mechanism for managing cash flow and monitoring budget execution. Starting in June 2010, meetings are being held fortnightly to examine data on expenditures, revenue and financing needs, with minimum standards and lag times, and to propose necessary actions. These reports will include monitoring of the balance of outstanding payables to minimize these amounts. At the same time, a treasury cash flow plan will be prepared with regularly updated projections for each remaining month of the year. We are inviting IMF staff based in Lomé to attend all of these meetings.

- Some measures taken in the 2009 budget law with respect to the free economic zone have raised questions among investors in Togo regarding adherence to established international practices. In consultation with stakeholders and development partners (including the World Bank and IMF), the government is drawing up a new investment code that will ensure consistency among the various existing legislative acts, including the free economic zone law. The code will simplify the system of incentives and make the entitlement to incentives automatic, while controlling the system's fiscal costs.

- Continue preparations to complete the financial and organizational audit of the Togo Retirement Fund (*Caisse de Retraite du Togo--CRT)* and begin an actuarial study of the institution by end-December 2010 (structural benchmark) that will help establish an overall strategy for repaying the government's social debt. With assistance from the World Bank, the call for bids for the audit was launched in October 2009 and a contract should be signed by June 2010. A contract for the actuarial study should be signed by September 2010, thus meeting the structural benchmark early.

- Improve debt management capacity and reporting systems, including the preparation of an annual plan indicating projected monthly debt service by creditor and monitoring debt to public enterprises. We intend to seek the advice of IMF staff in advance of all revisions to this plan, as well as any newly planned financing. In addition, we plan to implement capacity-building for personnel and management of public debt, as well as to put in place over the medium term an audit system for the management of public debt. In the meantime, we would like to request from the World Bank an update of the assessment of our debt management performance (DeMPA).

Conclusion

35. Togo appreciates the continuing and growing support of its development partners as it strives to cope with external shocks and revive the economy. Togo continues to need resources urgently (in the form of grants or concessional loans) to finance investment in economic infrastructure and social services, with the aim of reducing poverty and generally attaining the MDGs. In particular, we value the commitments by Togo's partners in Brussels in September 2008 to mobilize increased resources within the principles of the Paris declaration and the program of action coming out of the Accra Forum. For its part, Togo is determined to fulfill the conditions for satisfying the floating completion point triggers under the HIPC initiative as soon as possible in 2010. The process of preparing the full PRSP was completed in June 2009. Implementation is proceeding, and we intend to submit the first Annual Progress Report in the third quarter of this year.

36. The progress of our ECF-supported program will be monitored on the basis of revised quantitative performance criteria for end-June 2010 and newly established quantitative performance criteria for end-December 2010. Moreover, we have established quantitative targets for end-September 2010 (Table 1). All these PCs and targets were developed in consultation and agreement with the IMF mission. We request that the fifth program review will be completed by end-November 2010, and we aim to fulfill the conditions for the floating completion triggers so that a decision on the HIPC completion point will also be

possible at that time. We request that the sixth program review to be completed by end-April 2011.

37. As noted above, the ECF-supported program has continued to make resolute progress toward its goals, despite external shocks and administrative capacity constraints. Some deviations from program objectives occurred, and we are taking corrective actions. The government is convinced that the policies and corrective actions set out in this document will be sufficient to attain program objectives. Our macroeconomic and financial needs are particularly pressing this year, given the need to offset the persistent impact of the global recession. Accordingly, we request: waivers for the performance criteria for domestic primary fiscal balance and net domestic financing for end-December 2009; and a waiver for the continuous performance criteria for noncessional external financing for financing contracted in February 2010, which we have cancelled. If these waivers are granted, we request an augmentation of SDR 11 million in the amount of the arrangement; the completion of the fourth review; and the disbursement of the fifth tranche of the loan and the augmentation.

38. The government remains committed to taking any additional measures that might be necessary toward these goals. The Togolese authorities will consult with the IMF about these possible additional measures or before proceeding to revise the measures set out in this document. To facilitate program monitoring and evaluation, the government will regularly report all information to IMF staff within the required time frames stated in the Technical Memorandum of Understanding (TMU).

39. Finally, the government consents to the publication of this Letter of Intent and the IMF Staff Report on the fourth review.

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

December 31, 2009 — December 31, 2010

	2009		2010				
	Dec.		June		Sep.	Dec.	
	Prog.[1]	Prel.	3rd. Rev.[1]	Rev. Prog.[2]	Prog. [3]	3rd. Rev.[1]	Rev. Prog.[2]
	(Billion CFA francs, cumulative from end of preceding year)						
Performance criteria (for end-December 2009 and end-June and end-December 2010; indicative targets otherwise)							
Domestic primary fiscal balance (floor)	-3.8	-6.6	-0.2	3.6	-2.7	-19.3	-1.8
Nonaccumulation of external arrears [4]	0	0	0	0	0	0	0
Net domestic financing (ceiling)	3.8	14.0	37.5	26.9	39.2	31.4	40.8
Central government contracting or guaranteeing of nonconcessional external debt (ceiling) [4]	0	0	0	15.7	0	0	0
Indicative targets							
Total revenue (floor)	255.8	252.4	110.6	140.6	209.6	249.1	267.6
Domestic payments arrears, changes in stock (ceiling)	-12.9	-16.5	-33.1	-58.1	0.0	-33.1	-58.1
Domestically financed social and capital spending (floor) [5]	97.7	114.0	…	…		…	…
Total domestically financed investment spending (floor)	…	…	14.8	19.3		51.0	51.0
Total domestically financed social spending (floor)	…	…	40.7	35.1		101.8	87.7
Exceptional financing	41.7	41.0	6.2	6.2		28.7	38.3

[1] Letter of Intent dated October 29, 2009

[2] Letter of Intent dated June 10, 2010

[3] Indicative target

[4] Continuous performance criterion.

[5] In 2010, this target is disaggregated for better tracking of the components.

Table 2. Togo: Status of Structural Reforms through 2009

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone (FEZ).	Benchmark June 2009	To limit leakage of tax-exempt goods into the domestic economy, which distorts economic incentives and reduces fiscal revenues.	Done. Tax exemption reduction included in the 2009 budget law. Customs and tax administration provided power to conduct inspection in the FEZ.
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion June 2009	To create a functioning Treasury that has adequate control and information over revenues, spending, and cash management to ensure timely payments, avoid arrears, and provide for real-time consistent budget execution data.	Done. The three central structures and the regional Treasury structures were set-up. Treasury balances produced in agreed timeframe.
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark March 2009	To support the financial rehabilitation of Togo's largest bank, prepare it for privatization, and set the conditions for sound financial sector development.	Done. BTCI's NPLs have been exchanged against government securities as part of a broader multi-bank recapitalization scheme.
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark December 2009	To reduce risks to macroeconomic stability caused by Togo's large loss-making state-owned banks and support expansion of financial intermediation.	Done. Following reports from the privatization advisors, authorities opted to issue a public information notice initiating a pre-qualification process for potential buyers in December 2009, rather than a call for expressions of interest.
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark September 2009	To promote transparency in the restructuring of the phosphate sector, which could generate additional exports of up to 10 percent of GDP at current world prices.	Done with a delay. The strategic audit was completed in September 2009 and was adopted by the Council of Ministers on March 30 2010.

Table 3. Togo: Structural Conditionality for 2010

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers	Benchmark March 2010	To restore the confidence of suppliers and make it possible to reduce the substantial balance of domestic payments arrears owed by the government. To support aggregate demand in the period of economic slowdown.	Not met. Progress so far has been satisfactory. The government is using the credit granted by the BCEAO to clear audited arrears to the private sector. By February 2010 over 1,600 suppliers had been paid. Completion is delayed by a slow response rate of certain suppliers.
Move towards a single Treasury account by surveying Treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	Benchmark June 2010	To closely monitor Treasury operations, as this is a key element of controlling the government's cash flow operations.	Underway. The survey of Treasury accounts has already been re-launched. Estimates suggest the existence of about 200 accounts.
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	Benchmark June 2010	To increase speed of implementation of investment projects in the short term and the capacity to absorb foreign aid.	Underway. The reorganization of controls and the implementation of the SIGFIP software will allow for a reduction in delays related to controls from 7 to 5 weeks at the maximum. The redundant control points will be eliminated as scheduled.
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark September 2010	To restore confidence in Togo's financial sector, reduce risks of recurrence of macroeconomic instability linked to Togo's large loss-making state-owned banks, promote financial sector development and expand financial intermediation.	Underway. On schedule, but some risks to envisaged timeframe linked to the legal framework for privatization.
Set up the nonperforming loan management mechanism or structure and its operational support.	Benchmark December 2010	To recover a part of the fiscal cost of securitizing NPLs and restore sound financial relationships between banks and firms.	Underway. Following the revision of the schedule during the third review, the technical consultants will complete the final feasibility study before mid-June. The study will provide recommendations on the appropriate options for implementation of the structure or mechanism for recovery of non-performing loans.
Complete a financial and organizational audit of the CRT and begin an actuarial study of the institution.	Benchmark December 2010	Establish an overall strategy for clearing the government's social debt of around 7 percent of GDP.	Underway. The audit and study are planned as part of the World Bank financial sector project. A call for bids for the audit was launched in October 2009 and a contract will be signed by June 2010 at the latest. A contract for the actuarial study should be signed by September 2010 at the latest.
Real Sector			
Recruit consultants to elaborate a report on the required steps to create a one-stop window at the Port Autonome de Lomé.	Benchmark September 2010	Foster Togo's competitiveness as a commercial hub and facilitate all administrative procedures for exports and imports and contribute to increase customs revenues.	Underway. The one-stop window at the Port Autonome de Lomé is part of a World Bank project aiming to promote regional integration.
Approve at the Council of Ministers a new adjustment mechanism for petroleum product prices.	Benchmark November 2010	Implement a mechanism that limits fiscal risks by institutionalizing frequent and automatic adjustments of prices at the pump.	Underway. The government has undertaken a restructuring of the domestic pricing mechanism for petroleum products. A FAD technical assistance mission is scheduled for June 2010.

