INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/379

# TOGO

December 2017

## FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—PRESS RELEASE; AND STAFF REPORT

In the context of the first review under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 30, 2017, with the officials of Togo on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 30, 2017.
- An **Informational Annex** prepared by the IMF staff.

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

Letter of Intent sent to the IMF by the authorities of Togo*
Memorandum of Economic and Financial Policies by the authorities of Togo*
Technical Memorandum of Understanding*
*Also, included in the Staff Report

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

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/496
FOR IMMEDIATE RELEASE
December 14, 2017

International Monetary Fund
Washington, D. C. 20431 USA

**IMF Executive Board Concludes First Review under the Extended Credit Facility Arrangement for Togo and Approves US$35.6 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) completed today the first review of Togo's performance under the program supported by the Extended Credit Facility (ECF) on a lapse-of-time basis.[1] The completion enables the release of SDR25.17 million (about US$35.61 million), bringing total disbursements under the arrangement to SDR50.34 million (about US$71.22 million). The ECF arrangement for SDR176.16 million (120 percent of Togo's quota in the IMF) to support the country's economic and financial reforms was approved on May 5, 2017 (see Press Release No. 17/151).

Program implementation under the ECF-supported program has been good. All quantitative performance criteria and prior actions were met as well as four out of five structural benchmarks.

The fiscal consolidation envisaged under the ECF-supported program has begun. The primary deficit improved from an annual average of about 6 percent of GDP in 2013-16 to a surplus of 1.4 percent of GDP in the first half of 2017, due primarily to expenditure rationalization and the halting of non-orthodox financing of public investment. Public debt is projected to decline from the peak of 81.5 percent of GDP at end-2016 to 77.3 percent of GDP by end-2017. Economic activity is estimated to have expanded by 4.8 percent in 2017, with low inflation. The current account deficit remains large but is expected to narrow gradually.

[1] The Executive Board takes decisions under its lapse-of-time procedure when a proposal can be considered without convening formal discussions.

The medium-term growth projections were revised slightly downward and the balance of risks is tilted to the downside. The recent infrastructure upgrading and external concessional financing are expected to support productivity, stimulate private investments, and thus compensate for the negative fiscal impulse resulting from the fiscal consolidation. However, country-specific and regional/global factors may cloud program implementation. In particular, if the tensions in recent months persist, the private investment boost that is expected to compensate for the public investment retrenchment may not fully materialize.

Fiscal consolidation is set to continue in 2018, while accommodating tighter domestic and external constraints. Sustained fiscal efforts will help reduce debt further and create room for additional social spending, which is critical for poverty reduction. Strengthening fiscal institutions and debt management is essential. The efficiency of public spending will be improved by requiring that public investment projects follow established procurement and budgetary processes. The authorities are enhancing controls to broaden the taxpayer base and improve revenue collection. Improved cash management and prudent borrowing policies will result in lower government borrowing costs, further helping the fiscal adjustment. Moreover, given the harmful impact of government payment arrears on economic activity, the authorities plan to step up efforts to verify the arrears stock, proceed with its clearance, and strengthen the system of public financial management to prevent new arrears accumulation.

The restructuring of weak banks should be accelerated to help restore financial stability and prevent the reemergence of risks to the state budget. The restructuring should be guided by sound principles, which will provide a solid basis for the operations of the newly-merged bank. The timely finalization and adoption of a comprehensive restructuring plan, including measures to restore financial viability and a business plan of the new bank, are priorities.

Broader structural reforms are essential to boost productivity, competitiveness, and inclusive growth. As public investment returns to a sustainable level, the private sector is expected to play an increasing role as the engine of growth. It is essential to improve the business climate, including by opening-up some key sectors.

## Table 1. Togo: Selected Economic and Financial Indicators, 2014–22

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Proj. | | | | | |
| | (Percentage change, unless otherwise indicated) | | | | | | | | |
| National income, prices, and exchange rates | | | | | | | | | |
| Real GDP | 5.9 | 5.3 | 5.0 | 4.8 | 5.0 | 5.2 | 5.3 | 5.4 | 5.6 |
| Real GDP per capita | 3.1 | 2.5 | 2.2 | 2.0 | 2.2 | 2.4 | 2.5 | 2.6 | 2.8 |
| GDP deflator | -0.1 | 2.7 | 2.5 | 0.9 | 1.5 | 1.6 | 2.0 | 2.7 | 3.0 |
| Consumer price index (average) | 0.2 | 1.8 | 0.9 | -0.1 | 1.2 | 1.4 | 2.0 | 2.0 | 2.0 |
| GDP (CFAF billions) | 2,259 | 2,443 | 2,628 | 2,779 | 2,962 | 3,166 | 3,400 | 3,680 | 4,012 |
| Exchange rate CFAF/US$ (annual average level) | 493.6 | 591.2 | 592.7 | … | … | … | … | … | … |
| Real effective exchange rate (appreciation = –) | -1.2 | 7.1 | -1.0 | … | … | … | … | … | … |
| Terms of trade (deterioration = –) | 3.2 | -11.5 | -0.2 | -2.3 | -0.8 | 0.9 | 1.4 | 0.8 | 2.5 |
| | (Percentage change of beginning-of-period broad money) | | | | | | | | |
| Monetary survey | | | | | | | | | |
| Net foreign assets | -7.0 | -3.6 | 5.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net credit to government | 1.3 | -2.1 | -2.3 | -4.0 | -2.3 | -0.6 | -2.3 | -1.6 | -2.9 |
| Credit to nongovernment sector | 1.2 | 13.2 | 10.1 | 11.2 | 10.6 | 8.9 | 11.1 | 11.0 | 13.1 |
| Broad money (M2) | 3.7 | 20.6 | 12.6 | 5.7 | 6.6 | 6.9 | 7.4 | 8.2 | 9.0 |
| Velocity (GDP/end-of-period M2) | 2.1 | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Investment and savings | | | | | | | | | |
| Gross domestic investment | 32.7 | 33.8 | 33.8 | 31.8 | 32.1 | 29.1 | 31.0 | 31.9 | 31.8 |
| Government | 11.3 | 13.1 | 14.0 | 11.0 | 10.6 | 7.1 | 8.5 | 8.5 | 8.4 |
| Nongovernment | 21.4 | 20.7 | 19.9 | 20.7 | 21.5 | 22.1 | 22.5 | 23.4 | 23.4 |
| Gross national savings | 22.7 | 22.7 | 24.1 | 23.5 | 23.9 | 21.9 | 24.6 | 26.5 | 26.8 |
| Government | 4.5 | 4.2 | 4.4 | 8.7 | 8.2 | 7.3 | 7.7 | 7.2 | 7.3 |
| Nongovernment | 18.2 | 18.5 | 19.8 | 14.8 | 15.8 | 14.5 | 16.9 | 19.3 | 19.5 |
| Government budget | | | | | | | | | |
| Total revenue and grants | 20.7 | 22.1 | 21.7 | 25.3 | 25.6 | 25.4 | 25.5 | 25.4 | 25.4 |
| Revenue | 18.3 | 19.7 | 18.9 | 20.0 | 21.7 | 21.3 | 21.4 | 21.3 | 21.3 |
| Total expenditure and net lending | 27.5 | 31.1 | 31.4 | 27.6 | 28.0 | 25.1 | 26.2 | 26.7 | 26.5 |
| Domestic primary expenditure | 21.5 | 23.0 | 23.4 | 17.8 | 18.2 | 16.0 | 17.5 | 17.6 | 17.5 |
| Domestic primary balance[1] | -3.1 | -3.2 | -4.5 | 2.3 | 3.5 | 5.3 | 3.9 | 3.7 | 3.8 |
| Overall primary balance (cash basis) | -6.5 | -5.4 | -7.2 | -2.7 | -2.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Overall balance (cash basis) | -8.0 | -7.8 | -9.6 | -4.8 | -4.6 | -1.1 | -0.8 | -1.3 | -1.0 |
| External sector | | | | | | | | | |
| Current account balance | -10.0 | -11.2 | -9.7 | -8.2 | -8.2 | -7.3 | -6.4 | -5.4 | -5.0 |
| Exports (goods and services) | 39.7 | 36.3 | 34.9 | 33.9 | 32.9 | 33.7 | 34.1 | 35.0 | 34.5 |
| Imports (goods and services) | -57.7 | -58.5 | -54.9 | -52.3 | -50.9 | -50.8 | -50.3 | -50.2 | -49.2 |
| External public debt[2] | 17.3 | 21.2 | 20.4 | 21.0 | 23.4 | 26.1 | 26.6 | 26.8 | 26.6 |
| External public debt service (percent of exports)[2] | 2.9 | 3.1 | 5.2 | 4.2 | 3.7 | 3.9 | 4.7 | 4.9 | 5.3 |
| Domestic public debt[3,4] | 47.8 | 54.3 | 61.2 | 56.3 | 51.0 | 44.1 | 40.1 | 36.3 | 32.3 |
| Total public debt[4,5] | 65.1 | 75.6 | 81.5 | 77.3 | 74.4 | 70.2 | 66.7 | 63.0 | 58.9 |

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprise external debt.

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

[4] Does not include bank recapitalization costs, estimated at 2-4 percent of GDP. Realization of these costs will worsen the debt profile.

[5] Includes prefinancing debt, domestic arrears and state-owned enterprise debt.

INTERNATIONAL MONETARY FUND

# TOGO

November 30, 2017

## FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT

## EXECUTIVE SUMMARY


**Context:** Growth is projected to hover around 5 percent and inflation to remain within the WAEMU convergence criteria of 3 percent during the 2017-19 program period. The authorities have started the fiscal consolidation envisaged under the ECF-supported program. They have halted the non-orthodox financing of public investment, which had led to a rapid debt accumulation in recent years. Weak institutional capacity may pose risks to program implementation; this may be exacerbated by recent protests, which are the most serious political unrest in Togo in more than a decade.

**Program performance:** All quantitative performance criteria at end-June 2017 were met, as well as four of the five end-June and end-September 2017 structural benchmarks. The two indicative targets at end-June 2017 were missed. The structural benchmark on a restructuring plan for the two ailing public banks has encountered significant delays.

**Policy recommendations:**

- Pursue in 2018 the fiscal consolidation initiated in 2017 to put debt firmly on a downward path while accommodating tighter domestic and external constraints.
- Progress toward adherence to the WAEMU convergence criteria to rebuild regional reserves.
- Finalize and adopt a comprehensive restructuring plan for the two ailing public banks, presenting a business plan and measures to restore financial viability.
- Advance structural reforms to enhance revenue collection, improve public financial management, and open-up key sectors to private investment.

**Staff's views:** Staff supports the completion of the first ECF review as most quantitative targets, prior actions, and structural benchmarks have been met. A disbursement of SDR25.17 million is expected upon Board completion of this review.

Approved By
**Dominique Desruelle and Johannes Wiegand**

Discussions on the first review under the ECF arrangement took place in Lomé during October 19-30, 2017. The IMF staff team comprised Mr. Razafimahefa (head), Ms. Bunda, Mr. Erickson, Ms. Nikaein, Mr. Tapsoba (Resident Representative) (all AFR), Mr. Binici (SPR), and Mr. Sowou (Local Economist). Ms. Margevich, Ms. Ndome-Yandun, and Ms. Kinvi-boh provided administrative assistance. Ms. Boukpessi (OED) joined the second half of the mission. The mission met with President Faure Gnassingbé; Mr. Sani Yaya, Minister of Economy and Finance; Mr. Kossi Assimaidou, Minister of Development Planning; Mr. Kossi Tenou, BCEAO National Director; and other senior officials. The mission also met with representatives of the private sector and development partners, and held a press conference.

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## TABLES



## ANNEXES



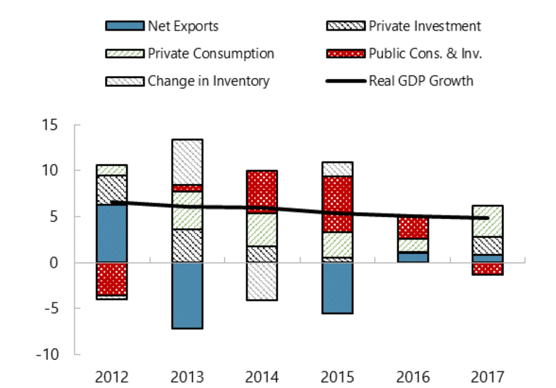
## APPENDIX

# CONTEXT AND RECENT DEVELOPMENTS

## A. Recent Economic Developments

**1. Economic activity expanded at a moderate pace of 4.8 percent in 2017.** The exceptionally favorable rainfall is boosting agricultural production. Some high-frequency indicators also suggest healthy economic activity, including energy consumption and traffic at the port and airport. Private sector credit expanded rapidly in the second half of 2016 and has somewhat stabilized in recent months. However, there are incipient signs that companies' turnover in some sectors has stagnated or weakened. The socio-political tensions are reportedly weighing on private sector's investment decisions. The growth in private investment does not seem to have fully compensated for the consolidation of public investment (Text Figure 1). Thus, growth is revised slightly downward compared to the previous projection.

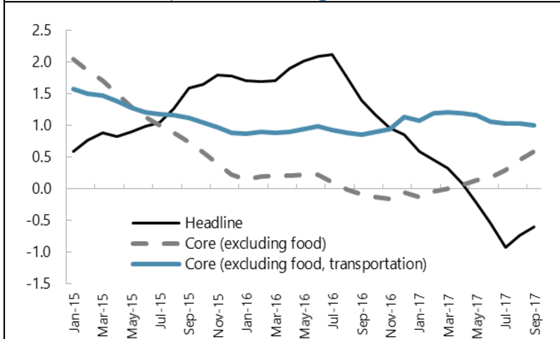
**Text Figure 1. Togo: Contribution to Growth, 2012–17,** (Y-o-Y, percent change)




Sources: Togolese authorities; and IMF staff estimates.

**2. Headline inflation is expected to be around zero percent at end-2017, one percentage point lower than at end-2016.** Headline inflation rate through September was -0.6 percent (average, y-o-y) and -0.8 percent (m-o-m) (Text Figure 2). This was driven primarily by lower food prices, which had started to fall in May, reaching 3.5 percent decline (average y-o-y) through September. Transportation prices declined by 1.4 percent. The core inflation rate, excluding food and transportation prices, was 1 percent (average, y-o-y). This low inflation environment is expected to anchor inflation expectations.

**Text Figure 2. Togo: Harmonized Index of Consumer Price, Jan-15 – Sep-17**
(percent, average, Y-o-Y)




Sources: Togolese authorities; and IMF staff estimates.

**3. The fiscal consolidation envisaged under the ECF-supported program has begun** (Text Table 1)**.** Expenditure was considerably curtailed during the first half of 2017. While capital expenditure averaged annually about 12 percent of GDP in 2013-16 with prefinancing of 3.4 percent of GDP, it amounted to about 1.5 percent of GDP during January-June 2017 and prefinancing was stopped.[1] As a result, the primary deficit improved from an annual average of about 6 percent of GDP to a surplus of about 1 percent of GDP during these two periods. The overall balance improved from a deficit of about 8 percent of GDP to a surplus of 0.7 percent of GDP.

**Text Table 1. Togo: Fiscal Outturns, 2013–June 2017**

| | 2013-16 Yearly average | 2017 Jan.-Jun. |
|---|---|---|
| | *(percent of GDP)* | |
| Revenue | 18.7 | 8.9 |
| Expenditure | 29.0 | 9.0 |
| Current | 17.2 | 7.6 |
| Capital | 11.9 | 1.5 |
| *o/w* Prefinancing | 3.4 | 0.0 |
| Primary Balance[1] | -5.8 | 1.0 |
| Change in arrears | -0.2 | 0.4 |
| Primary Balance[2] | -5.9 | 1.4 |
| Overall Balance[2] | -7.8 | 0.7 |

Sources: Togolese authorities and IMF staff estimates.
[1]Commitment basis, including grants
[2]Cash basis, including grants.

**4. The current account deficit remains large but is expected to narrow slightly** (Figure 2). The trade balance improved in the first quarter of 2017, due to the combination of lower imports and strong export volumes. Government imports related to public investment projects have dropped significantly. The current account deficit is projected to improve from 9.7 percent of GDP in 2016 to 8.2 percent of GDP at end 2017, while the trade deficit is projected to slightly improve from 22.4 percent of GDP to 20.9 percent of GDP. The WAEMU reserves were at about 4 months of the region-wide imports at end-2016.

**5. Since August 2017, Togo has been experiencing the most serious political unrest in more than a decade.** Large opposition demonstrations have taken place in Lomé and other regional cities, with several demonstrators and military personnel killed. The opposition is calling for reinstating the two-term limit of presidential mandates and for voting rights for the diaspora; some protestors have escalated their demands to ask for the resignation of the President. A constitutional referendum is planned to partially address these demands. The date of the referendum has not been announced yet.

## B. Program Performance

**6. All quantitative performance criteria (QPCs) at end-June 2017 were met but the two indicative targets were missed (MEFP ¶4-7).** The domestic primary balance and the net domestic financing of the government were met with large margins (Text Table 2). The zero-ceiling on the following QPCs were also respected: non-accumulation of arrears on external public debt, government contracting or guaranteeing of

**Text Table 2. Togo: Fiscal Target and Outturn, Jun-2017** (percent of GDP)

| | Target | Outturn, est. |
|---|---|---|
| Revenue and grants | 10.2 | 9.3 |
| Total revenue | 8.9 | 8.9 |
| Grants | 1.3 | 0.5 |
| Expenditures and net lending | 13.8 | 9.0 |
| Current expenditures | 9.1 | 7.6 |
| Public investment | 4.7 | 1.5 |
| Domestic primary balance | -0.7 | 1.5 |
| Change in arrears | -0.4 | 0.4 |
| Overall primary balance (cash basis, incl. grants) | -2.5 | 1.4 |
| Overall balance (cash basis, excluding grants) | -5.3 | 0.2 |
| Financing | 5.3 | -0.2 |
| Domestic financing (net) | 2.9 | -0.6 |
| External financing (net)[1] | 2.5 | 0.4 |

Sources: Togolese authorities and IMF staff estimates and projections.
[1] Includes ECF disbursements and non-IMF disbursements contingent on the ECF-supported program.

[1] As monthly fiscal data are not available for previous years, the fiscal stance in the first half of 2017 is analyzed in relation with full-year fiscal outturns of previous years.

nominal non-concessional external debt, government guaranteeing of domestic loans to suppliers and contractors, and government guarantees on bank pre-financing for public investments (see Box 1). The indicative target on fiscal revenue was missed by a very small margin. The underperformance on social spending was more significant, which may partly be due to delays and weaknesses in the reporting system of this category of spending; the authorities intend to address this issue.

**7. Four of the five structural benchmarks at end-June and end-September 2017 were completed (MEFP ¶8).** The Tax Authority completed the verification of 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program. The Ministry of Economy and Finance has developed a methodology to identify and verify domestic arrears.[2] A decree was issued to strengthen debt management, based on IMF technical assistance. An independent audit of domestic arrears by a private firm was completed. The structural benchmark on the restructuring of the two publicly owned banks was not completed but progress is being made and corrective measures are being taken.

## C. Medium-Term Outlook and Risks

**8. Macroeconomic prospects are moderately weakening** (Text Table 3)**.** Growth in 2018 is revised downward to 5 percent (from 5.3 percent in previous projections) owing to recent political uncertainties; growth is expected to gradually increase to 5.4 percent by 2021. The upgrading of public infrastructure in recent years is expected to support productivity and stimulate private investments. At the time of the approval of the ECF-supported program in May 2017, international financial partners committed to step up support. These factors are expected to compensate for the negative fiscal impulse resulting from the fiscal consolidation. Inflation is expected to remain within the WAEMU regional policy framework. The external current account balance is expected to gradually improve as the government continues to reduce its imports of capital goods.

**Text Table 3. Togo: Selected Economic Indicators, 2014–22**

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Proj. | Proj. | Proj. | Proj. | Proj. | Proj. |
| | (Percentage growth, unless otherwise indicated) | | | | | | | | |
| Real GDP | 5.9 | 5.3 | 5.0 | 4.8 | 5.0 | 5.2 | 5.3 | 5.4 | 5.6 |
| Consumer price index (average) | 0.2 | 1.8 | 0.9 | -0.1 | 1.2 | 1.4 | 2.0 | 2.0 | 2.0 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Overall primary balance, cash basis, including grants | -6.5 | -5.4 | -7.2 | -2.7 | -2.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Budget overall fiscal balance (cash basis) | -8.0 | -7.8 | -9.6 | -4.8 | -4.6 | -1.1 | -0.8 | -1.3 | -1.0 |
| Current account balance | -10.0 | -11.2 | -9.7 | -8.2 | -8.2 | -7.3 | -6.4 | -5.4 | -5.0 |
| Total public debt[1] | 65.1 | 75.6 | 81.5 | 77.3 | 74.4 | 70.2 | 66.7 | 63.0 | 58.9 |

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

[2] Henceforth, arrears refer to domestic arrears.

## Box 1. Phasing Out Investment Prefinancing

*At end-2016, the Togolese authorities ceased all investment prefinancing practices and had corrected both their fiscal accounts and debt stock to accurately reflect the related liabilities. They have committed to undertake all new public investment via the regular budget process.*

**Investment prefinancing was a non-orthodox method to finance public investments.** In a typical prefinancing arrangement, a private company, which was granted a single-source public works contract by the government, obtained a loan from a domestic commercial bank or a group of commercial banks. The Finance Ministry guaranteed this loan and, at the same time, signed an unconditional and irrevocable substitution of debtor agreement to service all principle and interest, which are to be paid automatically from the Treasury account at the BCEAO. Therefore, the full liability of these loans rested with the government. The financial liabilities resulting from prefinanced investment were not included in the public debt stock.

**Investment prefinancing contributed to a marked increase in public debt in recent years (MEFP ¶3)**. The practice began in 2013 and continued through 2016; debt has surged from 46.1 percent of GDP in 2012 to 80.8 percent by end-2016. The authorities used prefinanced investments mainly to fund road construction projects. Prefinanced expenditures averaged 3½ percent of GDP per year during 2013-16 and by end-2016 outstanding debt from prefinanced investments stood at CFAF198.3 billion (7.4 percent of GDP). Prefinancing contributed to the increase in public debt both directly, though liabilities incurred by the public sector via prefinancing, and indirectly, by obscuring the actual financial position of the government and the need to restrain spending.

**The government had halted all investment prefinancing by end-2016 and has resolved to use more orthodox and transparent means to finance public sector investment (MEFP ¶22)**. The authorities have provided Fund staff with the necessary data to revise fiscal accounts for 2013-2016, properly showing prefinanced investment execution and interest above the line and showing prefinancing disbursements. Similarly, the end-2016 public debt stock was revised to include all outstanding prefinancing investment liabilities; the service of these liabilities is being accurately reflected in the fiscal accounts. From 2017, the authorities confirmed that no new prefinanced investments have been undertaken, in line with the performance criteria under the program.

**The costly prefinancing liabilities have been replaced with more favorable debt instruments (MEFP ¶6).** Prefinancing instruments with maturity of 2-3 years and interest rates of around 7.5 percent have been replaced with debt instruments with maturity of 7 years, grace period of 3 years, and interest rates of around 7 percent. Subsequently, the government requested and received guarantee release letters from commercial banks that had participated in prefinancing arrangements. The letters testify that the government has withdrawn the loan guarantees for public work contracts previously extended to commercial banks as part of the prefinancing scheme. The government has also sent to the BCEAO cancellation of irrevocable transfer orders that were issued for the related banks.

**9. Risks are tilted to the downside.** Should the public discontent persist, the government may face greater pressure to slow the program's ambitious fiscal consolidation. Political turmoil could also hinder private investment and erode political and social support necessary for structural reforms. There are some indications of hesitations by private investors. Some government bond issuances in recent months have been undersubscribed. Furthermore, institutional capacity constraints may pose risks to program implementation. Fiscal consolidation could have a larger-than-forecasted impact on growth, which would then also adversely impact debt sustainability. A potential insecurity surge in the region, weaker-than-expected global growth, and tighter financial conditions may also cloud program implementation (Annex I).

# POLICY DISCUSSIONS

*The fiscal consolidation initiated in 2017 is expected to continue in 2018 to put the debt-to-GDP ratio firmly on a declining path. The pace and composition of the fiscal consolidation will accommodate the tighter domestic and external constraints. The program will safeguard social spending. It will also strengthen institutional capacity, such as public financial management, to improve spending efficiency. Furthermore, the two ailing public banks will be restructured to ensure financial stability. Finally, the program includes measures to improve the business climate and encourage private investments, such as the opening-up of some closed sectors.*

## A. Fiscal Policy: Pursuing Debt Reduction

**10. As reflected in the revised 2017 budget adopted by the Cabinet, the authorities are maintaining the end-2017 fiscal targets under the ECF-supported program (MEFP ¶10 and Text Table 4)**. Revenue projections are revised slightly downward to reflect preliminary end-September outturns. Current expenditures were reduced. The authorities also reduced significantly allocations for public investments to create fiscal space for repayment of a part of the arrears stock (see Box 2). Considering that the preparation of the bank restructuring plan is still underway, the bank recapitalization fund budgeted in 2017 of at most 4 percent of GDP is postponed to 2018. In line with the program, the revised 2017 budget remains anchored on a primary deficit on a cash basis of 2.7 percent of GDP, corresponding to a domestic primary surplus of 2.3 percent of GDP. This translates into a strong consolidation of the overall primary balance by 4.5 percentage points of GDP relative to 2016. This start of the fiscal consolidation will allow curbing the rapid debt build-up in recent years. This said, ongoing difficulties in managing and avoiding the build-up of arrears complicate these efforts; the government is estimated to have accumulated new domestic spending arrears or payment float (*instances de payments*) on the order of 1 percent of GDP during the first half of 2017.

**11. The 2018 fiscal program seeks to pursue fiscal consolidation and debt reduction (MEFP ¶11 and Text Table 4).** The 2018 budget is anchored on an overall primary fiscal deficit of 0.2 percent of GDP, corresponding to a domestic primary balance of 3.5 percent of GDP. This fiscal anchor is equivalent to an overall deficit on a commitment basis of 2.4 percent of GDP. The 2018 budget includes, as an adjustor, 2 percent of GDP to allow repayment of arrears (see Box 2). It will also make room for bank recapitalization; the amount is tentatively estimated at 2-4 percent of GDP, which will need to be confirmed by the ongoing work on the restructuring plan. Once realized, the costs of the bank recapitalization will worsen the debt profile. The fiscal targets will be adjusted ex-post to reflect the exact amount of bank recapitalization. This fiscal consolidation is expected to continue reducing the debt-to-GDP ratio in 2018.

**Text Table 4. Togo: Fiscal Operations 2016-18**

| | 2016 | 2017 | | 2018 | |
|---|---|---|---|---|---|
| | | Original[1] | Current | Original[1] | Current |
| Revenue and grants | 21.8 | 24.8 | 25.3 | 25.2 | 25.6 |
| Revenue | 18.9 | 20.2 | 20.0 | 21.0 | 21.7 |
| Grants | 2.9 | 4.6 | 5.3 | 4.2 | 3.9 |
| Expenditure and net lending | 31.4 | 29.5 | 27.6 | 27.9 | 28.0 |
| Primary current expenditure | 15.0 | 14.9 | 14.5 | 15.0 | 15.0 |
| Interest | 2.4 | 3.0 | 2.1 | 3.4 | 2.4 |
| Domestically financed investment | 8.4 | 4.8 | 3.3 | 2.8 | 3.2 |
| Foreign financed investment | 5.6 | 6.8 | 7.7 | 6.7 | 7.5 |
| Domestic primary balance (commitment basis) | -4.5 | 0.5 | 2.2 | 3.2 | 3.5 |
| Overall primary balance (commitment basis) | -7.2 | -1.7 | -0.2 | 0.7 | -0.1 |
| Overall balance (commitment basis) | -9.6 | -4.7 | -2.3 | -2.7 | -2.4 |
| Change in arrears | 0.0 | -0.9 | -2.5 | -0.9 | -2.2 |
| Excluding arrears adjustor in 2018 | 0.0 | -0.9 | -2.5 | -0.9 | -0.2 |
| Overall primary balance (cash basis) | -7.2 | -2.6 | -2.7 | -0.2 | -2.2 |
| Excluding arrears adjustor in 2018 | -7.2 | -2.6 | -2.7 | -0.2 | -0.2 |
| Overall balance (incl. grants, cash basis) | -9.6 | -5.6 | -4.8 | -3.6 | -4.6 |
| Overall balance (excl. grants, cash basis) | -12.5 | -10.2 | -10.1 | -7.8 | -8.6 |
| Financing | 12.5 | 10.2 | 10.1 | 7.8 | 8.6 |
| Domestic[2] | 7.0 | 1.1 | 1.1 | -0.6 | -0.4 |
| Excluding arrears adjustor in 2018 | 7.0 | 1.1 | 1.1 | -0.6 | 1.6 |
| Foreign[3] | 5.5 | 9.1 | 9.0 | 8.4 | 9.0 |

Sources: Togolese authorities and IMF staff estimates.

[1] 2016 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility, IMF Country Report No. 17/127, May 2017.

[2] Includes a financing gap of 0.2 percent of GDP.

[3] Includes program contingent financing and ECF.

**12. The magnitude of the 2018 fiscal consolidation was adjusted to accommodate tighter domestic and external constraints.** Whereas the original program envisaged a primary balance on a commitment basis of 0.7 percent of GDP, the new fiscal program has a primary balance of about zero percent of GDP. This revision is driven by constraints outside the authorities' control. Domestically, the social tensions in recent months are constraining the space to reduce expenditure further. Externally, the change in the composition of foreign financing—lower grants and higher loans—is putting pressure on the primary balance that the authorities can arguably not undo entirely through their own efforts. The revision of the primary balance on a cash basis is compensated by a reduction of arrears repayment in 2018, excluding the arrears adjustor, to keep the primary balance on a cash basis unchanged from the original program at a deficit of 0.2 percent of GDP. Nonetheless, the arrears reduction is still faster than under the original program as the authorities increased repayments in 2017 by reducing expenditure.

**13. The composition of the consolidation was also adjusted to rely more on revenue measures (MEFP ¶12 and Text Table 5).** Considering the constraint on further expenditure reduction, the authorities have opted to bolster revenue. Revenue measures include both tax policy (parametric) measures and tax administration measures. On tax policy, the reduced VAT rates that were introduced in the 2017 budget will be abolished. These include the reduced rate of 10 percent on a range of basic food and textile products, as well as a reduced rate of 17 percent for electronic and telecommunication equipment and solar power panels. The introduction of these reduced rates did not produce the expected benefits for the population; instead, they resulted in adverse outcome by creating room for fraudulent declarations between broadly similar products under different VAT rates. Moreover, they complicated revenue administration and hindered collection beyond the direct impact of the rate reduction. A new special tax of 5 percent on the turnover of telecommunications companies will be introduced. A land survey will be conducted to enlarge the base for property taxes. The ceiling on the annual minimum tax will be removed. Lastly, the government will require higher distribution of dividends from state-owned enterprises.[3]

**Text Table 5. Togo: Fiscal Measures, 2018**

| Measures | Yield | |
|---|---|---|
| | Billion CFAF | Percent of GDP |
| **Tax revenue** | **22.3** | **0.80** |
| Tax policy measures | 16.5 | 0.59 |
| Cancellation of reduced VAT rates introduced in the 2017 budget law. | 10 | 0.36 |
| Turnover tax of 5 percent on companies in the telecommunication sector. | 5.2 | 0.19 |
| Land survey for property tax | 1.3 | 0.05 |
| Tax adminsitrative measures | 5.8 | 0.21 |
| **Nontax revenue** | **12.2** | **0.44** |
| Dividends | 12.2 | 0.44 |
| **Total** | **34.5** | **1.24** |

Sources: Togolese authorities; and IMF staff estimates.

**14. In the medium term, the adjustment initially envisaged under the program seems achievable.** The program envisages reaching a primary surplus of 2 percent of GDP in 2019 (and keeping this surplus until 2025), which corresponds to a consolidation of about 2 percent of GDP relative to 2018. Expenditure in 2018, excluding the arrears clearance adjustor, is still 3 percentage points of GDP higher than in 2010, which is the last year before the expenditure surge. From a cross-country perspective, investment expenditure in Togo in 2018, at about 11 percent of GDP, exceeds the WAEMU average of about 9 percent of GDP and the Sub-Saharan African average of about 7 percent of GDP (Text Figure 3).

[3] It is to be noted that higher dividend collection may not continue permanently, which may pose risks to future budgets. Staff fiscal projections take this issue into account, with lower non-tax revenue in 2019 and beyond, compared to non-tax revenue in 2018.

### Box 2. Arrears Management

*Government payment arrears are detrimental to economic activities. The authorities are making efforts to verify the stock of arrears and proceed with its clearance. The system of public financial management will be improved to prevent new arrears accumulation.*

**Cross-country evidence shows that the accumulation of expenditure arrears is harmful to the domestic economy, including the private sector and the government**.[1/] Payment delays by the government disrupt the cash flow and liquidity of suppliers and contractors and can result in reduced pace of economic activity and larger unemployment. They can increase the cost paid by the government for service provision, as suppliers may try to mitigate the risk and opportunity cost of delayed payments by adjusting their initial prices upward; this reduces the efficiency of government expenditure. The delivery of public services may be interrupted if suppliers cease supplying essential services (such as electricity, water, medicine, or fuel). Arrears accumulation also reduces confidence in fiscal policy as significant expenditure arrears can disguise the true size of government's liabilities.

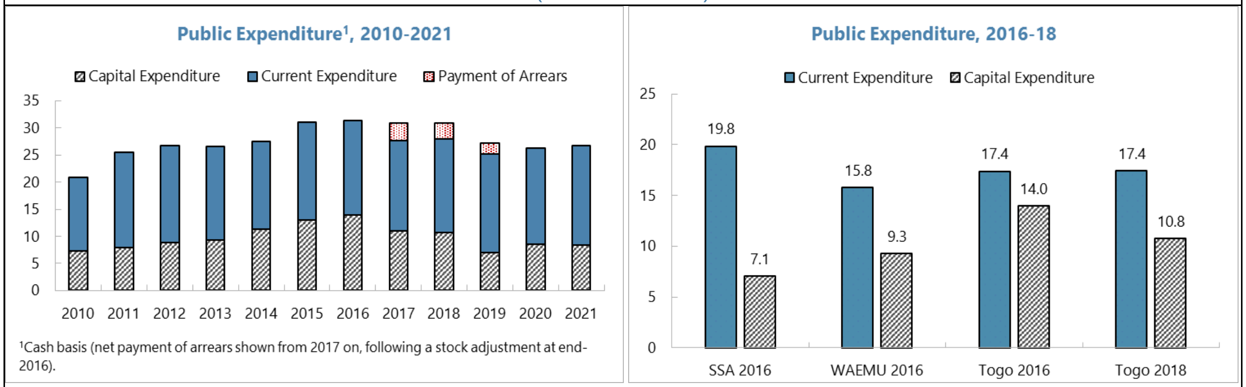
**In Togo, verifications of arrears stock by an internal committee and external auditing firms have been conducted and the findings will be discussed with technical assistance.** At end-2016, the overall stock of arrears of the central government was estimated at 12.3 percent of GDP, which comprises (i) arrears of about 6.6 percent of GDP accumulated before 2006 and audited by an independent firm in 2008, and (ii) arrears of about 5.7 percent of GDP accumulated after 2006. The stock of arrears is included in the overall debt stock.[2/] A preliminary internal verification of the overall stock, including the accumulation in 2017, was conducted in the first half of 2017, followed by a comprehensive external independent audit in the second half of the year. The verifications and audits suggested some revisions of the stock and some policy recommendations, which will be discussed with technical assistance.

**The authorities intend to accelerate full clearance and maintain the objectives of their ECF-supported program (MEFP ¶19).** Given that the pre-2006 arrears require further scrutiny, the authorities' clearance efforts focus on the post-2006 arrears. In the 2017 supplementary budget, domestically-financed investment expenditure has been reduced to allow arrears repayment exceeding the original program by 1.5 percentage points of GDP; the ceiling on net domestic financing remains unchanged. The 2018 budget allocates about 2 percent of GDP for arrears clearance, which is accommodated under an adjustor to the program objectives. Based on the current estimate of the overall stock, which will be discussed with technical assistance, the 2019 budget would require allocations of about 1.5 percent of GDP to achieve full arrears clearance.

**The authorities plan to strengthen public financial management system to prevent new arrears accumulation (MEFP ¶19).** The authorities committed to develop an annual cash plan in line with procurement and commitment plans (structural benchmark December 2017). They will also issue circulars to establish a robust reporting of payables and clarify that contracts signed outside the legal expenditure chain will lead to sanctions against officials who illegally created the liability (structural benchmark June 2018).

Notes:
[1/] Flynn and Pessoa (IMF, 2014).
[2/] The overall debt stock refers to the non-financial public sector, which nets out the approximately one percent of GDP in arrears owed by the central government to domestic utility companies.

**Text Figure 3. Togo: Public Expenditure**
(Percent of GDP)




Sources: Togolese authorities; and IMF staff estimates.

## B. Fiscal Management: Strengthening Institutions

**15. The authorities are enhancing controls and accelerating administrative processing to improve revenue collection (MEFP ¶15-16).** On tax administration, the stock of pending customs transit cases will be reduced by 60 percent (structural benchmark June 2018); this measure will address the abusive uses of transit regimes. The tax and customs directorates will improve the exchange of information and the interconnection of their software and databases (SYDONIA WORLD and SGIO). Automation will be enhanced by reducing manual procedures and cash transactions. The assessment of imports and control of tax exemptions will be strengthened further, through improved risk analysis as well as effective and transparent audit and control; to this end, a risk analysis unit will be set up. Tax procedures will be simplified and taxpayer services will be adjusted to the type and characteristics of taxpayers (segmentation) in order to encourage voluntary compliance.

**16. Cash management will be improved to reduce borrowing costs and a cost-benefit analysis will be required to bolster spending efficiency (MEFP ¶18,20)**. The Treasury Single Account (TSA) will be strengthened by expanding its coverage; 32 additional accounts of government entities in commercial banks will be closed and transferred to the TSA (structural benchmark June 2018). This measure will allow using idle deposits in commercial banks to reduce borrowing needs. In the context of the fiscal consolidation, expenditure efficiency needs to be bolstered to mitigate the impact of resource reduction on public service delivery. To this end, public investment projects will be prioritized and will undergo a cost-benefit analysis before inclusion in the budget; a comprehensive multi-year public investment program will be published; an annual report will be produced informing on the status of execution, *ex-ante* and *ex-post* assessment of major investment projects.

## C. Debt Management: Prudent Borrowing Policies

**17. The updated debt sustainability analysis (DSA) points to a moderate risk of external debt distress and heightened risk of overall public debt distress.** This assessment is unchanged from the previous DSA published in April 2017. However, there are significant downside risks to growth and fiscal prospects, which if materialized, would likely result in a deterioration of Togo's risk of external debt distress. Togo's external debt remains vulnerable to adverse shocks on exports stemming from low external demand or decline in commodity prices, and on non-debt creating flows. Also, Togo's overall public debt dynamic continue to present heightened vulnerabilities, with the debt-to-GDP ratio currently at twice the threshold of heightened risk of public sector debt distress (38 percent in NPV terms).

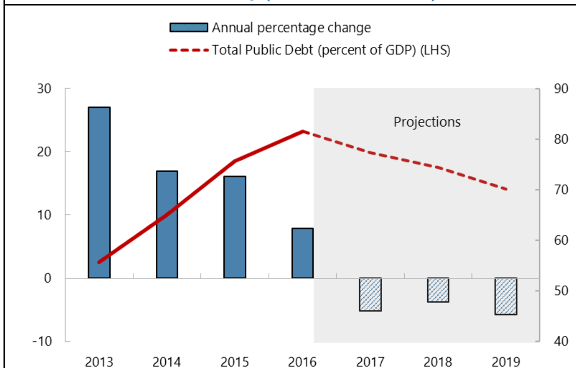
**18. As a result of the start of the fiscal consolidation, public debt has begun declining in 2017.** Following the debt relief under the HIPC-MDRI initiative, the debt-to-GDP fell to about 32 percent at end-December 2010.[4] Togo's debt soared during 2013-16 from 56 percent to 81 percent of GDP, driven primarily by a surge in domestic debt which includes public investment prefinancing (Text Table 6). The fiscal consolidation initiated in 2017 is starting to curb the debt-to-GDP path. By end-2017, debt is projected to decline to 77.3 percent of GDP; by the end of the program period in 2019, debt is expected to fall below the WAEMU convergence criteria, which excludes SOE debt, of 70 percent of GDP (Text Figure 4). If sound fiscal and macroeconomic policies are pursued beyond the program period, public debt can fall below the threshold of heightened risk by 2025 (NPV 38 percent)—although these figures are bound to be revised up once the costs of bank recapitalization are included.

**Text Table 6. Togo: Composition of Public Debt, 2013–16**

| | 2013 | | 2016 | |
|---|---|---|---|---|
| | Billions of CFAF | Percent of GDP | Billions of CFAF | Percent of GDP |
| **Total Public Debt** | **1,193.5** | **56.4** | **2,142.3** | **81.5** |
| **External Debt** | **295.9** | **14.0** | **534.9** | **20.4** |
| **Central Government** | **294.9** | **13.9** | **518.8** | **19.7** |
| Multilateral | 146.5 | 6.9 | 168.2 | 6.4 |
| Bilateral[1] | 124.8 | 5.9 | 42.8 | 1.6 |
| Commercial Banks[1] | 23.6 | 1.1 | 307.8 | 11.7 |
| **SOEs** | **1.0** | **0.0** | **16.1** | **0.6** |
| **Domestic Debt** | **897.6** | **42.4** | **1,607.4** | **61.2** |
| T-Bills + Bonds | 324.2 | 15.3 | 761.7 | 29.0 |
| Domestic Arrears | 249.1 | 11.8 | 294.9 | 11.2 |
| Others | 324.3 | 15.4 | 550.8 | 21.0 |

Sources: Togolese authorities and Staff calculations.
[1] For 2013, as in IMF Country Report No. 17/127, borrowing from some lenders that was subsequently classified as commercial was instead reported as bilateral.

**Text Figure 4. Togo: Total Public Debt, 2013–19,** (Percent of GDP)




Sources: Togolese authorities; and IMF staff estimates.

**19. The authorities intend to pursue prudent borrowing policies (MEFP ¶21).** The debt management unit has been reorganized in front, middle, and back offices (structural benchmark September 2017); this reorganization is expected to improve efficiency. The authorities have replaced the costly debt related to investment prefinancing with government bonds at more favorable conditions. Given the structure of the debt stock and cost differences, the authorities intend to make efforts to use concessional external financing within the program limit. They will continue to avoid arrears on external public debt as well as contracting or guaranteeing non-concessional external debt (performance criteria). They will refrain from resuming prefinancing, *i.e.*

[4] The 2010 and 2013-16 debt stocks are not fully comparable due to some differences in coverage. However, these figures provide some indications on debt developments.

guaranteeing domestic loans to suppliers and contractors as well as guaranteeing bank prefinancing for public investments (performance criteria).

## D. Financial Sector: Restructuring the Ailing Banks

**20. The financial sector continues to face challenges.** Although banks' capital adequacy has significantly improved in the first half of 2017 and provisions have been built up for non-performing loans (Table 5), challenges related to credit concentration and exposure to sovereign risk remain. Furthermore, banks will need to prepare for the Basel 2 and 3 capital requirements, which will apply from January 2018.

**21. Progress on the restructuring of the two ailing public banks has been slow.** The two state-owned banks account for 19 percent of total assets of the financial sector in 2016. The weakest of the two banks, accounting for about 6 percent of total assets, has been under provisional administration since 2008. A comprehensive restructuring plan was expected to have been produced (structural benchmark June 2017). Instead, only the first steps have been taken by this deadline. These steps are related to the completion of an analysis by an independent external firm of the financial situation and the merger options. The other components of the restructuring plan, including measures to restore financial viability and a business plan with financial projections, still need to be completed.

**22. More recently, the authorities have taken key measures to advance the bank restructuring process (MEFP ¶24-26).** The Cabinet has decided to proceed with the restructuring and the banks' shareholders have also decided accordingly. A team of experts has been appointed to lead the process. A detailed outline, including measures to restore financial viability and a business plan with financial projections has been produced based on sound principles and international best practice (prior action) (see Box 3)]. The comprehensive plan will be finalized by February 2018 (structural benchmark February 2018), for which the authorities will seek the WAMU banking commission's approval during its March 2018 session to allow the legal transfer to be completed by June 2018 (structural benchmark June 2018).

## E. Structural Reforms: Enhancing Inclusive Growth and Competitiveness

**23. The new National Development Plan is under preparation, albeit with some delays.** This plan will succeed the Strategy for Accelerated Growth and Promotion of Employment (*Stratégie de Croissance Accélérée et de Promotion de l'Emploi* , 2013-17).[5] The plan is structured around (i) combating poverty and improving social wellbeing; (ii) promoting sustained, inclusive economic growth; (iii) exploiting the growth potential of some key sectors; (iv) sustainably managing the environment and reducing spatial inequality; and (v) strengthening governance and

[5] IMF Country Report No. 14/224.

peace. The preparation of the plan has started but is taking longer than originally anticipated as the government intends to ensure that its priorities are appropriately reflected therein.

### Box 3. Bank Restructuring Plan

*The government prepared a preliminary detailed outline of the restructuring plan for the two ailing public banks. The outline is based on sound principles and international best practice. It provides some preliminary indications on measures to improve profitability and on financial projections. The comprehensive plan is expected to be finalized by end-February 2018.*

**The restructuring is guided by principles that will ensure consistency with legal requirements and regulations and will provide a solid basis for the operations of the newly merged bank.** The new bank will be adequately recapitalized, and the merger option will be chosen to minimize the cost for the State while preserving financial stability. Minority shareholders will not be bailed out. All necessary efforts will be provided to set up a dedicated unit within the bank tasked with the collection of nonperforming loans. The new bank will be given a clear public interest mandate. Governance, management, and internal control will be strengthened. Loss-making activities will be eliminated and organizational efficiency will be improved.

**The estimates of the cost of the merger and recapitalization will be updated.** Preliminary estimates indicate 2-4 percent of GDP. The values of the buildings, land lots, and some other immovable assets of the two banks will be revisited. The cost of the structure reorganization will also be estimated. These estimates will allow to determine the overall cost as well as the cost for the State of each of the merger options. The analysis of the cost and the need for capital injection will take into account the liquidity situation of the newly merged bank.

**The comprehensive plan will include a business plan and financial projections.** The business plan will show measures to improve profitability of the newly merged bank. Such measures will cover human resources policies, market segments and products, distribution and commercial strategy, NPL collection strategy, internal control, and IT system reorganization. The restructuring plan, and the business plan therein, will be designed to ensure that the newly merged bank will show solid financial projections. This will prevent the re-occurrence of risks to financial stability and to the state's budget.