APPENDIX II—LIC DEBT SUSTAINABILITY ANALYSIS

INTERNATIONAL MONETARY FUND

TOGO

Debt Sustainability Analysis Under the Debt Sustainability Framework for Low-Income Countries

Approved by Michael Atingi Ego and Thomas Dorsey

May 24, 2010

In line with the joint World Bank-Fund low income country debt sustainability analysis (LIC DSA) produced with the third review of the Extended Credit Facility (ECF), this update of LIC DSA shows that Togo is in debt distress, demonstrating the need for reaching the completion point of the HIPC Initiative debt relief.[1] *An upward revision in growth, mainly due to strong agricultural production, is slightly improving the debt indicators, which offsets the impact of an ECF augmentation requested by the authorities. However, the key debt sustainability indicators are still above the relevant indicative thresholds for the next few years. An alternative scenario illustrating the impact of additional HIPC, MDRI and beyond-HIPC debt relief at the completion point suggests strong improvements in debt burden indicators. The inclusion of Togo's large domestic public debt in the analysis generally reinforces the conclusions of the external DSA.*

A. Background

1. **The last DSA for Togo prepared in 2009 concluded that Togo was in debt distress**. The outcome of this analysis is consistent with the previous DSAs finding improvement in debt dynamics as a consequence of expected enhancements in the macroeconomic policy framework, notably greater fiscal consolidation and solid implementation of growth-promoting structural reforms, large domestic arrears clearance

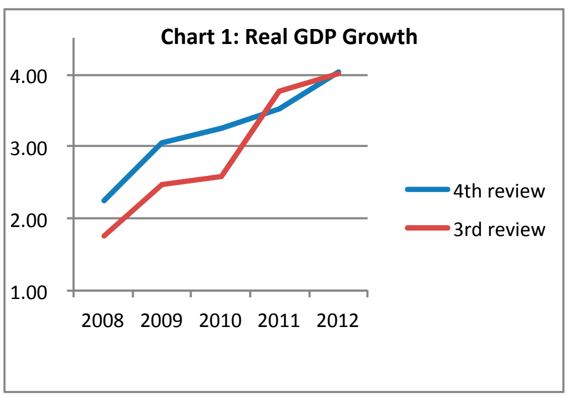
[1] This is a Fund staff update to the joint World Bank/IMF DSA presented with the report for the third review of the ECF (Country Report No. 09/173). See "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief" (IDA/SecM2006-0564, 8/11/06). Togo's quality of policies and institutions, as measured by the average World Bank's Country Policy and Institutional Assessment (CPIA) for the period 2006–08 (2.6), places it as a "weak performer". The corresponding indicative thresholds for the external debt indicators are 30 percent for the NPV of debt-to-GDP ratio, 100 percent of the debt-to-export ratio, 200 percent for NPV of debt-to-revenue ratio, 15 percent for the debt service-to-exports ratio and 25 percent for the debt service-to-revenue ratio.

operations and the HIPC initiative interim debt relief. The key indicative ratios for the current DSA are slightly better than in the 2009 DSA, mostly because the revised real GDP growth estimates from 2008 onward are stronger than projected during the previous exercise, mainly because of strong agricultural results[2].

2. **Since November 2008, Togo has been in the interim period of the HIPC Initiative.** Upon reaching the decision point, Togo was granted Cologne terms debt relief[3] by the Paris Club and negotiated a rescheduling agreement with several multilateral and non Paris Club creditors. Togo has signed bilateral agreements with most of its Paris Club creditors and has contacted the other non Paris Club creditors to seek comparable treatment as the one granted by the Paris Club. Also, the nominal debt stock fell from US$2.2 billion at end-2007 to US$1.7 billion at end-2008, reflecting the arrears clearance operations.

B. Baseline Assumptions

3. **Including a revision in growth rates, the baseline scenario stays consistent with the three-year ECF arrangement**. It is based on a continuation of steady growth averaging 3.7 percent from 2009 to 2019 and 4 percent from 2020 to 2029. The revised real GDP growth figures are higher from 2008 to 2012 (chart 1). The revision is due essentially to better-than-expected agricultural production (particularly in food production) and faster growth of the secondary sector (extractive industries, especially clinker). In addition, revisions to the GDP deflator for 2008 have caused a significant increase in nominal GDP compared to 3rd review estimates[4]. Under the assumptions of a stable political and social



[2] Agricultural production was particularly strong in 2009 (over 9 percent of real growth) partially because of favorable weather conditions and government policies to stimulate the sector such as the distribution of fertilizer at subsidized prices. Food production performed especially well. Among export crops, the increase in coffee production is notable.

[3] Cologne terms represent a 90 percent reduction of debt service falling due during the interim period and the remaining 10 percent is rescheduled with 6 year-grace period and 23 years of maturity for non ODA debt and 16 year-grace period and 40 years of maturity for ODA debt.

[4] The 2008 deflator was revised upwards relative to third review estimates. In particular, food prices and agricultural products prices increases (40 percent) were substantially higher compared to previous estimates, hence reflecting more fully the global food price increases observed for that year. Price increases for phosphate and clinker (18 percent) were also much higher than initially estimated.

situation, growth will be driven by several factors: donor-financed public investment, an improved investment climate, growing regional integration thanks to Togo's strategic geographical location and the role of the port of Lomé, a rebound in cotton and phosphate production following the restructuring of these sectors, and deeper financial intermediation after the ongoing restructuring of the banking sector.

4. **Macroeconomic stability will come from a prudent fiscal policy and structural reforms.** The domestic primary deficit is assumed to stay close to zero during the projected period. While the tax revenues are expected to increase with a broadening of the tax base, the resources freed up by HIPC and MDRI relief will be allocated to priority sectors such as health, education, and infrastructure.

Box 1. Togo-Macroeconomic Assumptions

The baseline macroeconomic framework assumes a stable political and social situation and that important structural reforms in the financial and real sector are brought to fruition, accelerating output growth to the estimated potential and attracting additional foreign direct investment over the medium-term.

- R**eal GDP growth** is projected to reach its estimated potential of 4 percent by 2013 and then vary around that level. Growth will be driven by the rehabilitation of the phosphate and cotton sectors, an improved investment climate, increased financial intermediation; additional FDI and foreign aid; and growing regional integration, thanks to Togo's strategic geographical location and the role of the port of Lomé.

- The projections for key **commodity prices** (oil, cotton, cocoa, and coffee) through 2015 are based on WEO projections of end May 2010 and are assumed constant in real terms afterwards.

- **Inflation** over the long term is projected to remain stable at 2 percent, reflecting sound monetary policy at the regional level.

- **The current account deficit** will remain roughly stable over the medium term, with higher exports of phosphates, cement and clinker being insufficient to compensate for a strong growth in imports as foreign aid is absorbed and foreign investment increases.

- **The domestic primary fiscal deficit** is assumed to stay close to zero during the projected period providing a fiscal anchor to ensure fiscal sustainability over the long term.

- **FDI and donor flows** are expected to increase over the medium term, reflecting improvements in the investment climate and overall governance.

5. **Under the assumption that FDI and donor flows increase over the medium term, the external position is projected to remain sustainable**. Togo's current account deficit is not expected to improve over the medium term. While exports are projected to pick up, largely on account of higher phosphate exports following the restructuring of the sector as well as continued growth in cement and clinker exports, imports are also expected to increase at a fast pace as foreign aid is absorbed and foreign investment increases. Sustained export growth will require enhancing competitiveness through reforms to improve the business environment.