**24. Togo's business climate is not sufficiently adequate to sustain long-run inclusive growth.** The 2018 World Bank's Doing Business Survey finds that, while Togo had slightly improved its ranking in 2017, it nonetheless fell below its WAEMU neighbors. The survey finds that Togo made some progress in 2017 on facilitating the resolution of insolvent businesses, trading across borders, and getting electricity. At the same time, the survey highlights the need to improve the ease of getting credit, paying taxes, and dealing with construction permits. Beyond this survey, it would be key to open up to private investments some closed sectors such as telecommunications, energy, and mining. Lastly, property title registration and the related legal framework could be improved to allow the use of property as collateral in loans to small- and medium-sized enterprises.

## F. Program Modalities and Financing Assurances

**25. The program will continue to be reviewed semi-annually based on quantitative performance criteria, indicative targets, and structural benchmarks.** The second and third reviews will be based on performance criteria and structural benchmarks at end-December 2017 and end-June 2018, respectively, as shown in Tables 1 and 3 of the MEFP.

**26. The program is fully financed.** Development partners have not modified the size of financial assistance committed at the time of the program approval; some donors have already started disbursing. The ECF-supported program puts emphasis on making use of grants and concessional financing—within the limit of the program—for priority investment projects. For the rest of 2017 and for 2018, financing needs are covered by the World Bank, European Union and African Development Bank, while programmed ECF disbursements will close the remaining financing needs.

**27. Safeguards Assessment.** The latest safeguards assessment of the BCEAO from December 2013 found that the bank continued to have a strong control environment. All recommendations from the assessment have been implemented. An updated safeguards assessment is planned to take place in the coming months, in line with a four-year cycle for regional central banks.

**28. Togo's capacity to repay the Fund remains adequate** (Table 6). Obligations to the Fund would peak in 2025 at only 2.4 percent of government revenue or 0.5 percent of GDP.

# STAFF APPRAISAL

**29. Economic growth is expected to hover around 5 percent in 2017-19 and inflation to remain within the WAEMU convergence criteria.** The infrastructure upgrades in recent years are expected to support productivity and private investments in future years and fully compensate for the negative impulse from the fiscal consolidation. The current low-inflation environment is expected to appropriately anchor inflation expectations; inflation is projected to progressively move from zero to 2 percent during the program period. The current account deficit is expected to gradually narrow from 8.2 percent to 7.3 percent of GDP during this period.

**30. Risks are tilted to the downside.** If the tensions in recent months—the most serious unrest in a decade—persist, the private investment boost that is expected to compensate for the public investment retrenchment may not fully materialize. Recent tensions may also erode social support necessary for structural reforms. There are some indications of hesitations by private investors. Some government bond issuances have been undersubscribed in recent months; the underlying factors still need to be scrutinized.

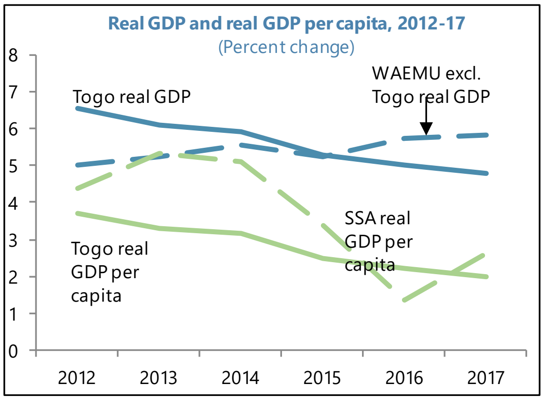
**31. Staff commends the authorities' good performance under the ECF-supported program.** The fiscal adjustment expected at the very beginning of the program has been delivered. The non-orthodox financing of public investment, which had led to a rapid debt build-up in recent years, was stopped and appropriately replaced with bonds at more favorable conditions. Structural reforms are implemented gradually. The Tax Authority, *Office Togolais des Recettes*, is verifying exemptions and stepping up controls. Government arrears are being verified and audited through internal and independent external processes.

**32. Staff encourages the authorities to pursue debt reduction, complete the bank restructuring, strengthen institutions, and implement measures to improve the competitiveness of the economy.** It is paramount to pursue fiscal consolidation to address the high debt level; the consolidation envisaged under the program would reduce debt below the WAEMU convergence criteria by 2019 and below the threshold of heightened risk of overall public debt distress by 2025. Staff is of the view that such consolidation is feasible, including on the expenditure side. Staff notes that the restructuring of the two state-owned banks has been excessively delayed and needs to be swiftly completed to prevent the re-emergence of risks to financial stability and to the State budget; staff also encourages the authorities to timely implement the Banking Commission's rulings. Staff concurs with the authorities' tax policy measures in 2018 as well as measures to strengthen tax administration and public financial management. Staff reiterates the importance of improving business environment, including by opening-up some key sectors to private investments.

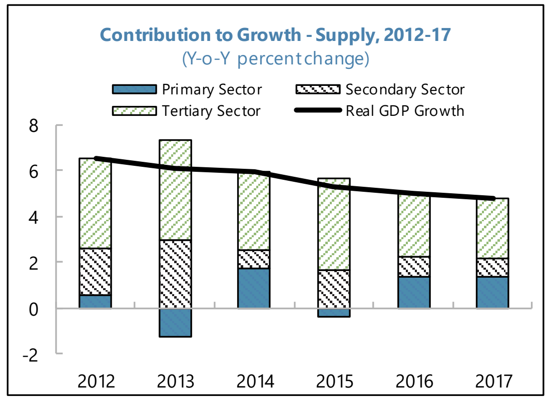
**33. Staff recommends the completion of the first review of the program.** This recommendation is based on the authorities' good performance to date under the program. Staff also supports the authorities' request for the modification of the end-December 2017 indicative target on the total fiscal revenue floor.

## Figure 1. Togo: Recent Economic Developments

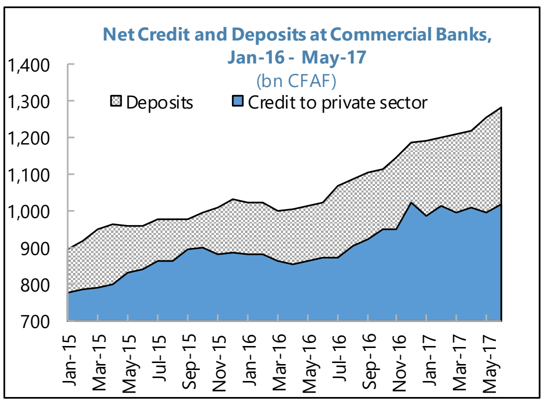
Economic activity has expanded at a moderate pace in 2017.



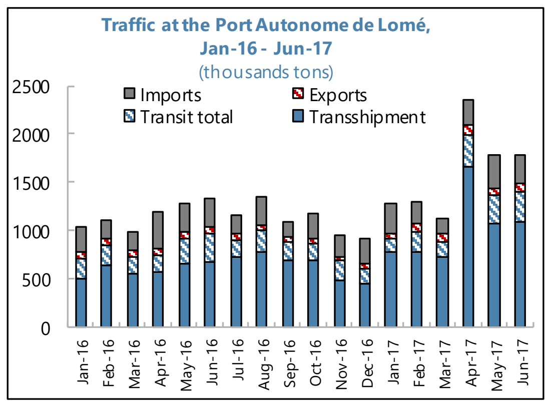

While the tertiary sector has been the largest contributor to growth, the primary sector has been slightly accelerating.



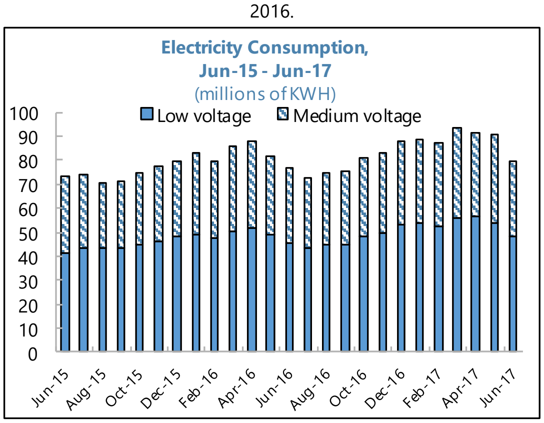

The banking system has increasingly mobilized resources for the economy. Credit to the private sector expanded sharply in the second half of 2016 and stabilized in the first half of 2017.



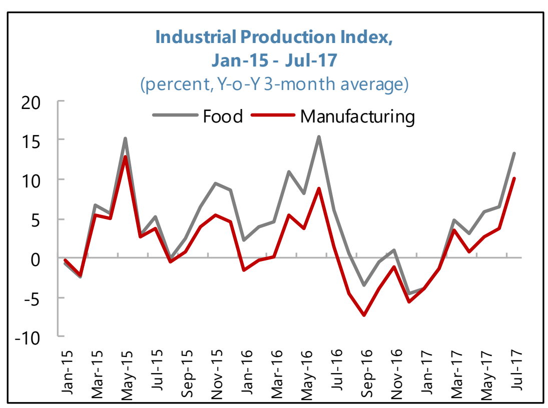

Merchandise traffic at the port has expanded mainly due to higher exports and transhipment.




Energy consumption has gone up by about 7 percent y-o-y, on average, over January -June 2017, relative to the same period in 2016.



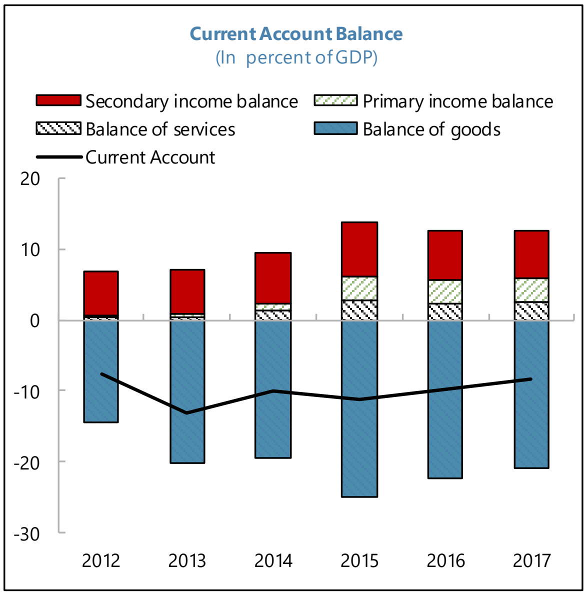

Industrial production in manufacturing and food industries has expanded through July 2017.



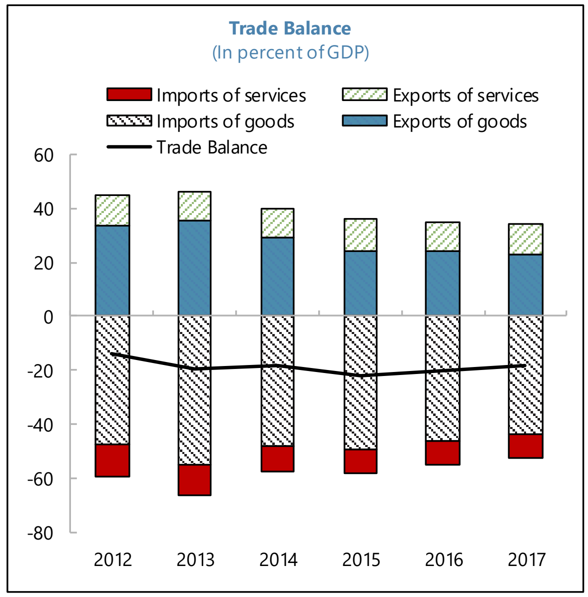

Sources: Togolese authorities; and IMF staff estimates.

## Figure 2. Togo: External Sector Developments, 2012–17

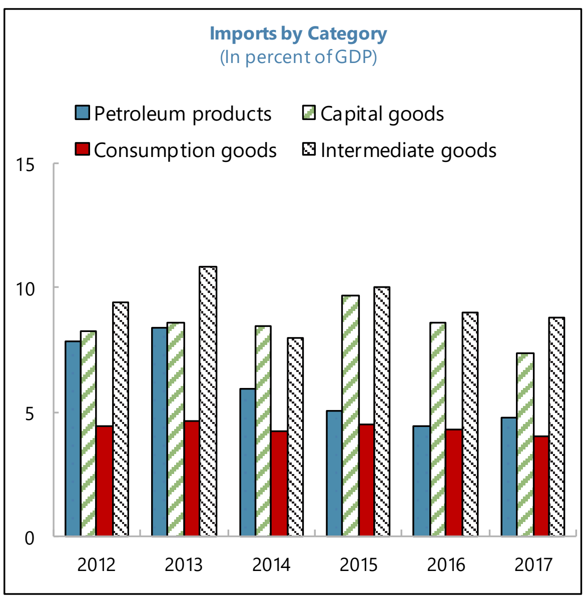
The current account deficit remains high but showing some improvement ...



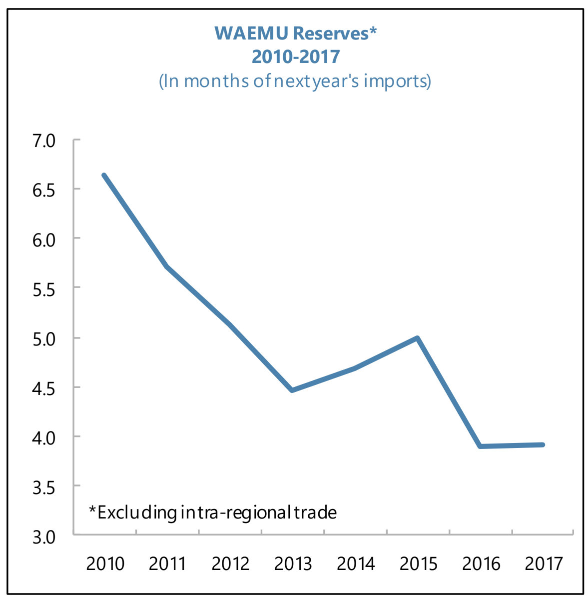

...on the back of a strengthening trade balance, driven by...




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



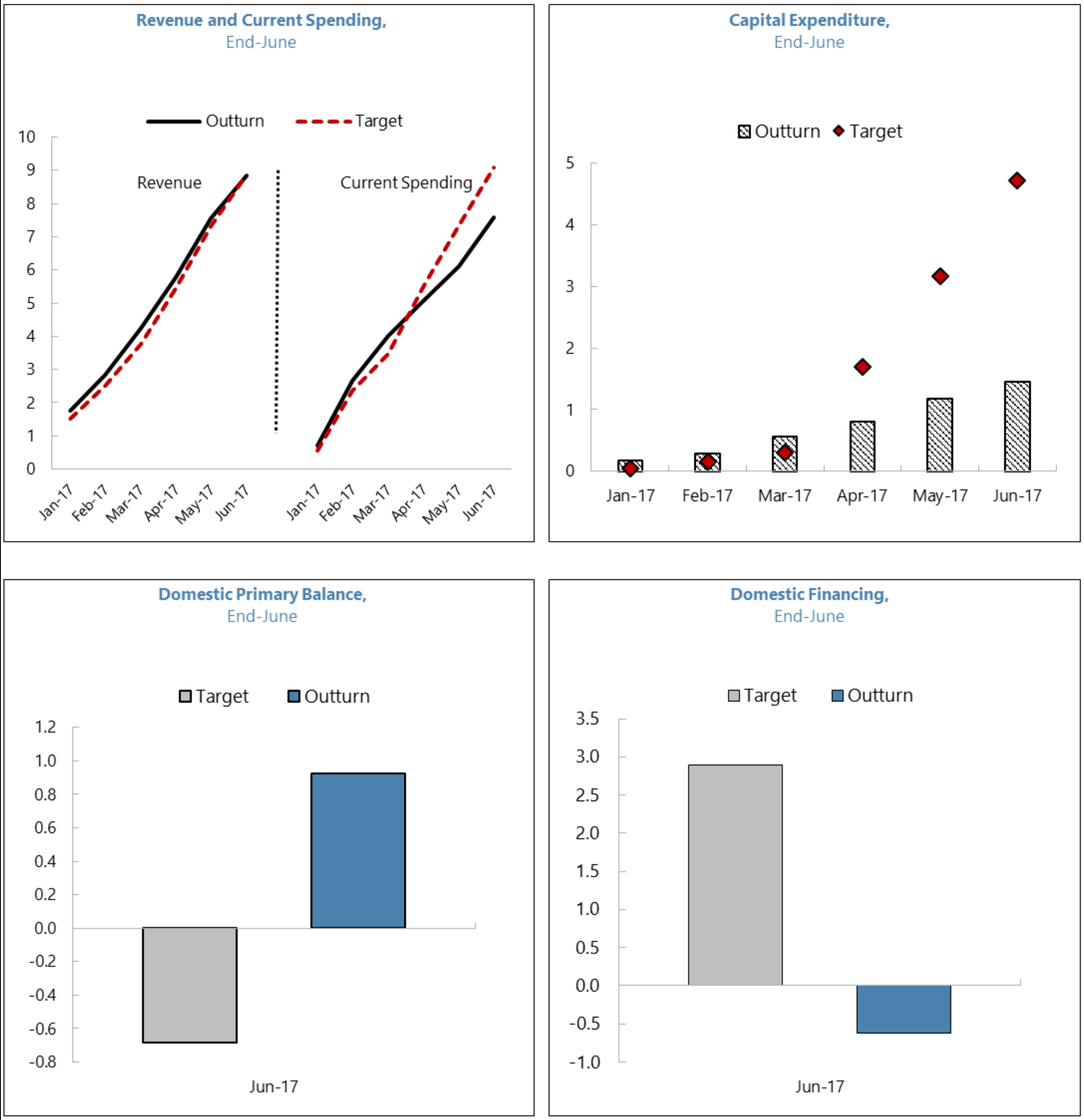

Togo's high current account deficit has contributed to pressures on regional reserves.




Sources: Togolese authorities; and IMF staff estimates.

## Figure 3. Togo: Fiscal Developments, 2017

(percent of GDP)




Sources: Togolese authorities; and IMF staff estimates.

## Table 1. Togo: Selected Economic and Financial Indicators, 2014–22

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Proj. | | | | | |
| | (Percentage change, unless otherwise indicated) | | | | | | | | |
| National income, prices, and exchange rates | | | | | | | | | |
| Real GDP | 5.9 | 5.3 | 5.0 | 4.8 | 5.0 | 5.2 | 5.3 | 5.4 | 5.6 |
| Real GDP per capita | 3.1 | 2.5 | 2.2 | 2.0 | 2.2 | 2.4 | 2.5 | 2.6 | 2.8 |
| GDP deflator | -0.1 | 2.7 | 2.5 | 0.9 | 1.5 | 1.6 | 2.0 | 2.7 | 3.0 |
| Consumer price index (average) | 0.2 | 1.8 | 0.9 | -0.1 | 1.2 | 1.4 | 2.0 | 2.0 | 2.0 |
| GDP (CFAF billions) | 2,259 | 2,443 | 2,628 | 2,779 | 2,962 | 3,166 | 3,400 | 3,680 | 4,012 |
| Exchange rate CFAF/US$ (annual average level) | 493.6 | 591.2 | 592.7 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rate (appreciation = –) | -1.2 | 7.1 | -1.0 | ... | ... | ... | ... | ... | ... |
| Terms of trade (deterioration = –) | 3.2 | -11.5 | -0.2 | -2.3 | -0.8 | 0.9 | 1.4 | 0.8 | 2.5 |
| | (Percentage change of beginning-of-period broad money) | | | | | | | | |
| Monetary survey | | | | | | | | | |
| Net foreign assets | -7.0 | -3.6 | 5.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net credit to government | 1.3 | -2.1 | -2.3 | -4.0 | -2.3 | -0.6 | -2.3 | -1.6 | -2.9 |
| Credit to nongovernment sector | 1.2 | 13.2 | 10.1 | 11.2 | 10.6 | 8.9 | 11.1 | 11.0 | 13.1 |
| Broad money (M2) | 3.7 | 20.6 | 12.6 | 5.7 | 6.6 | 6.9 | 7.4 | 8.2 | 9.0 |
| Velocity (GDP/end-of-period M2) | 2.1 | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Investment and savings | | | | | | | | | |
| Gross domestic investment | 32.7 | 33.8 | 33.8 | 31.8 | 32.1 | 29.1 | 31.0 | 31.9 | 31.8 |
| Government | 11.3 | 13.1 | 14.0 | 11.0 | 10.6 | 7.1 | 8.5 | 8.5 | 8.4 |
| Nongovernment | 21.4 | 20.7 | 19.9 | 20.7 | 21.5 | 22.1 | 22.5 | 23.4 | 23.4 |
| Gross national savings | 22.7 | 22.7 | 24.1 | 23.5 | 23.9 | 21.9 | 24.6 | 26.5 | 26.8 |
| Government | 4.5 | 4.2 | 4.4 | 8.7 | 8.2 | 7.3 | 7.7 | 7.2 | 7.3 |
| Nongovernment | 18.2 | 18.5 | 19.8 | 14.8 | 15.8 | 14.5 | 16.9 | 19.3 | 19.5 |
| Government budget | | | | | | | | | |
| Total revenue and grants | 20.7 | 22.1 | 21.7 | 25.3 | 25.6 | 25.4 | 25.5 | 25.4 | 25.4 |
| Revenue | 18.3 | 19.7 | 18.9 | 20.0 | 21.7 | 21.3 | 21.4 | 21.3 | 21.3 |
| Total expenditure and net lending | 27.5 | 31.1 | 31.4 | 27.6 | 28.0 | 25.1 | 26.2 | 26.7 | 26.5 |
| Domestic primary expenditure | 21.5 | 23.0 | 23.4 | 17.8 | 18.2 | 16.0 | 17.5 | 17.6 | 17.5 |
| Domestic primary balance[1] | -3.1 | -3.2 | -4.5 | 2.3 | 3.5 | 5.3 | 3.9 | 3.7 | 3.8 |
| Overall primary balance (cash basis) | -6.5 | -5.4 | -7.2 | -2.7 | -2.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Overall balance (cash basis) | -8.0 | -7.8 | -9.6 | -4.8 | -4.6 | -1.1 | -0.8 | -1.3 | -1.0 |
| External sector | | | | | | | | | |
| Current account balance | -10.0 | -11.2 | -9.7 | -8.2 | -8.2 | -7.3 | -6.4 | -5.4 | -5.0 |
| Exports (goods and services) | 39.7 | 36.3 | 34.9 | 33.9 | 32.9 | 33.7 | 34.1 | 35.0 | 34.5 |
| Imports (goods and services) | -57.7 | -58.5 | -54.9 | -52.3 | -50.9 | -50.8 | -50.3 | -50.2 | -49.2 |
| External public debt[2] | 17.3 | 21.2 | 20.4 | 21.0 | 23.4 | 26.1 | 26.6 | 26.8 | 26.6 |
| External public debt service (percent of exports)[2] | 2.9 | 3.1 | 5.2 | 4.2 | 3.7 | 3.9 | 4.7 | 4.9 | 5.3 |
| Domestic Debt[3,4] | 47.8 | 54.3 | 61.2 | 56.3 | 51.0 | 44.1 | 40.1 | 36.3 | 32.3 |
| Total public debt[4,5] | 65.1 | 75.6 | 81.5 | 77.3 | 74.4 | 70.2 | 66.7 | 63.0 | 58.9 |

Sources: Togolese authorities and IMF staff estimates and projections.