6. **The baseline scenario reflects the multilateral arrears clearance operations completed in 2008 and assumes full delivery of traditional debt relief as well as interim HIPC assistance**.[5] Consistent with the DSF guidelines, the baseline does not reflect the delivery of HIPC, MDRI and bilateral or multilateral beyond-HIPC assistance after the completion point.[6]

C. External Debt Sustainability Analysis

Baseline

7. **Under the baseline scenario, Togo's external debt indicators remain above their relevant indicative thresholds demonstrating that the country is in debt distress** (Table 1a, Figure 1). The present value (PV) of public and publicly guaranteed (PPG) debt equals 41 percent of GDP in 2009 and remains above the 30 percent threshold until 2016. Both the PV of external debt relative to revenues and exports exceed their respective indicative threshold in 2014 emphasizing the need to reach the completion point and keeping a high degree of concessionality of Togo's future debt. However, the higher than projected level of agricultural and clinker production and the higher level of GDP compared to the third review, entail a higher level of exports, bringing the debt service ratios below their respective indicative thresholds for the whole projection period.

Alternative Scenarios and Stress Tests

8. **Togo's external debt outlook remains vulnerable to numerous shocks** (Table 1b, Figure 1). The PV of external debt to revenue and exports indicators deteriorate

---

[5] Arrears to IDA and the AfDB were cleared in 2008. Togo has reached an agreement on arrears clearance with IFAD, OPEC and EIB. Togo is negotiating with BADEA. The IsDB has agreed in principle to provide relief but the modalities have not been defined yet. Togo has contacted FEGECE to ask for HIPC relief.

[6] See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" (www.imf.org and IDA/SECM2007/0226, 03/05/2007).

significantly under a variety of shocks, in particular shocks that assume a depreciation of the exchange rate and lower export growth.

9. **Alternative scenarios assume additional delivery of debt relief at the completion point, which would significantly improve Togo's debt sustainability outlook** (Figure 2). Debt relief under the HIPC Initiative, MDRI and possible bilateral and multilateral beyond-HIPC assistance would significantly improve Togo's external debt outlook. Reaching the completion point, which is assumed to occur in 2010, and the resulting irrevocable debt relief would reduce all external debt indicators to levels below the relevant indicative thresholds.

D. Public Sector Debt Sustainability

Baseline

10. **The inclusion of Togo's large domestic public debt in the analysis emphasizes the vulnerability of the baseline scenario** (Table 2a, Figure 2). Togo's domestic debt burden is comparatively large, reflecting years of weak fiscal management and domestic arrears accumulation, as well as the need to recapitalize ailing banks. In addition, inclusion of the recent BCEAO credit linked to the SDR allocation worsens the key indicative ratios. However, this financing substitutes for planned issuance of securities which were not yet included and would have carried a higher debt service cost. The PV of total public debt is projected to remain relatively high during the next five year, hovering around 200 percent of revenues. Given the assumed improvement in the macroeconomic outlook and the projected high degree of concessionality of financing in the baseline scenario, debt ratios would nevertheless fall steadily over the long run.

Alternative scenarios and stress tests

11. **The evolution of the debt indicators would be sensitive to a variety of shocks, which would increase the debt level and debt service over the long run**. Total public debt dynamics are particularly vulnerable to a growth shock and to a lesser extent to a real depreciation (Table 2b, Figure 2). This highlights the importance of a reform agenda that improves the business environment to support foreign investment and growth.

12. **Full delivery of HIPC relief, MDRI, and beyond-HIPC relief at the assumed completion point reduces these vulnerabilities as shown in the alternative scenario.** All three PV-based indicators would be substantially lower than under the baseline and would decline further over the projection period.

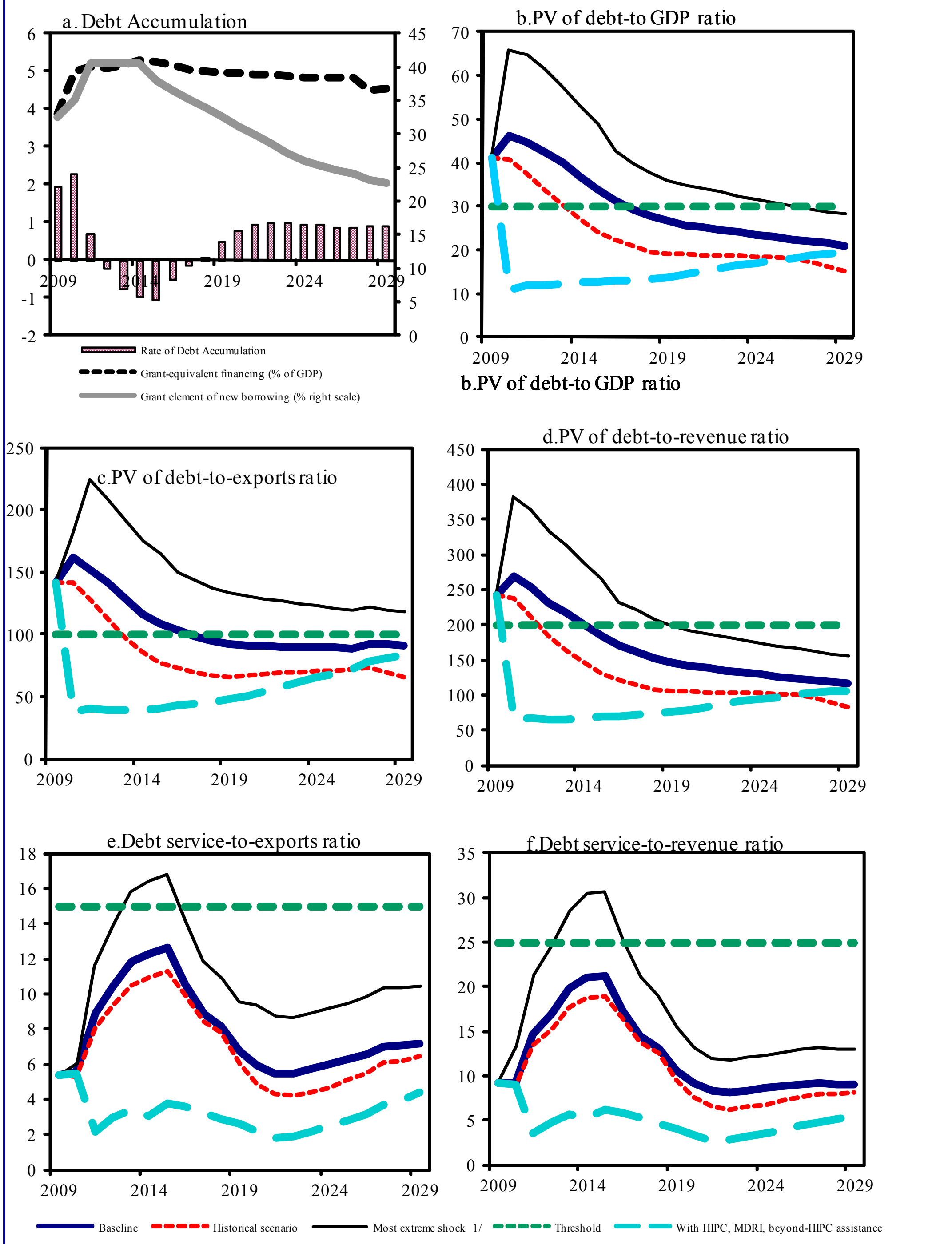
E. Conclusion

13. **The DSA shows that Togo remains in debt distress, despite significant debt relief already achieved under the HIPC initiative.** The authorities shared our view on the analysis and the conclusions of the rating. The debt reduction associated with the recent

external arrears clearance and by reaching the decision point of the HIPC Initiative does not suffice to allow a sustainable path of debt accumulation. Under the baseline scenario, the PV-based indicators remain well above their indicative thresholds for most of the projection period, emphasizing the importance for additional debt relief, which is expected upon reaching the completion point. Debt reduction upon reaching the HIPC completion point dramatically improves Togo's external debt outlook.

14. **Achieving a robust external debt outlook will depend on a sustained pick-up of real GDP growth, exports and foreign direct investment, as well as prudent debt management and solid fiscal performance.** Alternative scenarios and bound tests highlight the vulnerability of Togo's current external debt outlook. The inclusion of Togo's large domestic debt in the analysis reinforces the conclusions of the external DSA and emphasizes the risks to Togo's debt prospects. In this context, it is essential that the Togolese authorities continue current efforts to strengthen public finance management, restructure the banking system and promote financial development, reform state-owned enterprises, and improve the investment climate, laying the foundation for accelerating growth prospects.