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

[2] Includes state-owned enterprise external debt.

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

[4] Does not include bank recapitalization costs, estimated at 2-4 percent of GDP. Realization of these costs will worsen the debt profile.

[5] Includes prefinancing debt, domestic arrears and state-owned enterprise debt.

## Table 2a. Togo: Central Government Financial Operations, 2014–22
### (in billions of CFA Francs)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Proj. | | | | | |
| | | | | (In billions of CFA Francs) | | | | | |
| Revenue and grants | 466.8 | 539.5 | 571.3 | 703.1 | 757.8 | 804.2 | 865.4 | 935.7 | 1,020.1 |
| Total revenue | 413.9 | 482.3 | 495.7 | 556.3 | 641.6 | 674.6 | 726.2 | 784.9 | 855.7 |
| Tax revenue | 369.6 | 427.6 | 444.7 | 503.0 | 570.0 | 606.1 | 652.6 | 705.3 | 768.9 |
| Tax administration (CI) | 175.0 | 213.6 | 238.0 | 273.2 | 320.2 | 341.3 | 366.6 | 396.8 | 432.6 |
| Customs administration (CDII) | 194.6 | 214.0 | 206.8 | 229.8 | 249.8 | 264.7 | 286.0 | 308.5 | 336.3 |
| Nontax revenue | 44.3 | 54.7 | 50.9 | 53.3 | 71.6 | 68.5 | 73.5 | 79.6 | 86.8 |
| Grants | 52.9 | 57.2 | 75.6 | 146.8 | 116.2 | 129.7 | 139.3 | 150.7 | 164.3 |
| Expenditure and net lending | 621.8 | 759.1 | 823.9 | 767.4 | 830.3 | 795.9 | 891.5 | 982.4 | 1,061.5 |
| *Of which:* Dom. primary expenditures | 484.7 | 561.5 | 614.5 | 493.8 | 538.1 | 506.8 | 594.0 | 648.6 | 703.9 |
| Current expenditure | 365.3 | 438.1 | 456.7 | 461.2 | 515.5 | 572.2 | 602.4 | 671.2 | 725.4 |
| Primary current spending | 331.4 | 379.0 | 393.8 | 402.5 | 444.5 | 472.6 | 508.2 | 552.1 | 601.9 |
| Wages and salaries | 143.4 | 171.7 | 182.7 | 193.1 | 204.0 | 214.8 | 230.9 | 251.7 | 274.4 |
| Goods and services | 63.4 | 89.4 | 100.3 | 96.0 | 114.7 | 122.6 | 131.7 | 142.5 | 155.4 |
| Transfers and subsidies | 124.6 | 115.9 | 110.8 | 113.4 | 125.8 | 135.2 | 145.6 | 157.8 | 172.0 |
| Interest | 33.9 | 59.1 | 62.9 | 58.7 | 71.0 | 99.6 | 94.2 | 119.1 | 123.5 |
| Domestic debt | 25.1 | 44.9 | 54.1 | 55.9 | 56.9 | 83.9 | 77.3 | 101.2 | 104.9 |
| External debt | 8.8 | 14.2 | 8.8 | 2.8 | 14.1 | 15.7 | 16.9 | 17.9 | 18.6 |
| Public investment | 256.2 | 319.6 | 367.3 | 306.2 | 314.8 | 223.7 | 289.1 | 311.2 | 336.1 |
| Domestically financed | 152.9 | 181.1 | 220.8 | 91.3 | 93.6 | 34.2 | 85.8 | 96.5 | 102.0 |
| Foreign financed | 103.2 | 138.5 | 146.5 | 214.9 | 221.2 | 189.5 | 203.3 | 214.7 | 234.1 |
| Net Lending[1] | 0.4 | 1.4 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic primary balance[1] | -70.8 | -79.2 | -118.8 | 62.5 | 103.5 | 167.7 | 132.1 | 136.4 | 151.8 |
| Change in arrears[2,3] | -26.0 | 28.3 | 0.0 | -70.0 | -64.8 | -44.6 | 0.0 | 0.0 | 0.0 |
| Overall primary balance, cash basis, including grants[1,3] | -146.1 | -132.2 | -189.7 | -75.6 | -66.3 | 63.3 | 68.1 | 72.3 | 82.0 |
| Overall balance, cash basis, including grants[1,3] | -180.0 | -191.3 | -252.6 | -134.3 | -137.3 | -36.3 | -26.1 | -46.7 | -41.5 |
| Overall balance, cash basis, excluding grants[1,3] | -233.9 | -248.5 | -328.2 | -281.1 | -253.5 | -165.9 | -165.4 | -197.5 | -205.8 |
| Financing[1,3] | 313.0 | 369.8 | 322.6 | 204.2 | 185.0 | 78.3 | 165.4 | 197.5 | 205.8 |
| Domestic financing (net)[1,3] | 217.8 | 235.7 | 184.4 | 31.6 | -12.6 | -98.7 | -50.4 | -27.3 | -41.2 |
| Banking system[1] | 163.5 | 150.3 | -3.6 | -244.9 | -17.8 | -11.1 | -4.4 | -3.4 | -10.1 |
| Nonbank financing[1,3,4] | 54.3 | 85.4 | 187.9 | 276.5 | 5.2 | -87.7 | -46.0 | -24.0 | -31.1 |
| External financing (net) | 95.2 | 134.2 | 138.3 | 172.6 | 197.6 | 177.0 | 215.7 | 224.8 | 247.0 |
| Financing gap/unidentified financing | -80.1 | -121.3 | 5.6 | 76.9 | 68.5 | 87.7 | 0.0 | 0.0 | 0.0 |
| Expected financing (excluding IMF) | … | … | … | 36.5 | 28.2 | 27.4 | … | … | … |
| Residual gap[5] | … | … | … | 40.4 | 40.3 | 60.3 | … | … | … |
| IMF-ECF | | | | | | | | | |
| *Memorandum Item:* | | | | | | | | | |
| Nominal GDP (CFAF billions) | 2,259.0 | 2,443.0 | 2,628.0 | 2,778.9 | 2,961.6 | 3,165.5 | 3,399.9 | 3,680.3 | 4,012.3 |

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Will be adjusted for bank recapitalization of two state-owned banks.

[2] Arrears accumulations were rolled over in 2016 using 2016 revenues.

[3] 2018 figures include an adjustor for arrears payment of CFAF 59.3 billion (2 percent of GDP).

[4] Includes treasury bills and bonds held by commercial banks.

[5] The 2019 residual gap anticipates three disbursments from an ECF over the course of the year.

## Table 2b. Togo: Central Government Financial Operations, 2014–22
### (percent of GDP)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Proj. | | | | | |
| | | | | | (Percent of GDP) | | | | |
| Revenue and grants | 20.7 | 22.1 | 21.7 | 25.3 | 25.6 | 25.4 | 25.5 | 25.4 | 25.4 |
| Total revenue | 18.3 | 19.7 | 18.9 | 20.0 | 21.7 | 21.3 | 21.4 | 21.3 | 21.3 |
| Tax revenue | 16.4 | 17.5 | 16.9 | 18.1 | 19.2 | 19.1 | 19.2 | 19.2 | 19.2 |
| Tax administration (CI) | 7.7 | 8.7 | 9.1 | 9.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 |
| Customs administration (CDII) | 8.6 | 8.8 | 7.9 | 8.3 | 8.4 | 8.4 | 8.4 | 8.4 | 8.4 |
| Nontax revenue | 2.0 | 2.2 | 1.9 | 1.9 | 2.4 | 2.2 | 2.2 | 2.2 | 2.2 |
| Grants | 2.3 | 2.3 | 2.9 | 5.3 | 3.9 | 4.1 | 4.1 | 4.1 | 4.1 |
| Expenditures and net lending | 27.5 | 31.1 | 31.4 | 27.6 | 28.0 | 25.1 | 26.2 | 26.7 | 26.5 |
| *Of which:* Dom. primary expenditures | 21.5 | 23.0 | 23.4 | 17.8 | 18.2 | 16.0 | 17.5 | 17.6 | 17.5 |
| Current expenditures | 16.2 | 17.9 | 17.4 | 16.6 | 17.4 | 18.1 | 17.7 | 18.2 | 18.1 |
| Primary current spending | 14.7 | 15.5 | 15.0 | 14.5 | 15.0 | 14.9 | 14.9 | 15.0 | 15.0 |
| Wages and salaries | 6.3 | 7.0 | 7.0 | 6.9 | 6.9 | 6.8 | 6.8 | 6.8 | 6.8 |
| Goods and services | 2.8 | 3.7 | 3.8 | 3.5 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| Transfers and subsidies | 5.5 | 4.7 | 4.2 | 4.1 | 4.2 | 4.3 | 4.3 | 4.3 | 4.3 |
| Interest | 1.5 | 2.4 | 2.4 | 2.1 | 2.4 | 3.1 | 2.8 | 3.2 | 3.1 |
| Public investment | 11.3 | 13.1 | 14.0 | 11.0 | 10.6 | 7.1 | 8.5 | 8.5 | 8.4 |
| Domestically financed | 6.8 | 7.4 | 8.4 | 3.3 | 3.2 | 1.1 | 2.5 | 2.6 | 2.5 |
| Foreign financed | 4.6 | 5.7 | 5.6 | 7.7 | 7.5 | 6.0 | 6.0 | 5.8 | 5.8 |
| Net Lending[1] | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic primary balance[1] | -3.1 | -3.2 | -4.5 | 2.3 | 3.5 | 5.3 | 3.9 | 3.7 | 3.8 |
| Change in arrears[2,3] | -1.2 | 1.2 | 0.0 | -2.5 | -2.2 | -1.4 | 0.0 | 0.0 | 0.0 |
| Overall primary balance, cash basis, including grants[1,3] | -6.5 | -5.4 | -7.2 | -2.7 | -2.2 | 2.0 | 2.0 | 2.0 | 2.0 |
| Overall balance, cash basis, including grants[1,3] | -8.0 | -7.8 | -9.6 | -4.8 | -4.6 | -1.1 | -0.8 | -1.3 | -1.0 |
| Overall balance, cash basis, excluding grants[1,3] | -10.4 | -10.2 | -12.5 | -10.1 | -8.6 | -5.2 | -4.9 | -5.4 | -5.1 |
| Financing[1,3] | 13.9 | 15.1 | 12.3 | 7.3 | 6.2 | 2.5 | 4.9 | 5.4 | 5.1 |
| Domestic financing (net)[1,3] | 9.6 | 9.6 | 7.0 | 1.1 | -0.4 | -3.1 | -1.5 | -0.7 | -1.0 |
| Banking system[1] | 7.2 | 6.2 | -0.1 | -8.8 | -0.6 | -0.4 | -0.1 | -0.1 | -0.3 |
| Nonbank financing[1,3,4] | 2.4 | 3.5 | 7.2 | 9.9 | 0.2 | -2.8 | -1.4 | -0.7 | -0.8 |
| External financing (net) | 4.2 | 5.5 | 5.3 | 6.2 | 6.7 | 5.6 | 6.3 | 6.1 | 6.2 |
| Financing gap/unidentified financing | -3.5 | -5.0 | 0.2 | 2.8 | 2.3 | 2.8 | 0.0 | 0.0 | 0.0 |
| Expected financing (excluding IMF) | … | … | … | 1.3 | 1.0 | 0.9 | … | … | … |
| Residual gap[5] | … | … | … | 1.5 | 1.4 | 1.9 | … | … | … |
| IMF-ECF | | | | | | | | | |
| *Memorandum Item:* | | | | | | | | | |
| Nominal GDP (CFAF billions) | 2,259 | 2,443 | 2,628 | 2,779 | 2,962 | 3,166 | 3,400 | 3,680 | 4,012 |

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Will be adjusted to include bank recapitalization of two state-owned banks.

[2] Arrears accumulations were rolled over in 2016 using 2016 revenues.

[3] 2018 figures include an adjustor for arrears payment of CFAF 59.3 billion (2 percent of GDP).

[4] Includes treasury bills and bonds held by commercial banks.

[5] The 2019 residual gap anticipates three disbursments from an ECF over the course of the year.

## Table 3. Togo: Balance of Payments, 2014–22

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Proj. | | | | | |
| | | | | | *(Billions of CFA Francs)* | | | | |
| Current account balance | -226.4 | -272.6 | -255.5 | -228.8 | -242.1 | -230.4 | -217.5 | -198.4 | -200.5 |
| Trade balance | -438.4 | -610.8 | -588.1 | -580.6 | -603.5 | -617.6 | -634.3 | -649.8 | -694.7 |
| *Of which:* petroleum products, net | -99.3 | -101.8 | -96.3 | -109.0 | -110.4 | -115.9 | -121.6 | -130.9 | -141.3 |
| Exports | 655.5 | 597.7 | 627.4 | 639.2 | 656.2 | 723.5 | 786.8 | 881.6 | 942.7 |
| Imports | 1,093.9 | 1,208.5 | 1,215.5 | 1,219.8 | 1,259.7 | 1,341.2 | 1,421.1 | 1,531.4 | 1,637.4 |
| Services, net | 31.1 | 67.8 | 62.5 | 68.8 | 70.9 | 77.4 | 84.1 | 93.8 | 103.4 |
| Primary income, net | 22.8 | 83.1 | 84.5 | 95.9 | 91.1 | 96.7 | 103.8 | 112.8 | 123.8 |
| Secondary income, net | 158.2 | 187.3 | 185.6 | 187.1 | 199.4 | 213.1 | 228.9 | 244.9 | 267.0 |
| Capital account balance | 157.5 | 159.4 | 147.5 | 177.5 | 172.7 | 177.3 | 183.1 | 190.9 | 200.7 |
| Current and capital account balance | -68.8 | -113.2 | -108.0 | -51.3 | -69.4 | -53.1 | -34.3 | -7.5 | 0.2 |
| Financial account | 9.8 | -225.5 | -143.8 | -189.1 | -213.8 | -223.9 | -126.1 | -119.5 | -114.5 |
| Direct investment, net | 150.6 | 53.7 | 44.4 | 47.6 | 41.6 | 32.8 | 23.3 | 12.9 | 14.1 |
| Portfolio investment, net | 68.4 | -75.5 | -81.2 | -85.9 | -91.5 | -97.8 | -105.0 | -113.7 | -124.0 |
| *Of which*: general government, net | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment, net | -209.1 | -203.7 | -107.0 | -150.8 | -163.9 | -158.9 | -44.3 | -18.7 | -4.6 |
| *Of which*: general government, net | 95.2 | 134.2 | 138.3 | 172.6 | 197.6 | 204.4 | 215.7 | 224.8 | 247.0 |
| Errors and omissions | 2.2 | 2.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall Balance | -76.5 | 115.0 | 35.7 | 137.7 | 144.5 | 170.8 | 91.7 | 112.1 | 114.7 |
| Financing | 76.5 | -115.0 | -35.7 | -60.9 | -76.0 | -83.2 | -91.7 | -112.1 | -114.7 |
| Change in reserve assets[1] | 76.5 | -115.0 | -35.7 | -60.9 | -76.0 | -83.2 | -91.7 | -112.1 | -114.7 |
| Financing gap | ... | ... | ... | 76.9 | 68.5 | 87.7 | 0.0 | 0.0 | 0.0 |
| Expected financing (excluding IMF) | ... | ... | ... | 36.5 | 28.2 | 27.4 | ... | ... | ... |
| Residual gap, *of which* | ... | ... | ... | 40.4 | 40.3 | 60.3 | ... | ... | ... |
| IMF ECF | ... | ... | ... | 40.4 | 40.3 | 60.3 | ... | ... | ... |
| | | | | | *(In percent of GDP)* | | | | |
| Current account balance | -10.0 | -11.2 | -9.7 | -8.2 | -8.2 | -7.3 | -6.4 | -5.4 | -5.0 |
| Trade balance | -19.4 | -25.0 | -22.4 | -20.9 | -20.4 | -19.5 | -18.7 | -17.7 | -17.3 |
| *Of which:* petroleum products, net | -4.4 | -4.2 | -3.7 | -3.9 | -3.7 | -3.7 | -3.6 | -3.6 | -3.5 |
| Exports | 29.0 | 24.5 | 23.9 | 23.0 | 22.2 | 22.9 | 23.1 | 24.0 | 23.5 |
| Imports | 48.4 | 49.5 | 46.3 | 43.9 | 42.5 | 42.4 | 41.8 | 41.6 | 40.8 |
| Services, net | 1.4 | 2.8 | 2.4 | 2.5 | 2.4 | 2.4 | 2.5 | 2.5 | 2.6 |
| Primary income, net | 1.0 | 3.4 | 3.2 | 3.5 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Secondary income, net | 7.0 | 7.7 | 7.1 | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 |
| Capital account balance | 7.0 | 6.5 | 5.6 | 6.4 | 5.8 | 5.6 | 5.4 | 5.2 | 5.0 |
| Current and capital account balance | -3.0 | -4.6 | -4.1 | -1.8 | -2.3 | -1.7 | -1.0 | -0.2 | 0.0 |
| Financial account | 0.4 | -9.2 | -5.5 | -6.8 | -7.2 | -7.1 | -3.7 | -3.2 | -2.9 |
| Direct investment, net | 6.7 | 2.2 | 1.7 | 1.7 | 1.4 | 1.0 | 0.7 | 0.4 | 0.4 |
| Portfolio investment, net | 3.0 | -3.1 | -3.1 | -3.1 | -3.1 | -3.1 | -3.1 | -3.1 | -3.1 |
| *Of which*: general government, net | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investment, net | -9.3 | -8.3 | -4.1 | -5.4 | -5.5 | -5.0 | -1.3 | -0.5 | -0.1 |
| *Of which*: general government, net | 4.2 | 5.5 | 5.3 | 6.2 | 6.7 | 6.5 | 6.3 | 6.1 | 6.2 |
| Errors and omissions | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall Balance | -3.4 | 4.7 | 1.4 | 5.0 | 4.9 | 5.4 | 2.7 | 3.0 | 2.9 |
| Financing | 3.4 | -4.7 | -1.4 | -2.2 | -2.6 | -2.6 | -2.7 | -3.0 | -2.9 |
| Change in reserve assets[1] | 3.4 | -4.7 | -1.4 | -2.2 | -2.6 | -2.6 | -2.7 | -3.0 | -2.9 |
| Financing gap | ... | ... | ... | 2.8 | 2.3 | 2.8 | 0.0 | 0.0 | 0.0 |
| Expected financing (excluding IMF) | ... | ... | ... | 1.3 | 1.0 | 0.9 | ... | ... | ... |
| Residual gap, *of which* | ... | ... | ... | 1.5 | 1.4 | 1.9 | ... | ... | ... |
| IMF ECF | ... | ... | ... | 1.5 | 1.4 | 1.9 | ... | ... | ... |
| *Memorandum items:* | | | | | | | | | |
| BCEAO NFA (in months of next year's WAEMU imports) | 4.7 | 5.0 | 3.9 | 3.9 | 3.9 | 4.0 | 4.1 | 4.4 | 4.6 |
| BCEAO NFA (in million USD) | 13,222 | 12,415 | 10,387 | 12,689 | 13,565 | 15,134 | 16,637 | 18,366 | 20,401 |
| BCEAO NFA (in percent of broad money) | 46.7 | 43.6 | 34.5 | 33.8 | 32.4 | 32.8 | 33.2 | 33.6 | 35.0 |

Sources: Togolese authorities and IMF staff estimates and projections.

[1]In line with WAEMU BoP methodology, includes commercial bank NFA and Togoloese public sector NFA holdings at the BCEAO.

## Table 4. Togo: Monetary Survey, 2014–22

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|---|
| | | | Est. | Proj. | | | | | |
| | | | | (Billions of CFA Francs) | | | | | |
| **Net foreign assets** | 6.6 | -31.6 | 33.7 | 35.3 | 37.1 | 39.0 | 41.1 | 43.3 | 45.7 |
| BCEAO | -210.9 | -259.6 | -330.7 | -346.6 | -364.0 | -382.9 | -403.2 | -424.9 | -448.9 |
| Assets | 48.6 | 44.7 | 29.8 | 22.3 | 9.9 | 9.9 | 9.9 | 9.9 | 9.9 |
| Liabilities | -259.5 | -304.3 | -360.6 | -368.9 | -373.8 | -392.7 | -413.0 | -434.8 | -458.8 |
| Commercial banks | 217.5 | 228.0 | 364.4 | 381.9 | 401.0 | 421.9 | 444.2 | 468.2 | 494.6 |
| Assets | 410.7 | 519.7 | 684.6 | 684.6 | 684.6 | 684.6 | 684.6 | 684.6 | 684.6 |
| Liabilities | -193.2 | -291.7 | -320.2 | -302.7 | -283.6 | -262.8 | -240.4 | -216.4 | -190.0 |
| **Net domestic assets** | 1082.8 | 1340.1 | 1445.7 | 1531.4 | 1637.5 | 1752.9 | 1886.2 | 2043.4 | 2229.2 |
| Credit to government (net) | 82.9 | 60.9 | 32.2 | -24.4 | -59.9 | -69.9 | -109.7 | -138.7 | -197.1 |
| BCEAO | 37.4 | 52.9 | -12.1 | -21.3 | -21.3 | -21.3 | -21.3 | -21.3 | -21.3 |
| Commercial banks | 45.5 | 8.0 | 44.3 | -3.2 | -38.6 | -48.6 | -88.5 | -117.5 | -175.8 |
| Credit to nongovernment sector | 815.4 | 954.6 | 1082.8 | 1242.7 | 1403.3 | 1546.8 | 1738.7 | 1943.2 | 2205.9 |
| *of which: Credit to private sector* | 758.2 | 889.3 | 1025.0 | 1174.1 | 1369.8 | 1610.0 | 1908.6 | 2267.5 | 2705.5 |
| Other items (net) | -274.9 | -432.2 | -462.1 | -462.1 | -462.1 | -462.1 | -462.1 | -462.1 | -462.1 |
| Shares and other equities | 90.4 | 107.7 | 131.4 | 149.0 | 168.1 | 186.2 | 204.9 | 223.2 | 241.8 |
| **Total broad money liabilities** | 1089.4 | 1308.4 | 1479.4 | 1566.7 | 1674.6 | 1791.8 | 1927.2 | 2086.7 | 2274.9 |
| Money supply (M2) | 1055.1 | 1272.1 | 1432.6 | 1514.9 | 1614.5 | 1725.6 | 1853.4 | 2006.3 | 2187.2 |
| Currency Outside Depository Corporations | 147.5 | 241.5 | 246.5 | 247.6 | 248.7 | 249.6 | 250.3 | 251.0 | 251.4 |
| Transferable Deposits | 399.9 | 431.5 | 517.5 | 538.5 | 571.5 | 602.3 | 598.2 | 599.7 | 595.3 |
| Other Deposits | 507.7 | 599.1 | 668.6 | 728.8 | 794.4 | 873.8 | 1004.9 | 1155.6 | 1340.5 |
| Non-liquid liabilities (excl. from broad money) | 34.3 | 36.3 | 46.7 | 51.8 | 60.1 | 66.2 | 73.8 | 80.4 | 87.7 |
| | | | | *(Annual change, as a percent of beginning-of-period broad money)* | | | | | |
| **Net foreign assets** | -7.0 | -3.6 | 5.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| BCEAO | -5.9 | -4.6 | -5.6 | -1.1 | -1.1 | -1.2 | -1.3 | -1.4 | -1.6 |
| Commercial banks | -1.1 | 1.0 | 10.7 | 1.2 | 1.3 | 1.4 | 1.5 | 1.6 | 1.7 |
| **Net domestic assets** | 9.4 | 24.4 | 8.3 | 6.0 | 7.0 | 7.1 | 7.7 | 8.5 | 9.3 |
| Credit to government (net) | 1.3 | -2.1 | -2.3 | -4.0 | -2.3 | -0.6 | -2.3 | -1.6 | -2.9 |
| Credit to nongovernment sector | 1.2 | 13.2 | 10.1 | 11.2 | 10.6 | 8.9 | 11.1 | 11.0 | 13.1 |
| Other items (net) | -2.4 | -14.9 | -2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Shares and other equities | -4.4 | 1.6 | 1.9 | 1.2 | 1.3 | 1.1 | 1.1 | 1.0 | 0.9 |
| **Total broad money liabilities** | | | | | | | | | |
| Money supply (M2) | 3.7 | 20.6 | 12.6 | 5.7 | 6.6 | 6.9 | 7.4 | 8.2 | 9.0 |
| Currency Outside Depository Corporations | -1.2 | 8.9 | 0.4 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Transferable Deposits | 2.9 | 3.0 | 6.8 | 1.5 | 2.2 | 1.9 | -0.2 | 0.1 | -0.2 |
| Other Deposits | 1.9 | 8.7 | 5.5 | 4.2 | 4.3 | 4.9 | 7.6 | 8.1 | 9.2 |
| Non-liquid liabilities (excl. from broad money) | -1.3 | 0.2 | 0.8 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| *Memorandum items:* | | | | | | | | | |
| Velocity (GDP/end-of-period M2) | 2.1 | 1.9 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| | | | | (In percent of GDP) | | | | | |
| **Net foreign assets** | 0.3 | -1.3 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 | 1.1 |
| BCEAO | -9.3 | -10.6 | -12.6 | -12.5 | -12.3 | -12.1 | -11.9 | -11.5 | -11.2 |
| Assets | 2.2 | 1.8 | 1.1 | 0.8 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| Liabilities | -11.5 | -12.5 | -13.7 | -13.3 | -12.6 | -12.4 | -12.1 | -11.8 | -11.4 |
| Commercial banks | 9.6 | 9.3 | 13.9 | 13.7 | 13.5 | 13.3 | 13.1 | 12.7 | 12.3 |
| Assets | 18.2 | 21.3 | 26.1 | 24.6 | 23.1 | 21.6 | 20.1 | 18.6 | 17.1 |
| Liabilities | -8.6 | -11.9 | -12.2 | -10.9 | -9.6 | -8.3 | -7.1 | -5.9 | -4.7 |
| **Net domestic assets** | 47.9 | 54.9 | 55.0 | 55.1 | 55.3 | 55.4 | 55.5 | 55.5 | 55.6 |
| Credit to government (net) | 3.7 | 2.5 | 1.2 | -0.9 | -2.0 | -2.2 | -3.2 | -3.8 | -4.9 |
| BCEAO | 1.7 | 2.2 | -0.5 | -0.8 | -0.7 | -0.7 | -0.6 | -0.6 | -0.5 |
| Commercial banks | 2.0 | 0.3 | 1.7 | -0.1 | -1.3 | -1.5 | -2.6 | -3.2 | -4.4 |
| Credit to nongovernment sector | 36.1 | 39.1 | 41.2 | 44.7 | 47.4 | 48.9 | 51.1 | 52.8 | 55.0 |
| *of which: Credit to private sector* | 31.0 | 32.0 | 30.1 | 31.9 | 34.1 | 36.6 | 39.4 | 42.5 | 46.0 |
| Other items (net) | -12.2 | -17.7 | -17.6 | -16.6 | -15.6 | -14.6 | -13.6 | -12.6 | -11.5 |
| Shares and other equities | 4.0 | 4.4 | 5.0 | 5.4 | 5.7 | 5.9 | 6.0 | 6.1 | 6.0 |
| **Total broad money liabilities** | 48.2 | 53.6 | 56.3 | 56.4 | 56.5 | 56.6 | 56.7 | 56.7 | 56.7 |
| Money supply (M2) | 46.7 | 52.1 | 54.5 | 54.5 | 54.5 | 54.5 | 54.5 | 54.5 | 54.5 |
| Currency Outside Depository Corporations | 6.5 | 9.9 | 9.4 | 8.9 | 8.4 | 7.9 | 7.4 | 6.8 | 6.3 |
| Transferable Deposits | 17.7 | 17.7 | 19.7 | 19.4 | 19.3 | 19.0 | 17.6 | 16.3 | 14.8 |
| Other Deposits | 22.5 | 24.5 | 25.4 | 26.2 | 26.8 | 27.6 | 29.6 | 31.4 | 33.4 |
| Non-liquid liabilities (excl. from broad money) | 1.5 | 1.5 | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 | 2.2 | 2.2 |

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

## Table 5. Togo: Financial Soundness Indicators of the Banking System, 2014–17 H1

| | 2014 | 2015 | 2016 | 2017H1 |
|---|---|---|---|---|
| **Capital Adequacy** | | | | |
| Regulatory capital to risk-weighted assets | 8.5 | 6.8 | 3.9 | 7.9 |
| Regulatory tier 1 capital to risk-weighted assets | 7.2 | 6.1 | 3.0 | 6.4 |
| Capital to assets | 4.7 | 3.7 | 1.4 | 4.8 |
| **Sectoral distribution of credit** | | | | |
| Agriculture and fishing | 0.3 | 0.3 | 0.3 | 0.3 |
| Extracting industries | 0.7 | 0.8 | 0.8 | 0.7 |
| Manufacturing | 11.5 | 11.6 | 9.2 | 8.7 |
| Electricity, gas, and water | 4.4 | 3.7 | 6.0 | 4.6 |
| Building and construction | 18.0 | 22.7 | 21.4 | 21.0 |
| Commerce | 37.2 | 33.6 | 34.6 | 33.8 |
| Transport and Communication | 12.0 | 11.2 | 10.6 | 13.6 |
| Services | 3.5 | 2.9 | 2.5 | 2.5 |
| Collectives and Social Services | 12.5 | 13.3 | 14.8 | 14.8 |
| **Asset quality** | | | | |
| Non-performing loans to total gross loans | 15.4 | 16.6 | 15.4 | 16.7 |
| Non-performing loans net of provisions to capital | 65.3 | 96.4 | 112.9 | 51.8 |
| Bank provisions to non-performing loans | 74.0 | 69.2 | 77.3 | 75.9 |
| Provisions to total assets | 13.1 | 13.3 | 14.9 | 16.7 |
| Top risk assets to capital | 982.8 | 1264.6 | 1122.6 | 390.7 |
| Loans to total assets | 63.5 | 62.6 | 59.0 | 60.5 |
| Loan to deposit ratio | 93.0 | 94.1 | 94.5 | 88.8 |
| **Earnings and profitability** | | | | |
| Return on assets (ROA) | 0.9 | 0.7 | 2.6 | -2.8 |
| Return on equity (ROE) | 19.4 | 18.7 | 181.3 | -57.0 |
| Personnel expense / total administrative costs | 41.7 | 41.5 | 31.6 | 33.8 |
| Interest margin to gross income | 228.5 | 182.6 | n.a. | 23.5 |
| Non-interest expenses to gross income | 222.8 | 191.4 | n.a. | 81.6 |
| Average interest rate spread | 5.7 | 5.1 | n.a. | n.a. |
| Lending rates minus deposits | -5.7 | -5.1 | n.a. | n.a. |
| Interbank rate spread | 3.7 | 4.0 | 2.5 | 0.0 |
| **Liquidity** | | | | |
| Liquid assets to total assets (liquid asset ratio) | 43.5 | 44.3 | 58.1 | 52.1 |
| Liquid assets to short term liabilities | 73.9 | 76.7 | 78.5 | 71.0 |
| Liquid assets to deposits | 63.6 | 66.5 | 93.0 | 80.6 |
| **Sensitivity to market risk** | | | | |
| Foreign-currency-denominated liabilities to total liabilities | 0.0 | 0.0 | 4.4 | 2.3 |
| Net foreign open position to capital | 0.0 | 0.0 | -77.6 | 28.8 |

Source: BCEAO.

## Table 6. Togo: Indicators of Capacity to Repay the Fund, 2016–28[1]

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Projections | | | | | | | | | | | |
| **Fund obligations based on existing and prospective credit** | | | | | | | | | | | | | |
| (in millions of SDRs) | | | | | | | | | | | | | |
| Principal | 17.3 | 19.1 | 17.8 | 11.0 | 7.5 | 1.8 | 2.5 | 12.3 | 22.0 | 34.0 | 34.0 | 31.5 | 21.8 |
| Charges and interest | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Total obligations based on existing and prospective credit** | | | | | | | | | | | | | |
| In millions of SDRs | 17.6 | 19.4 | 18.1 | 11.4 | 7.8 | 2.1 | 2.8 | 12.6 | 22.3 | 34.3 | 34.3 | 31.8 | 22.1 |
| In billions of CFAF | 14.5 | 15.6 | 14.2 | 8.9 | 6.1 | 1.6 | 2.2 | 9.9 | 17.5 | 26.9 | 26.9 | 25.0 | 17.3 |
| In percent of government revenue | 2.9 | 2.8 | 2.2 | 1.3 | 0.8 | 0.2 | 0.3 | 1.1 | 1.7 | 2.4 | 2.1 | 1.8 | 1.1 |
| In percent of exports of goods and services | 1.6 | 1.7 | 1.5 | 0.8 | 0.5 | 0.1 | 0.2 | 0.7 | 1.1 | 1.5 | 1.4 | 1.2 | 0.8 |
| In percent of debt service[2] | 18.6 | 24.3 | 26.2 | 15.4 | 9.3 | 2.6 | 3.5 | 15.4 | 27.3 | 44.4 | 45.0 | 42.2 | 30.6 |
| In percent of GDP | 0.6 | 0.6 | 0.5 | 0.3 | 0.2 | 0.0 | 0.1 | 0.2 | 0.4 | 0.5 | 0.5 | 0.4 | 0.2 |
| In percent of quota | 12.0 | 13.2 | 12.3 | 7.7 | 5.3 | 1.4 | 1.9 | 8.6 | 15.2 | 23.4 | 23.4 | 21.7 | 15.0 |
| **Outstanding IMF credit** | | | | | | | | | | | | | |
| In millions of SDRs | 57.1 | 88.4 | 118.0 | 179.4 | 171.9 | 170.2 | 167.6 | 155.4 | 133.4 | 99.4 | 65.3 | 33.8 | 12.1 |
| In billions of CFAF | 47.1 | 71.2 | 92.7 | 140.5 | 134.5 | 133.4 | 131.5 | 121.8 | 104.6 | 77.9 | 51.2 | 26.5 | 9.5 |
| In percent of government revenue | 9.5 | 12.8 | 14.4 | 20.8 | 18.5 | 17.0 | 15.4 | 13.0 | 10.1 | 6.9 | 4.1 | 1.9 | 0.6 |
| In percent of exports of goods and services | 5.1 | 7.6 | 9.5 | 13.2 | 11.6 | 10.3 | 9.5 | 8.2 | 6.5 | 4.4 | 2.7 | 1.3 | 0.4 |
| In percent of debt service[2] | 60.4 | 110.6 | 171.1 | 242.7 | 206.0 | 212.7 | 204.7 | 189.7 | 163.7 | 128.5 | 85.7 | 44.9 | 16.7 |
| In percent of GDP | 1.8 | 2.6 | 3.1 | 4.4 | 4.0 | 3.6 | 3.3 | 2.8 | 2.2 | 1.5 | 0.9 | 0.4 | 0.1 |
| In percent of quota | 38.9 | 60.2 | 80.4 | 122.2 | 117.1 | 115.9 | 114.2 | 105.8 | 90.9 | 67.7 | 44.5 | 23.0 | 8.2 |
| Net use of IMF credit (millions of SDRs) | | | | | | | | | | | | | |
| Disbursements | 0.0 | 50.3 | 50.3 | 75.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Repayments and repurchases | 17.3 | 19.1 | 17.8 | 11.0 | 7.5 | 1.8 | 2.5 | 12.6 | 22.7 | 35.2 | 35.2 | 32.7 | 22.7 |
| *Memorandum items:* | | | | | | | | | | | | | |
| Nominal GDP (in billions of CFAF) | 2,628 | 2,779 | 2,962 | 3,166 | 3,400 | 3,680 | 4,012 | 4,398 | 4,839 | 5,334 | 5,881 | 6,483 | 7,147 |
| Exports of goods and services (in billions of CFAF) | 917 | 942 | 975 | 1,068 | 1,159 | 1,290 | 1,384 | 1,487 | 1,615 | 1,766 | 1,923 | 2,098 | 2,284 |
| Government revenue (in billions of CFAF) | 496 | 556 | 642 | 675 | 726 | 785 | 856 | 938 | 1,032 | 1,138 | 1,254 | 1,383 | 1,524 |
| Debt service (in billions of CFAF)[2 3] | 78 | 64 | 54 | 58 | 65 | 63 | 64 | 64 | 64 | 61 | 60 | 59 | 57 |
| CFAF/SDR (period average) | 824 | 805 | 785 | 783 | 782 | 784 | 784 | 784 | 784 | 784 | 784 | 784 | 784 |

Sources: IMF staff estimates and projections.

[1] Includes proposed extension and augmentation of access.

[2] Total debt service includes IMF repurchases and repayments.

[3] Includes state-owned enterprises debt.

**Table 7. Togo: Schedule of Disbursements Under ECF Arrangement 2017–20**

| Amount | Availability date | Conditions for disbursement[1] |
|---|---|---|
| SDR 25.17 million (17.1 percent of quota) | May 5, 2017 | Following Executive Board Approval of an ECF arrangement |
| SDR 25.17 million (17.1 percent of quota) | September 15, 2017 | Observance of continuous and end-June 2017 performance criteria and completion of the first review under the arrangement |
| SDR 25.17 million (17.1 percent of quota) | March 15, 2018 | Observance of continuous and end-December 2017 performance criteria and completion of the second review under the arrangement |
| SDR 25.17 million (17.1 percent of quota) | September 15, 2018 | Observance of continuous and end-June 2018 performance criteria and completion of the third review under the arrangement |
| SDR 25.17 million (17.1 percent of quota) | March 15, 2019 | Observance of continuous and end-December 2018 performance criteria and completion of the fourth under the arrangement |
| SDR 25.17 million (17.1 percent of quota) | September 15, 2019 | Observance of continuous and end-June 2019 performance criteria and completion of the fifth review under the arrangement |
| SDR 25.14 million (17.1 percent of quota) | December 15, 2019 | Observance of continuous and end-September 2019 performance criteria and completion of the sixth review under the arrangement |

Sources: Togolese authorities; and IMF staff estimates.

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

# Annex I. Risk Assessment Matrix 1/

| Source of Risk | Likelihood | Nature of Impact | Recommended Policy Response |
|---|---|---|---|
| **External Risks** | | | |
| Tighter global financial conditions: strengthening of US dollar and/or higher rates (ST) | **High** | **High**<br>Stronger US dollar and/or higher rates would increase external debt servicing costs and import prices, putting pressure on the budget and inflation. | Adjust the fiscal balance and implement competitiveness-enhancing structural reforms. |
| Weaker-than-expected global growth (ST, MT) | **High**/**Medium** | **Medium**<br>Exports and growth would be adversely affected, particularly through the impact on key trading partners such as Ghana and Nigeria. The impact would be somewhat mitigated as Togo's exports are diversified by product and destination. | Implement competitiveness-enhancing structural reforms. |
| Retreat from cross-border integration (ST, MT) | **Medium** | **High**<br>Reduced global policy collaboration may limit international aid, FDI, trade flows, exports, and growth. | Ensure prudent budgetary management to contain financing need; bolster regional policy coordination and regional trade. |
| **Regional and Domestic Risks** | | | |
| Surge of insecurity in the region (ST, MT) | **High** | **Medium**<br>Private investments (domestic and foreign) and tourism would decline; growth of some trading partners would slow; security-related budgetary spending may increase; financing from the regional market may tighten. | Ensure prudent budgetary management to contain financing need. |

| | | | |
|---|---|---|---|
| Continued political unrests (ST, MT) | **High/Medium** | **High**<br>Economic activity and growth would slow down; spending pressure may intensify to address social demands; support for structural reforms may dwindle. | Accelerate measures towards growth-inclusiveness; communicate and discuss structural reforms with key stakeholders. |
| Delays in fiscal adjustment and reforms (ST) | **Low/Medium** | **Medium**<br>Pressures may arise from various interest groups to continue large public works and delay structural reforms such as the opening-up of key sectors to private investments. | Persevere in fiscal consolidation and accelerate structural reforms. Put in place social programs to address potential adverse impact of reforms on the most vulnerable groups of the population. |
| Power-supply shortfalls (ST, MT) | **High** | **High**<br>Planning and regulatory inaction, combined with poor management of utilities, may lead to widespread power cuts. This will create costs to the budget and inhibit economic growth. | Invest in power generation capacity and reform pricing policies to promote private sector participation in the sector. Public sector entities should be current on their bills to prevent accumulation of arrears. |

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

# Annex II. Debt Sustainability Analysis

**The updated debt sustainability analysis (DSA) confirms Togo's moderate risk of external debt distress and heightened risk of overall public debt distress** —unchanged from the previous DSA published in April 2017. However, there are significant downside risks to growth and fiscal prospects, which if materialized, would likely result in a deterioration of Togo's risk of external debt distress. Togo's external debt remains vulnerable to adverse shocks: on exports stemming from low external demand or decline in commodity prices, and on non-debt creating flows. Also, Togo's overall public debt dynamic continue to present heightened vulnerabilities, with the present value (PV) of debt-to-GDP currently standing at twice the prudential level of 38 percent, and remaining above the indicative benchmark through 2024.

**The revised baseline macroeconomic assumptions for the present DSA are:** real GDP growth is currently expected to be lower in the medium-term and revert slightly above the April 2017 forecast in 2022; inflation is revised down 1 and 0.5 percent in 2017 and 2018, respectively; the primary fiscal balance remains anchored on a surplus of 2 percent by the end of the program and until 2025, when debt declines below the threshold of heightened risk of public debt distress; current account deficit is about 1 percent of GDP lower in 2017, due to a higher than expected decline in imports; and FDI is down 0.4 percent of GDP each year, relative to the previous DSA vintage. Once the costs of the bank recapitalization, estimated at 2-4 percent of GDP, are realized and included in the fiscal accounts, the debt profile will worsen.

**Under the baseline scenario, all Togo's external debt indicators continue to remain below their indicative policy-relevant thresholds (Table 1, Figure 1).** The PV of public and publicly guaranteed (PPG) external debt is projected at 16.5 percent of GDP in 2016 and will stabilize around this level until 2037. The improvement in the external debt dynamic relative to April 2017 stems from improvements in the primary current account deficit that more than offset the deteriorated FDI. Both ratios of the PV of external debt relative to revenues and to exports continue to remain relatively stable and below their respective indicative thresholds through the end of the projection period. Similarly, debt service measures remain well below thresholds and on a broadly downward trend. Improvements in debt-management practices envisaged in the authorities' ECF-supported program will give further resilience to shocks affecting debt service needs (Figure 1). However, under the historical scenario and several other shock scenarios, several debt indicators breach their respective thresholds in outer years.

**Togo's overall public debt dynamics also highlight heightened vulnerabilities, with the debt-to-GDP ratio remaining above the indicative benchmark for a significant part of the projection period (Table 2).** Overall public debt is now forecasted at 77.3 percent of GDP in 2017, falling below the 70 percent WAEMU convergence criterion by 2019. By 2037, repayment of arrears coupled with significant fiscal consolidation is expected to significantly reduce domestic debt and total public and publicly guaranteed debt. The analysis highlights the need for sustained fiscal consolidation, improved debt management, and macroeconomic policies to reduce the level of public debt to prudent levels over the medium term.