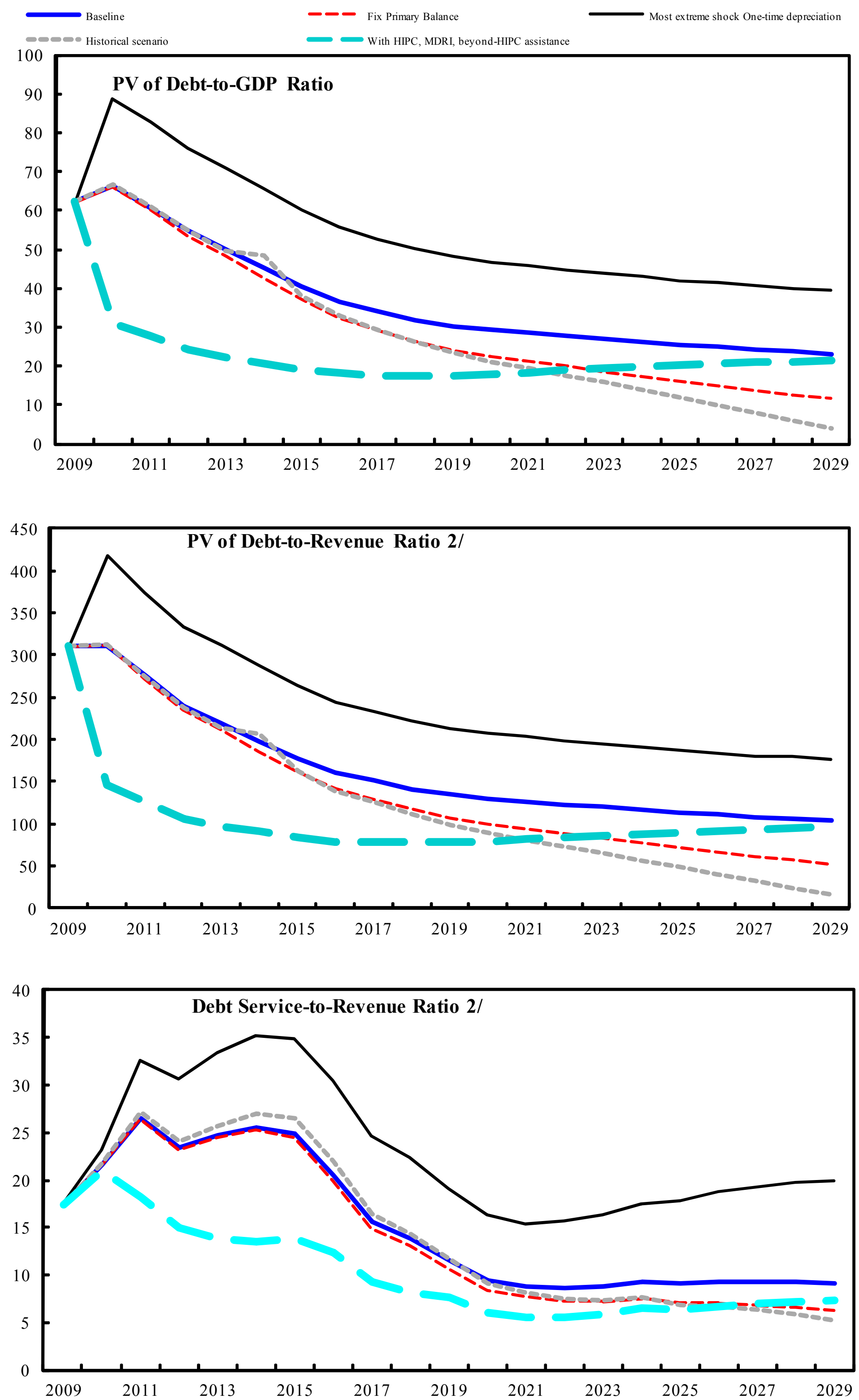
Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a With HIPC, MDRI, beyond-HIPC assistance shock; in c. to a With HIPC, MDRI, beyond-HIPC assistance shock; in d. to a With HIPC, MDRI, beyond-HIPC assistance shock; in e. to a With HIPC, MDRI, beyond-HIPC assistance shock and in figure f. to a With HIPC, MDRI, beyond-HIPC assistance shock

Figure 2.Togo: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 1a.: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average	Standard Deviation	Projections																						
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2015-2029 Average
External debt (nominal) 1/	**88.7**	**82.5**	**56.2**			**50.7**	**57.5**	**56.5**	**54.4**	**52.0**	**49.1**		**46.1**	**43.5**	**41.4**	**39.7**	**38.4**	**37.4**	**36.7**	**36.0**	**35.2**	**34.4**	**33.6**	**32.9**	**32.1**	**31.4**	**30.7**	
o/w public and publicly guaranteed (PPG)	88.7	82.5	55.6			49.5	55.6	54.0	51.5	48.6	45.3		42.1	39.5	37.2	35.3	33.9	32.9	32.1	31.3	30.5	29.8	29.0	28.3	27.6	27.0	26.3	
Change in external debt	-1.1	-6.2	-26.3			-5.4	6.8	-1.1	-2.0	-2.5	-2.9		-2.9	-2.6	-2.1	-1.7	-1.3	-0.9	-0.8	-0.7	-0.8	-0.8	-0.8	-0.7	-0.8	-0.7	-0.7	
Identified net debt-creating flows	-5.1	-8.7	-11.9			4.3	4.9	3.8	3.1	2.8	2.0		2.1	1.2	1.4	1.7	1.2	1.3	1.6	1.8	1.9	2.0	2.2	2.0	2.8	3.4	3.4	
Non-interest current account deficit	**1.1**	**4.3**	**5.9**	**4.5**	**5.2**	**6.7**	**7.2**	**5.8**	**5.2**	**5.1**	**4.6**		**5.2**	**4.2**	**4.4**	**4.6**	**4.6**	**4.7**	**5.0**	**5.2**	**5.3**	**5.4**	**5.5**	**5.6**	**6.6**	**7.1**	**7.1**	5.4
Deficit in balance of goods and services	12.7	14.8	14.4			14.6	16.3	17.1	16.6	16.0	15.2		15.7	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	14.3	15.2	15.2	15.2	
Exports	26.2	31.5	30.2			29.1	28.7	29.5	30.2	30.9	31.7		31.1	30.4	29.8	29.3	28.8	28.3	27.8	27.3	26.7	26.2	25.7	25.2	23.8	23.4	23.0	
Imports	38.9	46.3	44.6			43.7	45.0	46.6	46.8	47.0	46.9		46.7	44.7	44.2	43.6	43.1	42.6	42.1	41.5	41.0	40.5	40.0	39.6	39.0	38.6	38.2	
Net current transfers (negative = inflow)	-12.6	-11.4	-9.6	-10.2	2.5	-9.1	-9.7	-11.4	-11.2	-11.0	-10.8		-10.6	-10.4	-10.2	-10.0	-9.8	-9.7	-9.5	-9.3	-9.2	-9.0	-8.9	-8.7	-8.6	-8.2	-8.1	-9.3
o/w official	-1.4	-1.7	-1.4			-1.5	-2.5	-4.3	-4.3	-4.3	-4.3		-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.3	-4.0	-4.0	
Other current account flows (negative = net inflow)	1.1	0.9	1.1			1.2	0.6	0.1	-0.1	0.0	0.2		0.2	0.3	0.2	0.3	0.2	0.1	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	
Net FDI (negative = inflow)	**-4.1**	**-4.1**	**-1.3**	**-3.2**	**1.2**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-1.0**	**-1.5**		**-2.0**	**-2.0**	**-2.0**	**-2.0**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-2.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	-2.5
Endogenous debt dynamics 2/	**-2.1**	**-8.8**	**-16.6**			**-1.4**	**-1.3**	**-1.1**	**-1.1**	**-1.3**	**-1.2**		**-1.1**	**-1.0**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.7**	**-0.8**	**-0.6**	**-0.7**	
Contribution from nominal interest rate	2.0	1.8	0.4			0.4	0.3	0.9	1.0	0.9	0.8		0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
Contribution from real GDP growth	-3.1	-1.5	-1.5			-1.7	-1.7	-2.0	-2.1	-2.1	-2.0		-1.9	-1.6	-1.6	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.3	-1.3	-1.1	-1.3	-1.1	-1.2	
Contribution from price and exchange rate changes	-0.9	-9.2	-15.5			…	…	…	…	…	…		…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	
Residual (3-4) 3/	**4.0**	**2.4**	**-14.4**			**-9.8**	**1.9**	**-4.8**	**-5.2**	**-5.3**	**-4.9**		**-5.0**	**-3.8**	**-3.5**	**-3.4**	**-2.5**	**-2.3**	**-2.4**	**-2.6**	**-2.7**	**-2.8**	**-3.0**	**-2.7**	**-3.6**	**-4.1**	**-4.1**	
o/w exceptional financing	-3.4	-2.5	29.8			0.3	22.2	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	0.0	0.0	0.0	0.0	
PV of external debt 4/	...	...	45.1			42.4	48.1	47.3	45.6	43.4	40.7		37.9	35.5	33.6	32.1	31.1	30.3	29.8	29.3	28.7	28.2	27.6	27.1	26.5	26.0	25.5	
In percent of exports	...	...	149.4			145.6	168.0	160.6	151.1	140.2	128.4		122.1	116.7	112.7	109.5	107.7	107.1	107.2	107.4	107.5	107.6	107.5	107.4	111.0	110.9	110.8	
PV of PPG external debt	**...**	**...**	**44.4**			**41.1**	**46.2**	**44.9**	**42.7**	**40.0**	**37.0**		**33.9**	**31.4**	**29.4**	**27.7**	**26.6**	**25.8**	**25.1**	**24.6**	**24.1**	**23.5**	**23.0**	**22.5**	**21.9**	**21.5**	**21.1**	
In percent of exports	**...**	**...**	**147.3**			**141.2**	**161.4**	**152.3**	**141.4**	**129.3**	**116.6**		**109.1**	**103.4**	**98.5**	**94.6**	**92.2**	**91.0**	**90.5**	**90.3**	**90.1**	**89.9**	**89.6**	**89.2**	**92.0**	**91.8**	**91.7**	
In percent of government revenues	**...**	**...**	**285.1**			**241.4**	**269.3**	**252.1**	**230.7**	**216.3**	**199.8**		**183.3**	**169.9**	**161.6**	**152.4**	**146.0**	**141.5**	**138.2**	**135.2**	**132.2**	**129.3**	**126.3**	**123.7**	**120.5**	**118.2**	**115.8**	
Debt service-to-exports ratio (in percent)	**13.6**	**11.2**	**7.3**			**5.4**	**5.5**	**8.8**	**10.4**	**11.8**	**12.3**		**12.6**	**10.6**	**8.9**	**8.1**	**6.7**	**5.9**	**5.4**	**5.5**	**5.7**	**6.0**	**6.2**	**6.5**	**7.0**	**7.1**	**7.2**	
PPG debt service-to-exports ratio (in percent)	**13.6**	**11.2**	**7.3**			**5.4**	**5.5**	**8.8**	**10.4**	**11.8**	**12.3**		**12.6**	**10.6**	**8.9**	**8.1**	**6.7**	**5.9**	**5.4**	**5.5**	**5.7**	**6.0**	**6.2**	**6.5**	**7.0**	**7.1**	**7.2**	
PPG debt service-to-revenue ratio (in percent)	**21.1**	**21.0**	**14.0**			**9.1**	**9.2**	**14.6**	**16.9**	**19.8**	**21.1**		**21.2**	**17.4**	**14.5**	**13.1**	**10.7**	**9.1**	**8.3**	**8.2**	**8.4**	**8.6**	**8.8**	**9.1**	**9.2**	**9.1**	**9.1**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.1	0.2			0.2	0.3	0.3	0.3	0.3	0.3		0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.7	0.7	0.8	
Non-interest current account deficit that stabilizes debt ratio	2.2	10.6	32.2			12.1	0.4	6.9	7.3	7.5	7.5		8.2	6.8	6.5	6.3	5.9	5.6	5.7	5.9	6.0	6.2	6.3	6.3	7.5	7.7	7.8	
Key macroeconomic assumptions																												
Real GDP growth (in percent)	3.7	1.9	2.2	1.6	2.2	3.1	3.3	3.5	3.9	4.1	4.0	3.6	4.0	3.8	3.9	3.7	3.8	3.8	3.9	3.9	4.0	4.1	4.1	3.6	4.2	3.7	4.0	3.9
GDP deflator in US dollar terms (change in percent)	1.1	11.5	23.2	6.4	10.0	-3.7	-3.2	-0.4	0.7	0.6	1.4	-0.8	1.8	8.1	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.5	2.4	2.5	2.4	2.8
Effective interest rate (percent) 5/	2.3	2.3	0.6	1.9	0.7	0.7	0.7	1.6	1.8	1.7	1.6	1.3	1.5	1.5	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.5
Growth of exports of G&S (US dollar terms, in percent)	-16.8	36.4	20.6	9.1	19.3	-4.3	-1.5	6.1	7.1	7.3	8.0	3.8	3.8	9.9	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.5	4.5	4.5	0.8	4.5	4.5	4.5
Growth of imports of G&S (US dollar terms, in percent)	-1.8	35.1	21.3	9.2	17.7	-2.8	2.9	6.8	5.0	5.2	5.3	3.7	5.4	7.4	5.1	4.9	5.0	5.0	5.1	5.2	5.2	5.2	5.2	5.2	5.3	5.2	5.2	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	32.7	35.2	40.6	40.6	40.6	40.6	38.4	37.9	36.6	35.2	33.9	32.6	31.2	29.9	28.6	27.2	25.9	25.4	24.6	24.0	23.2	22.7	29.3
Government revenues (excluding grants, in percent of GDP)	16.9	16.9	15.6			17.0	17.2	17.8	18.5	18.5	18.5		18.5	18.5	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2	18.2
Aid flows (in Billions of US dollars) 7/	0.0	0.1	0.1			0.1	0.2	0.2	0.2	0.2	0.3		0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.4	0.5	
o/w Grants	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.2	0.2		0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.9	5.0	5.1	5.1	5.2	5.3		5.2	5.2	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.5	4.5	4.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			68.1	74.3	81.2	81.3	80.0	78.4		77.4	77.2	78.6	78.4	78.2	77.6	77.1	76.6	76.0	75.4	75.2	74.8	74.5	72.9	72.9	76.2
Memorandum items:																												
Nominal GDP (Billions of US dollars)	2.2	2.5	3.2			3.2	3.1	3.2	3.4	3.6	3.7		4.0	4.5	4.7	5.0	5.4	5.7	6.1	6.4	6.9	7.3	7.8	8.3	8.8	9.4	10.0	
Nominal dollar GDP growth	4.8	13.6	25.9			-0.8	0.0	3.1	4.6	4.7	5.4	2.8	5.9	12.3	6.4	6.2	6.3	6.3	6.4	6.5	6.5	6.6	6.6	6.2	6.7	6.3	6.6	6.8
PV of PPG external debt (in Billions of US dollars)			1.3			1.4	1.4	1.4	1.4	1.4	1.4		1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.5	1.6	1.6	1.7	1.8	1.8	1.9	2.0	
(PVt-PVt-1)/GDPt-1 (in percent)						2.0	2.3	0.7	-0.2	-0.8	-1.0	0.5	-1.0	-0.5	-0.2	0.1	0.5	0.8	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.5