## Table 1a. Togo: External Debt Sustainability Framework, Baseline Scenario, 2014–2037 1/

(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical 6/ Average | Standard 6/ Deviation | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | | | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2017-2022 Average | 2027 | 2037 | 2023-2037 Average |
| **External debt (nominal) 1/** | **18.6** | **23.2** | **22.2** | | | **23.5** | **26.1** | **28.9** | **29.5** | **29.8** | **29.7** | | **28.6** | **28.0** | |
| *of which: public and publicly guaranteed (PPG)* | 17.3 | 21.2 | 20.4 | | | 21.0 | 23.4 | 26.1 | 26.6 | 26.8 | 26.6 | | 25.8 | 26.3 | |
| Change in external debt | 3.3 | 4.6 | -1.0 | | | 1.4 | 2.6 | 2.8 | 0.6 | 0.3 | -0.1 | | -0.1 | 0.0 | |
| Identified net debt-creating flows | 15.8 | 15.4 | 9.8 | | | 9.0 | 8.5 | 7.0 | 5.7 | 4.3 | 3.8 | | 2.6 | 3.1 | |
| **Non-interest current account deficit** | **9.8** | **10.9** | **9.4** | **8.3** | **2.5** | **7.8** | **7.7** | **6.8** | **5.9** | **4.9** | **4.5** | | **4.6** | **5.2** | 4.3 |
| Deficit in balance of goods and services | 18.0 | 22.2 | 20.0 | | | 18.4 | 18.0 | 17.1 | 16.2 | 15.1 | 14.7 | | 14.8 | 15.2 | |
| Exports | 39.7 | 36.3 | 34.9 | | | 33.9 | 32.9 | 33.7 | 34.1 | 35.0 | 34.5 | | 32.4 | 27.5 | |
| Imports | 57.7 | 58.5 | 54.9 | | | 52.3 | 50.9 | 50.8 | 50.3 | 50.2 | 49.2 | | 47.2 | 42.7 | |
| Net current transfers (negative = inflow) | -7.0 | -7.7 | -7.1 | -8.2 | 1.8 | -6.7 | -6.7 | -6.7 | -6.7 | -6.7 | -6.7 | | -6.7 | -6.8 | -6.7 |
| *of which: official* | -1.9 | -1.8 | -1.7 | | | -1.7 | -1.7 | -1.7 | -1.7 | -1.7 | -1.7 | | -1.7 | -1.7 | |
| Other current account flows (negative = net inflow) | -1.2 | -3.7 | -3.6 | | | -3.8 | -3.5 | -3.6 | -3.6 | -3.6 | -3.6 | | -3.6 | -3.3 | |
| **Net FDI (negative = inflow)** | **6.7** | **2.2** | **1.7** | **2.3** | **5.6** | **1.7** | **1.4** | **1.0** | **0.7** | **0.4** | **0.4** | | **-0.9** | **-0.9** | -0.6 |
| **Endogenous debt dynamics 2/** | **-0.6** | **2.3** | **-1.2** | | | **-0.6** | **-0.6** | **-0.8** | **-0.9** | **-1.0** | **-1.1** | | **-1.2** | **-1.2** | |
| Contribution from nominal interest rate | 0.2 | 0.3 | 0.4 | | | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | | 0.4 | 0.3 | |
| Contribution from real GDP growth | -0.9 | -1.1 | -1.1 | | | -1.0 | -1.1 | -1.3 | -1.4 | -1.5 | -1.5 | | -1.6 | -1.5 | |
| Contribution from price and exchange rate changes | 0.0 | 3.1 | -0.5 | | | ... | ... | ... | ... | ... | ... | | ... | ... | |
| **Residual (3-4) 3/** | **-12.5** | **-10.8** | **-10.9** | | | **-7.6** | **-5.9** | **-4.2** | **-5.1** | **-4.0** | **-3.9** | | **-2.7** | **-3.2** | |
| *of which: exceptional financing* | -0.3 | -0.4 | -1.2 | | | -0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| PV of external debt 4/ | ... | ... | 18.3 | | | 20.3 | 21.1 | 22.0 | 21.9 | 21.7 | 21.3 | | 19.3 | 18.3 | |
| In percent of exports | ... | ... | 52.5 | | | 59.8 | 64.1 | 65.3 | 64.3 | 61.9 | 61.6 | | 59.7 | 66.7 | |
| **PV of PPG external debt** | **...** | **...** | **16.5** | | | **17.8** | **18.4** | **19.2** | **19.0** | **18.7** | **18.2** | | **16.6** | **16.7** | |
| **In percent of exports** | **...** | **...** | **47.3** | | | **52.4** | **56.0** | **57.0** | **55.6** | **53.3** | **52.8** | | **51.3** | **60.6** | |
| **In percent of government revenues** | **...** | **...** | **87.6** | | | **88.8** | **85.1** | **90.2** | **88.8** | **87.6** | **85.3** | | **77.8** | **78.1** | |
| **Debt service-to-exports ratio (in percent)** | **2.9** | **3.1** | **5.0** | | | **4.3** | **3.9** | **3.9** | **4.1** | **4.1** | **4.0** | | **3.1** | **3.0** | |
| **PPG debt service-to-exports ratio (in percent)** | **2.9** | **3.1** | **5.0** | | | **4.3** | **3.9** | **3.9** | **4.1** | **4.1** | **4.0** | | **3.1** | **3.0** | |
| **PPG debt service-to-revenue ratio (in percent)** | **6.4** | **5.7** | **9.3** | | | **7.4** | **5.9** | **6.1** | **6.5** | **6.8** | **6.5** | | **4.7** | **3.8** | |
| Total gross financing need (Billions of U.S. dollars) | 0.8 | 0.6 | 0.6 | | | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.6 | | 0.7 | 1.8 | |
| Non-interest current account deficit that stabilizes debt ratio | 6.5 | 6.2 | 10.4 | | | 6.5 | 5.1 | 4.0 | 5.3 | 4.6 | 4.7 | | 4.8 | 5.2 | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.9 | 5.3 | 5.0 | 5.0 | 2.3 | 4.8 | 5.0 | 5.2 | 5.3 | 5.4 | 5.6 | 5.2 | 6.0 | 6.0 | 6.0 |
| GDP deflator in US dollar terms (change in percent) | 0.0 | -14.2 | 2.2 | 2.0 | 10.1 | 2.8 | 5.9 | 2.1 | 2.2 | 2.3 | 3.2 | 3.1 | 4.0 | 4.0 | 4.0 |
| Effective interest rate (percent) 5/ | 1.6 | 1.6 | 1.7 | 1.1 | 0.7 | 2.0 | 2.2 | 2.0 | 1.9 | 1.8 | 1.7 | 1.9 | 1.4 | 1.4 | 1.4 |
| Growth of exports of G&S (US dollar terms, in percent) | -9.5 | -17.5 | 3.2 | 7.3 | 14.2 | 4.7 | 7.8 | 10.1 | 8.7 | 10.9 | 7.3 | 8.3 | 9.1 | 4.2 | 8.5 |
| Growth of imports of G&S (US dollar terms, in percent) | -7.8 | -8.5 | 0.7 | 8.2 | 15.5 | 2.7 | 8.1 | 7.2 | 6.4 | 7.6 | 7.0 | 6.5 | 9.5 | 8.7 | 9.1 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | 8.7 | 51.0 | 51.0 | 50.9 | 46.1 | 46.7 | 42.4 | 45.4 | 43.7 | 44.9 |
| Government revenues (excluding grants, in percent of GDP) | 18.3 | 19.7 | 18.9 | | | 20.0 | 21.7 | 21.3 | 21.4 | 21.3 | 21.3 | | 21.3 | 21.3 | 21.3 |
| Aid flows (in Billions of US dollars) 7/ | 0.4 | 0.3 | 0.4 | | | 0.3 | 0.5 | 0.5 | 0.4 | 0.4 | 0.5 | | 0.8 | 2.0 | |
| *of which: Grants* | 0.1 | 0.1 | 0.1 | | | 0.3 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | | 0.5 | 1.3 | |
| *of which: Concessional loans* | 0.3 | 0.2 | 0.2 | | | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | | 0.3 | 0.7 | |
| Grant-equivalent financing (in percent of GDP) 8/ | ... | ... | ... | | | 5.7 | 6.3 | 6.7 | 5.7 | 5.5 | 5.5 | | 5.4 | 5.4 | 5.4 |
| Grant-equivalent financing (in percent of external financing) 8/ | ... | ... | ... | | | 55.6 | 73.6 | 72.9 | 78.8 | 76.8 | 77.6 | | 77.1 | 76.3 | 76.8 |
| *Memorandum items:* | | | | | | | | | | | | | | | |
| Nominal GDP (Billions of US dollars) | 4.6 | 4.1 | 4.4 | | | 4.8 | 5.3 | 5.7 | 6.1 | 6.6 | 7.2 | | 11.7 | 30.9 | |
| Nominal dollar GDP growth | 5.9 | -9.7 | 7.3 | | | 7.8 | 11.2 | 7.4 | 7.6 | 7.9 | 9.0 | 8.5 | 10.2 | 10.2 | 10.2 |
| PV of PPG external debt (in Billions of US dollars) | | | 0.7 | | | 0.9 | 1.0 | 1.1 | 1.2 | 1.2 | 1.3 | | 1.9 | 5.1 | |
| (PVt-PVt-1)/GDPt-1 (in percent) | | | | | | 4.2 | 2.0 | 2.2 | 1.1 | 1.2 | 1.2 | 2.0 | 1.5 | 1.8 | 1.6 |
| Gross workers' remittances (Billions of US dollars) | 0.2 | 0.2 | 0.2 | | | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | | 0.6 | 1.6 | |
| PV of PPG external debt (in percent of GDP + remittances) | ... | ... | 15.7 | | | 16.9 | 17.6 | 18.3 | 18.1 | 17.8 | 17.4 | | 15.8 | 15.8 | |
| PV of PPG external debt (in percent of exports + remittances) | ... | ... | 41.2 | | | 45.5 | 48.8 | 49.4 | 48.7 | 46.6 | 46.3 | | 44.3 | 51.0 | |
| Debt service of PPG external debt (in percent of exports + remittance | ... | ... | 4.4 | | | 3.8 | 3.4 | 3.4 | 3.6 | 3.6 | 3.5 | | 2.7 | 2.5 | |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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.

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, 2017-2037

(In percent)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | **2027** | 2037 |
| **PV of debt-to GDP ratio** | | | | | | | | |
| **Baseline** | 18 | 18 | 19 | 19 | 19 | 18 | **17** | 17 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2017-2037 1/ | 18 | 20 | 22 | 24 | 27 | 30 | **45** | 72 |
| A2. New public sector loans on less favorable terms in 2017-2037 2 | 18 | 20 | 22 | 22 | 23 | 23 | **24** | 27 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2018-2019 | 18 | 19 | 20 | 20 | 20 | 19 | **17** | 17 |
| B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/ | 18 | 21 | 27 | 26 | 26 | 25 | **22** | 18 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019 | 18 | 21 | 25 | 24 | 24 | 23 | **21** | 21 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/ | 18 | 22 | 27 | 27 | 26 | 25 | **22** | 18 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 18 | 24 | 33 | 32 | 31 | 30 | **26** | 21 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/ | 18 | 26 | 27 | 26 | 26 | 25 | **23** | 23 |
| **PV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 52 | 56 | 57 | 56 | 53 | 53 | **51** | 61 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2017-2037 1/ | 52 | 60 | 66 | 71 | 77 | 86 | **138** | 263 |
| A2. New public sector loans on less favorable terms in 2017-2037 2 | 52 | 60 | 65 | 65 | 65 | 66 | **73** | 97 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2018-2019 | 52 | 56 | 57 | 56 | 53 | 53 | **51** | 60 |
| B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/ | 52 | 74 | 110 | 106 | 101 | 100 | **92** | 90 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019 | 52 | 56 | 57 | 56 | 53 | 53 | **51** | 60 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/ | 52 | 68 | 81 | 78 | 74 | 73 | **67** | 66 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 52 | 71 | 97 | 94 | 89 | 88 | **81** | 79 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/ | 52 | 56 | 57 | 56 | 53 | 53 | **51** | 60 |
| **PV of debt-to-revenue ratio** | | | | | | | | |
| **Baseline** | 89 | 85 | 90 | 89 | 88 | 85 | **78** | 78 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2017-2037 1/ | 89 | 92 | 104 | 114 | 127 | 140 | **210** | 339 |
| A2. New public sector loans on less favorable terms in 2017-2037 2 | 89 | 91 | 102 | 104 | 107 | 107 | **111** | 125 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2018-2019 | 89 | 87 | 95 | 93 | 92 | 89 | **81** | 82 |
| B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/ | 89 | 97 | 127 | 124 | 121 | 118 | **102** | 85 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019 | 89 | 98 | 116 | 114 | 112 | 109 | **99** | 100 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/ | 89 | 103 | 128 | 125 | 122 | 118 | **102** | 85 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 89 | 111 | 153 | 149 | 146 | 141 | **122** | 101 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/ | 89 | 119 | 126 | 124 | 122 | 119 | **108** | 109 |

## Table 1b. Togo: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017–37 (concluded)

(In percent)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Debt service-to-exports ratio** | | | | | | | | |
| **Baseline** | 4 | 4 | 4 | 4 | 4 | 4 | **3** | 3 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2017-2037 1/ | 4 | 4 | 4 | 4 | 5 | 5 | **5** | 12 |
| A2. New public sector loans on less favorable terms in 2017-2037 2 | 4 | 4 | 3 | 4 | 4 | 4 | **4** | 5 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2018-2019 | 4 | 4 | 4 | 4 | 4 | 4 | **3** | 3 |
| B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/ | 4 | 4 | 6 | 6 | 6 | 6 | **5** | 5 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019 | 4 | 4 | 4 | 4 | 4 | 4 | **3** | 3 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/ | 4 | 4 | 4 | 5 | 5 | 4 | **4** | 4 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 4 | 4 | 5 | 5 | 6 | 5 | **4** | 4 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/ | 4 | 4 | 4 | 4 | 4 | 4 | **3** | 3 |
| **Debt service-to-revenue ratio** | | | | | | | | |
| **Baseline** | 7 | 6 | 6 | 6 | 7 | 6 | **5** | 4 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2017-2037 1/ | 7 | 6 | 6 | 7 | 8 | 8 | **8** | 15 |
| A2. New public sector loans on less favorable terms in 2017-2037 2 | 7 | 6 | 5 | 6 | 6 | 6 | **6** | 7 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2018-2019 | 7 | 6 | 6 | 7 | 7 | 7 | **5** | 4 |
| B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/ | 7 | 6 | 6 | 7 | 8 | 7 | **6** | 5 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019 | 7 | 7 | 8 | 8 | 9 | 8 | **6** | 5 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/ | 7 | 6 | 7 | 7 | 8 | 7 | **6** | 5 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 7 | 6 | 8 | 9 | 9 | 9 | **7** | 5 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/ | 7 | 8 | 9 | 9 | 9 | 9 | **7** | 5 |
| *Memorandum item:* | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 42 | 42 | 42 | 42 | 42 | 42 | **42** | 42 |

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming
an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

## Table 2a. Togo: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37 1/

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Estimate | | | | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | Average 5/ | Standard Deviation 5/ | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2017-22 Average | 2027 | 2037 | 2023-37 Average |
| **Public sector debt 1/** | 65.1 | 75.6 | 81.5 | | | 77.3 | 74.4 | 70.2 | 66.7 | 63.0 | 58.9 | 54.7 | 50.2 | 45.7 | 42.9 | | 41.6 | 38.4 | |
| *of which: foreign-currency denominated* | 17.3 | 21.2 | 20.4 | | | 21.0 | 23.4 | 26.1 | 26.6 | 26.8 | 26.6 | 26.4 | 26.2 | 26.0 | 25.9 | | 25.8 | 26.3 | |
| Change in public sector debt | 9.4 | 10.5 | 6.0 | | | -4.2 | -2.9 | -4.3 | -3.5 | -3.7 | -4.2 | -4.2 | -4.4 | -4.5 | -2.8 | | -1.3 | -0.4 | |
| Identified debt-creating flows | 5.3 | 6.2 | 5.0 | | | -4.1 | -2.4 | -5.1 | -4.0 | -3.7 | -4.2 | -4.5 | -4.8 | -4.8 | -3.2 | | -1.6 | -0.4 | |
| Primary deficit | 5.5 | 6.8 | 7.1 | 4.1 | 2.3 | -0.2 | 0.0 | -3.5 | -2.1 | -2.0 | -2.1 | -2.1 | -2.1 | -2.1 | -0.5 | -1.7 | 1.0 | 2.2 | 1.1 |
| Revenue and grants | 20.7 | 22.1 | 21.7 | | | 25.3 | 25.6 | 25.4 | 25.5 | 25.4 | 25.4 | 25.4 | 25.4 | 25.4 | 25.4 | | 25.4 | 25.4 | |
| *of which: grants* | 2.3 | 2.3 | 2.9 | | | 5.3 | 3.9 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | | 4.1 | 4.1 | |
| Primary (noninterest) expenditure | 26.1 | 28.9 | 28.8 | | | 25.1 | 25.6 | 21.9 | 23.4 | 23.4 | 23.3 | 23.3 | 23.3 | 23.3 | 24.9 | | 26.4 | 27.6 | |
| Automatic debt dynamics | -0.2 | -0.6 | -2.1 | | | -4.0 | -2.4 | -1.7 | -2.0 | -1.7 | -2.1 | -2.4 | -2.7 | -2.7 | -2.6 | | -2.6 | -2.6 | |
| Contribution from interest rate/growth differential | -1.7 | -2.8 | -2.8 | | | -1.9 | -2.3 | -1.6 | -2.0 | -1.8 | -2.1 | -2.4 | -2.7 | -2.7 | -2.6 | | -2.6 | -2.6 | |
| *of which: contribution from average real interest rate* | 1.4 | 0.5 | 0.8 | | | 1.8 | 1.4 | 2.1 | 1.5 | 1.6 | 1.3 | 0.9 | 0.4 | 0.1 | -0.1 | | -0.1 | -0.4 | |
| *of which: contribution from real GDP growth* | -3.1 | -3.3 | -3.6 | | | -3.7 | -3.7 | -3.7 | -3.5 | -3.4 | -3.4 | -3.2 | -3.1 | -2.8 | -2.6 | | -2.4 | -2.2 | |
| Contribution from real exchange rate depreciation | 1.5 | 2.2 | 0.6 | | | -2.0 | -0.1 | -0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Privatization receipts (negative) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | 4.1 | 4.3 | 1.0 | | | -0.1 | -0.5 | 0.9 | 0.6 | 0.0 | 0.1 | 0.3 | 0.3 | 0.3 | 0.4 | | 0.3 | 0.0 | |
| **Other Sustainability Indicators** | | | | | | | | | | | | | | | | | | | |
| **PV of public sector debt** | ... | ... | 77.7 | | | 74.1 | 69.4 | 63.3 | 59.1 | 54.9 | 50.5 | 46.0 | 41.4 | 36.7 | 33.8 | | 32.4 | 28.7 | |
| *of which: foreign-currency denominated* | ... | ... | 16.5 | | | 17.8 | 18.4 | 19.2 | 19.0 | 18.7 | 18.2 | 17.7 | 17.3 | 17.0 | 16.8 | | 16.6 | 16.7 | |
| *of which: external* | ... | ... | 16.5 | | | 17.8 | 18.4 | 19.2 | 19.0 | 18.7 | 18.2 | 17.7 | 17.3 | 17.0 | 16.8 | | 16.6 | 16.7 | |
| PV of contingent liabilities (not included in public sector debt) | ... | ... | ... | | | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | | ... | ... | |
| Gross financing need 2/ | 20.6 | 27.7 | 19.6 | | | 9.7 | 9.4 | 6.8 | 12.6 | 13.6 | 12.1 | 9.2 | 9.2 | 8.8 | 9.1 | | 9.1 | 8.7 | |
| PV of public sector debt-to-revenue and grants ratio (in percent) | ... | ... | 357.3 | | | 292.8 | 271.4 | 249.2 | 232.2 | 216.1 | 198.5 | 180.9 | 162.7 | 144.4 | 132.9 | | 127.4 | 113.0 | |
| PV of public sector debt-to-revenue ratio (in percent) | ... | ... | 411.9 | | | 370.0 | 320.5 | 297.1 | 276.7 | 257.6 | 236.6 | 215.7 | 194.0 | 172.1 | 158.4 | | 151.8 | 134.7 | |
| *of which: external 3/* | ... | ... | 87.6 | | | 88.8 | 85.1 | 90.2 | 88.8 | 87.6 | 85.3 | 83.2 | 81.3 | 79.7 | 78.6 | | 77.8 | 78.1 | |
| Debt service-to-revenue and grants ratio (in percent) 4/ | 73.3 | 94.7 | 57.8 | | | 39.1 | 37.0 | 40.3 | 57.5 | 61.4 | 56.0 | 44.7 | 44.4 | 42.9 | 37.7 | | 31.7 | 25.5 | |
| Debt service-to-revenue ratio (in percent) 4/ | 82.6 | 105.9 | 66.6 | | | 49.4 | 43.7 | 48.0 | 68.6 | 73.2 | 66.8 | 53.3 | 52.9 | 51.1 | 44.9 | | 37.8 | 30.4 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | -3.9 | -3.7 | 1.1 | | | 4.0 | 2.9 | 0.8 | 1.4 | 1.6 | 2.0 | 2.1 | 2.3 | 2.4 | 2.3 | | 2.3 | 2.6 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 5.9 | 5.3 | 5.0 | 5.0 | 2.3 | 4.8 | 5.0 | 5.2 | 5.3 | 5.4 | 5.6 | 5.8 | 6.0 | 6.0 | 6.0 | 5.2 | 6.0 | 6.0 | 6.0 |
| Average nominal interest rate on forex debt (in percent) | 1.7 | 1.7 | 1.9 | 1.1 | 0.7 | 2.2 | 2.4 | 2.3 | 2.1 | 2.0 | 1.9 | 1.8 | 1.8 | 1.7 | 1.6 | 2.1 | 1.6 | 1.5 | 1.5 |
| Average real interest rate on domestic debt (in percent) | 3.0 | 1.5 | 1.8 | -0.1 | 3.6 | 2.7 | 2.2 | 4.0 | 3.6 | 4.7 | 4.6 | 4.3 | 3.5 | 3.0 | 2.7 | 3.7 | 2.7 | 1.6 | 2.9 |
| Real exchange rate depreciation (in percent, + indicates depreciation | 11.1 | 13.4 | 3.2 | 2.6 | 7.9 | -10.4 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | -0.1 | 2.7 | 2.4 | 2.9 | 3.4 | 0.9 | 1.5 | 1.6 | 2.0 | 2.7 | 3.2 | 3.6 | 3.8 | 4.0 | 4.0 | 2.0 | 4.0 | 4.0 | 4.0 |
| Growth of real primary spending (deflated by GDP deflator, in percer | 8.0 | 16.3 | 4.9 | 3.0 | 5.4 | -8.6 | 6.8 | -9.8 | 12.3 | 5.5 | 5.1 | 5.9 | 6.0 | 6.0 | 13.3 | 1.9 | 12.4 | 6.0 | 7.2 |
| Grant element of new external borrowing (in percent) | ... | ... | ... | ... | ... | 8.7 | 51.0 | 51.0 | 50.9 | 46.1 | 46.7 | 46.1 | 45.9 | 45.7 | 45.6 | 42.4 | 45.4 | 43.7 | ... |

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

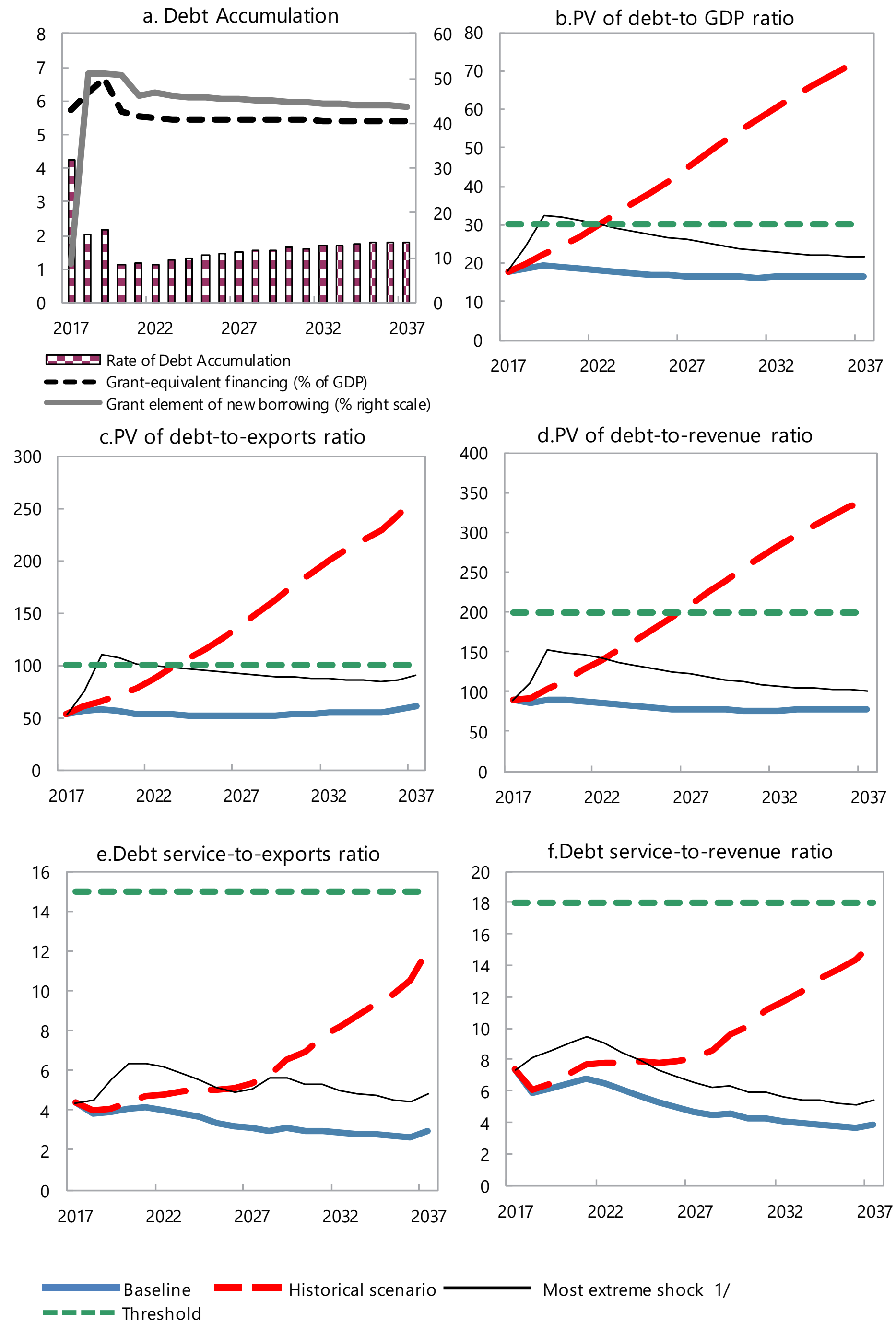
## Table 2b. Togo: Togo: Sensitivity Analysis for Key Indicators of Public Debt 2017–37

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2027 | 2037 |
| **PV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 74 | 69 | 63 | 59 | 55 | 50 | 32 | 29 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 74 | 72 | 72 | 72 | 72 | 71 | 65 | 60 |
| A2. Primary balance is unchanged from 2017 | 74 | 69 | 66 | 63 | 60 | 56 | 39 | 20 |
| A3. Permanently lower GDP growth 1/ | 74 | 70 | 64 | 60 | 57 | 53 | 37 | 42 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2018-20 | 74 | 71 | 67 | 64 | 60 | 56 | 39 | 38 |
| B2. Primary balance is at historical average minus one standard deviations in 2018-201 | 74 | 74 | 75 | 70 | 65 | 60 | 39 | 32 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 74 | 74 | 75 | 70 | 66 | 61 | 41 | 36 |
| B4. One-time 30 percent real depreciation in 2018 | 74 | 76 | 68 | 63 | 59 | 53 | 33 | 27 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2018 | 74 | 77 | 70 | 66 | 61 | 56 | 36 | 31 |
| **PV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 293 | 271 | 249 | 232 | 216 | 198 | 127 | 113 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 293 | 283 | 282 | 282 | 281 | 279 | 254 | 228 |
| A2. Primary balance is unchanged from 2017 | 293 | 271 | 258 | 246 | 234 | 221 | 154 | 78 |
| A3. Permanently lower GDP growth 1/ | 293 | 273 | 252 | 237 | 222 | 206 | 146 | 164 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2018-20 | 293 | 278 | 263 | 248 | 234 | 218 | 153 | 148 |
| B2. Primary balance is at historical average minus one standard deviations in 2018-201 | 293 | 290 | 295 | 275 | 257 | 236 | 154 | 126 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 293 | 289 | 294 | 276 | 259 | 239 | 162 | 142 |
| B4. One-time 30 percent real depreciation in 2018 | 293 | 297 | 270 | 249 | 231 | 210 | 129 | 106 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2018 | 293 | 299 | 276 | 258 | 240 | 221 | 143 | 121 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 39 | 37 | 40 | 58 | 61 | 56 | 32 | 25 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 39 | 37 | 41 | 60 | 67 | 64 | 46 | 38 |
| A2. Primary balance is unchanged from 2017 | 39 | 37 | 40 | 58 | 63 | 58 | 35 | 22 |
| A3. Permanently lower GDP growth 1/ | 39 | 37 | 41 | 58 | 63 | 57 | 34 | 31 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2018-20 | 39 | 38 | 42 | 60 | 65 | 59 | 35 | 29 |
| B2. Primary balance is at historical average minus one standard deviations in 2018-201 | 39 | 37 | 41 | 61 | 68 | 62 | 34 | 27 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 39 | 37 | 42 | 62 | 68 | 63 | 35 | 29 |
| B4. One-time 30 percent real depreciation in 2018 | 39 | 38 | 42 | 60 | 64 | 59 | 34 | 28 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2018 | 39 | 37 | 41 | 61 | 65 | 60 | 33 | 26 |

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.