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt, does not include the US$ 32 million supplier credit signed in [ ].

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = 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.
The large amount in 2008 reflects the arrears clearance operation.

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 1b.Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections																				
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio																					
Baseline	41	46	45	43	40	37	34	31	29	28	**27**	26	25	25	24	24	23	23	22	22	21
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	41	41	37	34	30	27	24	22	21	19	**19**	19	19	19	19	19	18	18	17	16	15
A2. New public sector loans on less favorable terms in 2009-2029 2	41	46	45	43	41	39	37	33	31	30	**30**	29	29	29	29	28	28	28	28	28	28
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	43	11	12	12	12	13	13	13	13	13	**14**	14	15	16	17	17	18	18	19	19	19
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	41	47	48	46	43	40	37	32	30	28	**27**	26	25	25	24	24	23	23	22	22	21
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	41	47	51	49	46	43	40	35	33	31	**30**	29	28	27	26	25	24	23	22	22	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	41	46	48	45	43	39	36	32	30	28	**27**	26	25	25	24	23	23	22	22	21	21
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	41	45	46	44	41	38	35	31	29	27	**26**	25	24	24	23	22	22	21	21	20	20
B5. Combination of B1-B4 using one-half standard deviation shocks	41	44	47	44	42	39	35	31	29	27	**26**	25	25	24	24	23	22	22	21	21	20
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	41	66	65	61	58	53	49	43	40	38	**36**	35	34	33	32	32	31	30	29	29	28
PV of debt-to-exports ratio																					
Baseline	141	161	152	141	129	117	109	103	99	95	**92**	91	91	90	90	90	90	89	92	92	92
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	141	142	127	112	98	85	77	73	70	66	**66**	67	68	69	70	71	71	72	73	70	66
A2. New public sector loans on less favorable terms in 2009-2029 2	141	159	153	144	134	123	118	108	105	103	**102**	103	104	106	107	108	110	111	117	118	120
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	141	38	40	40	39	40	41	42	44	46	**48**	51	54	58	62	65	69	72	78	81	84
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	141	158	151	140	128	116	109	97	93	89	**86**	85	84	84	84	83	83	83	85	85	85
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	141	180	224	209	192	175	165	149	143	138	**134**	131	128	126	125	123	121	119	121	120	118
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	141	158	151	140	128	116	109	97	93	89	**86**	85	84	84	84	83	83	83	85	85	85
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	141	158	156	144	132	120	112	101	96	92	**90**	88	87	87	86	86	85	84	87	86	86
B5. Combination of B1-B4 using one-half standard deviation shocks	141	153	162	150	137	124	116	104	99	95	**93**	91	91	90	90	89	89	88	91	90	90
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	141	158	151	140	128	116	109	97	93	89	**86**	85	84	84	84	83	83	83	85	85	85
PV of debt-to-revenue ratio																					
Baseline	241	269	252	231	216	200	183	170	162	152	**146**	142	138	135	132	129	126	124	121	118	116
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	241	237	210	184	163	147	130	121	114	107	**105**	104	104	104	103	102	100	100	95	90	84
A2. New public sector loans on less favorable terms in 2009-2029 2	241	265	253	235	224	211	198	178	172	166	**162**	160	159	158	157	156	155	154	153	152	152
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	241	64	66	65	66	68	69	70	72	74	**76**	79	83	87	91	94	97	100	102	104	106
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	241	275	272	248	233	215	198	173	164	155	**148**	143	140	136	133	130	127	124	121	118	116
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	241	274	286	263	248	232	215	189	181	171	**164**	157	151	146	141	137	132	127	123	119	115
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	241	269	268	245	230	213	195	171	162	153	**146**	142	138	135	132	129	125	123	119	117	114
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	241	264	258	236	221	205	189	166	157	148	**142**	137	133	130	127	123	120	117	114	111	108
B5. Combination of B1-B4 using one-half standard deviation shocks	241	258	263	241	226	209	192	168	160	151	**144**	140	136	133	129	126	123	120	117	114	112
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	241	383	363	332	311	288	264	232	220	207	**198**	192	187	182	178	174	170	166	161	158	155

Table 1b.Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

Debt service-to-exports ratio

Baseline	5	6	9	10	12	12	13	11	9	8	**7**	6	5	5	6	6	6	7	7	7	7
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	5	5	8	9	11	11	11	10	8	8	**6**	5	4	4	4	5	5	6	6	6	6
A2. New public sector loans on less favorable terms in 2009-2029 2	5	6	9	10	12	13	12	10	9	8	**7**	7	7	7	7	7	8	8	9	9	9
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	5	5	2	3	3	3	4	4	3	3	**3**	2	2	2	2	2	3	3	4	4	4
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	5	6	9	10	12	12	13	11	9	8	**7**	6	5	5	6	6	6	6	7	7	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	5	6	12	14	16	16	17	14	12	11	**10**	9	9	9	9	9	9	10	10	10	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	5	6	9	10	12	12	13	11	9	8	**7**	6	5	5	6	6	6	6	7	7	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	5	6	9	10	12	12	13	11	9	8	**7**	6	6	6	6	6	6	7	7	7	7
B5. Combination of B1-B4 using one-half standard deviation shocks	5	5	9	11	13	13	13	11	9	9	**7**	6	6	6	6	6	7	7	7	7	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	5	6	9	10	12	12	13	11	9	8	**7**	6	5	5	6	6	6	6	7	7	7

Debt service-to-revenue ratio

Baseline	9	9	15	17	20	21	21	17	15	13	**11**	9	8	8	8	9	9	9	9	9	9
A. Alternative Scenarios																					
A1. Key variables at their historical averages in 2009-2029 1/	9	9	13	15	18	19	19	16	14	13	**9**	8	7	6	6	7	7	8	8	8	8
A2. New public sector loans on less favorable terms in 2009-2029 2	9	9	15	17	20	22	21	16	14	13	**11**	10	10	10	11	11	11	12	12	12	12
A3. Alternative Scenario :full delivery of HIPC, MDRI, and beyond HIPC debt relief	9	9	4	5	6	5	6	6	5	5	4	3	3	3	3	4	4	4	5	5	6
B. Bound Tests																					
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	9	10	16	18	21	23	23	19	16	14	**12**	10	9	9	9	9	9	10	10	10	10
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	9	9	15	18	20	22	22	18	15	14	**12**	11	10	10	10	10	10	10	11	10	10
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	9	9	16	18	21	23	23	19	16	14	**11**	10	9	9	9	9	9	10	10	10	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	9	9	15	17	20	21	21	17	15	13	**11**	10	9	9	9	9	9	9	9	9	9
B5. Combination of B1-B4 using one-half standard deviation shocks	9	9	15	18	21	22	22	18	15	14	**11**	10	9	9	9	9	9	9	10	9	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	9	13	21	24	29	31	31	25	21	19	**15**	13	12	12	12	12	13	13	13	13	13
Memorandum item:																					
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	31	31	31	31	31	31	31	31	31	31	**31**	31	31	31	31	31	31	31	31	31	31

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, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	115.1	109.1	83.9			70.6	75.6	70.0	63.5	58.6	53.5		37.6	28.4	
o/w foreign-currency denominated	88.7	82.5	55.6			49.5	55.6	54.0	51.5	48.6	45.3		33.9	26.3	
Change in public sector debt	2.0	-6.1	-25.1			-13.4	5.0	-5.6	-6.5	-4.9	-5.1		-1.8	-0.7	
Identified debt-creating flows	-9.5	-10.6	-26.7			-6.8	3.7	-0.9	-1.2	-1.0	-1.2		-0.8	-0.3	
Primary deficit	1.7	-0.3	-0.5	-0.3	2.0	0.3	0.3	1.2	0.8	0.9	1.1	0.8	1.0	1.1	1.1
Revenue and grants	18.3	18.5	17.8			20.0	21.2	22.1	22.8	22.8	22.8		22.5	22.2	
of which: grants	1.4	1.7	2.2			3.0	4.1	4.3	4.3	4.3	4.3		4.3	4.0	
Primary (noninterest) expenditure	20.0	18.3	17.2			20.3	21.5	23.3	23.6	23.7	23.9		23.5	23.3	
Automatic debt dynamics	-11.1	-10.3	-9.9			-6.8	3.5	-2.1	-2.0	-1.9	-2.3		-1.8	-1.3	
Contribution from interest rate/growth differential	-2.0	-2.3	-15.5			-2.8	-2.4	-2.7	-2.7	-2.5	-2.7		-1.8	-1.3	
of which: contribution from average real interest rate	2.0	-0.1	-13.1			-0.3	-0.2	-0.1	-0.1	0.0	-0.4		-0.4	-0.2	
of which: contribution from real GDP growth	-4.0	-2.1	-2.4			-2.5	-2.2	-2.6	-2.6	-2.5	-2.2		-1.4	-1.1	
Contribution from real exchange rate depreciation	-9.1	-8.0	5.5			-4.0	5.9	0.5	0.7	0.6	0.4		...	...	
Other identified debt-creating flows	-0.1	0.0	-16.2			-0.3	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.1	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	
Debt relief (HIPC and other)	0.0	0.0	-16.2			-0.3	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	
Residual, including asset changes	11.4	4.5	1.6			-6.6	1.3	-4.6	-5.3	-3.9	-4.0		-1.1	-0.4	
Other Sustainability Indicators															
PV of public sector debt	26.4	26.6	72.8			62.2	66.2	60.9	54.7	50.0	45.1		30.3	23.2	
o/w foreign-currency denominated	0.0	0.0	44.4			41.1	46.2	44.9	42.7	40.0	37.0		26.6	21.1	
o/w external	...	...	44.4			41.1	46.2	44.9	42.7	40.0	37.0		26.6	21.1	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	6.0	4.0	2.9			3.8	4.9	7.1	6.1	6.6	6.9		3.7	3.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	144.4	143.3	409.8			310.6	311.7	275.6	239.8	219.3	197.9		134.5	104.1	
PV of public sector debt-to-revenue ratio (in percent)	156.2	157.7	467.1			365.4	385.5	342.1	295.6	270.3	243.8		166.3	127.2	
o/w external 3/	…	…	285.1			241.4	269.3	252.1	230.7	216.3	199.8		146.0	115.8	
Debt service-to-revenue and grants ratio (in percent) 4/	23.2	23.1	19.3			17.5	21.6	26.5	23.3	24.7	25.6		11.6	9.1	
Debt service-to-revenue ratio (in percent) 4/	25.1	25.4	22.0			20.5	26.7	32.9	28.8	30.4	31.5		14.4	11.2	
Primary deficit that stabilizes the debt-to-GDP ratio	-0.2	5.8	24.6			13.7	-4.7	6.8	7.3	5.8	6.2		2.9	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.7	1.9	2.2	1.6	2.2	3.1	3.3	3.5	3.9	4.1	4.0	3.6	3.8	4.0	3.9
Average nominal interest rate on forex debt (in percent)	2.3	2.3	0.6	1.9	0.7	0.7	0.7	1.6	1.8	1.8	1.7	1.4	1.5	1.7	1.6
Average nominal interest rate on domestic debt (in percent)	0.8	1.1	0.9	1.0	0.2	2.6	3.4	2.5	2.1	2.1	1.9	2.4	0.6	0.9	1.0
Average real interest rate (in percent)	1.8	-0.1	-12.3	-1.1	6.5	-0.3	-0.3	-0.1	-0.1	0.0	-0.7	-0.3	-1.0	-0.7	-0.9
Average real interest rate on foreign-currency debt (in percent)	-0.2	-2.1	-12.8	-2.8	6.4	-1.6	-1.7	-1.9	-1.9	-1.7	-2.4	-1.9	-2.3	-2.3	-2.3
Average real interest rate on domestic debt (in percent)	0.6	-1.0	-12.1	-4.1	6.9	0.9	1.6	0.5	0.1	0.3	-0.5	0.5	-1.8	-1.5	-1.4
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.3	-9.2	7.8	-4.4	10.6	-7.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.2	2.1	14.8	3.3	6.6	1.7	1.8	2.0	2.0	1.8	2.5	2.0	2.4	2.4	2.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	-0.1	0.0	0.0	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	32.7	35.2	40.6	40.6	40.6	40.6	38.4	32.6	22.7	...

Sources: Country authorities; and staff estimates and projections.