**Figure 1. Togo: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2017–37 1/**

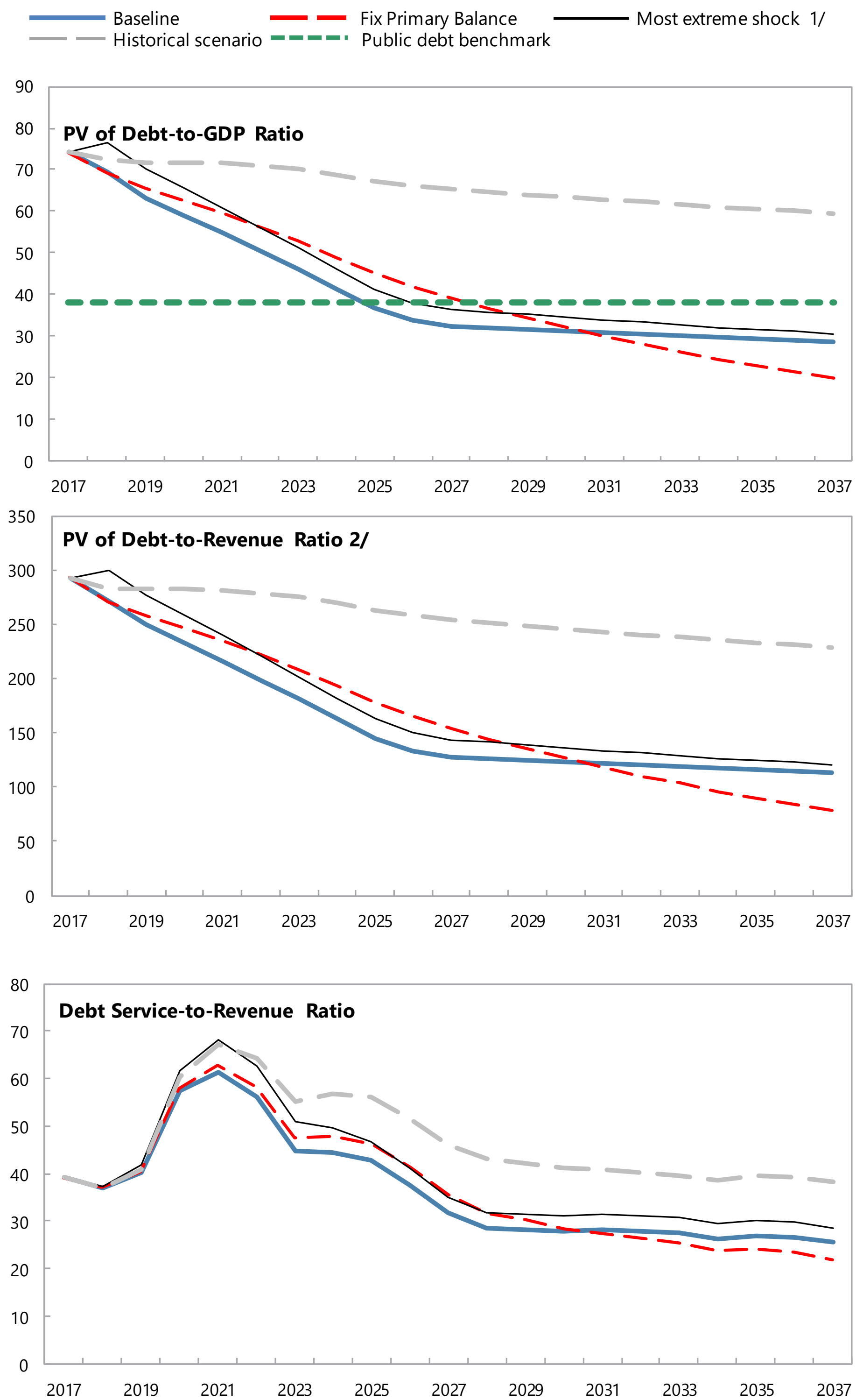
(In percent of GDP, unless otherwise indicated)




Sources: Country authorities; and staff estimates and projections.

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

**Figure 2. Togo: Indicators of Public Debt under Alternatives Scenarios, 2017–37 1/**




Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

# Appendix I. Letter of Intent

**MINISTRY OF ECONOMY AND FINANCE**

**---------------**

**OFFICE OF THE MINISTER**

**---------------**

**N°………………./MEF/CAB**

**REPUBLIC OF TOGO**
***Travail-Liberté-Patrie***

**---------**

Lomé, November 29, 2017

**To**

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

Dear Ms. Lagarde:

1. The government requests the completion of the first review under Togo's ECF arrangement based on the satisfactory implementation of the program. All end-June 2017 performance criteria were met while the two end-June 2017 indicative targets have not been met. Four of the five structural benchmarks set for end-June 2017 and end-September 2017 have been met. We also completed the prior action. The government also requests the modification of the end-December 2017 indicative target on the floor on total fiscal revenue.

2. We have started with strong determination the fiscal consolidation envisaged under our program supported by the ECF arrangement. We ceased the non-orthodox financing of investment expenditure, which had led to large public debt build-up in recent years. At the same time, good progress was made in implementing our structural reform agenda, including on tax and customs administration, and debt and public financial management. We are strengthening verifications and control of potential tax evasions, reorganizing debt management, and auditing government arrears. The restructuring process of the two troubled public banks has encountered delays, but steps are being taken towards its completion.

3. The government has adopted a revised 2017 budget consistent with the primary balance floor and domestic financing ceiling envisaged under the program; we will continue to contain investment expenditure, while making efforts to repay arrears. We will continue to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed investment. The government also remains committed to pursue the fiscal consolidation in 2018 to address the high debt level. The government has adopted a budget for FY 2018 consistent

with the thrust of the ECF-supported program while accommodating tighter domestic and external constraints. While clearing existing domestic arrears, we will put in place a comprehensive system to prevent re-accumulation. Our policies will ensure that Togo adheres to the regional convergence criteria and contribute to the joint WAEMU countries' efforts to rebuild regional reserves.

4. As part of the continuation of the program, our structural reforms under the program in the first half of 2018 will primarily focus on six (6) structural benchmarks related to: (i) the adoption by the Ministry of Economy and Finance of a comprehensive restructuring plan for the two public banks (February 2018); (ii) the reduction of pending customs transit cases (June 2018); (iii) the closure of some accounts of general government entities in commercial banks and the transfer of the balance to the Treasury Single Account (June 2018); (iv) the issuance of circulars to financial services of government entities providing directives to prevent arrears (June 2018); (v) the preparation of guidelines to include in the 2019 budget only investment projects selected through cost-benefit analyses (reset for June 2018); and (vi) the completion of the legal transfers under the restructuring of the two ailing public banks (reset for June 2018).

5. We are confident that the policies set out in the attached Memorandum of Economic and Financial Policies (MEFP) will enable us to achieve our program objectives. However, we will take any further measures that may become necessary for this purpose. We will consult with the IMF on the adoption of such measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will provide such information as the IMF may request in connection with progress in implementing our economic and financial policies. We authorize the publication of the staff report for the first review under the ECF arrangement, this letter of intent, and the attached MEFP and technical memorandum of understanding.

Very truly yours,

Minister of Economy and Finance

/s/
Sani Yaya

Attachments (2);

I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

# Attachment I. Memorandum of Economic and Financial Policies (MEFP)

**1.** This Memorandum informs on recent economic developments, reports on performance under the program supported by the ECF arrangement, and describes the authorities' policies going forward. It takes stock of performance criteria and structural benchmarks at end-June and end-September 2017 and sets the targets for end-March and end-June 2018.

## RECENT ECONOMIC DEVELOPMENTS

**2.** Economic activity appears to have expanded at a growth rate of about 5 percent in 2017, accompanied by a low inflation. Following a strong expansion in the second half of 2016, commercial bank credits remained broadly stable in the first half of 2017. Energy consumption has increased by 11.2 percent in May 2017 (y-o-y). Traffic at both port and airport has also increased, driven primarily by transshipment. However, there are reportedly some incipient signs of economic weaknesses; the turnover of some large companies has reportedly stagnated in the first half of 2017, particularly in the construction sector. The trade balance improved in the first quarter of 2017, relative to the previous quarter, due to the combination of lower imports and strong exports; preliminary data for the second quarter of 2017 point to a slight deterioration of the trade balance, relative to the previous quarter. Headline inflation rate at end September was -0.6 percent (average, y-o-y) and -0.8 percent (m-o-m), driven primarily by lower food prices; the core inflation rate, excluding food and transportation prices, was 1 percent (average, y-o-y).

**3.** We have begun the fiscal consolidation envisaged under the program supported by the ECF arrangement. We reduced significantly public investment expenditure by ceasing the prefinancing of investment expenditure, which had led to large public debt build-up in recent years. During 2013-16, the primary fiscal balance averaged a deficit of about 6 percent of GDP per year, which included an average investment prefinancing of about 3.4 percent of GDP per year. During the first half of 2017, the primary fiscal balance registered a surplus of 1.4 percent of GDP.

## PROGRAM IMPLEMENTATION

**4.** All end-June 2017 performance criteria (QPCs) have been met while the two end-June indicative targets (ITs) have not been met. The domestic primary balance and the net domestic financing of the government were met with large margins. The zero-ceiling on the following QPCs were also respected: non-accumulation of arrears on external public debt, government contracting or guaranteeing of nominal non-concessional external debt, government guaranteeing of domestic loans to suppliers and contractors, and government guarantees on bank pre-financing for public investments. The indicative target on fiscal revenue was missed by a very small margin; the underperformance on social spending was more significant.

**5.** Our strong start of fiscal consolidation led to an overperformance of 2.2 percentage points of GDP on the domestic primary fiscal balance. This consolidation was based on domestic primary expenditures, which have been contained beyond the program path by 2.2 percentage points of GDP. This strong expenditure restraint relied on both primary current spending and domestically financed capital spending. This strong fiscal consolidation resulted in a significantly lower net domestic financing by about 3.5 percentage points of GDP. Instead of a programmed domestic borrowing of about 2.5 percent of GDP, we succeeded to reduce our liabilities by about 1 percentage point of GDP.

**6.** All the zero-ceiling QPCs, aimed at improving our debt sustainability, were observed. The government refrained from contracting or guaranteeing non-concessional external debt. The government ceased providing guarantees on bank pre-financing for public investments and guarantees of domestic loans to suppliers and contractors. Previous guarantees under such schemes, which had become government debt following the substitution of debtor, were replaced with financing at more favorable conditions. We have continually remained current on our external debt obligations.

**7.** Although the indicative targets were missed, the underperformance was not due to a policy intention of the government. Total fiscal revenue was marginally underperformed. The revenue authority (*Office Togolais des Recettes*) are stepping up revenue collection measures. Total domestically financed social spending fell by about 0.4 percentage point of GDP below target. This shortfall may be due to the deficiency of our current budgetary reporting system to present detailed fiscal information. We will make all necessary effort to strengthen our data processing capacity. It is to be noted that the overall primary balance exceeded projections by about 4 percentage points of GDP and concessional borrowing was lower by about 1 percentage point of GDP.

**8.** We met four of the five end-June and end-September 2017 structural benchmarks. The Tax Authority completed the verification of 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program. The Ministry of Economy and Finance has also developed a methodology to identify and verify domestic arrears. A decree was issued to strengthen debt management, based on IMF technical assistance. An independent audit of government arrears by a private company was completed. The structural benchmark on the restructuring of the two remaining publicly owned banks was not fully completed, but we are making progress and are taking corrective measures.

# ECONOMIC AND FINANCIAL POLICIES FOR 2017-18

### Macroeconomic Framework

**9.** Although growth forecasts for 2018 and the medium term may be slightly weaker than previously projected, economic activities are expected to remain healthy. The upgrading of public infrastructure in recent years will likely boost productivity and motivate private investments;

external concessional financing of public investments from international financial partners is also projected to rise. This is expected to offset the negative fiscal impulse resulting from the strong fiscal consolidation. Inflation is expected to remain well anchored within the WAEMU regional policy framework. The external current account balance will gradually improve as the government reduces its imports of capital goods.

**Fiscal Policy**

**10.** The government is determined to reach in 2017 the primary balance target envisaged under our ECF-supported program. Based on our fiscal performance at end-June 2017, we are confident that the end-December targets—primary deficit of 2.7 percent of GDP—is well within our reach. Our policy will be based primarily on continuing to contain investment expenditure, which soared in previous years, and strengthen revenue collection. We stand ready to take the necessary measures in case there are indications that the targets may be missed. We will ensure that priority social expenditures are not adversely impacted by the consolidation.

**11.** The government also remains committed to continuing the fiscal consolidation in 2018 to ensure debt sustainability, given the sharp debt accumulation in recent years. Accordingly, the Cabinet adopted the 2018 budget consistent with the thrust of the ECF-supported program. We plan to achieve a primary deficit (cash basis) of 0.2 percent of GDP. This adjustment will allow preparing to reach our primary surplus target of 2 percent of GDP in 2019. This envisaged primary surplus would put the public debt, including public enterprise debt, on a clear downward trajectory, from 81.5 percent of GDP in 2016 to 70.2 percent of GDP at end-2019. Sustaining the primary surplus of 2 percent of GDP in the post-program period would bring the net present of public debt below the threshold of 38 percent of GDP of heightened risk of public sector debt distress by 2025.

**12.** To accommodate stronger domestic and external constraints, we opted to adjust the composition of the fiscal consolidation to rely more on revenue measures. The reduced VAT rates introduced by the 2017 Finance Law will not be included in the 2018 Finance Law. A turnover tax for telecom companies, deductible from corporate tax, will be introduced in the 2018 Finance Law. An intelligence and risk analysis unit and a case handling unit will also be created. On the expenditure side, we will continue to contain domestically financed expenditure and will make efforts to seek external concessional loans, within the program limit. This would create fiscal space to allow transfers for social spending.

**13.** Our above policies will support the regional policies agreed to by WAEMU member countries. These policies will ensure that Togo adheres to the regional convergence criteria. They will contribute to the joint WAEMU countries' efforts to rebuild regional reserves.

**Fiscal Management and Institutions**

**14.** We plan to reorganize the Ministry of Economy and Finance. Essential elements of this reform will be as follows: (i) strengthening the debt management directorate; (ii) strengthening the budget directorate by encompassing budget preparation and monitoring, and medium-term budget frameworks; and (iii) establishing of a tax policy unit in charge of defining tax policy and their related fiscal impact. We will sign a decree to implement this reorganization (structural benchmark December 2017).

**15.** We will step up efforts to fully reap the benefits from the modernization of texts and procedures carried out by the Office Togolais des Recettes (OTR). We will issue all secondary legislations of the revenue authority law to provide the OTR with the necessary legal framework to fully operate. A performance contract is regularly signed between Chairperson of the Board of OTR and General Commissioner. For domestic taxation, we will broaden the taxpayer base by carrying out a general taxpayer census. We will improve the consolidation of the taxpayer file by way of this tax census and higher registration of economic operators. We will step up the fight against tax evasion, which will begin with the resolution of potential evasion cases already detected in specific economic sectors. We will implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron (structural benchmark end-December 2017). The recently revised segmentation of taxpayers will be effectively implemented. Voluntary compliance will be encouraged by improving tax procedures and taxpayer services based on taxpayers' type and characteristics.

**16.** As for customs, we will build on the results of the recent audit of customs exemptions to address the identified irregularities. We will enhance automation by reducing manual procedures and cash transactions. In particular, we will audit the entire automated processing of customs clearance from the arrival of the goods to their exit and will include in SYDONIA WORLD all steps that are not processed therein. We will enhance the assessment of imports and control tax exemptions, through improved risk analysis as well as effective and transparent audit and control. We will restrict the use of emergency clearance and will prohibit the use of this procedure for imported goods that have already exceeded the normal clearance period. To address abusive use of transit regimes, we will reduce the stock of pending customs transit cases by 60 percent (structural benchmark June 2018). We will enhance synergies between the tax and customs and indirect tax directorates by improving the exchange of information and exploiting the interconnection of their software and databases (SYDONIA and SGIO).

**17.** The government will continue to refrain from guaranteeing any new bank prefinancing for public investments (performance criteria). We will adopt a budget for FY 2018 consistent with the Fund-supported program; we will strengthen the preparation and selection of projects through the design and implementation of new methodologies, by end-June 2018; on that basis, we will include in the medium-term budget framework and the annual budgets, starting with the 2019 budget, only investment projects selected through cost-benefit or cost-effectiveness analyses (structural benchmark June 2018).

**18.** We will enhance the dedicated units to improve the preparation, selection, and the follow-up of the execution of public investment projects in order to lift up their efficiency. The dedicated unit (within the general Directorate of Planning and Development of the Planning Ministry) will prepare and publish a comprehensive multi-year the public investment program (PIP) in line with the resource envelope provided in the medium-term budget framework, showing, for each project, its total cost for its lifecycle, the yearly commitment, and the financing source. The unit will also produce a methodology for preparing and prioritizing investment projects, which will be used for future budgets. The existing directorate tasked with the execution of public investments will ensure that all investment projects follow the procurement process, are fully integrated into all phases of the budget process, and require payments to the private sector after verification of the completion of works. The dedicated directorate will prepare a report providing the outcome of an *ex-ante* assessment and the status of execution of investment projects. At the end of the financial year, the unit will prepare a report for all completed major projects, providing the outcome of an ex-ante and ex-post assessment.

**19.** While clearing existing arrears, we will put in place a comprehensive system to prevent re-accumulation. An independent audit of domestic arrears was carried out (structural benchmark September 2017). The government will develop an arrears clearance plan, based on prioritization of selected sectors. The end-June 2018 performance criteria on net domestic financing includes an adjustor to allow arrears clearance of up to about 2 percent of GDP. We will issue circulars to the financial services of all government entities providing directives to prevent arrears accumulation (structural benchmark June 2018). At the minimum, the circulars will request a commitment plan, establish a robust reporting of payables, and clarify that contracts signed outside the legal expenditure chain will lead to sanctions against officials who illegally created the liability. The commitment plans of the various government entities will be aggregated and revised at the central level in line with a treasury plan to prevent arrears accumulation.

**20.** We will strengthen cash management to avoid liquidity-induced (treasury tension) spending bottlenecks, help prevent arrears, and reduce borrowing costs. To this end, we will submit to the Fund by end-December 2017 an annual cash plan for 2018 consistent with the 2018 public procurement plan and the quarterly commitments plan for 2018 (structural benchmark December 2017). We will adopt an annual plan for issuing bonds in 2018 consistent with the related cash plan. Furthermore, we will close 32 accounts of general government entities in commercial banks and transfer the balance to the Treasury Single Account (TSA) while taking into account the impact of these transfers on the banking system (structural benchmark June 2018). To that end, we will sign an agreement establishing the TSA with the central bank (BCEAO), including the accounts of the Togolese Revenue Authority (OTR) and also sign two other agreements for the state cashier function with two financial institutions– the *Union Togolaise des Banques and* the *Centre des Chèques Postaux*.

**Borrowing Policies and Debt Management**

**21.** The government remains committed to reducing public debt, including public enterprise debt, to about 70 percent of GDP by 2019, to reduce the risk of overall debt distress. We commit to no new contracting or guaranteeing of nominal external nonconcessional debt (continuous performance criteria) and a ceiling on the contracting or guaranteeing of nominal concessional external debt. Our borrowing plans will seek to reduce debt vulnerabilities and avoid an excessive buildup of short-term debt, as well as consider potential rollover and foreign exchange risks.

**22.** We ceased indirect bank borrowing under the prefinancing of public investments. Such prefinancing arrangements expanded rapidly in recent years and were the main sources of the soaring public debt. We ended such arrangements since early 2017 and are committed to not providing any guarantees of bank prefinancing of public investments or guarantees of domestic loans to suppliers and contractors (performance criteria).

**23.** We will bolster debt management. We are operationalizing the decree that was issued to centralize all debt management functions in one entity and organize the debt department unit into front, middle, and back offices; we are strengthening our debt recording/monitoring capacity and are training staff. We are taking the necessary measures to ensure that the budget is in line with the medium-term debt strategy.