1/ Covers public and publicly guaranteed debt including state-owned enterprises debt. Does not include the US$ 32 million supplier credit signed in [ ].

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 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	62	66	61	55	50	45	30	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	62	67	61	55	50	48	23	4
A2. Primary balance is unchanged from 2009	62	66	60	53	48	43	24	12
A3. Permanently lower GDP growth 1/	62	67	62	56	52	47	36	42
A4. Alternative Scenario :With HIPC, MDRI, Beyond-HIPC assistance	61	31	31	31	31	31	31	31
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	62	69	68	63	59	56	46	49
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	62	68	63	57	52	47	32	25
B3. Combination of B1-B2 using one half standard deviation shocks	62	68	64	59	55	51	40	41
B4. One-time 30 percent real depreciation in 2010	62	89	83	76	71	65	48	39
B5. 10 percent of GDP increase in other debt-creating flows in 2010	62	76	71	65	60	55	39	30
PV of Debt-to-Revenue Ratio 2/								
Baseline	311	312	276	240	219	198	134	104
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	311	313	274	237	214	207	99	16
A2. Primary balance is unchanged from 2009	311	312	272	234	211	186	107	52
A3. Permanently lower GDP growth 1/	311	313	279	245	226	207	160	185
A4. Alternative Scenario :With HIPC, MDRI, Beyond-HIPC assistance	311	146	126	105	97	91	78	96
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	311	325	304	272	257	240	202	218
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	311	318	284	248	228	206	142	110
B3. Combination of B1-B2 using one half standard deviation shocks	311	321	288	256	239	221	176	181
B4. One-time 30 percent real depreciation in 2010	311	417	374	334	311	287	214	177
B5. 10 percent of GDP increase in other debt-creating flows in 2010	311	359	321	283	263	241	174	136
Debt Service-to-Revenue Ratio 2/								
Baseline	17	22	26	23	25	26	12	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	17	22	27	24	26	27	12	5
A2. Primary balance is unchanged from 2009	17	22	26	23	24	25	11	6
A3. Permanently lower GDP growth 1/	17	22	27	24	25	26	13	13
A4. Alternative Scenario :With HIPC, MDRI, Beyond-HIPC assistance	17	21	18	15	14	14	8	7
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	17	22	28	25	27	28	14	16
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	17	22	27	24	25	26	12	10
B3. Combination of B1-B2 using one half standard deviation shocks	17	22	28	24	26	27	13	14
B4. One-time 30 percent real depreciation in 2010	17	23	33	31	33	35	19	20
B5. 10 percent of GDP increase in other debt-creating flows in 2010	17	22	28	26	26	27	13	12

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.

APPENDIX III—Togo: Joint Management Action Plan on Bank-Fund Collaboration (JMAP)

Updated on March 25, 2010

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:**		
	DPO—Economic Recovery and Governance Grant		May 2010
	Agriculture Sector project		December 2010
	Abidjan-Lagos Trade and Transport Facilitation Project		March 2010
	Education for All/FTI (Trust Fund)		May 2010
	Economic and Sector Work:		
	Country Economic Memorandum/DTIS		April 2010
	Investment Climate Assessment Policy Note		May 2010
	Country Environmental Analysis		May 2010
	Accounting and Auditing Assessment		March 2010
	Growth Diagnostic Study		May 2010
	ITC Policy Dialogue		June 2010
	Technical assistance/other analytical:		
	Education Sector Program		Completed
	Strategic/financial audit of CEET		August2010
	Strategic/financial audit of CRT		August 2010
IMF work program in the next 12 months	**Lending:**		
	Fourth review under PRGF	April 2010	June 2010 (SR and Board)
	Fifth review under PRGF	September 2010	December 2010 (SR and Board)
	Technical assistance:		
	Banking sector restructuring and NPL Mechanism (MCM)		April 2010
	Petroleum Product Pricing Policies (FAD)		June 2010
	Treasury Plan and Management (AFRITAC)		June 2010
B. Requests for work program inputs			
Fund requests to Bank	Technical support on telecommunications sector due to its significant fiscal impact through non-tax revenues.		
Bank request to Fund	Letter of assessment of macroeconomic policies to support the Bank's budget support operation.		April 2010
C. Agreement on joint products and missions			
Joint Bank-Fund products in the next 12 months	HIPC completion point		October 2010
			Board December 2010

Note: A long-term strategy paper for and an audit for the phosphate sector financed by a LICUS Trust Fund was completed in September 2009 and validated by stakeholders in a workshop in November. The approval of this strategy by the Council of Ministers is part of the IMF program's conditionality.

Statement by the IMF Staff Representative
June 25, 2010

This statement provides information that has become available since the staff report was issued to the Executive Board on June 11, 2010. The new information does not alter the thrust of the staff appraisal.

1. The promissory notes that triggered the nonobservance of the external debt performance criterion have been canceled (paragraph 6 of the Staff Report and paragraph 14 of the Letter of Intent). The restitution of the promissory notes was part of the authorities' agreement with the supplier to cancel the contract, which also included some costs.

2. The authorities raised the prices for petroleum products by 15–22 percent on June 19, 2010. They also publicly explained their intention to strengthen the pass-through of international prices with a smoothing mechanism, as envisioned under the program (paragraph 13 of the Staff Report and paragraph 33 of the Letter of Intent). A technical assistance mission from FAD conducted discussions on the petroleum product pricing mechanism on June 13–24, 2010.

3. Some steps in the restructuring of the financial sector are taking longer than expected in the original timetable, including updating the legal framework for privatization and issuing a pre-qualification notice (paragraph 14 of the Staff Report and paragraphs 17 and 31 of the Letter of Intent). While it remains feasible to issue the final call for bids by the end of September (as envisioned in the structural benchmark), expeditious action by the authorities will be necessary to maintain the original timetable.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/258
FOR IMMEDIATE RELEASE
June 25, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under ECF Arrangement for Togo and Approves US$16.2 Million Increase in Financial Support

The Executive Board of the International Monetary Fund (IMF) today completed its fourth review of Togo's economic performance under its Extended Credit Facility (ECF) arrangement and approved an augmentation of access of SDR 11 million (US$16.2 million). With this augmentation, completion of the review allows Togo to access SDR 14.30 million (US$21.1 million) immediately, bringing total disbursements under the arrangement to SDR 72.31 million (US$106.7 million). The Executive Board granted waivers for nonobservance of two performance criteria related to fiscal performance for end- December 2009 and a third regarding nonconcessional external debt.

The Executive Board approved Togo's three-year arrangement under the ECF (formerly Poverty Reduction and Growth Facility) in April 2008, in an amount of SDR 66.06 million (US$97.5 million – see Press Release No. 08/90). Following an SDR 18.35 million (US$27.1 million) augmentation in September 2008 (see Press Release No. 08/216), today's augmentation brings total access under the full three-year arrangement to SDR 95.41 million (US$140.8 million).

Togo, a member of the Fund since 1962, reached its decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in November 2008 (see Press Release No. 08/304) and could qualify for the HIPC completion point as early as the end of 2010.

After the Executive Board's discussion of Togo, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"The Togolese authorities have satisfactorily implemented their economic reform program supported by the ECF arrangement, notwithstanding the adverse impact of global recession.

"The countercyclical fiscal stance for 2010 remains appropriate, in light of the lingering effects of the global recession on Togo's economy. In particular, the increased levels of domestically-financed public investment and clearance of domestic arrears in cash will help offset the impact of the difficult external conditions on exports, remittances and financial flows. Over the medium term, gradual fiscal consolidation will be necessary, with disciplined growth in current spending, including the wage bill.

"The authorities are implementing prompt corrective actions in reaction to some recent slippages to program targets. In particular, they adjusted the 2010 fiscal framework to offset the impact of fiscal slippages in 2009; canceled the nonconcessional external borrowing they had contracted; and strengthened monitoring of budget execution and debt management.

"The substantial structural reforms underway need to be completed to realize their full benefits in terms of growth potential. Structural measures have advanced significantly, particularly in domestic arrears clearance, public financial management, and adoption of a reform strategy for the phosphate sector. The authorities also have new plans to improve petroleum products pricing and establish a "one-stop-window" for trade and customs procedures. Progress continues in bank restructuring, although the ambitious preparation schedule for privatization of state-owned banks will require intensified efforts.

"A continuation of the disciplined program implementation seen in 2008 will be important, especially in light of the difficulty of financing any fiscal slippages. In this connection, the authorities are determined to fulfill the conditions necessary to reaching the HIPC completion point by the end of the year."

Statement by Laurean W. Rutayisire, Executive Director for Togo and Kossi Assimaidou, Alternate Executive Director June 25, 2010

I - INTRODUCTION

We would like to express our Togolese authorities' appreciation of the continued engagement of Fund staff with Togo and their quality policy advice, notably through the current ECF-supported program. We also thank the Executive Board and Management for maintaining a constructive dialogue with our authorities throughout the recent years of a challenging domestic and external environment. Our authorities share the thrust of the staff report.