**Financial Sector Policy**

**24.** We have made important steps toward addressing the financial weaknesses of the last two publicly-owned banks– *Banque Togolaise pour le Commerce et l'Industrie (BTCI)* and *Union Togolaise des Banques (UTB)*– following an independent audit of the two banks by an international firm; we designated the team of experts to lead the merger and restructuring; we officially informed the WAMU Banking Commission and the Boards of the two banks. The independent audit suggested six merger options: (i) merger-acquisition (*fusion absorption*) whereby the strong bank (UTB) takes over the weak one (BTCI); (ii) reverse merger-acquisition (*fusion absorption à l'envers*) whereby BTCI takes over UTB; (iii) typical merger, resulting in the creation of a new entity (*fusion reunion*); (iv) sale of main BTCI assets and debts to UTB, followed by dissolution/ liquidation of BTCI (*cession*); (v) transfer of the BTCI state ownership to UTB (*fusion renonciation*); and (vi) purchase by the government of minority shares in BTCI followed by a merger of the two banks (*fusion simplifiée)*.

**25.** We will build on the audit findings and initial plan therein to design and implement a comprehensive restructuring plan of the two troubled banks. The cost of the restructuring for the budget is preliminarily estimated at about 2-4 percent of GDP but will need to be refined depending on various parameters, such as the valuation of assets and liabilities. Based on the degree of complexity of each option and the objective of full government ownership, the government is inclined to proceed with the last option, which consists of a purchase by the government of minority shares in BTCI followed by a merger of the two banks (*fusion simplifiée)*.

**26.** The comprehensive restructuring plan will be based on the following principles: adequate capitalization of the merged and restructured bank; no bailout of minority shareholders; minimization of costs for the state while preserving financial stability; active collection of nonperforming loans by a dedicated unit within the bank; a clear public interest mandate and strengthened governance free from political interference; strengthened management and internal control in the merged bank; elimination of loss-making activities; and improved organizational efficiency. We produced a detailed outline of the restructuring plan, reflecting the above principles (prior action). The full-fledged restructuring plan will be completed by the project manager and approved by us by end-February 2018; if required, an application will be submitted to the WAMU Banking Commission for the creation of the new bank (structural benchmark February 2018). The full-fledged plan should include financial projections demonstrating long-term viability. We will complete by June 2018 the legal transfers required in the restructuring plan at the least cost possible to the government (reset structural benchmark for June 2018). In addition, we commit to strengthen the enforcement of prudential regulations and timely comply with the WAMU Banking commission rulings.

**Structural Reforms and Inclusive Growth**

**27.** We will produce a plan to address the key shortcomings identified in the Doing Business Indicators and a plan to enhance competition in some closed sectors of the economy. The former will include actions to improve access to electricity, access to credit, paying taxes, and dealing with construction permits. We will also improve property title registration and the legal framework so that property can be used as collateral in loans to small and medium-sized enterprises. The plan to open key sectors will include the energy, telecom, and mining sectors.

**28.** We will continue to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed investment under programs such as the Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* – PUDC) and Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables* – PAPV). We are setting a floor on domestically financed social spending, in particular for projects that have a high impact on poverty reduction (indicative target). The government intends to strengthen the monitoring of social spending and improve the targeting of social programs. A reporting system for social expenditure will be set up to better target the most vulnerable groups of the population.

**29.** The implementation of the Strategy for Accelerated Growth and for Promoting Employment (2013-17) ends in 2017. Against this backdrop, the government has started the preparation of the National Development Plan (PND) to serve as basis for government and development partners' intervention during 2018-22. The PND is based on the President's social project, the vision Togo 2030, and Togo's regional and international commitments. The PND is built on five pillars: (i) combating poverty and improving social well-being; (ii) promoting sustained and inclusive economic growth; (iii) building the potential of growth sectors; (iv) sustainably managing the environment and reducing spatial inequality; and (v) strengthening governance and peace.

## PROGRAM MONITORING AND DATA ISSUES

**30.** The program will continue to be reviewed semi-annually based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 3). Performance criteria are proposed for end-June 2018 and indicative targets for end-March 2018. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The second and third reviews of the program will take place on or after March 15, 2018 and September 15, 2018 respectively.

**31.** We have made efforts and will continue the strengthening of our institutional capacity to ensure adequate monitoring of the program. The Permanent Secretariat for Reform Policies and Financial Programs (*Secrétariat permanent chargé des politiques de réformes et des programmes financiers* – SP-PRPF) will provide technical program monitoring, produce quarterly progress reports, and serve as liaison between national entities and technical and financial partners. It will also ensure coordination of technical assistance requirements.

**32.** We recognize the weaknesses of our statistics and are taking remedial measures. We will reduce lags in the production of national accounts by improving the production of preliminary GDP data, and strengthen staffing within the National Statistics and Accounting Institute (*Institut national de la statistique et des Études économiques et démographiques* – INSEED). We have made progress in compiling and producing fiscal reports, particularly the government financial operations table ("*Tableau des Opérations Financières de l'Etat*"). We will ensure that the budget projections for the following year is based on projection for budget execution in the current year.

**33.** The government is confident that the policies included in this memorandum are able to achieve the objectives of the economic program. It stands ready, however, to take any further measures that may become necessary to ensure the success of its policies, after consultation with the IMF. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

## Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

**June 2017 - June 2018 (Billions CFA Francs)**

| | End-June 2017 | | | End-September 2017[1] | End-December 2017 | End-March 2018 | End-June 2018 |
|---|---|---|---|---|---|---|---|
| | Performance Criteria | | | Indicative Target | Performance Criteria | Indicative Target | Performance Criteria |
| | Target | Outturn | Met/Not Met | | | | |
| **Performance criteria** | | | | | | | |
| Domestic primary fiscal balance (floor)[2] | -19.0 | 43.0 | Met | 8.4 | 13.4 | -6.2 | -12.4 |
| Non-accumulation of arrears on external public debt[3,4] | 0.0 | 0.0 | Met | 0.0 | 0.0 | 0.0 | 0.0 |
| Net domestic financing (ceiling)[2,5,6] | 80.3 | -17.4 | Met | 157.8 | 31.6 | 51.4 | 75.7 |
| Government contracting or guaranteeing of nominal nonconcessional external debt (ceiling)[3,4] | 0.0 | 0.0 | Met | 0.0 | 0.0 | 0.0 | 0.0 |
| Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[3,4] | 0.0 | 0.0 | Met | 0.0 | 0.0 | 0.0 | 0.0 |
| Government guarantees on bank prefinancing for public investments (ceiling)[3,4] | 0.0 | 0.0 | Met | 0.0 | 0.0 | 0.0 | 0.0 |
| **Indicative targets** | | | | | | | |
| Total fiscal revenue (floor) | 246.3 | 246.1 | Not Met | 398.5 | 556.3 | 128.3 | 256.6 |
| Total domestically financed social spending (floor) | 87.4 | 76.5 | Not Met | 141.9 | 218.4 | 37.3 | 93.1 |
| **Memorandum Item** | | | | | | | |
| Overall primary balance[2,6] | -70.2 | 39.5 | | -84.8 | -75.6 | -36.9 | -81.1 |
| Government contracting or guaranteeing of nominal concessional external debt | 49.6 | 14.6 | | 88.8 | 138.0 | 21.0 | 52.7 |

Sources: Togolese authorities; and IMF staff estimates.

[1] Data for end-September outturns are not yet available.

[2] Performance criterion, indicative targets and memorandum items will be adjusted by the amount spent in banking capitalization. The end-December 2017 test dates reflect adjusted amounts.

[3] Continuous performance criterion.

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

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

[6] The end-March 2018 indicative target on net domestic financing and the memorandum item on the overall primary balance, as well as the end-June 2018 performance criterion on net domestic finanicing and the memorandum item on the overall primary balance, will be adjusted up or down in line with payments of arrears over the course of the year, within the limits of the CFAF 59.3 billion adjustor. The indicative target for end-March 2018 and performance criterion for end-June 2018, as well as the end-March 2018 and end-June mememorandum items, are already adjusted to include partial payments of CFAF 29.7 billion.

| Table 2. Togo: Prior Action and Structural Benchmarks for the First Review | | | |
|---|---|---|---|
| **Measures** | **Rationale** | **Deadline** | **Status** |
| Produce a detailed outline of the restructuring plan of the two state-owned banks. | Ensure financial stability and prevent future additional cost to the budget. | Prior Action | Met |
| **Revenue administration** | | | |
| Verify 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program. | Strengthen import valuation and control of customs exemptions through improved risk analysis, and effective and transparent inspection and audit | End-June 2017 | Met |
| **Debt management** | | | |
| Submit a methodology to identify and verify domestic arrears. | Strengthen debt management | End-June 2017 | Met |
| Strengthen debt management by: (i) centralizing all debt management functions in one entity; and (ii) organizing the debt department unit into front, middle, and back offices. | Strengthen debt management | End-September 2017 | Met |
| Conduct an independent audit of domestic arrears. | Determine the exact amount of arrears to prepare an arrears clearance plan | End-September 2017 | Met |
| **Financial sector** | | | |
| Based on the findings of the independent audit of the two public banks, approve a comprehensive, timebound restructuring plan for the two public banks. If required, submit an application for the creation of a new bank to the WAMU Banking Commission. | Address the situation of nonviable financial entities by implementing least-cost resolution options | End-June 2017 | Not met |

| Table 3. Togo: Structural Benchmarks for the 2nd and 3rd Reviews | | |
|---|---|---|
| **Measures** | **Rationale** | **Deadline** |
| **Revenue administration** | | |
| Implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron. | Broaden the taxpayer base by improving tax compliance | End-December 2017 |
| Reduce by 60 percent the number of pending customs transit cases. | Improve revenue collection | End-June 2018 (proposed structural benchmark) |
| **Public financial management** | | |
| Sign a decree reorganizing the Ministry of Economy and Finance. | Improve fiscal policy and management | End-December 2017 |
| Ministry of Economy and Finance to submit, in collaboration with the revenue authority (OTR), an annual cash plan for 2018 consistent with the 2018 procurement plan and quarterly commitments for 2018. | Improve cash management and prevent arrears | End-December 2017 |
| Close 32 accounts of general government entities in commercial banks and transfer the balance to the Treasury Single Account. | Improve cash management | End-June 2018 (proposed structural benchmark) |
| **Debt management** | | |
| Prepare an arrears clearance plan and issue circulars to financial services of government entities providing directives to prevent arrears. | Set up a system to prevent accumulation of new arrears | End-June 2018 (proposed structural benchmark) |
| **Public investment management** | | |
| Adopt a budget for FY 2018 consistent with the Fund-supported program. | Ensure fiscal sustainability | End-December 2017 |
| Put guidelines in place to include in the 2019 budget only investment projects selected through cost-benefit or cost-effective analyses. | Improve public investment management | End-June 2018 (proposed resetting from end-December 2017) |
| **Financial sector** | | |
| Produce and approve by the Ministry of Economy and Finance a comprehensive restructuring plan for the two public banks, | Address the situation of nonviable financial entities | End-February 2018 |

| | | |
|---|---|---|
| and if required, submit an application to the WAMU banking commission for the creation of a new bank. | by implementing least-cost resolution options | (proposed structural benchmark) |
| Complete the legal transfers required in the restructuring plan at the least cost possible to the government. | Address the situation of nonviable financial entities by implementing least-cost resolution options | End-June 2018 (proposed resetting from end-December 2017) |

# Attachment II. Technical Memorandum of Understanding

**1.** This Technical Memorandum of Understanding (TMU) defines the structural and quantitative benchmarks and performance criteria to monitor the program supported by the Extended Credit Facility for the period January 1, 2017 through the end of the arrangement. It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes.

**2.** Unless otherwise specified, the government is defined in this TMU as the central administration of the Togolese Republic. It does not include any political subdivisions, the Central Bank of West African States (BCEAO), or any public entity with a separate legal personality.

**3.** Unless otherwise indicated, public entities are defined in this TMU as majority government-owned companies, and other public entities receiving earmarked tax and quasi-tax revenues.

## DEFINITION OF TERMS

For program purposes, the definition of **debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[1]

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

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service

[1] http://www.imf.org/external/pp/longres.aspx?id=4927.

life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

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

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

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

## QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

**7.** For program monitoring purposes, periodic quantitative performance criteria (PCs) and indicative targets (ITs) are set for end-December 2017 and end-June 2018, and the indicative targets for end-March 2018.

The PCs include:

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

The ITs are:

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

## A. Domestic Primary Fiscal Balance

**Definition**

**8. The domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenses, net of interest and capital spending financed by donors and lenders. The balances for the periods from end-June 2017 to end-December 2017 and to end-June 2018 (performance criteria) and the periods from end-June 2017 to end-March 2018 (indicative targets) must be equal to or greater than the amounts indicated in Table 1 of the attachments to the MEFP. The data are sourced from the Government Financial Operations Table (*Tableau des opérations financières de l'État* – TOFE), prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance (statistical TOFE). The statistical TOFE will be prepared by the Directorate of Economy in close cooperation with revenue offices and the Treasury. The data provided by the Directorate of Economy will take precedence for program purposes.

**Reporting deadlines**

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

## B. Arrears on External Public Debt

**Definition**

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

## C. Net Domestic Financing

**Definition**

**11. Government net domestic financing** is defined as the sum of (i) net credit from the banking sector to the government; (ii) net domestic nonbank financing of the government; and (iii) unidentified financing. Net domestic financing for the periods from end-June 2017 to end-December 2017 and to end-June 2018 (performance criteria) and the periods from end-June 2017 to end-March 2018 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP. The ceiling on net domestic financing shall be adjusted to make up for gaps in projected external financing for the program, as indicated in the Table above, subject to a cap of CFAF 10 billion. The performance criterion on the ceiling for net domestic financing will also be adjusted up or down in line with payments of arrears over the course of 2018. The total adjustment to net domestic financing for arrears payments over the entirety of 2018 is subject to a ceiling of CFAF 59.3 billion; the end-June performance criterion includes CFAF 29.7 billion as part of the adjustor for arrears payments.

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

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

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

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

**Reporting deadlines**

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

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

## D. Government or Government-Guaranteed Nominal Nonconcessional External Debt

### Definition

**18.** The government undertakes not to contract or financially guarantee any new nonconcessional external debt at maturities of one year or more (continuous performance criterion). Nonconcessional external debt is defined as all external debt with a grant element of less than 35 percent (http://www.imf.org/external/np/pdr/conc/calculator/default.aspx). The level of concessionality of loans is calculated based on a discount rate of 5 percent. For program purposes, the value in U.S. dollars of new debt is calculated using the average exchange rate for July 2017 in the IMF's International Financial Statistics (IFS) database. This performance criterion applies not only to the debt as defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014, but also to any commitment contracted or guaranteed for which no value has been received. However, this criterion does not apply to reschedulings that take the form of new debts, or to bond borrowing, Treasury bills, and Sukuk or other instruments issued in CFA francs on the WAEMU regional financial market. For the purposes of this performance criterion, "government" is understood to cover not only the definition given in paragraph 2 above, but also public institutions of an industrial or commercial nature (*établissements publics à caractère industriel et commercial* – EPIC), public administrative agencies (*établissements publics administratifs* – EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

## E. Government-Guaranteed Domestic Loans to Suppliers and Contractors

### Definition

**19.** The government is committed to not providing new financial guarantees for domestic loans to its suppliers or contractors (continuous performance criterion). The concept of "government" used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

## F. Government Guarantees on Bank Prefinancing for Public Investments

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

## G. Total Fiscal Revenue

**Definition**

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

**22.** Revenue collection for the periods from end-June 2017 to end-December 2017, end-March 2018, and end-June 2018 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The revenue floor is an indicative target for the entire duration of the program.

**Reporting deadlines**

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

## H. Domestically Financed Social Spending

**Definition**

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

**25.** Social spending financed with domestic resources for the periods from end-June 2017 to end-December 2017, end-March 2018, and end-June 2018 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The data provided by the Budget Directorate and the Directorate of Economy will take precedence for program purposes. The floor on (current and capital) social expenditure financed with domestic resources is an indicative target for the entire program period.

**Reporting deadlines**

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

INTERNATIONAL MONETARY FUND

# TOGO

November 30, 2017

## FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By

The African Department
(In consultation with other departments)

## CONTENTS

# RELATIONS WITH THE FUND

(as of October 31, 2017)

**Membership Status:** Joined August 1, 1962; Article VIII

| **General Resources Account:** | **SDR million** | **% of Quota** |
|---|---|---|
| Quota | 146.80 | 100.00 |
| Fund holdings of currency | 127.89 | 87.12 |
| Reserve Position | 18.98 | 12.90 |

| **SDR Department:** | **SDR million** | **% of Quota** |
|---|---|---|
| Net cumulative allocation | 70.33 | 100.00 |
| Holdings | 22.04 | 31.34 |

| **Outstanding Purchases and Loans:** | **SDR million** | **% of Quota** |
|---|---|---|
| ECF Arrangements | 67.31 | 45.85 |

**Financial Arrangements:**

| **Type** | Date of Arrangement | Expiration Date | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|---|---|---|---|---|
| ECF | May 05, 2017 | Dec 31, 2019 | 176.16 | 25.17 |
| ECF[1] | Apr 21, 2008 | Jul 26, 2011 | 95.41 | 95.41 |
| ECF[1] | Sep 16, 1994 | Jun 29, 1998 | 65.16 | 54.30 |

**Projected Payments to the Fund[2]**
**(SDR million; based on existing use of resources and present holdings of SDRs)**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Principal | 4.11 | 17.76 | 11.04 | 7.48 | 1.76 |
| Charges/Interest | 0.07 | 0.31 | 0.31 | 0.31 | 0.31 |
| Total | **4.17** | **18.06** | **11.34** | **7.79** | **2.07** |

[1] Formerly PRGF.

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

**Implementation of HIPC Initiative:**

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

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

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

***Safeguards Assessments***

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

***Exchange Arrangement***

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

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

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

# STATISTICAL ISSUES

**TOGO—STATISTICAL ISSUES APPENDIX**

As of October 2017

**I. Assessment of Data Adequacy for Surveillance**

**General:**

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

- **National accounts**: are compiled based on very limited information, with only few surveys and scarce data on primary agriculture and private sector services. National accounts are published with considerable delays and are only available on annual frequency. Base year for constant price GDP is 2007.
- **Price statistics**: Base year for CPI index is 2008.
- **Fiscal sector statistics:** Government finance statistics are derived from a weak accounting and reporting system. Timely and accurate tracking of government arrears has been inadequate. The fiscal and public sector debt accounts do not disaggregate the share of government-issued securities held within or outside the banking sector, either in stocks or flows. Also, there are significant delays in compilation and dissemination, and limited or no data on public entities outside of (budgetary) central government.
- **Balance of payments statistics**: Data are reported on an annual frequency with long lags. The balance of payments data for 2015 were published in July, 2017. Coverage is incomplete and there are significant consistency issues between the IIP and other balance of payment data.
- **Monetary data**: are reported by the BCEAO and sent to AFR within 45 days. The tracking by the BCEAO of public sector accounts held in the BCEAO and in commercial banks is inadequate.

**National Accounts:**

**Like other West African Economic and Monetary Union (WAEMU) member states, Togo embarked in late 2002 on implementing the System of National Accounts 1993 (1993 SNA), using the ERETES software.** The national accounts for the new base year (2007) were completed in 2012. In 2013 the *Direction Générale de la Statistique et de la Comptabilité Nationale* (DGSCN) published the National Accounts GDP numbers covering the period 2000-2007. Respectively, in

| |
|---|
| 2014 and 2015 the 2009 and 2010 National Accounts GDP numbers were finalized and published. The national statistics institute, INSEED (*Institut National de la Statistique et des Etudes Economiques et Démographiques*), established in February 2015, is currently executing a plan, with the support of AFRITAC West, to clear the delay in the elaboration of National Accounts corresponding to the period 2011–15 by 2017. Progress has been made on this front and national accounts through 2013 were published in early 2017. Given that limited resources are available plans to build quarterly NA have been cancelled to prioritize the work on closing the delays in the publication of National Accounts, and on the transition of National Accounts to SNA 2008. |
| **Price Statistics:**<br><br>**The CPI basket was revised in 2010. The WAEMU commission, supported by AFRISTAT and the BCEAO, launched a revision of the harmonized CPI basket in the region in 2008.** The reform included expanding CPI surveys, and updating the weights of various sub-components to reflect consumption habits. In line with WAEMU directives the INSEED is constructing a consumer price index with national coverage. The collection of the first observations started in January 2015, and the index was published beginning in January when the first 12-month variation became available. |
| **Government Finance Statistics:**<br><br>The Government finance statistics are compiled by the Ministry of Finance from customs, tax, and treasury departments and consolidated in the form of government financial operations tables (TOFE). The WAEMU budget nomenclature permits the economic and ministerial classification of expenditure, with functional classification under development. The monthly TOFE is based on a mixture of administrative and accounting data and is sent to AFR with a variable two-month lag. While the government has incorporated audited domestic arrears through end-2006 into the debt stock, the incorporation of more recent arrears has lagged. Only budgetary central government data are reported for publication in the Government Finances Statistics Yearbook (GFSY), government finance high frequency data are not reported for publication in the IFS. In the context of the 2013 Article IV consultation, with assistance from STA, the authorities established a bridge table allowing transposition of TOFE data, which is based on the 1986 Government Finance Statistics Manual (GFS86), to the 2001 Government Finance Statistics Manual (GFSM01). |
| **Monetary and Financial Statistics:**<br><br>**Monthly data for Togo, along with data for other members of the West African Monetary Union are regularly disseminated by the Central Bank of the West African Monetary Union (BCEAO) with a lag of about two months.** Data on lending and borrowing rates, charged by domestic banks, are compiled and available monthly. |

| | |
|---|---|
| **External sector statistics:**<br><br>**Balance of payments statistics and international investment position data are compiled based on bank reports, a survey of enterprises, and customs data.** Statistics are compiled following the principles of the 6th balance of payment manual. The Central bank continues its efforts for a better coverage of informal trade notably with the sub-regional unit for the reconciliation of intra-WAMU trade. | |
| **II. Data Standards and Quality** | |
| **The country has participated in the General Data Dissemination System (GDDS) since November 2001.** Metadata on the national statistical system, including plans for improvement posted to the Fund's Dissemination Standard Bulletin Board, were last updated in December 2004. | No data ROSC are available |

| Table of Common Indicators Required For Surveillance | | | | | |
|---|---|---|---|---|---|
| | Date of latest observation | Date received | Frequency of Data[2] | Frequency of Reporting[2] | Frequency of Publication[2] |
| Exchange Rates | 09/2017 | 10/2017 | M | M | M |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities | 08/2017 | 10/2017 | M | M | M |
| Reserve/Base Money | 08/2017 | 10/2017 | M | M | M |
| Broad Money | 08/2017 | 10/2017 | M | M | M |
| Central Bank Balance Sheet | 08/2017 | 10/2017 | M | M | M |
| Consolidated Balance Sheet of the Banking System | 08/2017 | 10/2017 | M | M | M |
| Interest Rates | 08/2017 | 09/2017 | M | M | M |
| Consumer Price Index | 09/2017 | 10/2017 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing – General Government[1] | NA | NA | NA | NA | NA |
| Revenue, Expenditure, Balance and Composition of Financing– Central Government | 07/ 2017 | 09/2017 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt | 07/ 2017 | 09/2017 | M | M | NA |
| External Current Account Balance | 12/ 2015 | 07/ 2017 | A | A | A |
| Exports and Imports of Goods and Services | 12/2015 | 07/ 2017 | A | A | A |
| GDP/GNP | 12/2014 | 07/ 2017 | A | A | A |
| Gross External Debt | 12/2015 | 07/ 2017 | M | M | M |
| International Investment Position[3] | 12/2015 | 07/ 2017 | A | A | A |

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

[2] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

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