Following the food and fuel price shocks in 2007-08 and the adverse impact of flood in 2008 which destroyed critical road and bridge infrastructure, the economy of Togo has been hit by the effect of the global economic recession in 2009, notably through decreased exports and remittances and lower-than-expected FDI. This has prevented growth from reaching its estimated potential, government revenues from reaching target, and thus leading to missing two performance criteria for end-December 2009 (fiscal balance and domestic financing). Weak administrative capacities contributed to the contracting of a loan that does not meet the concessionality requirement. Upon realizing this deficiency, our authorities have taken a corrective action after consulting with Fund staff. Moreover, the external financing needs identified earlier in the program still remain.

Despite the challenging circumstances facing the country, our authorities have broadly met the program objectives under the current review. All other performance criteria have been observed and all structural reforms through 2009 have been implemented while the ambitious structural benchmarks at end-March 2010, including the implementation of the domestic arrears clearance strategy, have been effectively satisfied.

Our Togolese authorities remain strongly committed to a rigorous implementation of the program. They also continue to see the HIPC completion point—toward which they continue to make progress—as a central milestone in their strategy to ensure stronger and sustainable growth and reduce poverty. Based on their good policy and reform implementation, despite difficult circumstances, and the corrective actions they have taken to remedy the missed criteria, our authorities request the completion of the Fourth Review under the ECF arrangement and waivers for the nonobservance of performance criteria. Furthermore, they have endeavored to close part of the financing gap through external budget support and the Food Facility instrument of the EU. Nevertheless, a residual financing gap remains, for which our authorities are requesting an augmentation of access under the ECF amounting to SDR 11 million and equivalent to 15 percent of quota.

II – CONTINUED TRACK RECORD OF POLICY AND REFORM IMPLEMENTATION

Since the last review under the current ECF arrangement, our authorities have pursued countercyclical macroeconomic policies—notably on the fiscal front—to mitigate the effects of the global recession, while maintaining the program objectives.

In this context, **fiscal policy** continues to strengthen notwithstanding difficult conditions. Although revenues at end 2009 fell short due to the economic slowdown and lower-than-expected exceptional nontax revenues, our authorities had to preserve planned expenditures and faced unexpected personnel costs related to the health and education sectors, and security for the March 2010 presidential elections. This led to exceeding the target for the domestic primary fiscal deficit by 0.2 percent of GDP and, combined with more successful-than-envisaged efforts in clearing domestic arrears vis-à-vis the private sector, contributed to exceeding the net domestic financing ceiling. Our authorities believe that the ongoing implementation of the domestic arrears clearance strategy will help rekindle private sector activity. They also continue to meet the PC regarding the non-accumulation of external arrears.

Concerning **external borrowing**, there has been a contracting of external credit early this year aimed at modernizing the TV broadcasting system, which did not meet the concessionality requirement under the program owing to insufficient capacities on the part of the authorities. After consultation with Fund staff, the authorities have since taken a forceful corrective action by cancelling the promissory notes by mutual agreement with the external supplier. Having also cancelled the related project, they are now seeking collaboration from development partners to implement a more suitable rehabilitation and extension project consistent with the country's debt sustainability.

The implementation of **structural reforms** has continued satisfactorily, with all structural benchmarks and performance criteria through 2009 having been observed. These include the reduction in tax and customs exemptions and strengthening of tax and customs controls; the operationalization of new Treasury structures based on WAEMU directives; the restructuring/recapitalization of a bank, BTCI; the launching of a process to identify strategic investors for state-owned banks; and the preparation of a development strategy for the phosphates sector based on the results of the strategic audit. The latter measure was observed with delay due to the initial delay in the completion of the audit (insufficient number of firms responding to the initial tender) as noted during the second review under the program last year.

III –POLICIES FOR THE REMAINDER OF 2010 AND FOR 2011

In pursuing efforts to boost the economy, our Togolese authorities remain determined to enhance fiscal governance; maintain macroeconomic stability and program objectives;

pursue prudent debt management through external financing based on grants and highly concessional loans; and advance structural reforms in key growth-oriented sectors, notably banks, cotton, phosphates and telecommunications. They understand the importance of revitalizing these sectors, both for fiscal sustainability and growth purposes.

Fiscal policy and debt management

In the difficult economic environment still dominated by the effects of the global crisis, fiscal policy will continue to be geared towards supporting economic activity notably through higher investment and poverty reducing expenditure, building on improvements in the execution of public investment and priorities defined in the country's PRSP. Motivated by the continuing impact of the global crisis on Togo's exports and remittances, this policy stance will require the mobilization of adequate financial resources. In this vein, our authorities hope that they can count on additional financial assistance from development partners. On their part, the authorities have revised upward their domestic revenue objectives, based on additional efforts in tax collection and increased effectiveness in nontax revenue mobilization. All these efforts will be supported by continuing public financial management reforms, notably in the implementation of the mechanism for managing cash flows and monitoring budget execution and the completion of the financial and organizational audit of *Caisse de Retraite du Togo* (Togo's retirement fund).

Over the medium-term, the fiscal policy stance will be guided by a tighter target of domestic primary balance which will involve a gradual adjustment starting in 2011.

Our authorities remain committed to strengthening debt management through improved public finances, reliance on concessional external financing, the pursuit of securities and bonds issue program, and improvement in debt management capacity with Fund assistance. At the same time, they intend to continue settling the outstanding domestic arrears balance.

Financial sector reform

Our Togolese authorities remain committed to restructuring and privatizing the four state-owned banks, with the aim of restoring confidence and vivacity in the sector while at the same time improving debt dynamics with debt repayment using privatization revenues. To this end, they plan to publish a call for bids by September 2010. In the meantime, they will maintain, in collaboration with the regional banking commission, a close oversight of the banks' management throughout the restructuring process. The government will also set up a mechanism for managing and collecting the NPLs of state-owned banks by end-December 2010.

Other structural reforms

Reforms of state-owned enterprises will also be pursued as scheduled, with a view to restoring their financial health and promote production and productivity gains. In the *phosphates sector*, the strategy will proceed in accordance with the strategic audit. In the *electricity sector*, the government is adopting a cost-recovery approach and a price adjustment mechanism. In the *telecommunications sector,* the authorities intend to strengthen the regulatory framework with the assistance of partners, following regional directives, with the view to ensure competition and economic efficiency. They also aim at developing a medium-term strategy to increase the sector's contribution to growth. Regarding *the Port Autonome de Lomé*, the authorities seek to take advantage of its regional position to promote it as a trade hub by creating a one-stop window for foreign trade to facilitate all administrative procedures for exports and imports at one location.

Regarding the *petroleum sector*, the Togolese government has undertaken a restructuring of the domestic pricing mechanism, with the view to limiting fiscal risks by institutionalizing automatic adjustments of petroleum product prices. In this vein, an FAD mission is currently visiting Lomé to provide advice and technical assistance. Already, the authorities have increased domestic petroleum prices in recent days.

IV – POVERTY REDUCTION STRATEGY AND HIPC PROCESS

As our authorities have emphasized, Togo is determined to fulfill all the conditions for meeting the HIPC completion point triggers as early as end-2010. The process of preparing the full PRSP in a large participatory setting involving all segments of society, including the government, the civil society, the business community, development partners and the National Assembly, was completed a year ago and implementation is proceeding.

Other requirements for the HIPC completion point are also advancing well. Among the completion point triggers, the decree on the Procurement Regulatory Agency was adopted in November 2009 and the amounts of approved contracts are being published; the *Cour des Comptes* has been made operational with regular Treasury Balances and the *Loi de Règlement* for 2007 and 2008 prepared and transmitted; and an annual report on the revenues from, and payments to, the phosphate company, in line with the EITI criteria, will be published.

Our Togolese authorities fully understand that the attainment of greater growth rates in the medium run is predicated on reaching the completion point to make Togo's debt outlook sustainable and their capacity to close the country's infrastructure gaps, boost productivity by taking advantage of moderate wages and a competitive, well-educated labor force, and create a business-friendly environment. They acknowledge the weaknesses in these areas, and agree with the recommendations of Fund staff. In fact, their approach, embodied in the PRS, focuses on three pillars: (i) rehabilitating infrastructure; (ii) improving the quality of education and making it more accessible; and (iii) addressing the factors that impede a good business environment, notably the investment code, the corporate tax system, business registration, property rights, and the judicial system.

V – Conclusion

Togo continues to face capacity and infrastructural challenges. Nevertheless, our Togolese authorities are determined to do their utmost to meet the HIPC completion point requirements. These include maintaining a good implementation of the ECF-supported program, putting in place the full poverty reduction strategy and meeting the trigger points under the enhanced HIPC Initiative. They will do so while promoting a climate of political and social stability, and peace. All the economic efforts made and committed by the authorities, especially in the context of an unfavorable environment, will require the continued support of the international community. Fresh resources to finance investments and reforms are critically needed to achieve the objectives laid out in the ECF-supported program and the country's PRSP.

Based on our authorities' continued good track record and their renewed determination to pursue sound policies and reforms going forward, we call on the Executive Board to support the proposed decisions.